

**CV Technologies Inc.**  
**Consolidated**  
**Financial Statements**  
**(Restated)**  
September 30, 2006

## Auditors' Report

To the Shareholders of  
CV Technologies Inc.

We have audited the consolidated balance sheets of CV Technologies Inc. as at September 30, 2006 and 2005 and the consolidated statements of loss, deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 misstatement. 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 consolidated 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, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The previous audit report dated December 6, 2006 has been withdrawn and the consolidated financial statements have been restated, see Note 2.

Edmonton, Canada  
December 6, 2006, (except as to Note 2,  
which is as of April 30, 2007)

  
Chartered Accountants

# CV Technologies Inc.

## Consolidated Statements of Earnings

Years ended September 30

	2006 (Restated – Note 2)	2005
Product sales	\$ 41,387,088	\$ 31,850,112
Cost of goods sold	13,286,800	7,730,873
Gross margin	28,100,288	24,119,239
Operating expenses		
Advertising and marketing	8,140,050	5,209,758
Contracting, consulting and professional fees	4,018,164	1,275,246
Salaries and employee benefits	3,557,965	1,830,809
Stock-based compensation	2,714,137	2,941,794
Research and development	2,620,947	1,891,776
Administration, occupancy and insurance	1,998,398	1,265,305
Public relations and business promotion	458,813	456,291
Amortization of deferred development costs	361,601	271,201
Amortization of patents, registered trademarks and property and equipment	312,438	173,886
Interest and bank charges	60,626	35,034
Loss (gain) on foreign exchange	60,328	(44,533)
Bad debts	41,387	61,656
Lease settlement (Note 25)	-	151,103
Acquisition costs (Note 4)	-	137,922
	24,344,854	15,657,248
Earnings before other revenue, other expense and income taxes	3,755,434	8,461,991
Other revenue and expense		
Interest revenue	411,342	48,955
Foreign currency translation adjustment (Note 19)	83	-
Other items	(26,955)	24,921
	384,470	73,876
Earnings before income taxes	4,139,904	8,535,867
Income taxes		
Current (Note 20)	3,301,238	-
Future (recovery) (Note 20)	199,650	(1,557,371)
	3,500,888	(1,557,371)
Net earnings	\$ 639,016	\$ 10,093,238
Earnings per share (Note 16)		
Basic earnings per share	\$ 0.01	\$ 0.10
Diluted earnings per share	\$ 0.01	\$ 0.09

See accompanying notes to the consolidated financial statements

# CV Technologies Inc.

## Consolidated Statements of Deficit

Years ended September 30

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	2006 (Restated – Note 2)	2005
Deficit, beginning of year	\$ (6,017,395)	\$ (14,250,917)
Change in accounting policy (Note 3)	<u>-</u>	<u>(1,859,716)</u>
As restated	(6,017,395)	(16,110,633)
Net earnings	<u>639,016</u>	<u>10,093,238</u>
Deficit, end of year	<u>\$ (5,378,379)</u>	<u>\$ (6,017,395)</u>

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See accompanying notes to the consolidated financial statements

# CV Technologies Inc.

## Consolidated Balance Sheets

September 30

	2006	2005
	(Restated - Note 2)	
<b>Assets</b>		
Current		
Cash	\$ 7,913,281	\$ 5,951,981
Accounts receivable	6,707,356	6,293,660
Inventory (Note 5)	18,425,505	7,636,637
Prepaid expenses and deposits	1,199,524	49,977
Future income taxes (Note 20)	1,001,590	802,068
	35,247,256	20,734,323
Patents and registered trademarks (Note 6)	873,730	876,704
Property, plant and equipment (Note 7)	3,192,172	519,763
Deferred development costs	1,175,204	1,536,805
Prepaid intra-group tax asset (Note 8)	2,643,506	-
Future income taxes (Note 20)	-	49,026
	\$ 43,131,868	\$ 23,716,621
<b>Liabilities</b>		
Current		
Accounts payable and accruals	\$ 11,600,073	\$ 3,778,378
Customer deposits on product shipped with right-of-return (Note 10)	1,773,559	-
Current income taxes payable	5,233,698	-
Current portion of obligations under capital leases (Note 11)	14,114	25,123
Current portion of lease inducement	3,923	3,095
Future income taxes (Note 20)	237,347	-
	18,862,714	3,806,596
Future income taxes (Note 20)	112,800	-
Deferred revenue (Note 12)	150,000	30,000
Obligations under capital leases (Note 11)	471,298	27,939
Lease inducement	10,444	11,668
	19,607,256	3,876,203
<b>Shareholders' Equity</b>		
Share capital (Note 14)	22,433,106	21,936,227
Contributed surplus (Note 15)	6,469,885	3,921,586
Deficit	(5,378,379)	(6,017,395)
	23,524,612	19,840,418
	\$ 43,131,868	\$ 23,716,621
Commitments (Note 22)		

