



CV TECHNOLOGIES INC.

ANNUAL REPORT

2001

Natural Health Through Science & Technology

INDEX

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VISION

CV Technologies Inc. will become the global leader in identification, characterization and standardization of safe and effective natural substances for disease prevention and health management



PRESIDENT'S LETTER TO THE SHAREHOLDERS

Dear Shareholders:

The year 2001 has been a year of positive developments and significant changes for CV Technologies. With the departure of James Bruce from the Company we saw the return of myself to pursue the commercialization and financial priorities. We have continued our focus on the development of CVT-E002 for the prevention of viral respiratory infections. In November 2001, we presented our exciting CVT-E002 Phase II clinical results at the IV International Symposium on Respiratory Viral Infections. This provided a notable introduction for CV Technologies to the established scientific, medical and pharmaceutical communities. Our core research team has extensive experience in traditional medicine as well as pharmaceutical product development. This expertise is now receiving global attention from those investigators and companies researching the development of natural medicines - an achievement that we are particularly proud of and one that should serve all shareholders well.

During the second quarter CV Technologies ended its administrative presence in the United States. With the current direction of the company and the progress of corporate development activities, the board felt the Boulder office was no longer warranted, and decided to consolidate all activities at our new location in the Edmonton Research Park. With this CV Technologies regrettably bid farewell to all its US based administrative staff, and welcomed the addition of some new team members to our Edmonton office. During the fourth quarter of the 2001 fiscal year CV Technologies considerably reduced its staffing levels and expenditures, in order to concentrate efforts and resources on the development and commercialization of proprietary pharmaceuticals and nutraceuticals from natural sources. In the fourth quarter we initiated a renewed marketing plan for our *HerbTech*[®] line of products to improve the cash flows from these operations. Initial success was visible during the first quarter of the 2002 fiscal year. We expect that with the initiation of this two-prong approach, cost reductions and increasing revenues, CV Technologies will offer increased value for the shareholders.

Completion of Phase II Clinical Trial for CVT-E002

◆ In January 2001 we completed enrollment for our Phase II clinical study on our lead compound, CVT-E002. In this double blind, randomized, placebo controlled trial, patients

received either CVT-E002 or placebo for the prevention of viral respiratory infection. During the course of the trial no significant side effects were noted from CVT-E002, indicating an extremely positive safety profile. During the summer and early fall the results were compiled and analyzed by an independent statistical consultant. These results support findings from previous studies. Based on 198 patients enrolled in this study.

- 1% of the CVT-E002 treated group compared with 7% of the placebo-treated group developed laboratory confirmed influenza illness – a relative risk reduction of 85% (p=0.033);
- 1% of the CVT-E002 treated group compared with 9% of the placebo-treated group developed laboratory confirmed influenza or Respiratory Syncytial Virus illness, a relative risk reduction of 89% (p=0.009);

(The diagnosis of confirmed illness required both the symptoms and signs of an acute respiratory illness as well as isolation of the appropriate respiratory virus.)

Overall, this study suggests that the use of CVT-E002 may be of significant benefit in the prevention of infection by influenza virus and respiratory syncytial virus. These final results were well received at the IV International Symposium on Respiratory Viral Infections. CVT will be putting forth great effort in the 2002 fiscal year to secure a strategic partnership arrangement to bring CVT-E002 to the next step of development - Phase III clinical trials and the New Drug Application stage. We strongly believe that development of CVT-E002 as a pharmaceutical product will secure the largest possible benefit for our shareholders in the future.

Marketing of HerbTech® premium quality natural products.

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◆ The 2001 fiscal year marked the continued progress of our HerbTech® line of products. In the fall of 2000 we saw an increased demand for our premium quality line of products. Our products were available through health food stores and through some progressive retailers who were retailing our products on a seasonal basis. In the spring of 2001 we completed a key study involving high performance athletes and COLD-FX®. Many athletes have expressed a desire to use COLD-FX®, but have been unable to do so because of uncertainty concerning its effects on doping control urinalysis testing. With the completion of this key study we have been able to demonstrate that COLD-FX® does not result in a positive doping test in athletes. This has opened the door for many athletes to use the product, which is particularly evident by the fact that twenty professional hockey teams and numerous elite level high performance athletes are using COLD-FX®. In fact, we have even been contacted by representatives for Canadian Olympic athletes regarding the use of this product. During the summer of 2001 CV Technologies initiated a renewed marketing plan for its premium quality line of products. We have seen initial positive progress, primarily with the progressive retailers, during the first few months of the 2002 fiscal year. We anticipate this trend to continue, which we predict will positively affect the cash flow for the company. This is particularly useful for our current shareholders, as this reduces the need for the company to return to the equity markets for additional cash.

