

**CV Technologies Inc.**  
**Consolidated Financial Statements**  
Nine month period ended June 30, 2008  
(unaudited)

**CV Technologies Inc.**  
**Consolidated Balance Sheets**

(unaudited)

In Canadian dollars	June 30, 2008	September 30, 2007
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 3,860,329	\$ 2,702,572
Short term investment (note 3)	9,024,078	-
Accounts receivable (note 18)	455,968	6,442,418
Inventory (note 4)	11,107,013	8,891,706
Prepaid expenses and deposits	417,256	391,266
Current income taxes receivable	-	721,099
Future income taxes	256,506	-
	<u>25,121,150</u>	<u>19,149,061</u>
Inventory, non-current (note 4)	-	7,351,019
Patents and registered trademarks	1,036,144	893,849
Property and equipment (note 5)	12,831,558	11,132,142
Prepaid intra-group tax asset	2,384,341	2,436,174
Future income taxes	43,289	345,548
	<u>\$ 41,416,482</u>	<u>\$ 41,307,793</u>
<b>Liabilities</b>		
Current		
Bank indebtedness (note 6)	\$ -	\$ 2,039,164
Accounts payable and accruals	6,528,316	9,839,925
Customer deposits (note 8)	5,884,154	10,374,967
Current income taxes payable	1,232,966	-
Current portion of mortgage (note 6)	566,060	2,645,122
Current portion of obligations under capital lease	11,731	6,472
Current portion of deferred revenue	509,300	-
Current portion of information systems loan (note 7)	81,125	-
	<u>14,813,652</u>	<u>24,905,650</u>
Long term portion of mortgage (note 6)	4,562,847	-
Obligations under capital lease	721,344	682,535
Deferred revenue	180,000	180,000
Information systems loan (note 7)	181,375	-
Future income taxes	37,583	33,533
	<u>20,496,801</u>	<u>25,801,718</u>
<b>Shareholders' Equity</b>		
Share capital (note 9)	23,719,689	22,875,648
Contributed surplus (note 10)	8,348,108	7,839,387
Deficit	(11,148,116)	(15,208,960)
	<u>20,919,681</u>	<u>15,506,075</u>
	<u>\$ 41,416,482</u>	<u>\$ 41,307,793</u>

Commitments and contingency (notes 20 and 21)

**CV Technologies Inc.**  
**Consolidated Statements of Deficit**

(unaudited)

In Canadian dollars	Nine month period ended June 30	
	2008	2007
Deficit, beginning of period	\$ (15,208,960)	\$ (5,378,379)
Net earnings (loss) and comprehensive income (loss)	<u>4,060,844</u>	<u>(8,751,145)</u>
Deficit, end of period	<u>\$ (11,148,116)</u>	<u>\$ (14,129,524)</u>

**CV Technologies Inc.**  
**Consolidated Statements of (Loss) Earnings and**  
**Comprehensive (Loss) Income**

(unaudited)

In Canadian dollars	Three month period ended June 30		Nine month period ended June 30	
	2008	2007	2008	2007
Product sales	\$ 3,355,393	\$ 3,214,693	\$ 35,345,530	\$ 33,679,053
Cost of goods sold	<u>1,454,756</u>	<u>1,300,072</u>	<u>10,110,152</u>	<u>9,485,353</u>
	<u>1,900,637</u>	<u>1,914,621</u>	<u>25,235,378</u>	<u>24,193,700</u>
Operating expenses				
Advertising and marketing	502,986	529,983	5,406,226	15,209,420
Salaries and employee benefits	1,510,701	1,198,355	4,537,353	3,895,141
Contracting, consulting and professional fees	931,579	814,200	2,841,872	3,895,739
Administration, occupancy and insurance	609,145	678,966	2,043,687	1,987,248
Research and development	717,986	1,225,105	1,944,353	2,676,535
Stock-based compensation (note 10)	279,656	28,792	809,388	1,273,704
Amortization (note 12)	302,761	170,263	671,790	557,510
Interest, bank charges and fees (note 13)	232,783	7,949	476,076	62,669
Loss (gain) on foreign exchange	42,387	(821,071)	446,067	(430,172)
Bad debts (recovery)	59,020	(24,116)	95,368	29,012
	<u>5,189,004</u>	<u>3,808,426</u>	<u>19,272,180</u>	<u>29,156,806</u>
(Loss) earnings before other revenue and income taxes	<u>(3,288,367)</u>	<u>(1,893,805)</u>	<u>5,963,198</u>	<u>(4,963,106)</u>
Other revenue (expenses)				
Interest revenue	129,510	54,359	255,538	268,687
Other items	23,165	31,757	83,835	23,049
	<u>152,675</u>	<u>86,116</u>	<u>339,373</u>	<u>291,736</u>
(Loss) earnings before income taxes	<u>(3,135,692)</u>	<u>(1,807,689)</u>	<u>6,302,571</u>	<u>(4,671,370)</u>
Income tax expense				
Current (recovery)	(1,106,998)	(661,995)	2,186,124	4,113,300
Future (recovery)	(58,345)	725,578	55,603	(33,525)
	<u>(1,165,343)</u>	<u>63,583</u>	<u>2,241,727</u>	<u>4,079,775</u>
Net (loss) earnings and comprehensive (loss) income	<u>\$ (1,970,349)</u>	<u>\$ (1,871,272)</u>	<u>\$ 4,060,844</u>	<u>\$ (8,751,145)</u>
(Loss) earnings per share (note 11)				
Basic (loss) earnings per share	\$ (0.02)	\$ (0.02)	\$ 0.04	\$ (0.08)
Diluted (loss) earnings per share	\$ (0.02)	\$ (0.02)	\$ 0.04	\$ (0.08)

