



British Columbia Securities Commission

QUARTERLY AND YEAR END REPORT
BC FORM 51-901F

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ISSUER DETAILS
NAME OF ISSUER: STONEPOINT GROUP LIMITED
FOR QUARTER ENDED: 04 | 06 | 30
DATE OF REPORT: 04 | 08 | 30
ISSUER ADDRESS: 300 - 700 WEST PENDER STREET
CITY: VANCOUVER, PROVINCE: BC, POSTAL CODE: V6C 1G8, ISSUER FAX NO.: 604-681-8511, ISSUER TELEPHONE NO.: 604-681-8588
CONTACT PERSON: JAMES BORKOWSKI, CONTACT POSITION: , CONTACT TELEPHONE NO.: 604-681-8588
CONTACT EMAIL ADDRESS: , WEB SITE ADDRESS:

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE: "James Borkowski", PRINT FULL NAME: JAMES BORKOWSKI, DATE SIGNED: 04 | 08 | 30
DIRECTOR'S SIGNATURE: "Michael Kinley", PRINT FULL NAME: MICHAEL KINLEY, DATE SIGNED: 04 | 08 | 30

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management. The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

STONEPOINT GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States Dollars)

June 30, 2004

(UNAUDITED – PREPARED BY MANAGEMENT)

STONEPOINT GROUP LIMITED
CONSOLIDATED BALANCE SHEET
(Expressed in United States dollars)
(Unaudited – Prepared by Management)

	June 30, 2004	December 31, 2003
ASSETS		
Current		
Cash and cash equivalents	\$ 124,882	\$ 176,132
Cash held in escrow (Note 3)	-	13,355
Accounts receivable	119,008	64,744
Note receivable (Note 4)	371,000	360,500
Prepaid expenses	<u>220</u>	<u>-</u>
	615,110	614,731
Deferred charges (Note 5)	177,227	125,000
Equipment (Note 6)	<u>33,472</u>	<u>43,195</u>
	<u>\$ 825,809</u>	<u>\$ 782,926</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	\$ 307,872	\$ 288,411
Notes payable, secured (Note 8)	89,280	-
Shareholder loan (Note 7)	<u>49,500</u>	<u>47,000</u>
	<u>446,652</u>	<u>335,411</u>
Shareholders' equity (deficiency)		
Capital stock (Note 9)		
Authorized		
Unlimited number of preferred shares		
Unlimited number of voting common shares		
Issued		
43,754,183 (2003 – 43,754,183) common shares	6,342,083	6,342,083
Contributed surplus	211,059	211,059
Cumulative translation adjustment	6,752	3,898
Deficit	<u>(6,180,737)</u>	<u>(6,109,525)</u>
	<u>379,157</u>	<u>447,515</u>
	<u>\$ 825,809</u>	<u>\$ 782,926</u>

Nature and continuance of operations (Note 1)

Contingencies (Note 11)

Subsequent events (Note 17)

On behalf of the Board:

"James Borkowski" Director "Michael Kinley" Director

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

STONEPOINT GROUP LIMITED
CONSOLIDATED STATEMENT OF OPERATIONS
(Expressed in United States dollars)
(Unaudited – Prepared by Management)

	Three Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2003	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003
SALES	\$ 463,783	\$ 467,583	\$ 866,603	\$ 480,999
COST OF GOODS SOLD (Schedule)	<u>332,075</u>	<u>265,593</u>	<u>595,592</u>	<u>272,658</u>
GROSS PROFIT	131,708	201,990	271,011	208,341
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Schedule)	<u>(170,215)</u>	<u>(213,321)</u>	<u>(333,420)</u>	<u>(360,928)</u>
Loss before other items	(38,507)	(11,331)	(62,409)	(152,587)
OTHER ITEM				
Interest income	<u>5,250</u>	<u>-</u>	<u>10,500</u>	<u>-</u>
Loss from continuing operations	(33,257)	(11,331)	(51,909)	(152,587)
Gain on sale of discontinued operations (Note 3)	-	151,020	-	151,020
Income (loss) from discontinued operations (Note 3)	<u>(23,300)</u>	<u>(78,262)</u>	<u>(19,303)</u>	<u>(160,696)</u>
Net income (loss) for the year	\$ (56,557)	\$ 61,427	\$ (71,212)	(162,263)
Basic and diluted earnings (loss) per common share from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Basic and diluted earnings per common share from discontinued operations	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(0.00)</u>
Basic and diluted earnings per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	43,754,183	43,754,183	43,754,183	43,754,183

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

STONEPOINT GROUP LIMITED
CONSOLIDATED SCHEDULES
(Expressed in United States dollars)
(Unaudited – Prepared by Management)

