

**CV Technologies Inc.  
Consolidated  
Financial Statements  
(Restated)**

Three month period ended December 31, 2006

# CV Technologies Inc.

## Consolidated Statements of Loss

For the three month period ended December 31

(Unaudited)

	2006 (Restated – Note 2)	2005
Product sales	\$ 22,614,679	\$ 18,940,274
Cost of goods sold	5,904,279	5,525,861
Gross margin	16,710,400	13,414,413
Operating expenses		
Advertising and marketing	10,857,691	2,592,248
Contracting, consulting and professional fees	2,269,486	562,717
Salaries and employee benefits	1,426,499	614,278
Research and development	735,205	1,103,978
Stock-based compensation	617,746	577,620
Administration, occupancy and insurance	610,534	404,836
Amortization of patents, registered trademarks and property and equipment	109,287	64,141
Amortization of deferred development costs	90,400	90,400
Bad debts (recovery)	70,034	(16,295)
Loss on foreign exchange	59,263	23,314
Interest and bank charges	17,983	6,997
	16,864,128	6,024,234
(Loss) earnings before other revenue, other expense and income taxes	(153,728)	7,390,179
Other revenue and expense		
Interest revenue	83,744	47,386
Foreign currency translation adjustment (Note 18)	(657,711)	-
Other items	(13,288)	25,195
	(587,255)	72,581
(Loss) earnings before income taxes	(740,983)	7,462,760
Income taxes		
Current (Note 19)	4,831,683	1,908,300
Future (recovery) (Note 19)	(1,988,529)	1,138,724
	2,843,154	3,047,024
Net (loss) earnings	\$ (3,584,137)	\$ 4,415,736

See accompanying notes to the consolidated financial statements

# CV Technologies Inc.

## Consolidated Statements of Deficit

For the three month period ended December 31

(Unaudited)

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	2006 (Restated – Note 2)	2005
Deficit, beginning of period	\$ (5,378,379)	\$ (6,017,395)
Net (loss) earnings	<u>(3,584,137)</u>	<u>4,415,736</u>
Deficit, end of period	<u>\$ (8,962,516)</u>	<u>\$ (1,601,659)</u>

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(Loss) earnings per share (Note 15)		
Basic (loss) earnings per share	\$ (0.03)	\$ 0.04
Diluted (loss) earnings per share	\$ (0.03)	\$ 0.04

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See accompanying notes to the consolidated financial statements

## CV Technologies Inc. Consolidated Balance Sheets

	December 31, 2006 Unaudited (Restated – Note 2)	September 30, 2006 Audited (Restated)
<b>Assets</b>		
Current		
Cash	\$ 19,884,824	\$ 7,913,281
Accounts receivable	6,828,377	6,707,356
Inventory (Note 4)	20,669,854	18,425,505
Prepaid expenses and deposits	686,229	1,199,524
Future income taxes (Note 19)	<u>2,735,200</u>	<u>1,001,590</u>
	50,804,484	35,247,256
Patents and registered trademarks (Note 5)	862,394	873,730
Property, plant and equipment (Note 6)	4,734,924	3,192,172
Deferred development costs	1,084,803	1,175,204
Prepaid intra-group tax asset (Note 7)	<u>2,591,673</u>	<u>2,643,506</u>
	<u>\$ 60,078,278</u>	<u>\$ 43,131,868</u>
<b>Liabilities</b>		
Current		
Accounts payable and accruals	\$ 17,493,654	\$ 11,600,073
Customer deposits on product shipped with right-of-return (Note 9)	17,489,045	1,773,559
Current income taxes payable	3,571,374	5,233,698
Current portion of obligations under capital leases (Note 10)	12,737	14,114
Current portion of lease inducement	3,923	3,923
Future income taxes (Note 19)	<u>-</u>	<u>237,347</u>
	38,570,733	18,862,714
Future income taxes (Note 19)	95,226	112,800
Deferred revenue (Note 11)	180,000	150,000
Obligations under capital leases (Note 10)	479,670	471,298
Lease inducements	<u>9,463</u>	<u>10,444</u>
	<u>39,335,092</u>	<u>19,607,256</u>
<b>Shareholders' Equity</b>		
Share capital (Note 13)	22,732,561	22,433,106
Contributed surplus (Note 14)	6,973,141	6,469,885
Deficit	<u>(8,962,516)</u>	<u>(5,378,379)</u>
	<u>20,743,186</u>	<u>23,524,612</u>
	<u>\$ 60,078,278</u>	<u>\$ 43,131,868</u>