**CV Technologies Inc.**  
**Consolidated Statements of Cash Flow**

(unaudited)

In Canadian dollars	Three month period ended June 30		Nine month period ended June 30	
	2008	2007	2008	2007
<b>Operating activities</b>				
Net (loss) earnings and comprehensive (loss)				
Income for the period	\$ (1,970,349)	\$ (1,871,272)	\$ 4,060,844	\$ (8,751,145)
Items not affecting cash				
Stock-based compensation (note 10)	279,656	28,792	809,388	1,273,704
Future income taxes	(58,345)	725,578	55,603	(33,525)
Unrealized foreign exchange gain on future income tax asset	1,655	-	(5,799)	-
Capital lease interest	11,697	-	23,198	-
Amortization (note 12)	302,761	170,263	671,790	557,510
Non-cash portion of interest expense	4,120	-	12,437	-
Loss on disposal of patents and registered trademarks	-	26,883	-	26,883
Amortization of prepaid intra-group tax assets	-	51,833	51,833	155,499
	<u>(1,428,805)</u>	<u>(867,923)</u>	<u>5,679,294</u>	<u>(6,771,074)</u>
Change in non-cash operating working capital				
Accounts receivable	485,674	2,842,877	5,986,450	5,435,555
Inventory	(796,500)	1,522,539	5,135,712	(271,277)
Prepaid expenses and deposits	221,048	281,016	(25,990)	685,389
Accounts payable and accruals	1,242,536	(2,376,023)	(1,957,220)	(3,076,114)
Current income taxes payable (receivable)	(798,372)	(1,505,042)	1,954,065	(4,669,028)
Customer deposits	24,140	(6,486,887)	(4,490,813)	9,155,696
Deferred revenue	(4,650)	-	509,300	30,000
<b>Cash provided by (used in) operating activities</b>	<u>(1,054,929)</u>	<u>(6,589,443)</u>	<u>12,790,798</u>	<u>519,147</u>
<b>Financing activities</b>				
Repayment of obligations under capital lease	(3,040)	(3,466)	(8,248)	(12,476)
Issuance of share capital (note 9)	316,499	52,500	543,374	255,570
Issuance of mortgage (note 6)	128,648	-	2,471,348	-
Information systems loan (note 7)	262,500	-	262,500	-
Repayment of bank indebtedness	-	-	(2,039,164)	-
<b>Cash provided by financing activities</b>	<u>704,607</u>	<u>49,034</u>	<u>1,229,810</u>	<u>243,094</u>
<b>Investing activities</b>				
Purchase of property and equipment	(558,341)	(2,113,326)	(3,628,239)	(5,900,846)
(Purchase) disposal of patents and registered trademarks	(142,722)	(11,983)	(210,534)	(9,444)
Purchase of short term investment (note 3)	(9,024,078)	-	(9,024,078)	-
<b>Cash used in investing activities</b>	<u>(9,725,141)</u>	<u>(2,125,309)</u>	<u>(12,862,851)</u>	<u>(5,910,290)</u>
Increase (decrease) in cash and cash equivalents	(10,075,463)	(8,665,718)	1,157,757	(5,148,049)
Cash and cash equivalents:				
Beginning of period	<u>13,935,792</u>	<u>11,430,950</u>	<u>2,702,572</u>	<u>7,913,281</u>
End of period	<u>\$ 3,860,329</u>	<u>\$ 2,765,232</u>	<u>\$ 3,860,329</u>	<u>\$ 2,765,232</u>

Supplemental cash flow information (note 14)

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
(unaudited)

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### 1. Nature of operations and basis of presentation

CV Technologies Inc. ("CVQ" or "the Company") is a publicly owned company that develops and sells biopharmaceutical products. It is incorporated under the Business Corporations Act (Alberta) and trades on the Toronto Stock Exchange under the symbol "CVQ". The head office and research centre is located in Edmonton, Canada.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The accounting principles and methods of computation adopted in these interim consolidated financial statements are the same as those of the audited consolidated financial statements for the year ended September 30, 2007, except as disclosed in note 2 below.

Omitted in these statements are certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with Canadian GAAP. The interim consolidated financial statements and notes presented should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2007.

### 2. Summary of significant accounting policies

#### Use of estimates and measurement uncertainty

In preparing consolidated financial statements in conformity with Canadian GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period presented. Actual results could differ from these estimates.