See accompanying notes to the consolidated financial statements

On behalf of the Board

Director           (Signed) Gordon Tallman          

Director           (Signed) Harry Buddle

# CV Technologies Inc.

## Consolidated Statements of Cash Flows

Years ended September 30

	2006 (Restated – Note 2)	2005
<b>Operating</b>		
Net earnings	\$ 639,016	\$ 10,093,238
Items not affecting cash		
Stock-based compensation	2,714,137	2,941,794
Future income tax (recovery)	199,650	(1,557,371)
Amortization of deferred development costs	361,601	271,201
Amortization of patents, registered trademarks and property and equipment	312,438	173,886
Lease inducement	(396)	(35,261)
Gain on disposal of property and equipment	-	(20,166)
Acquisition costs	-	137,922
Lease settlement	-	151,103
	4,226,446	12,156,346
Change in non-cash operating working capital		
Accounts receivable	(413,696)	(3,583,487)
Inventory	(10,788,868)	(5,237,971)
Prepaid expenses and deposits	(1,149,547)	239,791
Prepaid intra-group tax asset	(2,643,506)	-
Accounts payable and accruals	7,821,698	2,549,395
Current income taxes payable	5,233,698	-
Customer deposits on product shipped with right-of-return	1,773,559	-
Deferred revenue	120,000	-
	4,179,784	6,124,074
<b>Financing</b>		
Payments on obligations under capital leases	(34,812)	(20,810)
Issuance of share capital	331,041	2,151,078
Repayment of demand loan	-	(1,275,000)
	296,229	855,268
<b>Investing</b>		
Purchase of property, plant and equipment	(2,439,641)	(428,219)
Purchase of patents and registered trademarks	(75,072)	(98,935)
Purchase of remaining shares of ChemBioPrint Asia Limited	-	(143,837)
Payment for lease settlement	-	(175,400)
	(2,514,713)	(846,391)
Increase in cash	1,961,300	6,132,951
Cash (bank indebtedness)		
Beginning of year	5,951,981	(180,970)
End of year	\$ 7,913,281	\$ 5,951,981

Supplemental cash flow information (Note 17)

See accompanying notes to the consolidated financial statements

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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

CV Technologies Inc. is a publicly owned company that develops and sells biopharmaceutical and health supplement 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, Alberta, Canada.

The Company has subsidiary companies incorporated and operating in the United States, Switzerland and Canada. COLD-fX Pharmaceuticals (USA) Inc. is incorporated in Delaware, United States with an office in Chicago, Illinois. fX Life Sciences International GmbH is incorporated under the Swiss Code of Obligations with an office in Zug, Switzerland. CVT Capital Inc. is incorporated under the Business Corporations Act (Alberta) with operations in Edmonton, Alberta, Canada.

### 2. Restatement

The Company recognizes revenue in accordance with the revenue recognition criteria as described in Note 3, Summary of Significant Accounting Policies. In applying this policy, revenue cannot be recognized unless returns can be reasonably estimated or the right of return has expired. Prior to this restatement, the Company recorded revenue from the United States with estimates for product returns. However, subsequent experience has now indicated that there was significant uncertainty in estimating product returns from this new market. This uncertainty should have precluded the recognition of revenue until the risk of return was substantially eliminated.

The appropriate application of the revenue recognition policy also affected the Company's policy on the translation of foreign currencies. Given the effects of the restatement and the change in the financial condition of its wholly owned subsidiaries, the Company has re-evaluated its classification of its foreign subsidiaries as self sustaining. The Company has concluded that COLD-fX Pharmaceuticals (USA) Inc. and fX Life Sciences International GmbH should have been classified as integrated rather than self sustaining foreign operations. The translation of these subsidiaries, which operate in US dollars, has been updated from the current rate method to the temporal method.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

### 2. Restatement (cont'd)

The appropriate application of the revenue recognition policy had the following effect on the consolidated financial statements:

#### Consolidated Statement of Earnings Year ended September 30, 2006

	As previously reported	Adjustments	As restated
Product sales	\$ 46,973,073	\$ (5,585,985)	\$ 41,387,088
Cost of goods sold	14,661,462	(1,374,662)	13,286,800
Gross margin	<u>32,311,611</u>	<u>(4,211,323)</u>	<u>28,100,288</u>
Operating expenses	<u>24,289,462</u>	<u>55,392</u>	<u>24,344,854</u>
Earnings before other revenue, other expense and income taxes	8,022,149	(4,266,715)	3,755,434
Other revenue and expenses	<u>384,387</u>	<u>83</u>	<u>384,470</u>
Earnings before income taxes	8,406,536	(4,266,632)	4,139,904
Current income taxes	3,159,825	(141,413)	3,301,238
Future income taxes	<u>1,109,401</u>	<u>909,751</u>	<u>199,650</u>
Net earnings	<u>\$ 4,137,310</u>	<u>\$ (3,498,294)</u>	<u>\$ 639,016</u>
Earnings per share (Note 16)			
Basic earnings per share	\$ 0.04	\$ (0.03)	\$ 0.01
Diluted earnings per share	\$ 0.04	\$ (0.03)	\$ 0.01

#### Consolidated Statement of Deficit

	As previously reported	Adjustments	As restated
Deficit, beginning of year	\$ (6,017,395)	\$ -	\$ (6,017,395)
Net earnings	<u>4,137,310</u>	<u>(3,498,294)</u>	<u>639,016</u>
Deficit, end of year	<u>\$ (1,880,085)</u>	<u>\$ (3,498,294)</u>	<u>\$ (5,378,379)</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

