

**STONEPOINT GROUP LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in United States dollars)**  
**(unaudited)**

**JUNE 30, 2003**

**STONEPOINT GROUP LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States dollars)  
(Unaudited)

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|                                  | June 30,<br>2003    | December 31,<br>2002 |
|----------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                    |                     |                      |
| <b>Current</b>                   |                     |                      |
| Cash and cash equivalents        | \$ 335,233          | \$ 387,878           |
| Accounts receivable              | 3,168,267           | 2,254,068            |
| Inventory                        | 305,164             | 39,036               |
| Prepaid expenses (Note 5)        | <u>100,861</u>      | <u>104,366</u>       |
|                                  | 3,909,525           | 2,785,348            |
| <b>Note receivable</b> (Note 3)  | 350,000             | -                    |
| <b>Deferred charges</b> (Note 4) | 150,000             | -                    |
| <b>Capital assets</b> (Note 6)   | <u>107,716</u>      | <u>463,059</u>       |
|                                  | <u>\$ 4,517,241</u> | <u>\$ 3,248,407</u>  |

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The accompanying notes are an integral part of these consolidated financial statements.

**STONEPOINT GROUP LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States dollars)  
(Unaudited)

|   | June 30,<br>2003   | December 31,<br>2002 |
|---|--------------------|----------------------|
| <b>Cont'd...</b>                                  |                    |                      |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>   |                    |                      |
| <b>Current</b>                                    |                    |                      |
| Accounts payable and accrued liabilities (Note 7) | \$ 2,851,581       | \$ 4,393,156         |
| Notes payable (Note 8)                            | 4,040,095          | 1,111,094            |
| Shareholder loan (Note 9)                         | <u>50,000</u>      | <u>107,395</u>       |
|   | 6,941,676          | 5,611,645            |
| <b>Long term note payable</b> (Note 8)            | 501,066            | -                    |
| <b>Convertible debenture</b> (Note 10)            | <u>-</u>           | <u>400,000</u>       |
|   | <u>7,442,742</u>   | <u>6,011,645</u>     |
| <b>Stockholders' deficiency</b>                   |                    |                      |
| Capital stock (Note 11)                           |                    |                      |
| Authorized  |                    |                      |
| Unlimited number of preferred shares              |                    |                      |
| Unlimited number of voting common shares          |                    |                      |
| Issued and outstanding                            |                    |                      |
| June 30, 2003 – 43,754,183 common shares          |                    |                      |
| December 31, 2002 – 43,754,183 common shares      | 6,342,083          | 6,342,083            |
| Contributed surplus                               | 211,059            | 211,059              |
| Deficit   | <u>(9,478,643)</u> | <u>(9,316,380)</u>   |
|   | <u>(2,925,501)</u> | <u>(2,763,238)</u>   |
|   | \$ 4,517,241       | \$ 3,248,407         |

**Nature and continuance of operations** (Note 1)

**Contingencies** (Note 13)

**On behalf of the Board:**

“James Borkowski”

Director

“Aubrey Ryals”

Director

The accompanying notes are an integral part of these consolidated financial statements.

**STONEPOINT GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in United States dollars)  
(Unaudited)

|   | Three Month<br>Period Ended<br>June 30,<br>2003 | Three Month<br>Period Ended<br>June 30,<br>2002 | Six Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2002 |
|---|---|---|---|---|
| <b>SALES</b>  | \$ 9,551,521                                    | \$ 6,787,606                                    | \$ 16,498,530                                 | \$ 9,570,092                                  |
| <b>COST OF GOODS SOLD</b> (Schedule)  | <u>8,587,916</u>                                | <u>5,627,758</u>                                | <u>14,992,469</u>                             | <u>8,046,621</u>                              |
| <b>GROSS PROFIT</b>   | 963,605   | 1,159,848                                       | 1,506,061                                     | 1,523,471                                     |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Schedule)                                      | <u>795,684</u>                                  | <u>884,471</u>                                  | <u>1,425,418</u>                              | <u>1,794,910</u>                              |
| <b>Earnings (loss) before interest, depreciation and amortization, other items and income taxes</b> | 167,921   | 275,377   | 80,643  | (271,439)                                     |
| <b>Interest expense</b>   | 307,278   | 19,370  | 354,673                                       | 58,203  |
| <b>Depreciation and amortization</b>  | <u>19,498</u>                                   | <u>16,689</u>                                   | <u>42,916</u>                                 | <u>27,860</u>                                 |
| <b>Earnings (loss) before other items and income taxes</b>  | <u>(158,855)</u>                                | <u>239,318</u>                                  | <u>(316,946)</u>                              | <u>(357,502)</u>                              |
| <b>OTHER ITEMS</b>  |   |   |   |   |
| Foreign exchange gain (loss)  | 3,599   | -   | (4,675)                                       | 56,170  |
| Gain on sale of discontinued operations (Note 3)  | <u>151,019</u>                                  | <u>-</u>  | <u>151,019</u>                                | <u>-</u>                                      |
|   | <u>154,618</u>                                  | <u>-</u>  | <u>146,344</u>                                | <u>56,170</u>                                 |
| <b>Loss for the period from continuing operations</b>   | (4,237)   | 239,318   | (170,602)                                     | (301,332)                                     |
| Income from discontinued operations (Note 3)  | <u>65,664</u>                                   | <u>-</u>  | <u>8,339</u>                                  | <u>-</u>                                      |
| <b>Income (Loss) for the period</b>   | 61,427  | 239,318   | (162,263)                                     | (301,332)                                     |
| <b>Deficit, beginning of period</b>   | <u>(9,540,070)</u>                              | <u>(7,265,916)</u>                              | <u>(9,316,380)</u>                            | <u>(6,725,266)</u>                            |
| <b>Deficit, end of period</b>   | \$ (9,478,643)                                  | \$ (7,026,598)                                  | \$ (9,478,643)                                | \$ (7,026,598)                                |
| <b>Basic and diluted income (loss) per common share</b><br>(Notes 2 and 16)                         | \$ 0.01   | \$ 0.01   | \$ (0.01)                                     | \$ (0.01)                                     |