Significant estimates made by management include provisions for customer discounts and incentives, allowances for uncollectible accounts receivable, right-of-return, the realizable portion of inventory during the Company's normal business cycle, inventory provisions, the realizability of future income taxes, useful lives of long-lived assets, future expected cash flows used in evaluating long-lived assets for impairment, percentage completion of contracted service expenditures and stock-based compensation fair values. On an ongoing basis, management reviews its estimates to ensure that these values appropriately reflect changes in the Company's business and new information as it becomes available. As at June 30, 2008, management's estimate for customer discounts and incentives totalled approximately \$2,900,000 (September 30, 2007 - \$1,400,000), which are included in accounts payable and accruals and customer deposits and as a reduction in accounts receivable.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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### 2. Summary of significant accounting policies (cont'd)

#### Property and equipment

In January 2008, the Company received its occupancy permit for its new premises and deemed the building available for use. Amortization is provided for the building utilizing the straight line method over 5 to 25 years.

#### Comprehensive income and financial instruments

On October 1, 2006, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income. This Section establishes the standards for reporting and disclosure of comprehensive income and its components. Comprehensive income is the change in equity (net assets) of an enterprise, during a period, from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company did not have other comprehensive income, a component of comprehensive income not included in net earnings, and accordingly total comprehensive income and net (loss) earnings are equal.

On October 1, 2006, the Company adopted the following CICA accounting recommendations for the recognition, presentation and disclosure of financial instruments:

- CICA Handbook Section 3855 "*Financial Instruments – Recognition and Measurement*"
- CICA Handbook Section 3862 "*Financial Instruments – Disclosures*"
- CICA Handbook Section 3863 "*Financial Instruments – Presentation*"
- CICA Handbook Section 1530 "*Comprehensive Income*"
- CICA Handbook Section 3251 "*Equity*"

All financial instruments are initially recorded on the consolidated balance sheet at fair value and if classified as loans and receivables or held for trading, changes in fair value are included in earnings. For those instruments classified as available-for-sale and for derivative financial instruments designated as hedges, changes in fair value will be included in other comprehensive income. Other comprehensive income and its components, when presented, are included directly in equity as accumulated other comprehensive income.

Except for revolving debt obligations, financial assets and financial liabilities classified other than as held-for-trading are measured at amortized cost based on the effective interest method. Transaction costs for revolving debt obligations that are directly attributable to the acquisition or issuance of the financial liability are expensed by the Company. The application of this standard did not have a significant impact on the consolidated financial statements at the date of adoption.

#### Accounting changes

On October 1, 2007, the Company adopted CICA Handbook Section 1506, Accounting Changes. This Section allows an entity to change an accounting policy only if the change is required by a primary source of GAAP or results in the consolidated financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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### 2. Summary of significant accounting policies (cont'd)

entity's financial position, financial performance or cash flows. This standard is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2007. The adoption did not have any effect on the Company's consolidated financial statements.

On October 1, 2007, the Company adopted CICA Handbook Section 1535, Capital Disclosures. This Section establishes standards for disclosing information about an entity's capital and how it is managed. The standard is effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2007 and is disclosed in note 16 below.

#### Recent accounting pronouncement

The CICA has issued new standards relating to goodwill and intangible assets as CICA Handbook Section 3064. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company plans to adopt this Section for its fiscal year beginning October 1, 2008 and does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian public enterprises will need to adopt International Financial Reporting Standards (IFRS) effective for years beginning on or after January 1, 2011. The Company is currently evaluating the impact this new framework will have on the consolidated financial statements.

### 3. Short Term Investment

Short term investment consists of a cashable guaranteed investment certificate (GIC) purchased on June 30, 2008. The GIC matures on June 30, 2009, and carries an interest rate of 3.25% with interest being paid at maturity. The GIC can be cashed, and earn interest, after being held for a minimum of 30 days.

	June 30, 2008	September 30, 2007
Guaranteed investment certificate	\$ 9,024,078	\$ -

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## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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#### 4. Inventory

Inventory is comprised of the following:

	June 30, 2008	September 30, 2007
Finished goods	\$ 6,502,337	\$ 9,014,194
Raw materials	1,338,278	1,448,528
Work-in-progress	1,879,936	3,755,470
Packaging materials	770,944	756,601
Product shipped with right-of-return	615,518	1,267,932
	11,107,013	16,242,725
Less current portion	11,107,013	8,891,706
	\$ -	\$ 7,351,019

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## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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#### 5. Property and equipment

	Cost	Accumulated Amortization	Net Book Value
June 30, 2008			
Building	\$11,296,331	\$ 404,993	\$10,891,338
Equipment	1,123,448	362,286	761,162
Computer hardware and software	870,797	398,664	472,133
Land under capital lease	616,099	-	616,099
Leasehold improvements	121,126	93,952	27,174
Automobiles	44,788	30,331	14,457
Equipment under capital lease	92,438	43,243	49,195
	\$14,165,027	\$ 1,333,469	\$12,831,558
September 30, 2007			
Building under construction	\$ 9,552,210	\$ -	\$ 9,552,210
Equipment	800,435	272,234	528,201
Computer hardware and software	678,243	308,051	370,192
Land under capital lease	616,099	-	616,099
Leasehold improvements	99,207	90,744	8,463
Automobiles	44,788	26,134	18,654
Equipment under capital lease	74,631	36,308	38,323
	\$11,865,613	\$ 733,471	\$11,132,142

During the three and nine month periods ended June 30, 2008, the Company recorded property and equipment amortization expense of \$279,067 and \$603,551 respectively (2007 - \$60,984 and \$227,729).