■ In summary, CV Technologies has built up a product development process during the preceding years that has created products for both the natural health product market and the pharmaceutical market. Our products, developed using ChemBioPrint™, have been proven to have consistent batch-to-batch chemical and **biological** activity. This is a critical improvement

over many currently available natural health products which cannot provide consistent biological activity - a fact that has made many consumers and health professionals skeptical of the natural products industry. Consumers that have used our premium quality natural health products have come back to repurchase the product, and many have told their circle of contacts of the benefits of our products. Furthermore with the transition that is taking place in the consumer market; an increasing number of consumers are actively involved with preventive health and their nutritional and medical requirements. CV Technologies stands to capitalize on this increasing demand for high quality preventative health products. On these grounds, we consider that our products have a large market potential and offer real value for our shareholders. In addition, CV Technologies has gone one step beyond this, by putting our products through rigorous scientific scrutiny that has and will allow us to create products that are so consistent that they are patentable for their composition and use. Such patents are essential if these products are to be developed into pharmaceuticals. It is notably uncommon for natural health products to obtain composition and use patents in the manner of CVT's products. Furthermore, a product that is consistent can be put through the drug approval process; a fact that was confirmed in 1999 by CV Technologies. CVT-E002 is one of a few, multi-component natural chemical products that has been allowed under Investigational New Drug status by the U.S. Food & Drug Administration. This has put our product, CVT-E002, and our technology platform, ChemBioPrint™, in the highest echelon of the industry. With the successful completion of the Phase II clinical trial we have further established that our product and technology are rightful members of this highest echelon.

Our efforts during the year have created a new very advantageous position,

- Completion of a positive Phase II clinical trial for CVT-E002,
- Renewed marketing campaign, and
- Financial stability,

for the company and our shareholders. Although we are currently not in position to make a major breakthrough announcement for the company, either a strategic partnership for the natural health and/or pharmaceutical market, our efforts are focused to secure such a partnership during 2002. We are fully committed to negotiating the best possible strategic partnership for our shareholders. This does not mean the earliest one, but rather a favourable arrangement that will positively impact future earnings per share for our shareholders. It is paramount that we choose a partner with the vision to successfully develop and market new products that represents a revolutionary approach to health management.

In 2001, CV Technologies put in place many of the structures to build success. This would not have been possible without the dedication of our excellent team, or without the continued support of our shareholders. I would like to personally thank all of you for your continued commitment to our vision at CV Technologies.

Yours truly,



Peter Pang, Ph.D., D.Sc.
Chairman and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information, prepared in accordance with generally accepted accounting principles in Canada, should be read in conjunction with the Audited Consolidated Financial Statements and accompanying notes.

Overview

4 CV Technologies Inc., (CVT or the "Company") an international science and technology company, has developed, commercialized and patented proprietary technology (ChemBioPrint™) to identify and biologically standardize natural products that deliver health benefits.

Utilizing the Company's ChemBioPrint™ technology, CVT scientists obtain specific chemical and biological profiles of proprietary natural products and determine their mechanisms of action and optimal dosages. The result is the development of candidate products that are certified biologically active and consistent batch to batch.

The Company's lead drug candidate, CVT-E002, is designed for the prevention of cold-and-flu and the stimulation of the immune system. Currently CVT markets several of its natural products in Canada under its HerbTech® brand name and supplies proprietary ingredients to national and international markets.

Results of Operations

◆ The consolidated losses from continuing operations for the years 2001, and 2000 were \$3.9 million and \$3.1 million, respectively. The two largest contributors to the increased loss were the decrease of contract research revenue and the planned increase in cost associated with the pharmaceutical development program, in particular the cost associated with the completion of the Phase II clinical trial for CVT-E002.

Revenue

◆ Revenues from natural health product sales for the years 2001, and 2000 were \$856,022 and \$730,540, respectively, an increase of 17%. Other revenues generated from contract research, interest income on the Company's cash balances, licenses and royalties, and research and development assistance for the years 2001, and 2000 were \$412,501 and \$1,248,203, respectively. In 2000 a significant portion of the Company's revenues were derived from a one-time research contract with Dupont. Consistent with the previous year, the other significant portion of the Company's revenue is derived from the Company's natural health product sales. Compared to 2000, the gross margin increased from 37% to 55% in 2001. The Company will continue to aggressively market its premium quality natural health line of products on a worldwide basis. Revenues from licenses and royalties are not expected to increase significantly until a strategic partnership for one of the Company's products is completed. The Company will continue to pursue licensing opportunities and collaborative alliances for its technologies, which is expected to contribute to future revenue generation. The extent and timing of such revenues, if any, will be dependent upon the scientific progress of the products and the structure of proposed agreements.