	Three Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2003	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003
COST OF GOODS SOLD				
Commissions	\$ 47,754	\$ 30,063	\$ 78,520	\$ 31,006
Freight	31,529	28,516	55,659	29,354
Labels	-	7,359	-	9,828
Purchases and other product costs	<u>252,792</u>	<u>199,655</u>	<u>461,413</u>	<u>202,470</u>
	<u>\$ 332,075</u>	<u>\$ 265,593</u>	<u>\$ 595,592</u>	<u>\$ 272,658</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Advertising and promotions	\$ -	\$ 3,654	\$ -	\$ 6,987
Amortization	12,849	3,077	25,670	7,679
Consulting	7,972	53,246	32,755	92,873
Courier	1,532	6,317	3,662	7,978
Foreign exchange	(3,371)	14,430	(3,472)	4,675
Financing cost	7,852	-	7,852	-
Insurance	3,355	1,863	6,026	4,889
Interest	18,436	4,230	23,210	4,230
Office	14,321	7,880	19,737	26,543
Rent	927	6,570	6,216	12,420
Professional fees	42,755	26,858	60,342	35,459
Regulatory and investor relations	4,793	2,219	7,503	4,804
Repairs and maintenance	3,383	1,336	3,638	1,336
Telephone	9,478	6,247	15,793	12,811
Travel	3,425	18,374	19,012	36,610
Wages and benefits	<u>42,508</u>	<u>57,020</u>	<u>105,476</u>	<u>101,634</u>
	<u>\$ 170,215</u>	<u>\$ 213,321</u>	<u>\$ 333,420</u>	<u>\$ 360,928</u>

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 – Prepared by Management)

	Three Month Period Ended June 30, 2004	Three Month Period Ended June 30, 2003	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss from continuing operations	\$ (33,257)	\$ (11,331)	\$ (51,909)	\$ (152,587)
Items not affecting cash:				
Amortization - equipment	5,408	3,077	10,905	7,679
Amortization – deferred charge	12,500	-	25,000	-
Change in non-cash working capital items:				
Accounts receivable	97,720	(49,911)	(54,264)	(46,644)
Prepaid expenses	(50)	118	(220)	(243)
Accounts payable and accrued liabilities	(52,194)	(134,776)	19,461	(7,833)
Operating activities - discontinued operations	-	87	-	(823,338)
Net cash used in operating activities	<u>30,127</u>	<u>(192,736)</u>	<u>(51,027)</u>	<u>(1,022,966)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of discontinued operations, net of cash acquired	-	483,631	-	483,631
Note receivable	(5,250)	(350,000)	(10,500)	(350,000)
Deferred charges	(77,227)	(150,000)	(77,227)	(150,000)
Investing activities – discontinued operations	-	(20,039)	-	(54,085)
Purchase of equipment	(1,182)	-	(1,182)	(954)
Net cash used in investing activities	<u>(83,659)</u>	<u>(36,408)</u>	<u>(88,909)</u>	<u>(71,408)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Shareholder loans	1,200	(37,395)	2,500	(57,395)
Notes payable	89,280	-	89,280	-
Financing activities - discontinued operations	-	349,659	-	1,480,725
Net cash provided by financing activities	<u>90,480</u>	<u>312,264</u>	<u>91,780</u>	<u>1,423,330</u>
Foreign exchange effect on cash	2,854	-	2,854	-
Cash provided by (used in) discontinued operations	<u>(23,300)</u>	<u>(5,079)</u>	<u>(19,303)</u>	<u>(87,513)</u>
Increase (decrease) in cash and cash equivalents	16,502	78,041	(64,605)	241,443
Cash and cash equivalents, beginning of year	<u>108,380</u>	<u>174,818</u>	<u>189,487</u>	<u>11,416</u>
Cash and cash equivalents, end of year	<u>\$ 124,882</u>	<u>\$ 252,859</u>	<u>\$ 124,882</u>	<u>\$ 252,859</u>

Supplemental disclosure with respect to cash flows (Note 15)

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

STONEPOINT GROUP LIMITED**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIENCY)**

(Expressed in United States dollars)

(Unaudited – Prepared by Management)

	Number of Shares Issued	Capital Stock Amount	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total
Balance at December 31, 2001	34,384,183	\$ 5,568,228	\$ 211,059	\$ -	\$ (6,725,266)	\$ (945,979)
Shares issued for cash	8,500,000	688,415	-	-	-	688,415
Shares issued for debt	870,000	85,440	-	-	-	85,440
Loss for the year	-	-	-	-	(2,591,114)	(2,591,114)
Balance at December 31, 2002	43,754,183	6,342,083	211,059	-	(9,316,380)	(2,763,238)
Cumulative translation adjustment	-	-	-	3,898	-	3,898
Net income for the year	-	-	-	-	3,206,855	3,206,855
Balance at December 31, 2003	43,754,183	6,342,083	211,059	3,898	(6,109,525)	447,515
Cumulative translation adjustment	-	-	-	2,854	-	2,854
Loss for the period	-	-	-	-	(71,212)	(71,212)
Balance at June 30, 2004	43,754,183	\$ 6,342,083	\$ 211,059	\$ 6,752	\$ (6,180,737)	\$ 379,157