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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### 6. Financing facilities

The Company's bank credit facilities are comprised of the following:

a) At June 30, 2008, the Company has available a \$10,000,000 demand operating line of credit and had drawn \$nil (September 30, 2007 - \$2,039,164). The portion of the line of credit that is available to the Company is based on 75% of accounts receivable aged less than 90 days plus 50% of finished goods inventory for the period from September to February or 65% of finished goods inventory for the period from March to August each year to a maximum limit of \$6,000,000. This available line of credit amount was \$5,362,000 at June 30, 2008. Interest under the available operating line facility is based on the bank prime lending rate plus a stamping fee equal to 1.5% per annum. The effective interest rate for the quarter was 6.75%.

Included in the available operating line facility the Company has the ability to issue up to \$1,000,000 of letters of guarantee. At June 30, 2008, the Company had two standby letters of credit in the amount of \$495,600 and \$124,000 which will remain in effect until December 1, 2008 and December 1, 2009, respectively. Standby letters of credit are subject to a charge of 1% per annum.

b) The Company also has a \$6,175,000 three-year term mortgage facility for the construction of its headquarters and research centre on land held under a capital lease. This mortgage is to be advanced to the Company, based on progress towards completion, in four installments commencing August 31, 2007. The Company had drawn \$130,000 in the three months ended June 30, 2008. As at June 30, 2008, the Company has drawn \$5,175,000 under this facility. The facility bears interest at the Bank's prime lending rate plus 0.75% per annum. Using the effective interest method to determine the carrying value of the financial liability, the effective interest rate of the mortgage is 7.42%. Repayments are to be interest only until July 31, 2008 and a monthly principal payment of \$51,460 plus interest thereafter. The Company may prepay the mortgage without penalty at any time in whole or in part. Such payments would be applied to the principal in the inverse order of maturities of the repayments. The Company has presented the term mortgage net of financing charges of \$59,310. Additional financing charges of \$11,461 have been deferred until the balance of the mortgage has been drawn.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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### 6. Financing facilities (cont'd)

The Company's various facilities are subject to certain financial covenants. The facilities agreement contains repayment acceleration clauses that may cause the debt to become due and payable, or the collateral to become immediately enforceable, if certain events of default occur. The acceleration clauses include subjective default events such as any adverse change occurring in the financial condition of the Company, its subsidiaries or its property, equipment or business activities. Management of the Company is not aware of any pending condition that would require accelerated repayment of the bank financing.

The Company has pledged as collateral for both financing facilities a General Security Agreement constituting a first ranking security interest in all personal property of the Company, a collateral mortgage constituting a first fixed charge on the Company's headquarters and research centre on the subleased land.

Subject to any demand for partial or full repayment of the obligation, required principal repayments of the mortgage by fiscal year are as follows:

2008	\$	102,920
2009		617,520
2010		617,520
2011		3,837,040
<hr/>		
Total mortgage		5,175,000
Less transaction costs netted against principal balance		46,093
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Carrying value of mortgage		5,128,907
Less current portion		566,060
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	\$	4,562,847
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## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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#### 7. Information systems loan

The Company entered into a financing arrangement related to its information systems upgrade. The amount of the loan provided is \$262,500. Interest on the loan is at 6.99%. Using the effective interest rate method to determine the carrying value of the financial liability, the effective interest rate of the loan is 7.41%. Payments are blended principal and interest of \$8,104 for 36 months starting on July 12, 2008. The loan is unsecured and is not subject to any covenants. The loan can be called by the lender if scheduled repayments are not received within 10 days of their due date. The loan cannot be accelerated by the Company.

Repayments on the loan by fiscal year are as follows:

2008	\$	19,723
2009		82,636
2010		88,968
2011		71,173
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Carrying value of loan		262,500
Less current portion		81,125
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	\$	181,375

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#### 8. Customer deposits

The Company has received customer deposits totalling \$5,884,154 (September 30, 2007 - \$10,374,967) for product shipped with right-of-return. At June 30, 2008, three customers represented \$5,138,000 or 87% (September 30, 2007 - three customers represented \$9,290,907 or 90%) of the total customer deposits. As at June 30, 2008, the Company has a remaining balance of inventory returns requiring refund of approximately \$2,334,000 (September 30, 2007 - \$4,816,000). At June 30, 2008, the Company has authorized additional inventory returns requiring refund of approximately \$213,000 (September 30, 2007 - \$2,428,000) to be delivered subsequent to quarter end. Inventory returns are not considered payable until the products have passed a quality and verification process. This process had not been completed for the above returns as at June 30, 2008.