The accompanying notes are an integral part of these consolidated financial statements.

**STONEPOINT GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Expressed in United States dollars)  
(Unaudited)

|   | Number<br>of Shares<br>Issued | Amount       | Accumulated<br>Deficit | Total          |
|---|-------------------------------|--------------|------------------------|----------------|
| <b>Balance, December 31, 2000</b>             | 30,724,183                    | \$ 4,855,380 | \$ (4,556,205)         | \$ 299,175     |
| Shares issued for cash                        | 3,000,000                     | 297,127      | -                      | 297,127        |
| Shares issued for debt                        | 180,000                       | 28,048       | -                      | 28,048         |
| Shares issued pursuant to exercise of options | 480,000                       | 63,387       | -                      | 63,387         |
| Contributed surplus                           | -                             | 134,679      | -                      | 134,679        |
| Subscriptions received in advance             | -                             | 400,666      | -                      | 400,666        |
| Loss for the year                             | -                             | -            | (2,169,061)            | (2,169,061)    |
| <b>Balance, December 31, 2001</b>             | 34,384,183                    | 5,779,287    | (6,725,266)            | (945,979)      |
| Shares issued for cash                        | 4,925,000                     | 216,958      | -                      | 16,958         |
| Shares issued for debt                        | 270,000                       | 8,775        | -                      | 8,775          |
| Subscriptions received in advance             | -                             | 471,459      | -                      | 471,459        |
| Loss for the period                           | -                             | -            | (301,332)              | (301,332)      |
| <b>Balance, June 30, 2002</b>                 | 39,579,183                    | 6,476,479    | (7,026,598)            | (550,119)      |
| Shares issued for subscriptions               | 3,575,000                     | -            | -                      | -              |
| Shares issued for debt                        | 600,000                       | 76,663       | -                      | 76,663         |
| Loss for the period                           | -                             | -            | (2,289,782)            | (2,289,782)    |
| <b>Balance, December 31, 2002</b>             | 43,754,183                    | 6,553,142    | (9,316,380)            | (2,763,238)    |
| Loss for the period                           | -                             | -            | (162,263)              | (162,263)      |
| <b>Balance, June 30, 2003</b>                 | 43,754,183                    | \$ 6,553,142 | \$ (9,478,643)         | \$ (2,925,501) |

The accompanying notes are an integral part of these consolidated financial statements.

