


Chartered Accountants
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Grant Thornton International

Grant Thornton 

CV Technologies Inc.
Financial Statements
September 30, 1998

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Auditors' Report

To the Shareholders of
CV Technologies Inc.

We have audited the balance sheet of CV Technologies Inc., as at September 30, 1998 and the statements of loss and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1998 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The comparative figures for 1997 are based upon financial statements which were reported on by another chartered accountant.

Edmonton, Canada
November 10, 1998

Chartered Accountants

CV Technologies Inc. Statements of Loss and Deficit

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Year Ended September 30	1998	1997
Revenue (Note 15)	\$ <u>2,584,723</u>	\$ <u>630,610</u>
Cost of goods sold		
Product cost	795,552	157,319
Freight	<u>17,974</u>	<u>26,704</u>
	<u>813,526</u>	<u>184,023</u>
Gross margin (1998 - 68.5%; 1997 - 70.8%)	<u>1,771,197</u>	<u>446,587</u>
Selling expenses		
Commissions	222,542	132,229
Marketing	420,854	319,004
Travel	<u>240,002</u>	<u>128,741</u>
	<u>883,398</u>	<u>579,974</u>
Administrative expenses		
Advertising	48,744	9,548
Amortization	58,500	48,576
Automotive	8,628	9,913
Bad debts	3,595	-
Consulting fees	484,844	407,920
Insurance and licenses	36,843	10,808
Interest and bank charges	30,208	26,127
Lab supplies	90,799	17,022
Office and occupancy costs	300,446	208,702
Professional fees	76,369	52,498
Salaries and employee benefits	988,932	645,446
Less research and development capitalized	<u>(251,650)</u>	<u>(500)</u>
	<u>1,876,258</u>	<u>1,436,060</u>
Loss before other expenses	<u>(988,459)</u>	<u>(1,569,447)</u>
Other income		
Interest	19,604	35,979
Contract revenue	89,906	19,200
Tax credits and grants	<u>29,781</u>	<u>99,490</u>
	<u>139,291</u>	<u>154,669</u>
Net loss	<u>\$ (849,168)</u>	<u>\$ (1,414,778)</u>
Deficit, beginning of year	\$ (1,862,245)	\$ (447,467)
Net loss	<u>(849,168)</u>	<u>(1,414,778)</u>
Deficit, end of year	<u>\$ (2,711,413)</u>	<u>\$ (1,862,245)</u>

See accompanying notes to the financial statements.

CV Technologies Inc.

Balance Sheet

September 30

1998

1997

Assets

Current

Cash and term deposits	\$ -	\$ 550,157
Receivables	420,014	287,015
Inventory	1,028,026	658,566
Prepays	29,795	27,342
Income taxes receivable	-	<u>427,786</u>
	<u>1,477,835</u>	<u>1,950,866</u>
Investment in Zapra International	-	60,000
Patents and registered trade marks (Note 3)	527,683	371,573
Capital assets (Note 4)	134,251	75,847
Deferred development costs	<u>1,467,887</u>	<u>727,220</u>
	<u>\$ 3,607,656</u>	<u>\$ 3,185,506</u>

Liabilities

Current

Bank indebtedness (Note 5)	\$ 352,708	\$ -
Payables and accruals	641,358	342,080
Loan from shareholders (Note 6)	<u>100,000</u>	<u>-</u>
	<u>1,094,066</u>	<u>342,080</u>

Shareholders' Equity

Capital stock (Note 7)	5,225,003	4,705,671
Deficit	<u>(2,711,413)</u>	<u>(1,862,245)</u>
	<u>2,513,590</u>	<u>2,843,426</u>
	<u>\$ 3,607,656</u>	<u>\$ 3,185,506</u>

On behalf of the Board

Director

See accompanying notes to the financial statements.

CV Technologies Inc.