If the risk of return for the remaining product shipped with the right-of-return is substantially eliminated, the revenue from the product shipment will be recognized and liability for the customer deposit eliminated. If the product is returned and cash payment has been made, the customer is entitled to a refund of the deposit. There is no certainty on the amount of deposits that will be recognized as revenue or require refund.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

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### 9. Share capital

#### Authorized:

Unlimited number of Class A voting common shares with no par value

Unlimited number of Class P preferred shares with no par value,  
voting rights to be determined prior to first issue

#### Issued and outstanding:

	Number of Shares	Share Capital
Class A common shares:		
Balance, September 30, 2007	104,101,006	\$ 22,875,648
Exercise of options	650,000	97,500
Recognition of fair value of options exercised	-	53,950
Balance, December 31, 2007	104,751,006	\$ 23,027,098
Exercise of options	862,500	129,375
Recognition of fair value of options exercised	-	71,588
Balance, March 31, 2008	105,613,506	\$ 23,228,061
Exercise of options	2,109,992	316,499
Recognition of fair value of options exercised	-	175,129
Balance, June 30, 2008	107,723,498	\$ 23,719,689

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

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#### 10. Contributed surplus

During the period, contributed surplus has changed as follows:

	Three month period ended June 30 2008	Nine month period ended June 30 2008	Year ended September 30 2007
Balance, beginning of period	\$ 8,243,581	\$ 7,839,387	\$ 6,469,885
Stock-based compensation recognition of fair value of stock options granted to:			
Employees, officers and directors	222,466	660,398	1,388,034
Non-employees	57,190	148,990	138,440
Recognition of fair value of stock options exercised	(175,129)	(300,667)	(156,972)
Balance, end of period	\$ 8,348,108	\$ 8,348,108	\$ 7,839,387

#### Stock-based compensation

A summary of the status of the Company's outstanding stock options for the nine month period ended June 30, 2008 and year ended September 30, 2007 and changes during these periods is presented below:

	June 30, 2008		September 30, 2007	
	Number of options outstanding	Weighted average exercise price	Number of options outstanding	Weighted average exercise price
Outstanding, beginning of period	10,952,935	\$ 0.89	14,770,601	\$ 1.26
Exercised	(3,622,492)	0.15	(1,327,666)	0.22
Granted	1,310,000	0.68	1,010,000	1.41
Expired, cancelled and forfeited	(580,000)	2.80	(3,500,000)	2.84
Outstanding, end of period	8,060,443	1.05	10,952,935	0.89
Exercisable, end of period	5,280,443	\$ 0.90	8,752,335	\$ 0.55

For the nine month period ended June 30, 2008, there were 580,000 options cancelled.

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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#### 10. Contributed surplus (cont'd)

##### Stock-based compensation

The number of options outstanding at June 30, 2008 together with details of time and performance vesting conditions of the options are as follows:

Exercise prices	Number outstanding	Weighted average remaining term (in years)	Options currently exercisable (vested)	Options subject to time vesting only (not vested)	Options subject to performance vesting only (not vested)
\$0.25	33,000	0.25	33,000	-	-
\$0.50	250,000	0.96	250,000	-	-
\$0.57	143,000	1.08	143,000	-	-
\$0.68	1,310,000	5.51	-	-	1,310,000
\$0.71	813,916	0.52	813,916	-	-
\$0.74	3,600,527	0.85	3,600,527	-	-
\$1.24	830,000	4.97	-	600,000	230,000
\$1.25	80,000	5.13	-	80,000	-
\$2.62	250,000	2.05	100,000	150,000	-
\$2.84	355,000	1.67	213,000	142,000	-
\$2.98	100,000	3.46	20,000	80,000	-
\$3.29	200,000	2.94	80,000	120,000	-
\$3.42	10,000	2.66	4,000	6,000	-
\$4.04	55,000	3.19	11,000	44,000	-
\$4.32	30,000	2.41	12,000	18,000	-
	8,060,443		5,280,443	1,240,000	1,540,000

The fair value of the options issued during the nine month period ended June 30, 2008 was \$0.60 (September 30, 2007 - \$2.35) as determined using the Black-Scholes option pricing model. The following weighted average assumptions were utilized to calculate the fair value:

	Nine month period ended	
	June 30, 2008	June 30, 2007
Total options granted	1,310,000	100,000
Exercise price	\$ 0.68	\$ 2.98
Risk-free interest rate	4%	4%
Expected life	6 years	5 years
Vesting period	6 years	5 years
Expected annual volatility	125%	107%
Dividend yield	-	-

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
(unaudited)

#### 11. (Loss) earnings per share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the following periods:

	Three month period ended June 30		Nine month period ended June 30	
	2008	2007	2008	2007
Numerator for basic (loss) earnings per share	<u>\$ (1,970,349)</u>	<u>\$ (1,871,272)</u>	<u>\$4,060,844</u>	<u>\$ (8,751,145)</u>
Denominator:				
Weighted average common shares	<u>107,723,498</u>	<u>103,804,852</u>	<u>105,779,325</u>	<u>103,516,297</u>
Dilutive effect of stock options	<u>-</u>	<u>-</u>	<u>1,615,184</u>	<u>-</u>
Denominator for diluted (loss) earnings per share	<u>107,723,498</u>	<u>103,804,852</u>	<u>107,394,509</u>	<u>103,516,297</u>
(Loss) earnings per share				
Basic	\$ (0.02)	\$ (0.02)	\$ 0.04	\$ (0.08)
Diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ 0.04</u>	<u>\$ (0.08)</u>

The Company uses the treasury stock method to calculate (loss) earnings per share and under this method options that are anti-dilutive are excluded from the calculation of diluted (loss) earnings per share. For the three month period ended June 30, 2008, and for the three and nine month period ended June 30, 2007, all outstanding options were considered anti-dilutive when earnings available to common shareholders were in a loss position.