Operating Expenses

◆ Total consolidated expenses for the period ending September 30, 2001 were \$4,829,170 as compared to \$4,619,659 for the year ended September 30, 2000.

◆ CV Technologies' General & Administrative expenses, \$1,575,342, representing 33% of the Company's total expenses, decreased significantly compared to the previous year's expenses (\$2,203,471 or 48% of total expenses). This decrease is mainly due to the end of CV Technologies' administrative presence in the United States. The cost associated with professional fees, business development, insurance, investor relations, administration and corporate salaries and benefits and various other expenses relating to the operation and growth of the Company are included in this category. With the end of the Company's administrative presence in the United States many costs previously incurred in US currency were eliminated or incurred in Canadian currency instead. During the fourth quarter of the fiscal year the Company implemented a cost savings program that saw further reductions in general & administrative cost. It is expected that these benefits will be realized in the 2002 fiscal year.

◆ Research & Development expenses, \$2,948,570, representing 61% of the Company's total expenses, saw a significant increase, from \$2,101,092 or 45% of total expenses, when compared to the previous fiscal year. This increase is mainly due to the amplified clinical program conducted by CVT during this fiscal year. In particular, the cost associated with the completion of the Phase II trial for CVT-E002 contributed to the increased cost in this category. This clinical trial program increase was partially cover by the 79% increase in monies received from the Industrial Research Assistance Program and AVAC Ltd. to offset the cost of research and development. Furthermore, the move to our new location resulted in an increase in office & occupancy cost and depreciation & amortization cost. The increase in salaries and benefits in this category is due to the addition during this fiscal year of staff for the clinical trial program, and the additional staff hired in the second half of the previous fiscal year for contract research. During the fourth quarter the Company implemented a cost savings program that saw a reduction in staffing levels for research and development, resulting in a significant decrease of salaries,

benefits and other cost associated with research and development. The Company believes that by maintaining a small research and development program the essence of its research can be preserved.

◆ Capital expenditures for the fiscal year totaled \$721,347 and are mainly related to the move of our laboratories to the new facilities, as well as patent and trademark costs.

Liquidity and Capital Resources

◆ At September 30, 2001 consolidated current cash position totaled \$1,501,645 as compared to \$2,597,215 at September 30, 2000. Of the consolidated \$487,206 cash and cash equivalents \$435,245 is included in the books of the Company's subsidiary. The Company's current cash position decreased during the fiscal year due to a decrease in cash and cash equivalents, inventory and prepaids. Furthermore, the Company pursued a more insistent strategy to collect its receivables, which resulted in decrease receivables.

◆ During the 2001 fiscal year the Company repaid \$500,000 and \$120,000 in principal and interest, respectively for its outstanding debentures. \$248,000 of which was repaid in common shares of the Company. In addition during this fiscal year CV Technologies issued four million shares for proceeds of \$4,000,000, with the balance of issuance of capital stock raised by ChemBioPrint Asia Ltd., and exercise of options.

◆ CV Technologies has implemented a disciplined approach to the management of liquidity, capital and overall financial stability. Based on current operating budgets, the management of CV technologies believes that the capital resources of the Company should be sufficient for its short-term requirements. The Company's future funding needs may vary depending on a number of factors including the amount of revenue that the natural product sales can generate, further product development, the cost, timing and outcome of the regulatory process, the establishment of collaborations, the cost of preparing, filing, maintaining, defending and enforcing patent claims and the availability of other funding. The Company may need to raise additional capital to fund its operations in the future. It would seek such additional funding through public or private equity financing from time to time as market conditions permit, or through collaborative agreements.

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Outlook

◆ CV Technologies enters 2002 with a rich and innovative pipeline of both early and late-stage products and it is CV Technologies' objective to become a global products-oriented biotechnology company. To achieve this objective, the Company continues to maintain its strategic direction to retain sole ownership of its core technology, ChemBioPrint™, and collect the fruits of this technology through the research and development process. The completion of Phase II clinical studies, with CVT's lead pharmaceutical product, CVT-E002 has placed it in an attractive position for strategic partnership discussions. Interest has been expressed regarding technology partnering opportunities for CVT-E002, as well as the sale of bulk natural health products such as COLD-FX® and others. CVT's future growth will be dependent on the successful joint venture with a strategic partnership to obtain regulatory approval of CVT-E002 as a therapeutic agent. In addition CVT's future growth will depend on the marketing of CVT's

natural health line of products, HerbTech[®]. CV Technologies' expects that it will continue to be successful with the marketing of its premium quality natural health line of products based upon the consumer's increasing confidence of the industry and the changing regulatory environment for these products. CV Technologies, based on current proposed regulations (expected to become law in 2002), is significantly ahead of our competitors by having put its products through a rigorous scientific process in past years.