Commitments (Note 21)

On behalf of the Board

Director (Signed) Gordon Tallman

Director (Signed) Harry Buddle

See accompanying notes to the consolidated financial statements

# CV Technologies Inc.

## Consolidated Statements of Cash Flows

For the three month period ended December 31

(Unaudited)

	2006 (Restated – Note 2)	2005
<b>Operating</b>		
Net (loss) earnings	\$ (3,584,137)	\$ 4,415,736
Items not affecting cash		
Stock-based compensation	617,746	577,620
Future income tax (recovery)	(1,988,529)	1,138,724
Amortization of deferred development costs	90,400	90,400
Amortization of patents, registered trademarks and property and equipment	109,287	64,141
Foreign exchange loss on cumulative translation adjustment, before future tax		-
Lease inducement	(981)	2,546
	(4,756,214)	6,289,167
Change in non-cash operating working capital		
Accounts receivable	(121,021)	2,050,886
Inventory	(2,244,349)	940,115
Prepaid expenses and deposits	513,295	(992,091)
Prepaid intra-group tax asset	51,833	-
Accounts payable and accruals	5,893,578	1,962,800
Customer deposits on product shipped with right-of-return	15,715,486	-
Current income taxes payable	(1,662,324)	1,202,023
Deferred revenue	30,000	120,000
	13,420,284	11,572,900
<b>Financing</b>		
Repayment of obligations under capital leases	(4,684)	(5,946)
Issuance of share capital	184,965	26,840
	180,281	20,894
<b>Investing</b>		
Purchase of property, plant and equipment	(1,620,616)	(141,387)
Purchase of patents and registered trademarks	(8,406)	(26,364)
	(1,629,022)	(167,751)
Increase in cash	11,971,543	11,426,043
Cash and cash equivalents		
Beginning of period	7,913,281	5,951,981
End of period	\$ 19,884,824	\$ 17,378,024

Supplemental cash flow information (Note 16)

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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### 1. Nature of operations

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

For the three month period ended December 31, 2006

(Unaudited)

### 2. Restatement (cont'd)

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

#### Consolidated Statement of Loss Three months ended December 31, 2006

	As previously reported	Adjustments	As restated
Product sales	\$ 25,151,318	\$ (2,536,639)	\$ 22,614,679
Cost of goods sold	6,889,914	(985,635)	5,904,279
Gross margin	<u>18,261,404</u>	<u>(1,551,004)</u>	<u>16,710,400</u>
Operating expenses	<u>16,542,728</u>	<u>321,400</u>	<u>16,864,128</u>
Earnings before other revenue, other expense and income taxes	1,718,676	(1,872,404)	(153,728)
Other revenue and expenses	<u>70,456</u>	<u>(657,711)</u>	<u>(587,255)</u>
Earnings (loss) before income taxes	1,789,132	(2,530,115)	(740,983)
Current income taxes	4,752,187	79,496	4,831,683
Future income taxes (recovery)	<u>(1,406,550)</u>	<u>(581,979)</u>	<u>(1,988,529)</u>
Net loss	\$ (1,556,505)	\$ (2,027,632)	\$ (3,584,137)
Other comprehensive loss	<u>(30,497)</u>	<u>30,497</u>	<u>-</u>
Comprehensive loss	<u>\$ (1,587,002)</u>	<u>\$ (1,997,135)</u>	<u>\$ (3,584,137)</u>
Earnings per share (Note 15)			
Basic earnings per share	\$ (0.02)	\$ (0.01)	\$ (0.03)
Diluted earnings per share	\$ (0.01)	\$ (0.02)	\$ (0.03)

#### Consolidated Statement of Deficit

	As previously reported	Adjustments	As restated
Deficit, beginning of period	\$ (1,880,085)	\$ (3,498,294)	\$ (5,378,379)
Net loss	<u>(1,556,505)</u>	<u>(2,027,632)</u>	<u>(3,584,137)</u>
Deficit, end of period	<u>\$ (3,436,590)</u>	<u>\$ (5,525,926)</u>	<u>\$ (8,962,516)</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