#### 12. Amortization

	Three month period ended June 30		Nine month period ended June 30	
	2008	2007	2008	2007
Patents and registered trademarks	\$ 23,694	\$ 18,879	\$ 68,239	\$ 58,581
Property and equipment	279,067	60,984	603,551	227,729
Deferred development costs	-	90,400	-	271,200
	<u>\$ 302,761</u>	<u>\$ 170,263</u>	<u>\$ 671,790</u>	<u>\$ 557,510</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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### 13. Interest, bank charges and fees

Interest, bank charges and fees consists of:

	Three month period ended June 30		Nine month period ended June 30	
	2008	2007	2008	2007
Guarantee fees (note 15a)	\$ 75,000	\$ -	\$ 225,000	\$ -
Interest on mortgage	73,732	-	155,417	-
Other interest and bank charges	84,051	7,949	95,659	62,669
	<u>\$ 232,783</u>	<u>\$ 7,949</u>	<u>\$ 476,076</u>	<u>\$ 62,669</u>

### 14. Supplemental cash flow information

	June 30, 2008	September 30, 2007
Cash and cash equivalents is comprised of:		
Balances with banks	\$ 4,321,736	\$ 3,285,103
Deposits in transit	-	9,129
Cheques in transit	(461,407)	(591,660)
	<u>\$ 3,860,329</u>	<u>\$ 2,702,572</u>

	Three month period ended June 30		Nine month period ended June 30	
	2008	2007	2008	2007
Interest paid	\$ 129,091	\$ 460	\$ 263,118	\$ 20,583
Income taxes paid	\$ 50,939	\$ 855,118	\$ 738,848	\$ 8,660,828
Non-cash financing and investing activities:				
Property and equipment additions financed by obligations under capital lease	\$ 11,697	\$ 12,270	\$ 52,315	\$ 35,920
Property and equipment additions included in accounts payable and accruals at period end	556,421	1,279,800	556,421	1,279,800

## **CV Technologies Inc.**

### **Notes to the Consolidated Financial Statements**

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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#### **15. Related party transactions**

a) On July 16, 2007, a shareholder who is also a director provided the Company with a guarantee of \$5,000,000, at a fee of 0.5% per month, to be used as collateral for the bank loan. During the three and nine month periods ended June 30, 2008, the Company has expensed as interest, bank charges and fees \$75,000 and \$225,000 respectively (June 30, 2007 - \$nil and \$nil) related to this guarantee.

b) The Company has as part of its management team an individual who is also part of a vendor's management. During the three and nine month periods ended June 30, 2008, approximately \$139,000 and \$412,000, respectively (June 30, 2007 - \$151,000 and \$365,000) was expensed as advertising and marketing costs provided by this vendor subsequent to the above individual being hired by the Company. As at June 30, 2008, approximately \$156,000 (September 30, 2007 - \$287,000) is payable to the related vendor. The Company has a commitment of approximately \$560,000 remaining with the related party as at June 30, 2008 and is included in note 20(b).

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
(unaudited)

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### 16. Capital disclosures

The Company's objective to manage capital is to safeguard the entity's ability to continue as a going concern so that it can continue to develop and commercialize evidence-based natural health products to increase shareholder value.

The Company has externally imposed capital requirements as governed through its financing facilities. These requirements are to ensure the Company continues to operate in the normal course of business and to ensure the Company manages its debt relative to tangible net worth. These capital requirements are congruent with the Company's management of capital. The Company met all externally imposed capital requirements at the end of the period.

The Company monitors capital on the basis of the current and debt to tangible net worth ratios which are both financial covenants of its lending agreement. The current ratio is calculated as current assets (as shown on the balance sheet) over current liabilities (as shown on the balance sheet) and is to be maintained above 1.00:1. As at June 30, 2008 this ratio is 1.70:1 (September 30, 2007 – 0.77:1). The increase in this ratio is primarily the result of turning over inventory and collecting cash and using cash to reduce accounts payable and customer deposits. The increase was also due to the classification of the mortgage as long term and long term inventory classified as current.

Debt to tangible net worth is calculated as total liabilities (as shown on the balance sheet) over tangible net worth. Tangible net worth is defined as the sum of share capital, contributed surplus and retained earnings (deficit) less intangible assets. This ratio is to be maintained below 2.50:1. At June 30, 2008 this ratio was 1.04:1 (September 30, 2007 – 1.78:1). The decrease in this ratio is due to a profitable nine month period that enabled the Company to reduce accounts payable and customer deposits.

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
(unaudited)

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#### 17. Segmented information

The Company operates in one operating segment - biopharmaceutical products. Management assesses performance and makes resource decisions based on the consolidated results of operations of this operating segment. Substantially all of the operations of the Company are directly engaged in or support this operating segment. Other operations are not material and share many of the same economic and operating characteristics as biopharmaceutical products and, accordingly, they are included with biopharmaceutical products for purposes of segment reporting.