### 2. Restatement (cont'd)

#### Consolidated Balance Sheet As at September 30, 2006

	As previously reported	Adjustments	As restated
<b>Assets</b>			
Accounts receivable	\$ 10,474,732	\$ (3,767,376)	\$ 6,707,356
Inventory	16,771,353	1,654,152	18,425,505
Future income taxes	91,841	909,749	1,001,590
Other current assets	9,112,805	-	9,112,805
	<hr/>	<hr/>	<hr/>
Current assets	36,450,731	(1,203,475)	35,247,256
	<hr/>	<hr/>	<hr/>
Total assets	\$ 44,335,343	\$ (1,203,475)	\$ 43,131,868
	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>			
Accounts payable and accruals	\$ 11,280,235	\$ 319,838	\$ 11,600,073
Customer deposits on products shipped with right-of-return	-	1,773,559	1,773,559
Current income taxes payable	5,091,744	141,954	5,233,698
Other current liabilities	255,384	-	255,384
	<hr/>	<hr/>	<hr/>
Current liabilities	16,627,363	2,235,351	18,862,714
	<hr/>	<hr/>	<hr/>
Total liabilities	17,371,905	2,235,351	19,607,256
	<hr/>	<hr/>	<hr/>
<b>Shareholders' Equity</b>			
Deficit	(1,880,085)	(3,498,294)	(5,378,379)
Foreign currency translation adjustment	(59,468)	59,468	-
Other shareholders' equity items	28,902,991	-	28,902,991
	<hr/>	<hr/>	<hr/>
Shareholders' equity	26,963,438	(3,438,826)	23,524,612
	<hr/>	<hr/>	<hr/>
	\$ 44,335,343	\$ (1,203,475)	\$ 43,131,868
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The appropriate application of the revenue recognition policy did not have an effect on the operating, financing and investing categories within the consolidated statement of cash flow; therefore, the effect on the restated cash flow statement has not been presented.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 3. Summary of significant accounting policies

The Company's accounting policies and its standards of financial statement disclosure are in accordance with Canadian generally accepted accounting principles.

#### Principles of consolidation

The consolidated financial statements include the assets, liabilities, and result of operations, after the elimination of intercompany transactions and balances of the Company, 100% of its wholly owned subsidiaries; COLD-fX Pharmaceuticals (USA) Inc., fX Life Sciences International GmbH, CVT Capital Inc. and ChemBioPrint Asia Limited (2005 – 99.1%) and its 60% joint venture interest in Vet Ex Inc.

#### Use of estimates and measurement of certainty

In preparing financial statements in conformity with Canadian 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.

Significant estimates made by management include provisions for customer discounts, allowances and returns, the realizability of future income taxes, useful lives of long-lived assets, the expected future 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 estimates appropriately reflect changes in the Company's business and new information as it becomes available. Actual results could differ from the estimates and assumptions used.

#### Translation of foreign currencies

The financial statements of the Company's operations are reported in Canadian dollars. The US dollar is the currency of measurement for the Company's investment in fX Life Sciences International GmbH and COLD-fX Pharmaceuticals (USA) Inc. These subsidiaries are integrated foreign operations which are translated using the temporal method, whereby monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, non-monetary assets and liabilities are translated at the rate in effect when the assets were acquired or liabilities were assumed. Under the temporal method, revenue and expenses are translated at the average exchange rates in effect on the transaction date with exception of amortizing and expensing non-monetary items such as inventory, prepaid expenses and deposits, property and equipment and patents and trademarks. These items are translated at the exchange rate in effect when the assets were acquired. The resulting exchange gains or losses are included in the determination of earnings.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 3. Summary of significant accounting policies (cont'd)

#### Revenue recognition

Revenue from the sale of goods is recognized when all of the following criteria have been met: 1) evidence of a sales arrangement exists; 2) title of goods has passed to the customer, which is generally at the time the goods are delivered; 3) the sales price is fixed and determinable; and 4) returns can be reasonably estimated or the right of return has expired.

Provisions for estimated returns are made when revenue is recognized. When future returns cannot be reasonably estimated, revenue is not recognized until the risk of return has been substantially eliminated. Product shipped where the risk of return cannot be estimated is included in inventory as "product shipped with right-of-return" (see Note 5). If customer payment has been received for product shipped with right-of-return, the Company records the payment as a customer deposit (see Note 10).

Customer discounts, rebates and incentive allowances which do not result in a sufficiently separable benefit from the sale are recorded as a reduction in revenue. For discounts, rebates and incentive allowances to be sufficiently separable from the sale of the goods, the benefit must be identifiable, available from a party other than a purchaser of the Company's products and the fair value must be reasonably estimated. If discounts, rebates and/or incentive allowances result in negative revenue for a specific customer since inception of the overall consolidated relationship, the amount of the cumulative shortfall is classified as an advertising and marketing expense.

Customer discounts, rebates and incentive allowances are recognized at the later of the date on which the Company recognizes the related revenue or the date the Company offers the discount, rebate or incentive. If the related revenue is not recognized and the discount is not recoverable in the event of return, the discount is recognized at the later of the date on which the specific activity occurs or the customer recognizes the discount, rebate or incentive allowance.

#### Cash

Cash includes cash on hand and balances with banks, net of outstanding cheques.

#### Inventory

Inventories of finished goods and product shipped with right-of-return are valued at the lower of cost or net realizable value. For product shipped with right-of-return, displays and packaging materials normally included in the value of the inventory, which the Company does not expect to recover in the event of return, are expensed when the product is initially shipped to the customer. Inventories of work in progress, raw materials and supplies are valued at the lower of cost or replacement value. Costs include direct materials and labor and are determined on a weighted average basis. Inventory is reviewed for obsolescence on an item-by-item basis, obsolete inventory is written off to cost of goods sold.