### 2. Restatement (cont'd)

<b>Consolidated Balance Sheet</b>			
<b>As at December 31, 2006</b>			
	As previously reported	Adjustments	As restated
<b>Assets</b>			
Accounts receivable	\$ 7,678,618	\$ (850,241)	\$ 6,828,377
Inventory	18,554,734	2,115,120	20,669,854
Prepaid expenses and deposits	703,037	(16,808)	686,229
Future income taxes	1,243,469	1,491,731	2,735,200
Other current assets	19,884,824	-	19,884,824
Current assets	48,064,682	2,739,802	50,804,484
Future income taxes	35,459	(35,459)	-
Other assets	9,273,794	-	9,273,794
Total assets	\$ 57,373,935	\$ 2,704,343	\$ 60,078,278
<b>Liabilities</b>			
Accounts payable and accruals	\$ 27,037,313	\$ (9,543,659)	\$ 17,493,654
Customer deposits on products shipped with right-of-return	-	17,489,045	17,489,045
Current income taxes payable	3,356,189	215,185	3,571,374
Other current liabilities	16,660	-	16,660
Current liabilities	30,410,162	8,160,571	38,570,733
Total liabilities	31,174,521	8,160,571	39,335,092
<b>Shareholders' equity</b>			
Deficit	(3,436,590)	(5,525,926)	(8,962,516)
Foreign currency translation adjustment	(69,698)	69,698	-
Other shareholders' equity items	29,705,702	-	29,705,702
Shareholders' equity	26,199,414	(5,456,228)	20,743,186
Shareholders' equity and liabilities	\$ 57,373,935	\$ 2,704,343	\$ 60,078,278

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

For the three month period ended December 31, 2006

(Unaudited)

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### 3. Summary of significant accounting policies

The unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The unaudited interim consolidated financial statement use the same accounting policies and methods of application as the audited consolidated financial statements for the year ended September 30, 2006 with exception for adoption of new CICA standards as noted in the Financial Instruments section below. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2006.

#### 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, 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 uncertainty

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 are acquired. The resulting exchange gains or losses are included in the determination of earnings.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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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 4). If customer payment has been received for product shipped with right-of-return, the Company records the payment as a customer deposit (see Note 9).

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 balances with banks, net of outstanding cheques and short term liquid investments with maturities of less than 90 days..

#### 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 for 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.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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

#### 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.

#### 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 development costs commenced at the start of commercial production of the product during 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 three month period ended December 31, 2006, \$90,400 (2005 - \$90,400) 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.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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

#### 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.

#### 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

On October 1, 2006, the Company adopted the following Canadian Institute of Chartered Accountants (CICA) accounting recommendations for the recognition, presentation and disclosure of financial instruments:

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

Under the new standards, on acquisition, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and at inception, all financial liabilities must be classified as held-for-trading or other. The Company has classified cash and cash equivalents as held for trading; accounts receivable is classified as loans and receivables; accounts payable and obligations under capital leases have been classified as other liabilities.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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

#### Financial instruments (cont'd)

All financial instruments are initially recorded on the balance sheet at fair value and if classified as loans and receivables or held for trading, changes in fair value are included in earnings. For those instruments classified as available-for-sale and for derivative financial instruments designated as hedges, changes in fair value will be included in other comprehensive income. Other comprehensive income and its components are presented in a separate financial statement and included directly in equity as accumulated other comprehensive income. A statement of comprehensive income has not been presented as no components of comprehensive income have been identified and therefore have not affected the current or comparative period balances on the consolidated financial statements.

Under section 3855, transaction costs incurred upon the issuance of debt instruments or modification of financial liabilities are now deducted from the related liability and are amortized using the effective interest method over the expected life of the liability. The adoption of this standard did not have an impact on the consolidated financial statements.

#### a) Fair value

The Company's financial instruments include cash, accounts receivable, accounts payable, customer deposit on products shipped with right-of-return and obligations under capital leases. The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties, calculated at the reporting date, to settle these instruments. The fair values of all financial instruments approximate their carrying values because of the short maturities of these instruments. The fair values of other financial instruments reflect the Company's best estimate and are based on the Company's valuation techniques or models to estimate fair values.