Inter-segment transactions are eliminated upon consolidation. The following table presents information on the Company's product sales for the three and nine month periods ended June 30, 2008 and June 30, 2007 by geographic area:

	Three month period ended June 30		Nine month period ended June 30	
	2008	2007	2008	2007
Product sales				
Canada	\$ 3,285,901	\$ 3,045,161	\$ 34,414,396	\$ 32,719,008
United States	69,492	169,532	931,134	960,045
	<u>\$ 3,355,393</u>	<u>\$ 3,214,693</u>	<u>\$ 35,345,530</u>	<u>\$ 33,679,053</u>

Geographic information about the Company's revenue is based on the product shipment destination. Substantially all of the Company's property and equipment are located in Canada based on their physical location.

The Company derives significant revenue from certain customers. During the three month period ended June 30, 2008, three major customers (2007 - four) accounted for \$2,298,292 or 71% (2007 - \$1,790,548 or 55%) of the Company's Canadian product sales. During the nine month period ended June 30, 2008, three major customers (2007 - four) accounted for \$22,669,728 or 66% (2007 - \$17,792,539 or 53%) of the Company's Canadian product sales.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
(unaudited)

### 18. Accounts receivable

	June 30, 2008	September 30, 2007
Trade receivables	\$ 2,452,309	\$ 8,007,663
Allowance for doubtful accounts	(66,685)	(62,312)
	2,385,624	7,945,351
Other receivables	455,968	33,684
Discount and incentive provisions	(2,721,286)	(1,359,695)
Other provisions	(1,097,561)	(176,922)
	(977,255)	6,442,418
Reclass of net credits in trade accounts receivable	1,433,223	-
	\$ 455,968	\$ 6,442,418

Trade receivables are non-interest bearing and are generally on 30 day terms.

The Company identifies impairment of trade receivables through a review of specific accounts and provides an allowance for doubtful accounts based on the excess of their carrying value over their estimated realizable amount. At June 30, 2008, trade receivables of \$66,685 were considered to be impaired and fully provided for. The movement on the provision for impairment of trade receivables for the nine month period ended is as follows:

	2008	2007
Balance, October 1	\$ 62,312	\$ 59,232
Provision for doubtful accounts	7,143	4,407
Recovery	-	(4,118)
Amounts written off as uncollectible	-	-
Balance, December 31	69,455	59,521
Provision for doubtful accounts	42,564	4,142
Recovery	-	-
Amounts written off as uncollectible	(19,971)	(8,854)
Balance, March 31	\$ 92,048	\$ 54,809
Provision for doubtful accounts	68,142	4,142
Recovery	(29,737)	-
Amounts written off as uncollectible	(63,768)	(8,854)
Balance, June 30	\$ 66,685	\$ 50,097

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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#### 18. Accounts receivable (cont'd)

The ageing analysis of trade receivables not impaired is as follows:

	Total \$	< 30 days \$	30 - 60 days \$	60 - 90 days \$	> 90 days \$
June 30, 2008	2,385,624	1,261,135	(35,193)	287,369	872,313
September 30, 2007	7,945,351	4,559,124	2,122,537	656,948	606,742

As at June 30, 2008, three customers (September 30, 2007 – three) represented 80% of total accounts receivable (September 30, 2007 – 72%).

#### 19. Financial Instruments

##### Classification of Financial Instruments

Under the CICA Handbook Section 3855, on acquisition, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and at inception, all financial liabilities must be classified as held-for-trading or other. The Company has classified cash and cash equivalents and short term investment as held-for-trading; accounts receivable is classified as loans and receivables; bank indebtedness, customer deposits on product shipped with right-of-return, information systems loan, mortgage, and accounts payable and accruals have been classified as other liabilities.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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### 19. Financial Instruments (cont'd)

#### Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, short term investment, accounts receivable, accounts payable and accruals, customer deposits, information systems loan and mortgage. The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties, calculated at the reporting date, to settle these instruments. Cash and cash equivalents, short term investment, accounts receivable, current income taxes, bank indebtedness, accounts payable and accruals and customer deposits on product shipped with right-of-return are assets and liabilities that have short periods to maturity and the carrying values contained in the consolidated balance sheet approximate their estimated fair value. The fair values of other financial instruments reflect the Company's best estimate based upon estimated interest rates at which the Company believes it could enter into with similar instruments at the consolidated balance sheet date. These estimates match the fair values of the underlying liabilities.

#### Management of Risks Arising from Financial Instruments

The Company does not use financial derivatives. There has been no change with respect to the Company's overall risk exposure during the nine month period ended June 30, 2008.

#### Market Risk

##### a) Interest rate risk

Bank indebtedness and mortgage are subject to interest rate cash flow risk as the required cash flow to service the debt will fluctuate as a result of the changing bank prime lending rate. The sensitivity of the mortgage to a 100 basis point change in the interest rate, with all other variables held constant, would result in a change in the effective interest rate from 7.40% to 8.48% and a change in the (loss) earnings before tax of approximately \$14,000 for the three month period ended June 30, 2008 and \$39,000 for the nine month period ended June 30, 2008. The Company did not employ interest rate hedging activities during the year. The Company has the option to fix the interest rate on its mortgage for the balance of the term.