Statement of Changes in Financial Position

Year Ended September 30

1998

1997

Cash derived from (applied to)

Operating		
Net loss	\$ (849,168)	\$ (1,414,778)
Amortization of capital assets and patents	<u>58,500</u>	<u>48,576</u>
	(790,668)	(1,366,202)
Change in non-cash operating working capital (Note 10)	<u>222,152</u>	<u>84,309</u>
	<u>(568,516)</u>	<u>(1,281,893)</u>
Investing		
Disposal (purchase of) investment in Zapra International	60,000	(60,000)
- Purchase of capital assets	(87,890)	(33,189)
Purchase of registered trade marks and patents	(185,124)	(90,686)
Increase in deferred development costs	<u>(740,667)</u>	<u>(177,348)</u>
	<u>(953,681)</u>	<u>(361,223)</u>
Financing		
Loan from (repayment to) shareholders	100,000	(256,288)
Repayment to parent company	-	(169,337)
Issuance of capital stock	<u>519,332</u>	<u>2,538,337</u>
	<u>619,332</u>	<u>2,112,712</u>
(Decrease) increase in cash during the year	(902,865)	469,596
(Bank indebtedness) cash		
Beginning of year	<u>550,157</u>	<u>80,561</u>
End of year	<u>\$ (352,708)</u>	<u>\$ 550,157</u>

See accompanying notes to the financial statements.

CV Technologies Inc.

Notes to the Financial Statements

September 30, 1998

1. Summary of significant accounting policies

CV Technologies Inc. is a publicly owned company which develops and sells biopharmaceutical and health supplement products. It is incorporated under the Business Corporations Act (Alberta). These financial statements are prepared in accordance with generally accepted accounting principles. The significant accounting policies are as follows:

Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Patents

Patents are recorded at cost and are amortized on a straight line basis over 17 to 20 years.

Registered trade marks

Registered trade marks are recorded at cost and amortization is provided for using the straight line method over 10 years.

Capital assets

Capital assets are recorded at cost and amortization is provided for using the following methods and rates:

Furniture and equipment	20%, declining balance
Lab equipment	20%, declining balance
Leasehold improvements	50%, straight line
Computer hardware	20%, declining balance
Computer software	100%, declining balance

Deferred development costs

Development costs are capitalized for the technologies that are at a stage where potentially profitable markets have been identified and evaluated. Amortization of the development costs will commence with commercial production or use of the product or process being developed. As this stage has not been reached, no amortization has been made in the present period.

The recoverability of unamortized deferred development costs is periodically evaluated based on projected future revenues, net of associated costs, on a product by product basis.

CV Technologies Inc.

Notes to the Financial Statements

September 30, 1998

2. Business combination

On October 1, 1997 the company entered into an agreement to amalgamate with Corsayre Capital Corporation ("Corsayre"), a public company being traded on the Alberta Stock Exchange. Under the amalgamation Corsayre exchanged 8,000,000 Class A common shares plus \$500,000 for the 7,000,000 Class A common shares of the company. In addition Corsayre was granted options to purchase an additional 700,000 Class A common shares of the company for \$0.10 per share, which were exercised on October 15, 1997 for proceeds of \$70,000.

This transaction has been accounted for as a reverse take over whereby, notwithstanding the legal acquisition of the company by Corsayre, the transaction was accounted for as an acquisition of Corsayre (whose net assets were \$467,247) by the company. Under the principles of reverse take over accounting, the consolidated financial statements of Corsayre, the legal parent, are presented as a continuation of the financial position and results from operations of CV Technologies Inc., the legal subsidiary.

Immediately following the transaction, the company and Corsayre were amalgamated and continued under the name CV Technologies Inc.

The net assets of each combining as at October 1, 1997 were as follows:

	<u>CV Technologies Inc.</u>	<u>Corsayre Capital Corporation</u>
Total assets	\$ 1,839,059	\$ 473,494
Total liabilities	<u>731,884</u>	<u>6,247</u>
	<u>\$ 1,107,175</u>	<u>\$ 467,247</u>

Effective June 30, 1998 the amalgamation of CV Technologies Inc. and HerbTech Inc. was approved by the shareholders of the companies. On amalgamation each common share of CV Technologies Inc. was exchanged for 1.561 common shares of the amalgamated company and each share of HerbTech Inc. was exchanged for 0.896 common shares of the amalgamated company. The 7,585,100 shares of HerbTech Inc. owned by CV Technologies Inc. were cancelled upon amalgamation of the two companies. Upon amalgamation the company continued under the name CV Technologies Inc.