#### b) Interest rate risk

Finance facilities 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.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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

#### Financial instruments (cont'd)

##### 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. Included in accounts receivable is an allowance for doubtful accounts of \$133,473 at December 31, 2006 (September 30, 2006 - \$59,232).

##### e) Liquidity risk

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

#### 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. When the carrying amount of the asset is less than the undiscounted future cash flows, the asset is measured at its fair value and presented in the balance sheet at the lower of the fair value or carrying amount.

#### Earnings per share

The computation of basic earnings 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.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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

#### Stock-based compensation

The Company recognizes the compensation cost of stock options granted to employees, officers, directors and non-employees. 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 is expensed over the vesting period with a corresponding increase to contributed surplus.

### 4. Inventory

Inventory is comprised of the following:

	December 31, <u>2006</u> (Restated – Note 2)	September 30, <u>2006</u> (Restated)
Finished goods	\$ 9,878,506	\$ 10,587,148
Product shipped with right-of-return	3,471,852	1,486,611
Work-in-progress	3,687,821	4,491,649
Supplies	2,097,922	1,557,316
Raw materials	<u>1,533,753</u>	<u>302,781</u>
	<u>\$ 20,669,854</u>	<u>\$ 18,425,505</u>

### 5. Patents and registered trademarks

#### December 31, 2006

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Patents	\$ 1,264,349	\$ 531,243	\$ 733,106
Registered trademarks	<u>208,189</u>	<u>78,901</u>	<u>129,288</u>
	<u>\$ 1,472,538</u>	<u>\$ 610,144</u>	<u>\$ 862,394</u>

#### September 30, 2006

	<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>

During the three month period ended December 31, 2006, the Company recorded patents and trademarks amortization expense of \$19,742 (2005 - \$18,180).

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

### 6. Property, plant and equipment

<u>December 31, 2006</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Building under construction	\$ 3,134,548	\$ -	\$ 3,134,548
Land	478,841	-	478,841
Lab equipment	435,957	69,152	366,805
Computer hardware	377,529	91,603	285,926
Furniture and equipment	364,741	117,287	247,454
Computer software	286,834	117,436	169,398
Automobiles	44,788	20,138	24,650
Equipment under capital leases	52,434	29,660	22,774
Leasehold improvements	<u>81,146</u>	<u>76,618</u>	<u>4,528</u>
	<u>\$ 5,256,818</u>	<u>\$ 521,894</u>	<u>\$ 4,734,924</u>

<u>September 30, 2006</u>	<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
Automobiles	44,788	18,139	26,649
Equipment under capital leases	52,434	28,461	23,973
Leasehold improvements	<u>81,146</u>	<u>53,977</u>	<u>27,169</u>
	<u>\$ 3,623,717</u>	<u>\$ 431,545</u>	<u>\$ 3,192,172</u>

During the three month period ended December 31, 2006, the Company recorded property, plant and equipment amortization expense of \$89,545 (2005 - \$45,961).

### 7. Prepaid intra-group tax asset

During the 2006 fiscal year, international rights and proprietary knowledge were transferred to a foreign subsidiary resulting in prepayment 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. During the three month period ended December 31, 2006, the Company has recognized \$51,833 (December 31, 2005 - \$Nil) of this expense.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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### 8. Financing facilities

The Company has a demand operating line of credit up to a maximum of \$7,500,000 based on margining of accounts receivable and inventory. Inventory has a maximum of \$5 million or 50% of inventory, whichever is lower. Interest under the operating line facility is based on the 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 first ranking security interest in all personal property of the Company. Currently, the Company is finalizing the conditions precedent to an amendment to the demand operating line agreement which would increase its operating line of credit from \$7,500,000 to \$15,000,000.