Risks and Uncertainties

◆ The Company is in the development stage with its lead pharmaceutical candidate, CVT-E002. In order to bring this pharmaceutical candidate to market, CVT will be required to expend considerable funds to complete clinical testing necessary for regulatory approval. There is no assurance that these clinical trials will provide a positive outcome. In addition, future success will also be dependent on the effectiveness and safety of the Company's products, regulatory approval for its products and the degree of patent protection afforded to particular products. The Company maintains product liability insurance, however it is possible that this coverage might not provide full protection against all risks.

◆ The Company is exposed to market risk related to changes in interest and foreign currency exchange rates. The Company does not currently engage in hedging or other activities to reduce exchange risk, but may do so in the future if conditions warrant.

◆ The Company will continue to generate financing as required through the exercise of share options and warrants and the issuance of new share capital, as well as other financing opportunities such as strategic partnering arrangements. However, there can be no assurance that any of these methods will be successful in the future. Due to the nature of the Company's business, the market price of the Company's shares has been subject to significant speculation and volatility. The ability of the Company to raise funds from the issuance of additional share capital or from the exercise of share options and warrants will depend upon the strength of the equity markets, which are always uncertain. The expectations about the Company's financial and scientific results could have a significant effect on the trading price of the Company's shares.

Except for historical information, certain matters discussed in this report are by their nature forward-looking statements that involve risk and uncertainties, which may cause actual results to differ materially from the statements made.



Jacqueline Shan, Ph.D., D.Sc.
Chief Operating Officer

AUDITORS' REPORT

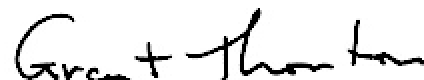
To the Shareholders of CV Technologies Inc.

We have audited the consolidated balance sheets of CV Technologies Inc., as at September 30, 2001 and 2000 and the consolidated statements of loss, deficit and cash flows for the years 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 Canadian 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
November 16, 2001



(signed) "Grant Thornton LLP"
Chartered Accountants

CV Technologies Inc.
Consolidated Statements of Loss

Years Ended September 30	2001	2000
Product sales	\$ 856,022	\$ 730,540
Direct costs		
Product costs	339,681	434,399
Freight	43,350	26,023
	<u>383,031</u>	<u>460,422</u>
Gross margin (55.3%, 2000 – 37.0%)	<u>472,991</u>	<u>270,118</u>
Other revenue		
Contract research revenue	3,000	965,753
Interest income	44,890	29,184
License and royalties	-	50,000
Research and development assistance	364,611	203,266
	<u>412,501</u>	<u>1,248,203</u>
Selling expenses		
Advertising and marketing	159,139	193,521
Consulting fees	138,988	78,500
Office and occupancy	3,596	12,744
Travel	3,535	30,331
	<u>305,258</u>	<u>315,096</u>
General and administrative expenses		
Bad debts	14,467	-
Business promotion	1,005	12,475
Consulting fees	182,692	162,349
Depreciation and amortization	63,002	60,906
Insurance and licenses	63,973	71,248
Interest and bank charges	22,629	21,096
Interest on long term debt	42,443	75,340
Office and occupancy	130,222	108,509
Professional fees	51,919	200,823
Public and investor relations	51,720	127,139
Salaries and employee benefits	297,746	628,798
Travel	109,506	5,636
	<u>1,031,324</u>	<u>1,474,319</u>
Costs relating to satellite office	<u>544,018</u>	<u>729,152</u>
	<u>1,575,342</u>	<u>2,203,471</u>
Research and development expenses		
Business promotion	3,543	14,355
Clinical studies and lab	971,662	546,777
Consulting fees	492,892	496,736
Depreciation and amortization	143,375	90,335
Equipment and furniture	15,488	9,987
Insurance and licenses	48,626	54,491
Office and occupancy	151,638	92,941
Salaries and employee benefits	995,274	705,809
Travel	126,072	89,661
	<u>2,948,570</u>	<u>2,101,092</u>
Loss before other item and non-controlling interest	(3,943,678)	(3,101,338)
Other item		
Loss on disposal of capital assets	(16,873)	-
Loss before non-controlling interest share of loss	(3,960,551)	(3,101,338)
Non-controlling interest share of loss	62,985	29,018
Net loss	\$ (3,897,566)	\$ (3,072,320)
Loss per share (Note 2)	\$ (0.06)	\$ (0.06)
Weighted average number of shares	60,626,963	53,052,220

See accompanying notes to the consolidated financial statements.