**STONEPOINT GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Expressed in United States dollars)  
(Unaudited)

|   | Three Month<br>Period Ended<br>June 30,<br>2003 | Three Month<br>Period Ended<br>June 30,<br>2002 | Six Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2002 |
|---|---|---|---|---|
| <b>CASH FLOWS FROM</b>  |   |   |   |   |
| <b>OPERATING ACTIVITIES</b>   |   |   |   |   |
| Income (loss) from continuing operations                                  | \$ (4,237)                                      | \$ 239,318                                      | \$ (170,602)                                  | \$ (301,332)                                  |
| Items not affecting cash:   |   |   |   |   |
| Depreciation and amortization   | 19,498  | 16,689  | 42,916  | 27,860  |
| Issue of common shares for debt   | -   | -   | -   | 8,775   |
| Foreign exchange loss   | 4,675   | -   | 4,675   | -   |
| Gain on sale of discontinued operations                                   | (151,019)                                       | -   | (151,019)                                     | -   |
| Changes in non-cash working capital items:                                |   |   |   |   |
| Increase (decrease) in accounts receivables                               | (1,052,634)                                     | (1,849,885)                                     | (914,199)                                     | (2,076,787)                                   |
| Increase (decrease) in other taxes receivable                             | (12,394)  | (5,171)   | -   | 18,716  |
| (Increase) decrease in prepaid expenses                                   | 42,579  | (73,794)  | 3,505   | (488,029)                                     |
| (Increase) decrease in inventories  | (158,388)                                       | (14,520)  | (266,128)                                     | (100,779)                                     |
| Net increase in accounts payable and accrued liabilities                  | <u>1,409,744</u>                                | <u>1,424,050</u>                                | <u>-</u>                                      | <u>1,527,758</u>                              |
| Net cash provided by (used in) operating activities                       | <u>97,824</u>                                   | <u>(263,313)</u>                                | <u>(1,450,852)</u>                            | <u>(1,383,818)</u>                            |
| <b>CASH FLOWS FROM</b>  |   |   |   |   |
| <b>INVESTING ACTIVITIES</b>   |   |   |   |   |
| Proceeds from sale of discontinued operations, net of cash disposal       | 483,631   | -   | 483,631                                       | -   |
| Note receivable (Note 3)  | (350,000)                                       | -   | (350,000)                                     | -   |
| Deferred charge (Note 4)  | (150,000)                                       | -   | (150,000)                                     | -   |
| Investments   | -   | -   | -   | (26,126)                                      |
| Purchase of capital assets  | <u>(20,048)</u>                                 | <u>(143,881)</u>                                | <u>(55,039)</u>                               | <u>(144,225)</u>                              |
| Net cash used in financing activities                                     | <u>(36,417)</u>                                 | <u>(143,881)</u>                                | <u>(71,408)</u>                               | <u>(170,351)</u>                              |
| <b>CASH FLOWS FROM</b>  |   |   |   |   |
| <b>FINANCING ACTIVITIES</b>   |   |   |   |   |
| Proceeds from capital stock issuance net                                  |   |   |   |   |
| Share of share issue costs  | -   | -   | -   | 216,958                                       |
| Proceeds from (repayment of) shareholder loans                            | (37,395)  | -   | (57,395)                                      | -   |
| Repayment of convertible debenture  | (400,000)                                       | -   | (400,000)                                     | -   |
| Increase (decrease) in notes payable                                      | 501,066   | 574,469   | 501,066                                       | 831,314                                       |
| Change in accounts payable and notes payable following debt restructuring | (110,632)                                       | -   | 1,379,659                                     | -   |
| Proceeds form subscriptions received in advance                           | <u>-</u>  | <u>-</u>  | <u>-</u>                                      | <u>471,459</u>                                |
| Net cash provided by (used in) investing activities                       | <u>(46,961)</u>                                 | <u>574,469</u>                                  | <u>1,423,330</u>                              | <u>1,519,731</u>                              |

*- Continued -*

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**STONEPOINT GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Expressed in United States dollars)  
(Unaudited)

|   | Three Month<br>Period Ended<br>June 30,<br>2003 | Three Month<br>Period Ended<br>June 30,<br>2002 | Six Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2002 |
|---|---|---|---|---|
| <b>Cont'd...</b>  |   |   |   |   |
| <b>Net cash provided by discontinued operations</b>     | <u>84,637</u>                                   | <u>-</u>  | <u>46,285</u>                                 | <u>-</u>                                      |
| <b>Increase (decrease) in cash and cash equivalents</b> | 99,083  | 167,275   | (52,645)                                      | (34,438)                                      |
| <b>Cash and cash equivalents, beginning of period</b>   | <u>236,150</u>                                  | <u>152,797</u>                                  | <u>387,878</u>                                | <u>354,510</u>                                |
| <b>Cash and cash equivalents, end of period</b>         | <u>\$ 335,233</u>                               | <u>\$ 320,072</u>                               | <u>\$ 335,233</u>                             | <u>\$ 320,072</u>                             |

Supplemental disclosure with respect to cash flows (Note 18)

The accompanying notes are an integral part of these consolidated financial statements.

**STONEPOINT GROUP LIMITED**  
**SCHEDULE – CONSOLIDATED COSTS OF GOODS SOLD**  
(Expressed in United States dollars)  
(Unaudited)

|                                   | Three Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2002 |
|-----------------------------------|---|---|---|
| Commissions                       | \$ 133,213                                      | \$ 133,213                                    | \$ -  |
| Freight                           | 213,653   | 834,084                                       | 697,185                                       |
| Labels                            | 66,470  | 179,147                                       | 158,515                                       |
| Pallets                           | (4,745)   | (93)  | 10,791  |
| Purchases and other product costs | <u>8,179,325</u>                                | <u>13,846,118</u>                             | <u>7,180,130</u>                              |
| Total cost of goods sold          | <u>\$ 8,587,916</u>                             | <u>\$ 14,992,469</u>                          | <u>\$ 8,046,621</u>                           |

The accompanying notes are an integral part of these consolidated financial statements.