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)
JUNE 30, 2004
(Unaudited – Prepared by Management)

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. During the year ended December 31, 2003 the Company restructured its operations and sold certain of its private and custom label beverage operating divisions (Note 3). The Company’s current business is the sale and development of enhanced beverage products.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	June 30 , 2004	December 31, 2003
Working capital	\$ 168,458	\$ 279,320
Deficit	(6,180,737)	(6,109,525)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements are expressed in United States dollars, unless stated otherwise, and include the accounts of the Company and those of its wholly owned subsidiaries from the date of acquisition or to the date of disposal. All significant inter-company balances and transactions have been eliminated upon consolidation.

Measurement uncertainty and estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and 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. Financial results as determined by actual events could differ from those estimates.

Cash and cash equivalents

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

STONEPOINT GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2004
(Unaudited – Prepared by Management)

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

Equipment

Equipment is stated at cost, net of accumulated amortization. Equipment is amortized annually over the estimated useful lives of the assets as follows:

Equipment	20% straight-line
Computer software	50% straight-line
Computer hardware	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.

Deferred charges

Costs directly identifiable to royalty rights and brand development costs have been capitalized and are amortized on a 3 year and 2 year straight line basis respectively. If management determines there to be an impairment in value, the asset is written-down to its estimated net realizable value.

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.

Revenue recognition

The Company recognizes its revenue at the date the products are shipped to the customer, and collection is reasonably assured.

STONEPOINT GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2004
(Unaudited – Prepared by Management)

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

Foreign currency translation

The Company's functional currency is the Canadian dollar. The Company changed from the temporal method of accounting for foreign exchange to the current rate method, in accordance with EIC 130 of the CICA Handbook. Under the current rate method, all assets and liabilities are translated into United States dollar equivalents at the rate of exchange at the balance sheet date. Revenue and expenses are translated into United States dollar equivalents at the average rate of exchange throughout the year. Gains and losses arising from translation of the financial statements are disclosed as a separate component of shareholders' equity. The Company has adopted the current rate method for all periods presented.

The accounts of subsidiaries, which are integrated operations, are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the year end exchange rates. Non-monetary assets and liabilities are translated using historical rates of exchange. Revenue and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in earnings. Exchange gains and losses are included in the statement of operations.

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 (loss) 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 common shares outstanding during the year.

Stock-based compensation

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the fair value-based methodology for measuring compensation costs. The Company has adopted the use of the fair value-based method and therefore all awards to employees and non-employees will be recorded at fair value on the date of the grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Comparative figures

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

STONEPOINT GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2004
(Unaudited – Prepared by Management)

3. CORPORATE REORGANIZATION

During the years ended December 31, 2003 and 2002, the Company reorganized and restructured its operations by winding-up certain companies and transferring certain divisional assets and liabilities and operations to separate subsidiary companies.

On June 26, 2003, the Company sold StonePoint (California) Inc., formerly the Custom Label Division, and on September 12, 2003, sold substantially all of the net operating assets of StonePoint Inc., formerly the Private Label Division, resulting in gains of \$151,020 and \$5,679,173 respectively. The operations of these subsidiaries have been recorded as discontinued operations.

The income (loss) from discontinued operations is as follows for the six months ended June 30:

	2004	2003
Sales		
StonePoint Inc.	\$ -	\$ 16,017,531
StonePoint (California) Inc.	<u>-</u>	<u>1,419,384</u>
	<u>\$ -</u>	<u>\$ 17,436,915</u>
Income (loss) on discontinued operations		
StonePoint Inc.	\$ (19,303)	\$ (169,035)
StonePoint (California) Inc.	<u>-</u>	<u>8,339</u>
Loss from discontinued operations	<u>\$ (19,303)</u>	<u>\$ (160,696)</u>

4. NOTE RECEIVABLE

The note is secured, bears interest at 6% per annum and is due on December 26, 2004. The balance at June 30, 2004 includes accrued interest of \$21,000 (2003 - \$10,500). The note has been pledged as security against the notes payable described in Note 8.