CV Technologies Inc.
Consolidated Statements of Deficit

Years Ended September 30	2001	2000
Deficit, beginning of year	\$ (7,893,293)	\$ (4,820,973)
Net loss	<u>(3,897,566)</u>	<u>(3,072,320)</u>
Deficit, end of year	<u>\$ (11,790,859)</u>	<u>\$ (7,893,293)</u>

CV Technologies Inc.
Consolidated Balance Sheets

September 30	2001	2000
Assets		
Current		
Cash and cash equivalents (Note 3)	\$ 487,206	\$ 1,101,169
Receivables	98,409	218,270
Inventory	906,276	1,061,921
Prepays	<u>9,754</u>	<u>215,855</u>
	1,501,645	2,597,215
Patents and registered trademarks (Note 4)	828,573	821,816
Capital assets (Note 5)	923,348	390,344
Deferred development costs	1,808,006	1,808,006
Goodwill, less amortization of \$83,330 (2000 - \$41,665)	<u>41,665</u>	<u>83,330</u>
	<u>\$ 5,103,237</u>	<u>\$ 5,700,711</u>
Liabilities		
Current		
Payables and accruals	\$ 438,301	\$ 463,284
Current portion of obligation under capital lease	<u>56,126</u>	<u>88,436</u>
	494,427	551,720
Obligation under capital lease (Note 7)	21,502	80,117
Debentures payable	<u>-</u>	<u>577,513</u>
	515,929	1,209,350
Non-controlling interest	<u>579,492</u>	<u>642,479</u>
Shareholders' Equity		
Capital stock (Note 8)	15,798,675	11,742,175
Deficit	<u>(11,790,859)</u>	<u>(7,893,293)</u>
	<u>4,007,816</u>	<u>3,848,882</u>
	<u>\$ 5,103,237</u>	<u>\$ 5,700,711</u>

Going concern (Note 1)
 Commitments and contingencies (Note 13)

On behalf of the Board



Director



Director

See accompanying notes to the consolidated financial statements.

CV Technologies Inc.
Consolidated Statements of Cash Flows

Years Ended September 30

2001

2000

Increase (decrease) in cash and cash equivalents

Operating		
Net loss	\$ (3,897,566)	\$ (3,072,320)
Depreciation and amortization	206,377	151,241
Loss on disposal of capital assets	16,873	-
Non-controlling interest share of loss	<u>(62,985)</u>	<u>(29,018)</u>
	(3,737,301)	(2,950,097)
Change in non-cash operating working capital		
Receivables	119,861	(73,383)
Inventory	155,645	(124,358)
Prepays	206,101	(203,591)
Payables and accruals	<u>(24,983)</u>	<u>(244,567)</u>
	(3,280,677)	(3,595,996)
Financing		
Repayment of capital lease	(90,925)	(104,860)
Repayment of loan to shareholder	-	(100,000)
(Retirement) issuance of debentures	(329,513)	65,379
Issuance of capital stock, net	<u>3,808,499</u>	<u>4,933,692</u>
	3,388,061	4,794,211
Investing		
Purchase of capital assets	(662,353)	(31,572)
Proceeds on sale of capital assets	1,913	-
Purchase of patents and registered trademarks	(60,907)	(258,953)
Business acquisition including cash acquired	-	638,771
Increase in deferred development costs	<u>-</u>	<u>(164,819)</u>
	(721,347)	183,427
(Decrease) increase in cash and cash equivalents	(613,963)	1,381,642
Cash and cash equivalents		
Beginning of year	<u>1,101,169</u>	<u>(280,473)</u>
End of year	\$ 487,206	\$ 1,101,169

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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 consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Management has a business plan that it believes will allow the Company to raise the required capital necessary to continue operations.

These consolidated financial statements do not reflect the adjustments, if any, that might be necessary if the Company were not able to continue as a going concern, in which case the net realizable value of the Company's assets may be substantially less than the amounts recorded.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting and reporting policies conform to generally accepted accounting principles and industry practice in Canada and in all material respects with international accounting standards.

Principles of consolidation

The consolidated financial statements include the assets, liabilities, and results of operation, after the elimination of intercompany transactions and balances of the Company and its 57.4% interest in ChemBioPrint Asia Limited.

Translation of foreign currencies

Monetary assets and liabilities of the Company's foreign subsidiary are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the rates in effect when the transaction giving rise to the asset or liability took place. The income and expenses of the subsidiary are translated using the average exchange rate for the year. Realized and unrealized gains and losses arising from these translations are included in interest and bank charges in the consolidated statement of loss.

Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognized upon shipment of goods.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts. Long term bank borrowings are considered to be financing activities.

Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined on a moving average basis.