#### Patents and registered trademarks

Patents and registered trademarks are recorded at cost and are amortized on a straight-line basis over the estimated useful life of 20 and 10 years respectively.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 3. Summary of significant accounting policies (cont'd)

#### Property, plant and equipment

Property, plant and equipment are recorded at cost and amortization is provided for using the following methods and rates:

Lab equipment	20%, declining balance
Computer hardware	20%, declining balance
Furniture and equipment	20 - 30%, declining balance
Computer software	50%, declining balance
Leasehold improvements	Straight-line over term of lease
Automobiles	30%, declining balance
Equipment under capital leases	20%, declining balance

Additions and improvements are capitalized while repairs and maintenance are charged to expense as incurred. Costs are capitalized on properties which are under development, including all expenditures incurred in connection with the acquisition, development and construction. These expenditures consist of all direct costs, interest on debt that is related to these assets and certain administrative expenses. Amortization of this asset commences when the property is complete and available for use.

#### Deferred development costs

Development costs are capitalized for clearly defined, technically feasible technologies which management intends on producing and promoting to an identified future market. Resources exist or are expected to be available to complete the project. The costs deferred are for clinical studies related to the development of Parathyroid Hypertensive Factor technology related to cardiovascular therapies. Amortization of developments costs have commenced based on the start of commercial production of the product within the fiscal year ended September 30, 2005. The costs are amortized on a straight-line basis over a 5 year period based on recoverability of unamortized deferred development costs. During the year, \$361,601 (2005 - \$271,201) was expensed as amortization on deferred development costs.

The recoverability of unamortized deferred development costs are evaluated, at least on an annual basis based on projected future revenues net of associated costs, on a product-by-product basis. When such review indicates that estimated future cash flows associated with these deferred costs would not be sufficient to recover their carrying value, the excess of the carrying value over estimated recoverable amount will be recognized as an impairment loss and charged to expense in the period that impairment has been determined.

#### Prepaid intra-group tax assets

When an asset is transferred between enterprises within the consolidated group of companies resulting in prepayment of taxes by the transferor, the resulting expenses are recorded as a prepaid intra-group tax asset and amortized over the useful life of the transferred asset.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 3. Summary of significant accounting policies (cont'd)

#### Research and development

Research and development expenditures (except for property, plant and equipment) are charged to expenses as incurred unless a development project meets the Canadian generally accepted accounting criteria for deferral and amortization. Research and development costs include the following direct operating expenses: salaries and benefits, administration, occupancy and insurance, and contracting, consulting and professional fees.

#### 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.

#### Lease inducement

The Company recognizes rental expense on premises on a straight line basis over the initial term of the lease. Lease inducements received by the Company as free rent periods are deferred and amortized on a straight-line basis over the term of the lease as a reduction in rental expense.

#### Financial instruments

##### a) Fair value

The Company's financial instruments include cash, accounts receivable, accounts payable, customer deposits on products shipped with right-of-return, and obligations under capital leases. The fair values of all financial instruments approximate their carrying values.

##### b) Interest rate risk

Demand loans and bank indebtedness 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 prime interest rate.

##### c) Foreign currency risk

The Company has assets and liabilities 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 currently use derivative instruments to reduce its exposure to foreign currency risk.

##### d) Credit risk

The Company's exposure to credit risk relates to accounts receivable and arises from the possibility that a counterparty does not fulfil its obligations. This is minimized through a customer base predominantly comprised of well established, reliable 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 as required.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 3. Summary of significant accounting policies (cont'd)

#### Impairment of long-lived assets

Impairment of non-monetary long-lived assets, including property, plant and equipment, intangible assets and other assets subject to amortization, is recognized when the carrying amount of an asset may not be recoverable. Recoverability is determined by comparing the carrying amount of the asset to the undiscounted future cash flows expected from use and eventual disposition of the asset. In such situations, the asset is measured at its fair value and presented in the balance sheet at the lower of the fair value or carrying amount. This policy did not have any impact on the financial statements as at September 30, 2006 and 2005.

#### Earnings per share

The computation of basic loss per share has been calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that would occur if stock options and warrants were exercised. The Company uses the treasury method for outstanding options and warrants which assumes that all outstanding stock options and warrants with an exercise price below the average market prices are exercised and assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

#### Income taxes

Income taxes have been accounted for using the liability method of tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the accounting and income tax bases of an asset or liability. These are measured using the substantively enacted tax rates, regulations and laws of Canadian, United States and Swiss tax jurisdictions that are anticipated to be in effect when the differences are expected to reverse.

#### Stock-based compensation

The Company has adopted the Canadian accounting standard outlined in the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments." As permitted by the standard, this policy has been adopted retroactively effective October 1, 2004 without restatement of prior periods financial statements. This new section provides for the fair value method to record stock-based compensation expense with respect to stock options granted on or after October 31, 2002. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of granted options are expensed over the vesting period with a corresponding increase to contributed surplus. As a result, the Company adjusted its opening retained earnings for \$1,859,716 in fiscal 2005 to reflect the cumulative effect of the change to prior periods.