In these financial statements the amalgamation has been accounted for using a method similar to the pooling of interests method and, as a result, the balance sheets, statements of loss and deficit and changes in financial position have been prepared as though CV Technologies Inc. and HerbTech Inc. had been combined since their inception. Under this method, the assets and liabilities have been recorded at historical carrying values and the earnings of the company are comprised of the earnings of CV Technologies Inc. and HerbTech Inc.

Upon amalgamation, the issued, and then outstanding, common shares of the company totalled \$5,225,003 of which approximately 69% were held by the former shareholders of CV Technologies Inc. and 31% were held by former shareholders of HerbTech Inc.

CV Technologies Inc.

Notes to the Financial Statements

September 30, 1998

2. Business combination (cont'd)

The net assets of each combining company as at June 30, 1998 were as follows:

	CV Technologies Inc.	HerbTech Inc.
Total assets	\$ 2,219,465	\$ 1,731,591
Total liabilities	<u>1,042,777</u>	<u>832,589</u>
	<u>\$ 1,176,688</u>	<u>\$ 899,002</u>

The net revenue and losses of each combining company for the period October 1, 1997 to June 30, 1998 were as follows:

	CV Technologies Inc.	HerbTech Inc.
Net sales	\$ 486,775	\$ 1,291,102
Net loss	<u>(395,369)</u>	<u>(231,363)</u>

3. Patents and registered trade marks

		1998	1997
	Cost	Accumulated Amortization	Net Book Value
Patents	\$ 595,330	\$ 101,963	\$ 493,367
Registered trade marks	<u>40,038</u>	<u>5,722</u>	<u>34,316</u>
	<u>\$ 635,368</u>	<u>\$ 107,685</u>	<u>\$ 527,683</u>

4. Capital assets

		1998	1997
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 51,250	\$ 28,724	\$ 22,526
Lab equipment	140,518	52,598	87,920
Leasehold improvements	10,436	8,598	1,838
Computer software	15,743	15,131	612
Computer hardware	<u>30,895</u>	<u>9,540</u>	<u>21,355</u>
	<u>\$ 248,842</u>	<u>\$ 114,591</u>	<u>\$ 134,251</u>

CV Technologies Inc.

Notes to the Financial Statements

September 30, 1998

5. Bank indebtedness	<u>1998</u>	<u>1997</u>
Cheques issued in excess of bank balance	\$ 58,708	\$ -
Operating line	<u>294,000</u>	<u>-</u>
	<u>\$ 352,708</u>	<u>\$ -</u>

The operating line bears interest at Royal Bank of Canada prime rate plus 1.5% per annum and is repayable on demand.

6. Loans from shareholders

These loans bear interest at 12% per annum and are repayable on December 31, 1998.

7. Capital stock	<u>1998</u>	<u>1997</u>
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Authorized:

Unlimited number Class A voting common shares
 Unlimited number Class B non-voting common shares
 Unlimited number Class P preferred shares, voting rights
 to be determined prior to first issue.

Issued and outstanding

36,163,496 Class A voting shares (1997 – 28,075,000) \$ 5,225,003 \$ 4,705,671

<u>CV Technologies Inc. (CVH)</u>	<u>Shares</u>	<u>Amount</u>
Opening balance, September 30, 1997	8,000,000	\$ 2,142,794
Shares issued on private placement and amalgamation with Corsayre Capital Corporation	7,000,000	500,000
Shares issued on exercise of options	700,000	70,000
Shares issued on exercise of agents options	<u>249,000</u>	<u>24,900</u>
Balance prior to amalgamation, June 29, 1998	15,949,000	2,737,694
Share exchange multiplier	<u>1.561</u>	<u>-</u>
Balance upon amalgamation, June 30, 1998	24,896,389	2,737,694
Less: share issue costs	<u>-</u>	<u>(35,701)</u>
	<u>24,896,389</u>	<u>2,701,993</u>

CV Technologies Inc.