Patents and registered trademarks

Patents and registered trademarks are recorded at cost and are amortized on a straight line basis over 10 to 20 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
Equipment under capital lease	20%, declining balance
Computer hardware	20%, declining balance
Computer software	50%, straight line

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Research and development

Research and development expenditures (except for capital assets) are charged to expenses as incurred unless a development project meets the generally accepted accounting criteria for deferral and amortization.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is amortized on a straight line basis over its estimated life of three years.

The Company reviews the recorded amounts of goodwill annually based on expected future cash flows of the entities to which goodwill relates. Based on such reviews, estimates of amortization periods may be revised and write downs of goodwill may be recorded if necessary.

Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures that are recoverable in the current year are accounted for as a reduction in the related expenditures. Investment tax credits not recoverable in the current period are accrued provided there is reasonable assurance that the credits will be realized.

Financial instruments

a) Fair value

The Company's financial instruments include cash and cash equivalents, receivables, payables and accruals and obligation under capital lease. The fair value of all financial instruments approximate their carrying values.

b) Interest rate risk

The Company's exposure to interest rate risk relates to the floating interest rate on bank indebtedness.

c) Credit risk

Credit risk arises from the possibility that the entities to which the Company sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance.

d) Foreign currency risk

The Company has transactions occurring that are denominated in foreign currencies, and thus is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. It is management's opinion that foreign currency risk is not significant.

Loss per share

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of earnings per share. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury method only "in the money" dilutive instruments impact the dilutive calculations.

The computation of basic loss per share has been calculated using the weighted average number of common shares outstanding during the year. Calculating diluted loss per share in the current and prior years produced anti-dilutive results.

Stock-based compensation plans

The Company has a stock-based compensation plan which is described in Note 7. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock.

3. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is \$435,245 (2000 - \$35,463) that is denominated in Hong Kong currency and is included in the books of the Company's subsidiary. The amount has been converted at the current rate in effect as of the balance sheet date, 3.2023 (2000 = 0.1925).

4. PATENTS AND REGISTERED TRADEMARKS

			<u>2001</u>	<u>2000</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Patents	\$ 1,020,546	\$ 227,897	\$ 792,649	\$ 783,852
Registered trademarks	<u>57,588</u>	<u>21,664</u>	<u>35,924</u>	<u>37,964</u>
	<u>\$ 1,078,134</u>	<u>\$ 249,561</u>	<u>\$ 828,573</u>	<u>\$ 821,816</u>

CV Technologies Inc.
Notes to the Consolidated Financial Statements

September 30, 2001 and 2000

5. CAPITAL ASSETS			<u>2001</u>	<u>2000</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 76,712	\$ 44,914	\$ 31,798	\$ 37,613
Lab equipment	183,329	102,700	80,629	62,748
Leasehold improvements	608,697	41,393	567,304	-
Equipment under capital lease	273,920	77,383	196,537	241,482
Computer hardware	78,515	32,698	45,817	48,501
Computer software	<u>22,831</u>	<u>21,568</u>	<u>1,263</u>	<u>-</u>
	<u>\$ 1,244,004</u>	<u>\$ 320,656</u>	<u>\$ 923,348</u>	<u>\$ 390,344</u>

6. BANK INDEBTEDNESS

The Company has available to it an operating line up to a maximum of \$150,000 based on accounts receivable and inventory. As of the year end the Company had not drawn on the line (2000 - nil). The operating line bears interest at Royal Bank of Canada prime rate plus 1.55% per annum and is repayable on demand. The collateral security lodged by the Company to support the operating line is a General Security Agreement.

7. OBLIGATIONS UNDER CAPITAL LEASE	<u>2001</u>	<u>2000</u>
Leases payable, bearing interest from 9.5% to 15.2%, repayable in monthly instalments maturing in 2002 and 2003. The collateral security lodged by the Company to support the obligations is the related equipment under the leases.	\$ 77,628	\$ 168,553
Less: current portion	<u>56,126</u>	<u>88,436</u>
	<u>\$ 21,502</u>	<u>\$ 80,117</u>

The future minimum annual lease payments for the capital leases are as follows:

2002	\$ 62,952
2003	<u>24,383</u>
	87,335
Less: imputed interest	<u>9,707</u>
Present value of net minimum payments	77,628
Less: current portion	<u>56,126</u>
	<u>\$ 21,502</u>

8. CAPITAL STOCK

Authorized:

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

Issued and outstanding:

	<u>Shares</u>	<u>Amount</u>
Balance, September 30, 1999	43,910,775	\$ 6,598,130
Private placements issued for cash consideration	7,866,666	3,100,000
Exercise of options	411,831	169,898
Exercise of agent's options	291,245	72,811
Exercise of warrants	4,135,067	1,658,260
Conversion of debenture and interest	441,424	110,353
Conversion of debt	<u>277,777</u>	<u>100,000</u>
Balance before share issue costs	57,334,785	11,809,452
Less: share issue costs	<u>-</u>	<u>(67,277)</u>
Balance, September 30, 2000	57,334,785	11,742,175