In addition, the Company is finalizing the conditions precedent to a \$619,000 letter of guarantee facility and a \$4,680,000 interim mortgage loan facility to finance the construction of its new headquarters and research centre on land held under capital lease which provides a purchase option in 2015. The amount of interim financing is limited to 75% of the appraisal value of the building and will be available after the Company has made \$3,820,000 of approved construction expenditures. The interim facility will bear interest at the Royal Bank of Canada prime rate plus 1.00% per annum. The interim financing will be termed into a mortgage loan the earlier of when the construction loan reaches \$4,680,000 or 75% of the appraised value of the building, or June 30, 2007. The mortgage facility will bear interest at the Royal Bank of Canada prime rate plus 0.675%; the interest rate can be fixed by the Company. The collateral security lodged by the Company to support the interim mortgage loan facility is a General Security Agreement constituting a first ranking security interest in all personal property of the Company and a Mortgage of Lease Agreement constituting a first fixed charge on the Company's leasehold improvements on the subleased land. During the 2006 fiscal year, two irrevocable standby letters of credit were issued under the interim mortgage loan facility in the amount of \$124,000 and \$495,600. The letters of credit will remain in effect respectively until December 31, 2007 and December 1, 2008.

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

The Company received customer deposits totalling \$17,489,045 (2006 - \$1,773,559) for product shipped with right-of-return. At December 31, 2006, one customer represented \$13,471,761 or 77.0% (September 30, 2006 – two customers represented \$1,503,689 or 84.78%) of the total customer deposits. If the risk of product 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.

Subsequent to December 31, 2006, the Company refunded \$5.8 million of customer deposits and has refunds remaining of approximately \$5.0 million. Extended refund payment terms are under negotiation with the customer. Additional returns have been authorized but have not been received which will require a refund of approximately \$0.9 million.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

### 10. Obligations under capital leases

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

2007	\$	10,304
2008		2,902
2009		1,707
2010		215
2011 and thereafter		<u>1,155,250</u>
Total minimum lease payments		1,170,378
Less: amounts representing interest at an imputed rate of 10%		<u>677,971</u>
Balance of obligations under capital leases		492,407
Less: current portion		<u>12,737</u>
Long term balance of obligations under capital leases	\$	<u>479,670</u>

### 11. Deferred revenue

Deferred revenue at December 31, 2006 consists of deposits totalling \$180,000 (2006 - \$150,000) received from two customers. These deposits require a guaranteed volume of inventory to be available to these customers at any given time. These deposits will be recognized as revenue when these customers draw the inventory.

### 12. Non-controlling interest

In 2005, the Company acquired substantially all, 99.1%, of the remaining issued and outstanding shares of the Company's subsidiary, ChemBioPrint Asia Limited. ChemBioPrint Asia Limited has remained dormant since February 28, 2006 and the Company is currently in the process of dissolving this subsidiary. The equity balance of \$355 (2006 - \$355) has not been presented in the December 31, 2006 balance sheet as it is not considered material.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

### 13. 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, 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	102,773,340	\$ 22,433,106
Exercise of options	752,166	184,965
Recognition of fair value of options exercised	<u>-</u>	<u>114,490</u>
Balance December 31, 2006	<u>103,525,506</u>	<u>\$ 22,732,561</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 December 31, 2006 there are 14,118,435 (September 30, 2006 – 14,770,601) stock options outstanding, which are exercisable at prices ranging from \$0.15 to \$4.32 and expire between May 5, 2008 and December 14, 2011. Of the options granted to December 31, 2006, 355,000 are subject to shareholder approval. A summary of the status of the Company's stock options for the period presented and changes during the periods ended on those dates are as follows:

#### December 31, 2006

	<u>Stock Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	14,770,601	\$ 1.26
Granted subject to shareholder approval	100,000	2.98
Exercised	<u>(752,166)</u>	<u>0.25</u>
Outstanding, end of period	<u>14,118,435</u>	<u>\$ 1.32</u>
Exercisable, end of period	<u>9,989,435</u>	<u>\$ 0.68</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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

#### Stock options (cont'd)

September 30, 2006

	<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>

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 December 31, 2006:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (years)</u>	<u>Number Exercisable</u>
\$ 0.15	4,172,492	1.35	4,172,492
0.20	20,000	1.47	20,000
0.25	33,000	1.75	33,000
0.50	250,000	2.46	250,000
0.57	143,000	2.58	143,000
0.71	839,416	2.02	839,416
0.74	3,600,527	2.35	3,600,527
2.62	250,000	3.55	50,000
2.84	4,395,000	3.17	871,000
2.98	100,000	4.96	-
3.29	200,000	4.44	-
3.42	10,000	4.16	-
4.04	55,000	4.69	-
4.32	50,000	3.90	10,000
	<u>14,118,435</u>		<u>9,989,435</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