**STONEPOINT GROUP LIMITED****SCHEDULE – CONSOLIDATED SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

(Expressed in United States dollars)

(Unaudited)

|  | Three Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2002 |
|--|---|---|---|
| Advertising and promotions                         | \$ 6,987  | \$ 6,987                                      | \$ 42,223                                     |
| Automobile   | -   | -   | 29,362  |
| Consulting   | 23,927  | 90,935  | 350,849                                       |
| Contract and casual labour                         | (1,651)   | 1,939   | -   |
| Courier  | 3,738   | 7,978   | 5,613   |
| Equipment rental                                   | -   | -   | 24,853  |
| Financing  | -   | -   | 34,297  |
| Insurance  | 37,402  | 55,776  | 52,903  |
| Office   | 43,459  | 64,660  | 91,344  |
| Office rental                                      | 10,809  | 29,147  | 105,904                                       |
| Product development                                | -   | -   | 95,758  |
| Professional fees                                  | 208,849   | 371,857                                       | 79,224  |
| Repairs and maintenance                            | -   | 1,814   | 9,076   |
| Telephone  | 16,909  | 36,093  | 43,820  |
| Travel   | 73,605  | 136,383                                       | 187,687                                       |
| Wages and benefits                                 | <u>371,650</u>                                  | <u>621,849</u>                                | <u>641,997</u>                                |
| Total selling, general and administrative expenses | <u>\$ 795,684</u>                               | <u>\$ 1,425,418</u>                           | <u>\$ 1,794,910</u>                           |

The accompanying notes are an integral part of these consolidated financial statements.

**STONEPOINT GROUP LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in United States dollars)  
(Unaudited)  
JUNE 30, 2003

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

StonePoint Group Limited (the "Company") was incorporated under the laws of the Province of Ontario on January 23, 1997 and is a supplier of private and custom label beverages to customers in the retail food and clothing industry and develops and owns proprietary formulas in general beverage categories.

During the year ended December 31, 2002 the Company conducted a series of transactions in the United States and Canada in order to restructure share holdings in its subsidiaries (the "Reorganization Transactions") (Note 3). After the Reorganization Transactions, the Company has one wholly owned subsidiary, StonePoint (Holding) Inc. (formed under the laws of Washington State), which in turn has four wholly owned subsidiaries: StonePoint (California), Inc. (formed under the laws of the State of California); StonePoint Inc. (formed under the laws of Delaware); Eon Foods America, Inc. (formed under the laws of New York – currently inactive); and StonePoint International LLC (formed under the laws of Delaware – currently inactive).

**Insolvency and current operations**

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. At June 30, 2003, the Company has a working capital deficit of \$3,032,151 (December 31, 2002 - \$2,826,297), a deficit of \$9,478,643 (December 31, 2002 - \$9,316,380), and a loss for the period of \$162,263 (year ended December 31, 2002 - \$2,591,114) and, as a result, is essentially insolvent.

The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is substantial doubt about the appropriateness of the use of the going concern assumption because of the circumstances relating to the Company's current financial position and its record of historical losses. The appropriateness of the going concern basis is also dependent upon future profitable operations, the ability to generate sufficient cash from operations and the ability to obtain financing arrangements to meet obligations. As such, realization of assets and discharge of liabilities are subject to significant uncertainty.

Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise the additional debt and/or equity capital necessary to continue operations. The Company is currently attempting to restructure its operations by exploring strategic alternatives for the current business model including possible sales of divisions and/or the possible sale of a portion of its business operations and by settling major debts with suppliers in an attempt to become solvent. If the Company is unable to restructure its operations or raise additional capital in the near future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favorable terms or pursue other serious remedial measures.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

**STONEPOINT GROUP LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in United States dollars)  
(Unaudited)  
JUNE 30, 2003

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**2. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and those of its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

**Cash and cash equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

**Inventories**

Inventories are valued at the lower of cost (first-in-first-out basis) and replacement cost. Inventories consist of supplies of labels for products and bottled water.

**Capital assets**

Capital assets are stated at cost, less accumulated amortization. Amortization is provided based on the estimated useful lives of the assets as follows:

|                    |                       |
|--------------------|-----------------------|
| Film and plate     | 20% declining-balance |
| Equipment          | 20% straight-line     |
| Computer software  | 50% straight-line     |
| Computer equipment | 30% declining-balance |

**Impairment of long-lived assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the assets carrying value over its fair value. Fair value is determined using a discounted cash flow analysis.

**STONEPOINT GROUP LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in United States dollars)  
(Unaudited)  
JUNE 30, 2003

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Research and development costs**

Research and product development costs are expensed as incurred except for development costs that are recoverable and directly related to the development of new commercial products, processes or systems according to criteria set by the Canadian Institute of Chartered Accountants. The Company strictly interprets the assessment of whether development costs should be capitalized. To date, no development costs have been capitalized.

**Revenue recognition**

The Company recognizes revenue at the date the products are shipped to the customer and collection of receivable amounts is reasonably assured.

**Foreign currency translation**

The Company's activities denominated in currencies other than U.S. dollars are translated as integrated operations using the temporal method. Under this method, monetary items are translated at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical rates, and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations. Exchange gains or losses arising on translation of foreign currency items are included in operations.

**Stock-based compensation**

The Company has a stock option plan, which is described in Note 11. Any consideration paid by plan employees on the exercise of stock options is credited to share capital. The Company records compensation expense based on the fair value of options granted using the Black Scholes Options Pricing Model.