Prior to October 1, 2004, the Company had chosen not to recognize the compensation expense when stock options were granted to employees, officers and directors at the prevailing market price and where there were no cash settlement features. As permitted by the CICA standard for stock-based compensation and other stock-based payments, the Company applied this change prospectively for new awards granted on or after October 1, 2002.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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#### 4. Acquisition of ChemBioPrint Asia Limited

On August 15, 2005, the Company acquired substantially all remaining issued and outstanding shares of ChemBioPrint Asia Limited for a total cash consideration of \$143,837. Of these shares, 0.9%, \$355 (2005 - \$401 of non-controlling interest) remain outstanding; the company which is the holder of these shares is no longer in existence. ChemBioPrint Asia Limited holds the licensing rights to use ChemBioPrint technology, to develop, distribute and sell COLD-FX® and other ChemBioPrint products in Asia. The purpose of this acquisition was to reacquire the licensing rights and discontinue operations. ChemBioPrint Asia has remained dormant since February 28, 2006. After elimination of intercompany balances, the following fair value was assigned to the assets and liabilities of ChemBioPrint Asia Limited:

Cash	\$ 5,229
Prepaid expense	1,084
Liabilities	2,455

The purchase of the remaining shares of ChemBioPrint Asia Limited resulted in acquisition costs of \$137,922.

#### 5. Inventory

Inventory is comprised of the following:

	<u>2006</u>	<u>2005</u>
	(Restated – Note 2)	
Finished goods	\$ 10,587,148	\$ 3,386,294
Product shipped with right-of-return	1,486,611	-
Work-in-progress	4,491,649	3,361,754
Supplies	1,557,316	350,449
Raw materials	<u>302,781</u>	<u>538,140</u>
	<u>\$ 18,425,505</u>	<u>\$ 7,636,637</u>

#### 6. Patents and registered trademarks

<u>September 30, 2006</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,258,660	\$ 515,566	\$ 743,094
Registered trademarks	<u>205,472</u>	<u>74,836</u>	<u>130,636</u>
	<u>\$ 1,464,132</u>	<u>\$ 590,402</u>	<u>\$ 873,730</u>

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

#### 6. Patents and registered trademarks (cont'd)

September 30, 2005

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,223,325	\$ 454,329	\$ 768,996
Registered trademarks	<u>166,465</u>	<u>58,757</u>	<u>107,708</u>
	<u>\$ 1,389,790</u>	<u>\$ 513,086</u>	<u>\$ 876,704</u>

During the year, the Company recorded patents and trademarks amortization expense of \$78,046 (2005 – \$76,102).

#### 7. Property, plant and equipment

September 30, 2006

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Building under construction	\$ 1,678,281	\$ -	\$ 1,678,281
Land	467,162	-	467,162
Lab equipment	334,076	53,428	280,648
Computer hardware	355,401	77,042	278,359
Furniture and equipment	349,866	104,543	245,323
Computer software	260,563	95,955	164,608
Leasehold improvements	81,146	53,977	27,169
Automobiles	44,788	18,139	26,649
Equipment under capital leases	<u>52,434</u>	<u>28,461</u>	<u>23,973</u>
	<u>\$ 3,623,717</u>	<u>\$ 431,545</u>	<u>\$ 3,192,172</u>

September 30, 2005

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer hardware	\$ 189,052	\$ 32,621	\$ 156,431
Lab equipment	143,957	18,860	125,097
Furniture and equipment	161,972	76,832	85,140
Computer software	124,564	39,504	85,060
Automobiles	44,788	6,719	38,069
Equipment under capital leases	<u>52,434</u>	<u>22,468</u>	<u>29,966</u>
	<u>\$ 716,767</u>	<u>\$ 197,004</u>	<u>\$ 519,763</u>

During the year, the Company recorded property, plant and equipment amortization expense of \$234,392 (2005 - \$97,784).

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 8. Prepaid intra-group tax asset

During the year, international rights and proprietary knowledge were transferred to a foreign subsidiary resulting in prepayment of \$2,678,062 of income taxes in the jurisdiction of the transferor. This prepaid intra-group tax asset will be expensed over the 12.9 year useful life of the transferred asset. As at September 30, 2006, the Company has recognized \$34,556 (2005 - \$Nil) of this expense.

### 9. Demand loan

The Company has a demand operating line of credit up to a maximum of \$7,500,000 based on accounts receivable, inventory and research and development scientific tax credits. The operating line bears interest at Royal Bank of Canada prime rate plus 0.75% per annum. The collateral security lodged by the Company to support the operating line of credit is a General Security Agreement constituting a first ranking security interest in all personal property of the Company. The Company is continuing to negotiate the increase of its operating line of credit from \$7,500,000 to \$15,000,000. Since repayment of the balance of \$180,970 during the six month period ended March 31, 2005 the Company has not drawn on the line of credit.

During the 2006 fiscal year, two irrevocable standby letters of credit were issued in the amount of \$124,000 and \$495,600. The letters of credit will remain in effect respectively until December 31, 2006 and June 30, 2007 with automatic extensions to December 31, 2007 and December 1, 2008. The letters of credit were issued to meet the conditions of the land sublease. The land will be utilized to build the Company's new headquarters and research centre.