CV Technologies Inc.
Notes to the Consolidated Financial Statements

September 30, 2001 and 2000

8. CAPITAL STOCK CONTINUED

Balance, September 30, 2000	57,334,785	11,742,175
Private placements issued for cash consideration	4,000,000	4,000,000
Exercise of options	35,000	8,500
Conversion of debenture and interest	992,000	248,000
Repurchase of shares	<u>(252,000)</u>	<u>(200,000)</u>
Balance September 30, 2001	<u>62,109,785</u>	<u>\$ 15,798,675</u>

The Company initiated a normal course issuer bid in the prior year in which the Company had until December 15, 2001 to repurchase issued and outstanding shares.

Stock-based compensation plans

The Company 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 5,702,703 common shares. Options issued after the listing of the Company on the Canadian Venture Exchange shall have an exercise price not less than the minimum price required by the Canadian Venture Exchange.

As at September 30, 2001 there are 4,309,629 (2000 – 5,190,816) stock options outstanding, exercisable at prices ranging from \$0.20 to \$0.72 and expire between October 29, 2001 and June 15, 2006.

Changes in the number of shares under option during each of the two years ended September 30, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Balance, beginning of year	\$ 5,190,816	\$ 4,211,699
Granted	1,022,000	1,375,948
Exercised	(35,000)	(396,831)
Expired	<u>(1,868,187)</u>	<u>-</u>
Balance, end of year	<u>\$ 4,309,629</u>	<u>\$ 5,190,816</u>

Warrants

The Company has 1,733,334 warrants outstanding at September 30, 2001 (2000 – 1,666,667). These warrants are convertible at the option of the holder into common shares at a price ranging from \$0.35 to \$1.50 per share and expire November 15, 2001 to April 9, 2002.

Changes in the number of warrants outstanding during each of the two years ended September 30, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Balance, beginning of year	\$ 1,666,667	\$ 3,144,646
Granted	1,333,334	3,013,333
Exercised	-	(4,426,312)
Expired	<u>(1,266,667)</u>	<u>(65,000)</u>
Balance, end of year	<u>\$ 1,733,334</u>	<u>\$ 1,666,667</u>

In the prior year the Company entered into an agreement with a shareholder to purchase 6,000,000 newly issued common shares for \$1.00 per share in three phases. 4,000,000 common shares were purchased during the year and 1,333,334 warrants to purchase shares at \$1.50 were granted. Subsequent to year end, 666,666 warrants have expired.

9. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2001</u>	<u>2000</u>
Interest paid	<u>\$ 88,101</u>	<u>\$ 18,703</u>
Non-cash investing and financing activities:		
Capital assets acquired by means of capital leases	\$ -	\$ 269,157
Shares issued in consideration for investment	-	100,000
Shares issued in consideration for debenture	<u>248,000</u>	<u>110,353</u>

10. RELATED PARTY TRANSACTIONS

During the year the Company paid consulting fees of \$402,772 (2000 - \$299,664) to the following directors of the Company or other companies controlled by directors of CV Technologies Inc.: Mr. James Bruce \$187,500 settlement fee and \$22,500 consulting fees for Chief Executive Officer service, P.R.P. Consulting Ltd. (Dr. Peter Pang) \$153,893 consulting fees for Chief Executive Officer & Chief Science Officer services, Broadfoot Enterprises Ltd. (Mr. Ken Broadfoot) \$32,879 consulting fees for Vice-President services, and Dr. Richard Lewanczuk \$6,000 consulting fees for clinical trial medical monitoring services.

11. INCOME TAXES

Non-capital losses

The Company has non-capital losses available for carry-forward of \$11,737,837 (2000 - \$8,011,313). The benefits of these losses have not been recognized in these financial statements.

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

	Income Tax <u>Losses</u>
2002	\$ 487,328
2003	1,514,100
2004	675,461
2005	296,340
2006	2,064,641
2007	2,973,443
2008	<u>3,726,524</u>
	<u>\$ 11,737,837</u>

Scientific research and experimental development (SR & ED)

The Company has accumulated a Scientific Research and Experimental Development pool of \$1,473,374 (2000 - \$1,473,374) which can be carried forward indefinitely to be utilized in computing taxable income in future years. SR & ED claims for 2000 and 2001 have not yet been filed.