**Earnings (loss) per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year.

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**STONEPOINT GROUP LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in United States dollars)  
(Unaudited)  
JUNE 30, 2003

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Comparative figures**

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

**3. CORPORATE REORGANIZATION**

**Year ended December 31, 2002:**

During the year ended December 31, 2002 the Company conducted the Reorganization Transactions as described below.

In Canada, the following transactions occurred:

- a) Performance Beverages Inc. was wound-up into its parent StonePoint Corporation by way of voluntary dissolution under the Canada Business Corporation Act; and
- b) StonePoint Corporation was wound-up into its parent, the Company, by way of voluntary dissolution under the Ontario Business Corporations Act.

In the United States the following transactions occurred:

- a) A US holding corporation StonePoint (Holding) Inc. was formed under the laws of Washington State and all of the shares of StonePoint Inc. were transferred to StonePoint (Holding) Inc. in exchange for all of StonePoint (Holding) Inc. shares issued on subscription;
- b) A new US operating corporation StonePoint (California), Inc. was formed under the laws of the State of California and is solely owned by StonePoint (Holding) Inc; and
- c) Subsequent to year ended December 31, 2002, all of the assets and liabilities of the Custom Label Division were transferred to StonePoint (California), Inc., by StonePoint Inc., in exchange for the fair market value which was paid by the issuance of common shares of StonePoint (California), Inc., which in turn were distributed to StonePoint (Holding) Inc.

After the Reorganization Transactions the Company's corporate structure is comprised of the Company and its wholly owned subsidiary which in turn has four wholly owned subsidiaries.

**Period ended June 30, 2003:**

On June 23, 2003 the Company signed a share purchase agreement (the "Share Purchase Agreement") to sell all of its shares of StonePoint (California) Inc. ("SP California"), its custom label bottled water division, to 4025768 Canada Inc. ("402"), an arm's length party. The parties to the Share Purchase Agreement are (i) StonePoint (Holding) Inc. ("Holding"), as vendor (a wholly-owned subsidiary of the Company), (ii) the Company, as the sole controlling shareholder of the vendor, (iii) 402, as purchaser, and (iv) SP California. Pursuant to the Share Purchase Agreement, Holding sold to 402 all of the shares of SP California in exchange for US\$50,000 cash, a promissory note in the amount of US\$350,000 and the indirect assumption of the debt owed by the Company pursuant to a subordinated convertible debenture in the amount of US\$400,000 (Note 10).

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**3. CORPORATE REORGANIZATION (cont'd...)**

Subsequent to period end, the Company also entered into an agreement to sell its private label division (Note 20).

The underlying assets and liabilities of SP California which were disposed of in the transaction were \$980,535 and \$331,555 respectively. The transaction under the Share Purchase Agreement completed on June 26, 2003.

**4. DEFERRED CHARGE**

During the year ended December 31, 2002 the Company paid \$406,593 under an agreement with BevSystems International, Ltd. relating to the license to manufacture and distribute "Life O2 Super- Oxygenated Water" in Asia. Consistent with its accounting policy for intangible assets, management of the Company reviewed the value of these payments for impairment at December 31, 2002 and determined that the fair value of these rights was \$Nil. As such, the amount recorded as an intangible asset was expensed during the year ended December 31, 2002.

In May, 2003, the company renegotiated and obtained the royalty rights for the Life O2 technology for all of Asia including Japan, Taiwan, The Philippines, China, North Korea, South Korea, Singapore, Vietnam, Thailand, Malaysia, Indonesia, Cambodia and Laos at a cost of \$150,000. These rights allow for royalty free use of the technology in perpetuity in recognition of the \$406,593 fee paid in early 2002 under the original Royalty Agreement; \$342,000 expensed by StonePoint during 2002 and early 2003 in retaining and streamlining the business for its customers in the Far East (which sum was capitalized under the new Agreement), plus the assumption of future obligations to its principal customer in the amount of \$1,000,000, such sum to be amortized against future shipments of product. As well, StonePoint is no longer obliged to make the second payment of \$500,000 as contemplated under the original Agreement.

In light of the changed circumstances relating to the life of the renegotiated license and the revised nature of the underlying business arrangements with the Company's principal customer, management has determined that the cost of obtaining the renegotiated license meets the criteria of an intangible asset subject to future amortization, and accordingly has recorded a deferred charge in the amount of \$150,000. Amortization will commence in the next quarter on the basis of shipments of product under the license.

**5. PREPAID EXPENSES**

A prepaid deposit of \$84,277 (December 31, 2002 - \$81,225) is held by one of the Company's bottlers as security against label inventory, which the bottler purchases for the Company's products.