### 10. Customer deposits on product shipped with right-of-return

During the year, the Company received customer deposits totalling \$1,773,559 (2005 - \$Nil) for product shipped with right-of-return. At September 30, 2006, two customers represented \$1,503,689 or 84.78% (2005 - \$Nil) of the total customer deposits. If the risk of return is substantially eliminated, the revenue from the product shipment is recognized and liability for the customer deposit is eliminated. If the product is returned, 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

Years Ended September 30, 2006 and 2005

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### 11. Obligations under capital leases

The following is a schedule by year of future minimum lease payments together with the balance of the obligations under capital leases:

2007	\$	15,535
2008		2,902
2009		1,707
2010		215
2011 and thereafter		<u>1,155,250</u>
Total minimum lease payments		1,175,609
Less: amounts representing interest at an imputed rate of 10%		<u>690,197</u>
Balance of obligations under capital leases		485,412
Less: current portion		<u>14,114</u>
Long term balance of obligations under capital leases	\$	<u>471,298</u>

### 12. Deferred revenue

During the year, the Company received a deposit of \$150,000. This deposit requires a guaranteed volume of inventory to be available to the customer at any given time. These deposits will be recognized as revenue when the customer draws the inventory.

### 13. Non-controlling interest

In 2005, the Company acquired substantially all, 99.1%, of the remaining issued and outstanding shares (Note 4) of the Company's subsidiary, ChemBioPrint Asia Limited. The non-controlling interest share of subsidiary loss of \$26 and equity balance of \$355 (2005 - \$401) have not been presented in the September 30, 2006 statement of earnings and balance sheet respectively as they are not considered material.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

### 14. Share capital

#### Authorized:

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

#### Issued and outstanding:

Class A common shares:	<u>Shares</u>	<u>Amount</u>
Balance, September 30, 2004	91,588,201	\$ 18,833,667
Exercise of options	5,729,970	1,694,078
Exercise of warrants	3,870,000	457,000
Recognition of fair value of options exercised	<u>-</u>	<u>951,482</u>
Balance, September 30, 2005	101,188,171	\$ 21,936,227
Exercise of options	1,585,169	331,041
Recognition of fair value of options exercised	<u>-</u>	<u>165,838</u>
Balance, September 30, 2006	<u>102,773,340</u>	<u>\$ 22,433,106</u>

#### Stock options

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 19,170,442 common shares.

As at September 30, 2006 there are 14,770,601 (September 30, 2005 – 16,180,770) stock options outstanding, which are exercisable at prices ranging from \$0.10 to \$4.32 and expire between May 28, 2007 and September 8, 2011. Of the options granted in the fiscal year ended September 30, 2006, 255,000 are subject to shareholder approval. A summary of the status of the Company's stock options for the years presented and changes during the years ended on those dates are as follows:

<u>September 30, 2006</u>	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	16,180,770	\$ 1.11
Granted	80,000	3.98
Granted subject to shareholder approval	255,000	3.45
Forfeited/cancelled	(160,000)	1.26
Exercised	<u>(1,585,169)</u>	<u>0.21</u>
Outstanding, end of year	<u>14,770,601</u>	<u>\$ 1.26</u>
Exercisable, end of year	<u>10,731,601</u>	<u>\$ 0.64</u>

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

#### 14. Share capital (cont'd)

##### Stock options (cont'd)

September 30, 2005

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	17,294,444	\$ 0.37
Granted	4,769,000	2.83
Reinstated	4,546	0.29
Forfeited/cancelled	(157,250)	1.13
Exercised	<u>(5,729,970)</u>	<u>0.30</u>
Outstanding, end of year	<u>16,180,770</u>	<u>\$ 1.11</u>
Exercisable, end of year	<u>11,442,770</u>	<u>\$ 0.40</u>

The stock options granted after October 1, 2002 and before March 3, 2005 fully vested as of March 31, 2005. All stock options granted on or after March 3, 2005 vest at 20% per year over five years.

The following table summarizes information about the stock options outstanding at September 30, 2006:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
\$ 0.10	170,000	0.66	170,000
0.15	4,603,158	1.60	4,603,158
0.20	70,000	1.72	70,000
0.25	33,000	2.01	33,000
0.50	250,000	2.72	250,000
0.57	143,000	2.84	143,000
0.71	930,916	2.27	930,916
0.74	3,600,527	2.61	3,600,527
2.62	250,000	3.80	50,000
2.84	4,405,000	3.42	881,000
3.29	200,000	4.69	-
3.42	10,000	4.41	-
4.04	55,000	4.94	-
4.32	50,000	4.16	-
	<u>14,770,601</u>		<u>10,731,601</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

### 14. Share capital (cont'd)

#### Warrants

The Company has no warrants outstanding at September 30, 2006. During the fiscal year ended September 30, 2005, 3,870,000 remaining warrants were exercised at an average weighted price of \$0.12. These warrants were exercisable at the option of the holder into common shares at a price range from \$0.10 to \$0.12 per share and expired November 29, 2004 and May 13, 2005.

### 15. Contributed surplus

For stock options granted after October 1, 2004, the Company records compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period as an increase to stock based compensation expense and contributed surplus. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital.

During the year, contributed surplus has changed as follows:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 3,921,586	\$ 71,558
Stock-based compensation recognition of fair value of stock options granted to:		
- Employees, officers and directors	2,653,024	2,822,040
- Non-employees	61,113	119,754
Recognition of fair value of stock options exercised	(165,838)	(951,482)
Retroactive application of stock-based compensation according to CICA 3870 (Note 3)	<u>-</u>	<u>1,859,716</u>
Balance, end of year	<u>\$ 6,469,885</u>	<u>\$ 3,921,586</u>

On March 3, 2005, the Company granted 4,519,000 options exercisable at \$2.84. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.46 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.75%, dividend yield of 0%, volatility factor of 129.61%, and an expected life of five years.