Notes to the Financial Statements

September 30, 1998

7. Capital stock (cont'd)

<u>HerbTech Inc. (HTI)</u>	<u>Shares</u>	<u>Amount</u>
Opening balance, September 30, 1997	20,075,000	2,562,877
Shares issued on exercise of agents options	10,000	4,000
Shares issued on exercise of financing options	75,000	30,000
Cancellation of CVH shares in HTI	<u>(7,585,104)</u>	<u>-</u>
Balance prior to amalgamation, June 29, 1998	12,574,896	2,596,877
Share exchange multiplier	<u>0.896</u>	<u>-</u>
Balance upon amalgamation, June 30, 1998	11,267,107	2,596,877
Less: share issue costs	<u>-</u>	<u>(73,867)</u>
	<u>11,267,107</u>	<u>2,523,010</u>
Closing balance, September 30, 1998	<u>36,163,496</u>	<u>\$ 5,225,003</u>

8. Stock option plan

The Corporation has adopted a stock option plan that permits the Board of Directors to grant to employees, officers and directors options to purchase from treasury up to 10% of the outstanding Common shares at the time of the grant. Options issued after the listing of the Corporation on the Alberta Stock Exchange shall have an exercise price not less than the minimum price required by the Alberta Stock Exchange.

The Corporation has granted options to officers, directors and key employees of the corporation as follows:

<u>Expiry Date</u>	<u>Exercise price</u>	<u>Number of shares</u>
May 1, 2002	\$ 0.4464	1,272,320
September 3, 2002	\$ 0.5766	432,397
January 9, 2003	\$ 0.5125	1,061,480
August 24, 2003	\$ 0.4500	<u>380,000</u>
		<u>3,146,197</u>

Also the Corporation has granted options to the securities firm in conjunction with public offerings as follows:

November 13, 1998	\$ 0.06406	79,611
February 25, 2000	\$ 0.4464	<u>215,040</u>
		<u>294,651</u>

CV Technologies Inc.

Notes to the Financial Statements

September 30, 1998

9. Non-capital losses

The company has non-capital losses available for carry-forward of \$1,962,233 (1997 - \$1,495,454) and tax credits of \$332,730 (1997 - \$107,587). The benefits of these losses and tax credits have not been recognized in these financial statements.

These losses and credits are available to reduce income taxes in future years and, if not utilized will expire as follows:

	Income Tax <u>Losses</u>	Investment <u>Tax Credits</u>
2003	\$ 425,395	\$ 66,098
2004	1,070,059	41,489
2005	289,062	182,264
2006	<u>177,717</u>	<u>42,879</u>
	<u>\$ 1,962,233</u>	<u>\$ 332,730</u>

The company has an unclaimed SR & ED expenditure pool of \$1,663,596. This can be carried forward indefinitely and used to reduce future taxable income.

10. Change in non-cash operating working capital	<u>1998</u>	<u>1997</u>
Receivables	\$ (132,999)	\$ (23,442)
Inventory	(369,460)	(267,121)
Income taxes receivable	427,786	229,102
Prepays	(2,453)	11,105
Payables and accruals	<u>299,278</u>	<u>134,665</u>
	<u>\$ 222,152</u>	<u>\$ 84,309</u>

11. Loss per share	<u>1998</u>	<u>1997</u>
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The computation of basic earnings per share is based on the weighted average number of common shares issued and outstanding during the year.

Fully diluted earnings per share reflect earnings that would have been reported had all options been exercised.

Basic	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>
Fully diluted	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>

CV Technologies Inc.

Notes to the Financial Statements

September 30, 1998

12. Comparative figures

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

13. Uncertainty due to the Year 2000 Issues

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations.

It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Fair value of financial instruments

Fair value estimates are made as of a specific point in time, using available information about the financial instruments. These estimates are subjective in nature and often cannot be determined with precision.

(a) Current assets and current liabilities

The carrying values of any financial instruments included in current assets and current liabilities in the balance sheet approximate their fair value due to the short maturity of these instruments.

(b) Foreign exchange risk

The company does business in both the United States and Brazil. At September 30, 1998 the company did not have significant exposure to foreign currency exchange risk.

CV Technologies Inc.

Notes to the Financial Statements

September 30, 1998

15. Segmented information	<u>1998</u>	<u>1997</u>
Geographic information		
Revenue		
United States	\$ 1,297,918	\$ 36,656
Brazil	382,632	42,350
Canada	<u>904,173</u>	<u>551,604</u>
	<u>\$ 2,584,723</u>	<u>\$ 630,610</u>