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**6. CAPITAL ASSETS**

|                    | June 30, 2003 |                          |                | December 31, 2002 |                          |                |
|--------------------|---------------|--------------------------|----------------|-------------------|--------------------------|----------------|
|                    | Cost          | Accumulated Amortization | Net Book Value | Cost              | Accumulated Amortization | Net Book Value |
| Film and plate     | \$ 32,262     | \$ 6,130                 | \$ 26,132      | \$ 144,209        | \$ 14,421                | \$ 129,788     |
| Equipment          | 36,810        | 19,042                   | 17,768         | 239,009           | 45,265                   | 193,744        |
| Computer software  | 135,330       | 100,899                  | 34,431         | 134,133           | 67,066                   | 67,067         |
| Computer equipment | <u>33,542</u> | <u>4,157</u>             | <u>29,385</u>  | <u>96,909</u>     | <u>24,449</u>            | <u>72,460</u>  |
|                    | \$ 237,944    | \$ 130,228               | \$ 107,716     | \$ 614,260        | \$ 151,201               | \$ 463,059     |

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

At December 31, 2002, \$2,480,933 of trade payables was owed to two major suppliers of the Company which were converted to notes payable during the current period. At June 30, 2003, an amount of \$739,220 remained in trade payables for one of those suppliers.

**8. NOTES PAYABLE**

**a) Current**

|  | June 30, 2003  | December 31, 2002 |
|--|----------------|-------------------|
| Revolving line of credit, bearing interest at prime plus 4% per annum, due on demand, secured by accounts receivable of the Company    | \$ 2,098,356   | \$ 931,094        |
| Note payable, bearing interest at prime plus 4% per annum, due on demand, and secured by a general charge on the assets of the Company | 60,000         | 180,000           |
| Note payable, bearing interest at 12% per annum, due on demand, and secured by a general charge on the assets of the Company           | 1,221,739      | -                 |
| Current portion of long term note payable  | <u>660,000</u> | <u>-</u>          |
|  | \$ 4,040,095   | \$ 1,111,094      |

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**8. NOTES PAYABLE (cont'd...)**

In June 2002, the Company obtained from a creditor a revolving line of credit for a maximum of \$3,000,000, secured by its receivables and a general security over all the assets of the Company. In respect of the revolving line of credit, the creditor receives all payments on accounts receivable that secure the outstanding loan balance as payment on the loan.

In November 2002, the Company obtained from a creditor a note payable in the amount of \$180,000. The note bears interest at prime plus 4% per annum, and is payable in monthly installments of \$30,000 beginning March 1, 2003.

In March 2003, the Company completed negotiations with one of its major suppliers to convert its existing account into a promissory note bearing interest at 12% per annum. The note is repayable in monthly installments in less than twelve months and is secured by a general security agreement subordinated to the revolving line of credit referred to above.

**b) Long-term**

|   | June 30,<br>2003  | December 31,<br>2002 |
|---|-------------------|----------------------|
| Note payable, bearing interest at prime plus 3% per annum, due August 31, 2004, unsecured | \$ 1,161,066      | \$ -                 |
| Current portion of long term note payable   | <u>660,000</u>    | <u>-</u>             |
|   | <u>\$ 501,066</u> | <u>\$ -</u>          |

On March 21, 2003, the Company executed an agreement with one of its major suppliers to convert \$1,161,066 of its trade account payable into a promissory note. By amendment to that agreement, the note is repayable in twelve monthly installments of \$60,000 commencing August 1, 2003, plus a thirteenth installment on August 31, 2004 equal to all remaining principal and interest outstanding.

**9. RELATED PARTY TRANSACTIONS**

The Company entered into the following related party transactions:

- a) Paid or accrued \$7,200 (June 30, 2002 - \$7,353) for equipment rentals and purchase from a former director of the Company.
- b) Paid or accrued \$301,582 (June 30, 2002 - \$115,580) to directors and officers of the Company for consulting fees and wages and benefits.
- c) Issued 200,000 common shares of the Company valued at \$25,157 to a shareholder of the Company as consideration for financing fees. The expense related to these financing fees was recorded during the year ended December 31, 2001.

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**9. RELATED PARTY TRANSACTIONS (cont'd...)**

- d) Obtained a \$150,000 loan from a shareholder of the Company. The loan was unsecured. Under the terms of the loan the shareholder was entitled to receive up to 600,000 common shares of the Company if the loan remained outstanding more than 180 days. During the year ended December 31, 2002 the loan remained outstanding more than 180 days and the Company issued 600,000 common shares valued at \$76,665. This amount has been recorded as financing fees in 2002, during which the loan was repaid.
- e) The Shareholder loan totaling \$107,395 bears interest at 10% per annum, is secured against certain assets of the Company and was required to be paid in full on October 31, 2002. The shareholder loan was not repaid on October 31, 2002 and the Company is currently in default on the outstanding balance of the loan (Note 13). During the year ended December 31, 2002 the Company issued 70,000 common shares of the Company valued at \$8,775 to the respective shareholder as a financing fee.
- f) Included in accounts payable is \$51,375 (December 31, 2002 - \$104,557) due to directors and companies owned by directors.

All transactions are in the normal course of operations and are recorded at exchange amounts established and agreed between the related parties.

**10. CONVERTIBLE DEBENTURE**

The Company issued on November 30, 2001 an 8% convertible subordinated debenture in the amount of \$400,000 due November 30, 2003. The subordinated debenture was convertible into common shares of the Company at \$0.30 per share to November 30, 2002 and thereafter, at \$0.40 per share. The debenture was secured by a general security agreement over all of the assets of the Company.