On July 18, 2005, the Company granted 250,000 options exercisable at \$2.62. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.24 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.00%, dividend yield of 0%, volatility factor of 126.72%, and an expected life of five years.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 15. Contributed surplus (cont'd)

On November 25, 2005, the Company granted 50,000 options exercisable at \$4.32. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$3.64 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.89%, dividend yield of 0%, volatility factor of 122.40%, and an expected life of five years.

On February 27, 2006, the Company granted 30,000 options exercisable at \$3.42. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.81 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.08%, dividend yield of 0%, volatility factor of 115.08%, and an expected life of five years.

On June 9, 2006, the Company granted 200,000 options exercisable at \$3.29. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.69 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.25%, dividend yield of 0%, volatility factor of 113.31%, and an expected life of five years.

On September 8, 2006, the Company granted 55,000 options exercisable at \$4.04. The compensation expense is recognized over the five year vesting period of the options. The fair value of the options granted was \$2.96 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.01%, dividend yield of 0%, volatility factor of 93.16%, and an expected life of five years.

The fair value of the options granted prior to October 1, 2004 was \$0.50 per option, estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.25%, dividend yield of 0%, volatility factor of 115.6%, and an expected life of three years.

### 16. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

	<u>2006</u> (Restated – Note 2)	<u>2005</u>
Numerator for basic earnings per share	<u>\$ 639,016</u>	<u>\$ 10,093,238</u>
Denominator for basic earnings per share:		
Weighted average number of common shares	<u>101,883,736</u>	<u>97,453,888</u>
Dilutive effect of stock options	10,564,640	11,998,473
Dilutive effect of warrants	<u>-</u>	<u>1,158,215</u>
Denominator for diluted earnings per share	<u>112,448,376</u>	<u>110,610,576</u>
Earnings per share		
Basic	\$ 0.01	\$ 0.10
Diluted	\$ 0.01	\$ 0.09

**CV Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

Years Ended September 30, 2006 and 2005

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**17. Supplemental cash flow information**

	<u>2006</u>	<u>2005</u>
Cash consist of:		
Balances with banks	\$ 8,209,878	\$ 5,996,513
Cheques in transit	<u>(296,597)</u>	<u>(44,532)</u>
	<u>\$ 7,913,281</u>	<u>\$ 5,951,981</u>
Interest paid	<u>\$ 60,626</u>	<u>\$ 35,034</u>
Non-cash financing and investing activities:		
Purchase of assets under capital leases	<u>\$ 467,162</u>	<u>\$ 17,938</u>
Proceeds accrued for insurance claim	<u>\$ -</u>	<u>\$ 54,835</u>

**18. Related party transactions**

During the year, the Company paid \$14,914 (2005 - \$30,080) in supplemental study fees on behalf of Vet Ex Inc., which is controlled by the Company. As at September 30, 2006, 60% of this transaction has been eliminated through proportionate consolidation and the remaining balance is included in accounts receivable.

**19. Foreign currency translation adjustment**

The foreign currency translation adjustment represents net gains or losses on the translation of the net assets and liabilities of integrated foreign operations.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 20. Income taxes

#### Scientific research and experimental development (SR & ED)

The Company has accumulated a Scientific Research and Experimental Development pool of \$1,617,172 (2005 - \$3,065,580) which can be carried forward indefinitely to be utilized in computing taxable income in future years. The Company has non-refundable SR & ED investment tax credits of approximately \$700,253 (2005 - \$706,277). It is anticipated that these balances will be utilized in the current fiscal year. The SR & ED claim for 2005 has not yet been filed.

#### Non-capital loss

The Company has non-capital losses available of \$nil (2005 - \$187,035).

#### Income tax expense reconciliation

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' earnings before income taxes. These differences result from the following items:

	<u>2006</u>	<u>2005</u>
	(Restated – Note 2)	
Expected income tax expense at 34.08% (2005 – 33.68%)	\$ 1,410,879	\$ 2,874,882
Increase (decrease) resulting from:		
Non-deductible stock-based compensation costs	924,858	999,501
SR & ED adjustments	268,167	(425,833)
R&D adjustment	57,123	-
Other items	42,750	(11,915)
Intra-group transaction expense	34,556	-
Income tax rate adjustments	2,483	1,717
Loss attributable to foreign subsidiary	-	48,231
Jurisdictional rate differential on intercompany profit elimination	1,353,680	-
Change in valuation allowance	-	(5,043,954)
Jurisdictional rate differential on foreign subsidiaries	<u>(593,608)</u>	<u>-</u>
Income tax expense (recovery)	<u>\$ 3,500,888</u>	<u>\$ (1,557,371)</u>

#### Temporary differences

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

### 20. Income taxes (cont'd)

#### Temporary differences (cont'd)

The tax effects of deductible temporary differences that give rise to the Company's future tax assets are as follows:

	<u>2006</u>	<u>2005</u>
	(Restated – Note 2)	
Current assets		
SR & ED expenditures carried forward	\$ -	\$ 793,198
Non-capital losses carried forward	9,762	-
Share issue costs	3,906	3,907
Reserves	4,828	4,963
Intercompany profit elimination	507,893	-
Deferred revenue with risk of return	475,201	-
	<u>1,001,590</u>	<u>802,068</u>
Non-current assets		
Capital and other assets	-	45,118
Share issue costs	-	3,908
	<u>-</u>	<u>49,026</u>
Current liabilities		
Investment tax credits applied	<u>(237,347)</u>	<u>-</u>
Non-current liabilities		
Capital and other assets	<u>(112,800)</u>	<u>-</u>
Net future tax asset	<u>\$ 651,443</u>	<u>\$ 851,094</u>