The Company has non-refundable SR & ED investment tax credits of approximately \$267,072 (2000 - \$267,072). These investment tax credits were determined by management's estimates and as of the current year-end date only \$123,588 has been approved by the Canada Customs and Revenue Agency.

Temporary differences

A future income tax asset results when the carrying amounts of assets and liabilities for financial reporting purposes are less than the amounts used for income tax purposes. This deductible temporary difference will result in lower taxable income in future years. Significant components of the Company's future tax assets, are as follows:

Deductible temporary differences:	<u>2001</u>	<u>2000</u>
Capital and other assets	\$ 449,193	\$ 273,534
Share issue costs	292,492	205,649
Non-capital losses and SR & ED expenditures carried forward	<u>13,401,433</u>	<u>8,663,912</u>
Net deductible temporary differences	<u>\$ 14,143,118</u>	<u>\$ 9,143,095</u>

For financial statement purposes, no future income tax asset has been recorded at September 30, 2001.

12. SEGMENTED INFORMATION

For fiscal 2001, substantially all sales occurred within Canada, therefore, geographic information is not relevant.

During 2001, four major customers accounted for \$811,052 of the Company's product sales.

13. COMMITMENTS AND CONTINGENCIES

- a) The Company has an agreement with the National Research Council of Canada to obtain up to \$495,000 in assistance for research and development expenditures. \$245,220 (2000 - \$115,940) of this assistance was received and credited to earnings during fiscal 2001. Subsequent to year end, a final payment of \$12,698 was received.

The Company is obliged to repay the financial assistance by way of 1.5% of the Company's gross revenues after April 1, 2002 up to a maximum of \$742,000, which is 150% of the original contribution amount. The obligation to pay

13. COMMITMENTS AND CONTINGENCIES CONTINUED

terminates at the earlier of the full repayment of the \$742,000 or 10 years after the start of the repayment period. Any repayment of this financial assistance will be charged to earnings in the year it occurs. The Company is not obliged to repay any of the grant received should the Company have no future revenues on product sales. Repayment of the assistance will commence April 2002.

- b) The Company has an agreement with AVAC Ltd. to obtain up to \$500,000 in assistance to fund continued development of the proprietary ChemBioPrint technology platform. \$100,000 (2000 - nil) of this assistance was received and credited to earnings during fiscal 2001. As at September 30, 2001, \$100,000 (2000 - \$200,000) of assistance is still available to the Company.

The Company is obliged to repay the financial assistance by way of 1.5% of the Company's gross revenues after January 1, 2002 up to a maximum of \$1,000,000, which is 200% of the original contribution amount. Any repayment of this financial assistance will be charged to earnings in the year it occurs. The Company is not obliged to repay any of the assistance received should the Company have no future revenues on product sales. Repayment of the assistance will commence January 2002.

- c) The Company has leased premises requiring minimum annual lease payments of \$74,700 for the next four years, \$87,150 for the following two years, and \$99,600 for the final two years. In addition, the Company must pay a proportionate share of common area costs. The initial lease term expires September 30, 2005 with a renewal period extending to September 30, 2010.

The Company is also committed to reimburse the landlord for leasehold improvements up to \$450,000 in fifty nine equal consecutive monthly payments which commenced November 1, 2000.

14. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ken H.G. Broadfoot
Corporate Director

Bruce Buchanan ⁽¹⁾
Corporate Director

Robert B. Church ⁽¹⁾
Professor Emeritus, Department of
Medical Biochemistry, University of Calgary
Chairman, Alberta Science and Research Authority

Richard Lewanczuk ⁽¹⁾
Associate Professor & Director, Department
of Endocrinology, Associate Professor, Department
of Physiology, University of Alberta

Peter K.T. Pang, Ph.D., D.Sc.
Professor Emeritus, Department of Physiology
University of Alberta
Chairman, CEO and Chief Science Officer
CV Technologies, Inc.

Jacqueline J. Shan, Ph.D., D.Sc.
COO and Sr. Vice President R & D
CV Technologies, Inc.

CORPORATE OFFICERS

Peter K.T. Pang, Ph.D., D.Sc.
Chairman, CEO and Chief Science Officer

Jacqueline J. Shan, Ph.D., D.Sc.
COO and Sr. Vice President Research and
Development

AUDITORS

Grant Thornton LLP
2400 Scotia Place
10060 Jasper Avenue
Edmonton, Alberta T3J 3R8

SHARE REGISTRAR AND TRANSFER AGENT


Computershare Trust Company of Canada
Concourse Level
10050 Jasper Avenue
Edmonton, Alberta T5J 1V7

Notes:

⁽¹⁾ Member of the Audit Committee



CV TECHNOLOGIES INC.

A large, thick, maroon graphic element that forms a wide, open 'C' shape, framing the contact information in the center.

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