As a result of the sale of the Company's custom label subsidiary, the debenture was repaid through its assumption by the arm's length purchaser involved in the transaction.

**11. CAPITAL STOCK**

**Authorized**

Unlimited number of voting common shares.

Unlimited number of preference shares, non-voting, bearing a fixed non-cumulative dividend at a rate of 7% of the amount paid-up per annum and redeemable at any time at the option of the Company on payment of the preference redemption price.

Unlimited number of special shares, non-voting, bearing a fixed non-cumulative dividend at a rate of 7% of the amount paid-up per annum, convertible at any time by the holder into one fully paid common share, redeemable at the option of the Company on payment of the special redemption price.

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**11. CAPITAL STOCK (cont'd...)**

**Stock options**

The Company has a Stock Option Plan (the "Plan") under which it is authorized to grant options to directors, officers, key employees and consultants up to 6,000,000 common shares of the Company. The exercise price of the options granted pursuant to the Plan may not be less than the price permitted by TSX Venture Exchange. Options granted either vest immediately or are subject to certain vesting requirements as determined by the Board of Directors. A total of 2,350,000 shares remain reserved for issuance under the Plan.

As at June 30, 2003, there were a total of 850,000 options to purchase common shares.

At June 30, 2003, the following incentive stock options were outstanding:

|                                     | Number<br>of Shares | Exercise<br>Price   | Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price |
|-------------------------------------|---------------------|---------------------|--|--|
| Outstanding and exercisable options | 300,000             | \$0.16 (Cdn \$0.25) | 1.16                                     |  |
|                                     | <u>550,000</u>      | \$0.16 (Cdn \$0.23) | 3.25                                     |  |
|                                     | 850,000             |                     |  | \$0.16                                   |

No options were exercised during the period ended June 30, 2003.

**Warrants**

At June 30, 2003, the Company had warrants outstanding that entitle holders to obtain common shares of the Company as follows:

|          | Number<br>of Shares | Range of<br>Exercise<br>Price     | Expiry Date      |
|----------|---------------------|-----------------------------------|------------------|
| Warrants | 4,000,000           | \$0.16/\$0.19 (Cdn \$0.20/\$0.30) | January 30, 2004 |
|          | <u>4,700,000</u>    | \$0.16/\$0.19 (Cdn \$0.25/\$0.30) | May 24, 2004     |
|          | 8,700,000           |                                   |                  |

No warrants were exercised during the period ended June 30, 2003.

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**12. COMMITMENTS**

The Company leases certain premises and equipment under operating leases. The future minimum annual lease payments under operating lease agreements are as follows:

|            |    |                |
|------------|----|----------------|
| 2003       | \$ | 38,660         |
| 2004       |    | 36,204         |
| 2005       |    | 36,204         |
| 2006       |    | 36,204         |
| 2007       |    | 36,204         |
| Thereafter |    | <u>36,204</u>  |
|            | \$ | <u>219,680</u> |

Under the terms of a Purchase Agreement with BEVsystems International Ltd. (“BEVsystems”) to purchase business and intellectual properties located in Asia dated April 3, 2003, the Company assumed an obligation of BEVsystems to provide \$1,000,000 in product rebates to a distributor in Japan.

**13. CONTINGENCIES**

The Company has been notified of certain legal claims. However, in the opinion of management, these claims are without merit and no provision has been made for them in the accounts.

The Company is currently in default of the terms of its shareholder loan (Note 9).

**14. ECONOMIC DEPENDENCE AND CREDIT RISK**

The Company sells products to one customer in the United States, under a contract, which expires in July 2003, but subsequently extended for two additional years. This contract may be extended for an additional one-year period or any shorter period acceptable to the parties. The Company performs ongoing credit evaluations of its customer and maintains, if necessary, allowances for potential credit losses. As at June 30, 2003, one customer accounted for 9% (December 31, 2002 - 11%) of accounts receivable. Sales to one customer accounted for 24% of sales for the period ended June 30, 2003 (December 31, 2002 - 47%).

The Company purchases a significant portion of its product from several suppliers. As at June 30, 2003, two suppliers accounted for 32% (December 31, 2002 - 59%) of trade accounts and notes payable.