### 14. 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 period, contributed surplus has changed as follows:

	December 31, <u>2006</u>	September 30, <u>2006</u>
Balance, beginning of period	\$ 6,469,885	\$ 3,921,586
Stock-based compensation recognition of fair value of stock options granted to:		
- Employees, officers and directors	588,506	2,653,024
- Non-employees	29,240	61,113
Recognition of fair value of stock options exercised	<u>(114,490)</u>	<u>(165,838)</u>
Balance, end of period	<u>\$ 6,973,141</u>	<u>\$ 6,469,885</u>

Stock based compensation expense is the fair value of granted options, expensed over the estimated life of the option. The fair value of granted options is calculated using the Black-Scholes option pricing model. The following table summarizes the assumptions used to calculate the fair value:

	<u>Three month period ended December 31, 2006</u>	<u>Year end September 30, 2006</u>
Total options granted	100,000	335,000
Weighted average exercise price	\$2.98	\$3.58
Weighted average risk-free interest rate	3.86%	4.14%
Weighted average expected life	5 years	5 years
Weighted average vesting period	5 years	5 years
Weighted average volatility	106.96%	111.52%
Weighted average dividend yield	-	-
Weighted average fair value	\$2.35	\$2.89

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

### 15. (Loss) earnings per share

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

	December 31, <u>2006</u> (Restated – Note 2)	December 31, <u>2005</u>
Numerator for basic (loss) earnings per share	\$ <u>(3,584,137)</u>	\$ <u>4,415,736</u>
Denominator for basic (loss) earnings per share:		
Weighted average number of common shares	<u>103,200,898</u>	<u>101,197,519</u>
Dilutive effect of stock options	<u>-</u>	<u>11,656,604</u>
Denominator for diluted earnings per share	<u>103,200,898</u>	<u>112,854,123</u>
(Loss) earnings per share		
Basic	\$ (0.03)	\$ 0.04
Diluted	\$ (0.03)	\$ 0.04

### 16. Supplemental cash flow information

	December 31, <u>2006</u>	September 30, <u>2006</u>
Cash consist of:		
Balances with banks	\$ 20,687,316	\$ 8,209,878
Cheques in transit	<u>(802,492)</u>	<u>(296,597)</u>
	<u>\$ 19,884,824</u>	<u>\$ 7,913,281</u>
Interest paid	<u>\$ 17,983</u>	<u>\$ 60,626</u>
Non-cash financing and investing activities:		
Increase of assets under capital leases	<u>\$ 11,679</u>	<u>\$ 467,162</u>

### 17. Related party transactions

During the fiscal year ended September 30, 2006, the Company paid \$14,914 in supplemental study fees on behalf of Vet Ex Inc. As at September 30, 2006, 60% of this transaction has been eliminated through proportionate consolidation and the remaining balance is included in accounts receivable. There are no transactions with Vet Ex Inc. for the three month period ended December 31, 2006.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

### 18. 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.

### 19. Income taxes

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

The Company has fully utilized the Scientific Research and Experimental Development pool (2005 - \$1,830,158) and non-refundable SR & ED investment tax credits (2005 - \$706,277) in computing taxable income for the previous year. The benefit of any investment tax credits arising from the SR & ED claim for 2005 has not been recognized.

#### Non-capital loss

The Company has non-capital losses available of \$32,507 (2006 - \$nil).

#### 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:

	December 31, 2006 (Restated – Note 2)	December 31, 2005
Expected income tax expense (recovery) at 33.72% (2005 – 34.17%)	\$ (249,859)	\$ 2,550,025
Increase (decrease) resulting from:		
Non-deductible items	112,913	196,264
SR & ED adjustments	-	174,581
R&D adjustment	(4,348)	88,126
Other items	6,064	10,947
Intra-group transaction expense	51,833	-
Income tax rate adjustments	288	11,704
Jurisdictional rate differential on foreign subsidiaries	(1,071,962)	-
Foreign currency translation adjustment	354,004	-
Jurisdictional rate differential on intercompany profit elimination	<u>3,644,221</u>	<u>15,377</u>
Income tax expense	<u>\$ 2,843,154</u>	<u>\$ 3,047,024</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

For the three month period ended December 31, 2006

(Unaudited)