### 21. Segmented information

Geographic information:

<u>September 30, 2006</u>	<u>Revenue</u>	<u>Capital Assets</u>
	(Restated – Note 2)	
Canada	\$ 41,336,315	\$ 3,290,963
United States	8,004	-
Switzerland	-	774,939
Other	42,769	-
	<u>\$ 41,387,088</u>	<u>\$ 4,065,902</u>
<u>September 30, 2005</u>	<u>Revenue</u>	<u>Capital Assets</u>
Canada	\$ 31,741,576	\$ 1,396,467
United States	64,156	-
Other	44,380	-
	<u>\$ 31,850,112</u>	<u>\$ 1,396,467</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 21. Segmented information (cont'd)

Significant customers:

During the year, four (2005 - four) major customers accounted for \$27,050,851 or 65.4% (2005 - \$20,539,228 or 64.5%) of the Company's Canadian product sales. As at year end, two customers represented 42.4% and 29.7% (2005 - 37.3% and 26.1%) of total Canadian accounts receivable.

### 22. Commitments

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. All assistance under this agreement has been received.

The Company is obliged to repay the financial assistance by way of 1.5% of the Company's gross revenues, which commenced April 1, 2002, up to a maximum of \$742,000, which is 150% of the original contribution amount. The obligation to pay terminates at the earlier of the full repayment of the \$742,000 or 10 years after the start of the repayment period. The Company is not obliged to repay any of the grants received should the Company have no future revenues on product sales.

During the year, the Company expensed \$118,920 (2005 - \$508,772) of this financial assistance, which was charged to earnings. At September 30, 2006, \$nil (2005 - \$138,100) is included in accounts payable and accruals. The entire obligation of \$742,000 relating to this agreement has been repaid.

b) The Company has an agreement with AVAC Ltd. to obtain up to \$525,000 in assistance to fund continued development of the proprietary ChemBioPrint technology platform and CVT-E002. As at September 30, 2006, \$8,333 (2005 - \$8,333) 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 200% of the original contribution amount or to a maximum of \$1,000,000. The Company is not obliged to repay any of the assistance received should the Company have no future revenues on product sales.

During the year, the Company expensed \$356,120 (2005 - \$508,772) of this financial assistance, which was charged to earnings. At September 30, 2006, \$nil (2005 - \$138,100) is included in accounts payable and accruals. The entire obligation of \$1,000,000 relating to this agreement has been repaid.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 22. Commitments (cont'd)

c) The Company has entered into agreements to lease premises in Edmonton, Alberta, Canada; Toronto, Ontario, Canada; Zug, Switzerland and Chicago, USA. These leases expire at various dates ranging from October 31, 2006 to September 30, 2010, and for which minimum lease payments total \$1,041,450.

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

2007	\$	361,898
2008		314,369
2009		248,183
2010		<u>117,000</u>
Total minimum lease payments	\$	<u>1,041,450</u>

d) 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:

2007	\$	1,547,479
2008		1,316,054
2009		<u>223,060</u>
	\$	<u>3,086,593</u>

### 23. Cyclical nature of business

The Company's lead product's sales are greater in the first, second and fourth quarters of the fiscal year.

### 24. Joint venture

On October 29, 2002 the Company entered into a joint venture with Centaur Pharmaceuticals, a private company, in the creation of Vet Ex Inc. The joint venture, in which the Company holds a 60% interest, has licensed the veterinary rights for the Company's nutraceutical products and ChemBioPrint technology. On June 22, 2006, the Company submitted 90 days written notice of termination of the Joint Venture Agreement. The dissolution of the joint venture is in progress.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

Years Ended September 30, 2006 and 2005

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### 24. Joint venture (cont'd)

The Company has recorded its interest in Vet Ex Inc. using the proportionate consolidation method. The following table summarizes the Company's share of the assets, liabilities, revenue, expenses and cash flows of Vet Ex Inc. included in these consolidated financial statements.

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ <u>22,480</u>	\$ <u>22,519</u>
Liabilities		
Accounts payable and accruals	\$ <u>77</u>	\$ <u>77</u>
<b>Expenses and cash flows</b>		
Expenses		
Interest and bank charges	\$ 39	\$ 39
Quality control, research and development	<u>8,948</u>	<u>18,048</u>
Net loss	<u>\$ (8,987)</u>	<u>\$ (18,087)</u>
Cash flows		
Cash flows from operating activities	<u>\$ (39)</u>	<u>\$ (18,087)</u>

### 25. Lease settlement

In 2005, the Company settled outstanding liabilities from a lease agreement for its Calgary premises. The consideration included the rental deposit and a one-time cash payment with a resulting expense of \$151,103.

### 26. Comparative figures

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

Upon exercise of stock options, an entity should transfer from contributed surplus to share capital the amount previously recognized in stock based compensation. This adjustment was not recorded in the prior year, accordingly the previously reported amounts as at September 30, 2005 for share capital have been increased by \$951,482 and contributed surplus decreased by \$951,482.

### 27. Subsequent events

Subsequent to September 30, 2006, 610,666 options were exercised for cash proceeds of \$110,000.