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**15. INCOME TAXES**

A reconciliation of income taxes at statutory rates is as follows:

|  | June 30,<br>2003 | June 30,<br>2002 |
|--|------------------|------------------|
| Loss for the period                        | \$ (162,263)     | \$ (301,332)     |
| Expected income tax recovery               | \$ (61,011)      | \$ (119,327)     |
| Unrecognized benefit of non-capital losses | <u>61,011</u>    | <u>119,327</u>   |
| Total income taxes                         | <u>\$ -</u>      | <u>\$ -</u>      |

The significant components of the Company's future income taxes assets are as follows:

|   | June 30,<br>2003   | December 31,<br>2002 |
|---|--------------------|----------------------|
| Future income tax assets:                 |                    |                      |
| Canadian non-capital losses carryforwards | \$ 1,128,000       | \$ 1,133,000         |
| United States net operating losses        | <u>1,271,000</u>   | <u>1,271,000</u>     |
| Future income tax assets                  | 2,399,000          | 2,404,000            |
| Valuation allowance                       | <u>(2,399,000)</u> | <u>(2,404,000)</u>   |
| Net future income tax assets              | <u>\$ -</u>        | <u>\$ -</u>          |

The Company has available for deduction against future taxable Canadian taxable income non-capital losses of approximately \$3,000,000. These losses, if not utilized, will expire commencing in 2003. The Company has available for deduction against future taxable United States taxable income non-capital losses of approximately \$3,600,000. These losses, if not utilized, will expire commencing in 2010. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these consolidated financial statements and have been offset by a valuation allowance.

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**16. EARNINGS PER SHARE**

The computations for basic and diluted loss per share are as follows:

|  | Three Month<br>Period Ended<br>June 30,<br>2003 | Three Month<br>Period Ended<br>June 30,<br>2002 | Six Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2002 |
|--|---|---|---|---|
| Net income (loss)                              | \$ 64,427                                       | \$ 239,318                                      | \$ (162,263)                                  | \$ (301,332)                                  |
| Average number of common shares<br>outstanding |   |   |   |   |
| Basic  | \$ 43,754,183                                   | \$ 36,981,683                                   | \$ 43,754,183                                 | \$ 37,912,931                                 |
| Effect of stock options                        | -   | -   | -   | -   |
| Diluted  | \$ 43,754,183                                   | \$ 36,981,683                                   | \$ 43,754,183                                 | \$ 37,912,931                                 |
| Earnings per share                             |   |   |   |   |
| Basic  | \$ 0.01   | \$ 0.01   | \$ (0.01)                                     | \$ (0.01)                                     |
| Diluted  | \$ 0.01   | \$ 0.01   | \$ (0.01)                                     | \$ (0.01)                                     |

**17. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, note receivable, accounts payable and accrued liabilities, notes payable, shareholder loans, long term note payable and convertible debenture. Management has determined that the carrying values of the financial instruments approximate fair value due to their short-term nature.

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

**18. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

|  | Six Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2002 |
|--|---|---|
| Cash paid during the year for interest     | \$ -  | \$ -  |
| Cash paid during the year for income taxes | \$ -  | \$ -  |

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**18. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS (cont'd...)**

There were no significant non-cash transactions of the Company for the six month period ended June 30, 2003.

Significant non-cash transactions of the Company for the year ended December 31, 2002 are as follows:

- a) issued 200,000 common shares of the Company valued at \$25,157 to a shareholder of the Company as consideration for financing fee which was expensed during the year ended December 31, 2001.
- b) issued 600,000 common shares of the Company valued at \$76,665 to a shareholder as payment of financing fees.
- c) issued 70,000 common shares of the Company valued at \$8,775 to the respective shareholder as financing fees.

There were no significant non-cash transactions of the Company for the six month period ended June 30, 2002.

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**19. SEGMENTED INFORMATION**

The Company operates in one segment and supplies private label beverages to customers in the retail food industry in the United States and Canada.

Geographic information is as follows:

|                        | Six Month<br>Period Ended<br>June 30,<br>2003 | Six Month<br>Period Ended<br>June 30,<br>2002 |
|------------------------|---|---|
| Revenue for the period |   |   |
| Canada                 | \$ 480,999                                    | \$ 121,480                                    |
| United States          | <u>16,017,531</u>                             | <u>9,448,612</u>                              |
|                        | <u>\$ 16,498,530</u>                          | <u>\$ 9,570,092</u>                           |
| Loss for the period    |   |   |
| Canada                 | \$ (154,643)                                  | \$ (286,451)                                  |
| United States          | <u>(7,620)</u>                                | <u>(14,881)</u>                               |
|                        | <u>\$ (162,263)</u>                           | <u>\$ (301,332)</u>                           |
| Identifiable assets    |   |   |
| Canada                 | \$ 111,854                                    | \$ 18,805                                     |
| United States          | <u>4,405,387</u>                              | <u>444,254</u>                                |
|                        | <u>\$ 4,517,241</u>                           | <u>\$ 463,059</u>                             |

**20. SUBSEQUENT EVENTS**

a) Sale of private label division:

The Company entered into an asset purchase agreement (the "Asset Purchase Agreement"), dated July 24, 2003 and delivered on July 30, 2003, to sell substantially all of its assets comprised of its private label bottled water business (the "Private Label Business") held through its indirect wholly-owned subsidiary Stonepoint, Inc. ("SPI") in consideration for the assumption of certain liabilities and U.S.\$4,375,000, subject to certain working capital adjustments (the "Disposition"). The parties to the Asset Purchase Agreement are: (i) SPI, as vendor; (ii) the Company, as the sole controlling shareholder of the vendor; and (iii) Premium Waters, Inc. ("PWI"), as purchaser.