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

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

	December 31, <u>2006</u> (Restated – Note 2)	September 30, <u>2006</u>
Current assets		
Non-capital losses carried forward	\$ 10,441	\$ 9,762
Share issue costs	2,939	3,906
Reserves	4,514	4,828
Intercompany profit elimination	1,834,673	507,893
Deferred revenue with risk of return	<u>882,633</u>	<u>475,201</u>
	<u>2,735,200</u>	<u>1,001,590</u>
Current liabilities		
Investment tax credits applied	<u>-</u>	<u>(237,347)</u>
Non-current liabilities		
Capital and other assets	<u>(95,226)</u>	<u>(112,800)</u>
Net future tax asset	<u>\$ 2,639,974</u>	<u>\$ 651,443</u>

### 20. Segmented information

Geographic information:

<u>December 31, 2006</u>	<u>Revenue</u> (Restated – Note 2)	<u>Capital Assets</u>
Canada	\$ 22,191,133	\$ 4,881,481
United States	423,546	1,229
Switzerland	<u>-</u>	<u>714,608</u>
	<u>\$ 22,614,679</u>	<u>\$ 5,597,318</u>
 <u>December 31, 2005</u>	 <u>Revenue</u>	 <u>Capital Assets</u>
Canada	\$ 18,939,721	\$ 4,065,902
United States	138	-
Other	<u>415</u>	<u>-</u>
	<u>\$ 18,940,274</u>	<u>\$ 4,065,902</u>

Significant customers:

During the three month period ended December 31, 2006, four (2005 - four) major customers accounted for \$12,804,204 or 57.7% (2005 - \$12,141,599 or 64.1%) of the Company's product sales.

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

### 21. 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 three month period ended December 31, 2006, the Company expensed \$nil (2005 - \$118,920) of this financial assistance, which was charged to earnings. At December 31, 2006, \$nil (2005 - \$118,920) 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 December 31, 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 three month period ended December 31, 2006, the Company expensed \$nil (2005 - \$324,177) of this financial assistance, which was charged to earnings. At December 31, 2006, \$nil (2005 - \$324,177) is included in accounts payable and accruals. The entire obligation of \$1,000,000 relating to this agreement has been repaid.

c) The Company has entered into operating lease agreements for premises in Edmonton, Alberta, Canada; Toronto, Ontario, Canada; Zug, Switzerland and Chicago, USA. These leases expire at various dates ranging from May 31, 2007 to September 30, 2010, and for which minimum lease payments total \$989,029.

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

2007	\$	301,289
2008		322,556
2009		248,183
2010		<u>117,000</u>
Total minimum lease payments	\$	<u>989,028</u>

# CV Technologies Inc.

## Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

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### 21. Commitments (cont'd)

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	\$	954,089
2008		1,375,054
2009		<u>233,060</u>
	\$	<u>2,562,203</u>

e) The Company has entered into contractual obligations for the construction of the new headquarters and research centre in Edmonton, Alberta, Canada. Estimated total project costs are \$9.5 million with \$3,134,548 incurred to date. Project completion is scheduled for the summer of 2007.

### 22. Cyclical nature of business

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

### 23. 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. On February 13, 2007 the status of the joint venture became inactive.

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.

## CV Technologies Inc.

### Notes to the Consolidated Financial Statements

For the three month period ended December 31, 2006

(Unaudited)

**23. Joint venture (cont'd)**

	December 31, <u>2006</u>	September 30, <u>2006</u>
Assets		
Cash and cash equivalents	\$ <u>22,471</u>	\$ <u>22,480</u>
Liabilities		
Accounts payable and accruals	\$ <u>77</u>	\$ <u>77</u>
<b>Product sales, expenses and cash flows for the period ended:</b>		
	December 31, <u>2006</u>	December 31, <u>2005</u>
Expenses		
Interest and bank charges	\$ <u>9</u>	\$ <u>9</u>
Net loss	\$ <u>(9)</u>	\$ <u>(9)</u>
Cash flows		
Cash flows from operating activities	\$ <u>(9)</u>	\$ <u>(9)</u>

**24. Comparative figures**

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

**25. Subsequent events**

Subsequent to December 31, 2006, 25,500 options were exercised for cash proceeds of \$18,105.