##### b) Foreign exchange risk

The Company has assets and liabilities that are denominated in foreign currencies and thus are exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The sensitivity of these monetary assets and liabilities to a 10% change in the U.S. dollar, with all other variables held constant, would result in a change in the Company's (loss) earnings before tax of approximately \$595,000. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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### 19. Financial Instruments (cont'd)

#### Credit Risk

The maximum exposure to credit risk of the Company as a June 30, 2008 is the carrying value of its financial assets. The Company manages credit risk by maintaining bank accounts with reputable financial institutions and only investing in securities that are highly rated, traded in active markets and capable of prompt liquidation.

The Company's exposure to credit risk related to accounts receivable arises from the possibility that a customer does not fulfil their obligations. This is minimized through a customer base predominantly comprised of well established retailers and wholesalers, a program of credit evaluation of new customers and limits on the amount of credit extended as deemed necessary. The Company performs continuous evaluation of its accounts receivable and records an allowance for doubtful accounts. The failure of a large customer would have a significant effect on the Company.

#### Liquidity Risk

The Company's exposure to liquidity risk is dependent on the sale of inventory, collection of accounts receivable, purchasing commitments and obligations or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

### 20. Commitments

a) The Company has entered into agreements to lease premises in Edmonton, Alberta, Canada; Toronto, Ontario, Canada; Montreal, Quebec, Canada and Zug, Switzerland. These leases expire at various dates ranging from July 31, 2008 to September 30, 2011, and for which minimum lease payments total approximately \$435,000.

The following is a schedule by fiscal year of future minimum lease payments:

2008	\$	59,000
2009		216,000
2010		141,000
2011		19,000
		<hr/>
	\$	435,000

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## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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#### 20. Commitments (cont'd)

b) The Company has entered into contractual obligations related to future advertising and marketing expenditures.

The following is a schedule by fiscal year of future payments associated with these contracts:

2008	\$	224,000
2009		584,000
		<hr/>
		\$ 808,000

c) The Company has entered into contractual obligations related to future research and development expenditures.

The following is a schedule by fiscal year of future payments associated with these contracts:

2008	\$	139,000
2009		144,000
		<hr/>
		\$ 283,000

d) The Company has entered into contractual obligations related to administration, occupancy and insurance expenditures.

The following is a schedule by fiscal year of future payments associated with these contracts:

2008	\$	103,000
2009		140,000
		<hr/>
		\$ 243,000

# **CV Technologies Inc.**

## **Notes to the Consolidated Financial Statements**

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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### **21. Contingency**

The Company and certain of its officers and directors were named as defendants in two concurrent class action lawsuits. These two actions were filed in the Ontario Superior Court of Justice and Alberta. The lawsuits, brought on behalf of shareholders who purchased the Company's common stock between December 11, 2006 and March 23, 2007, allege primarily that the audited consolidated financial statements for the year ended September 30, 2006 and unaudited consolidated financial statements for the quarter ended December 31, 2006 were false and misleading. These lawsuits seek compensatory damages, costs, and expenses in the amount of \$110,000,000. The lawsuits are at a very early stage. The Company has not recorded any liability relating to these matters. The matters raised in the lawsuits contain unproven allegations that will be vigorously defended, although no assurances can be given with respect to the outcome of such proceedings. Management believes that the Company's directors and officers insurance policy provides for reimbursement for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits.

### **22. Cyclical nature of business**

The Company's lead product's sales follow the industry's cold and flu season which is generally during the August to March period.

### **23. Comparative figures**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period consolidated financial statements.

### **24. Corporate Restructuring**

In November 2007, the Board of Directors approved management's proposal to modify the Company's international structure. In 2008, management intends to simplify the corporate structure with the formation of a new foreign company and dissolution of COLD-fX Pharmaceuticals (USA) Inc. and fX Life Sciences International GmbH. As at June 30, 2008, the potential costs of restructuring have been estimated by management to be \$515,000, of which \$236,000 has been incurred to date.

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the nine month period ended June 30, 2008

All amounts are in Canadian dollars, except where noted  
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#### 25. Subsequent events

a) On July 23, 2008 the Company renegotiated its bank credit facility with the following changes from the current agreement:

The removal of the requirement for a \$5,000,000 guarantee which had been provided to the Company by a shareholder who is also a director (note 15a).

The new demand operating limit is revised to \$5,000,000 from \$10,000,000. The advances against inventory are limited now to a maximum of \$2,500,000. Interest under this operating line facility is based on the bank prime lending rate plus 0.25% per annum, plus a standby fee of 0.375% per annum. Standby letters of credit are subject to a charge of 1.5% per annum (note 6a).

The three-year term mortgage facility for the construction of the new headquarters now will bear interest at the bank's prime lending rate plus 1.0% per annum (note 6b).

b) On July 31, 2008, the Company received the final \$1,000,000 draw on its mortgage facility (note 6b).