STONEPOINT GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2004
(Unaudited – Prepared by Management)

5. DEFERRED CHARGES

(a) Royalty rights

During the year ended December 31, 2002, the Company paid \$406,593 under an agreement with BevSystems International, Ltd (BEV Systems”) to acquire 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 as well, as title to certain related computer and technical equipment used in the oxygenation process, in recognition of the \$406,593 fee (paid in early 2002) and the changed business circumstances experienced after the signing of the original Royalty Agreement. The Company expensed \$342,000 during 2002 and early 2003 in retaining and streamlining the business for its customers in Asia (which sum was capitalized under the new Agreement), and agreed to pay a marketing fee to its principal customer in the amount of \$500,000, subject to adequate future shipments of product.

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 royalty rights of \$150,000. Amortization commenced July 1, 2003 on a straight line basis over a 3 year period.

(b) Product and brand development costs:

The Company entered into a partnership agreement with Northridge Property to develop brands and sales for its Australian wine products. During the six months ended June 30, 2004, the Company capitalized \$77,227 of expenses directly related to the development of brands and supporting materials for its new Wine and Spirits Division. These costs have resulted in the Company owning several proprietary brands that will be marketed in North America and internationally. Amortization will commence on a straight line basis over a 2 year period beginning with the quarter during which revenue is first recognized in this Division.

	June 30, 2004			December 31, 2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Product and brand development costs	\$ 77,227	\$ -	\$ 77,227	\$ -	\$ -	\$ -
Royalty rights	<u>150,000</u>	<u>50,000</u>	<u>100,000</u>	<u>\$ 150,000</u>	<u>\$ 25,000</u>	<u>\$ 125,000</u>
	<u>\$ 227,227</u>	<u>\$ 50,000</u>	<u>\$ 177,227</u>	<u>\$ 150,000</u>	<u>\$ 25,000</u>	<u>\$ 125,000</u>

STONEPOINT GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2004
(Unaudited – Prepared by Management)

6. EQUIPMENT

	June 30, 2004			December 31, 2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 23,511	\$ 15,533	\$ 7,978	\$ 22,040	\$ 14,780	\$ 7,260
Computer software	138,895	131,878	7,017	140,107	126,072	14,035
Computer hardware	<u>34,690</u>	<u>16,212</u>	<u>18,478</u>	<u>34,983</u>	<u>13,083</u>	<u>21,900</u>
	\$ 197,096	\$ 163,623	\$ 33,473	\$ 197,130	\$ 153,935	\$ 43,195

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$Nil (2003 - \$7,200) for the lease of office equipment and furniture from a director of the Company.
- b) Paid or accrued \$70,505 (2003 - \$31,446) to directors and officers of the Company (for continuing operations) for consulting fees and wages and benefits.

The shareholder loan totalling \$49,500 (2003 - \$47,000) bears interest at 10% per annum, is secured against all the assets of the Company and was required to be paid in full on October 31, 2002. The shareholder loan was not repaid by October 31, 2002 and the Company is currently in default on the outstanding balance of the loan (Note 12). During the year ended December 31, 2002 the Company issued 70,000 common shares of the Company valued at \$8,775 to the shareholder as a financing fee.

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

8. NOTES PAYABLE

The notes payable bear interest at the rate of 12% per annum, are repayable one year from the date of issuance and are secured by an assignment of a security interest in the note receivable described in Note 4 above. Subject to regulatory approval, the holders of the notes are entitled to a bonus of 480,000 common shares of the Company.

STONEPOINT GROUP LIMITED
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9. 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.

Stock options

On April 22, 1999, the Board of Directors approved the Stock Option Plan (the “Plan”). Under the Plan, as amended on January 29, 2001, a maximum of 6,000,000 shares can be reserved for issuance. Periodically, directors, officers, key employees and consultants of the Company will be offered options to purchase common shares under the Plan. The exercise price of the options granted pursuant to the Plan may not be less than the price permitted by the 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 6,000,000 shares remain reserved for issuance under the Plan.

As at June 30, 2004, there were no incentive stock options outstanding.

Stock option transactions and the number of share options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Exercise Price
Balance, December 31, 2001	6,120,000	US\$ 0.15	Cdn\$ 0.22
Options granted	-	-	-
Options expired	(2,470,000)	0.13	0.21
Options exercised	-	-	-
Balance, December 31, 2002	3,650,000	0.15	0.24
Options granted	-	-	-
Options expired	(3,100,000)	0.15	0.20
Options exercised	-	-	-
Balance, December 31, 2003	550,000	0.16	0.23
Options expired	(550,000)	0.16	Cdn\$ 0.23
Balance, June 30, 2004	-	-	-
Number of options exercisable at year end	-	-	-

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9. CAPITAL STOCK , cont'd

Warrants

At June 30, 2004, there were no share purchase warrants outstanding.

10. COMMITMENTS

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

2005	\$	13,200
2006		13,200
2007		<u>13,200</u>
	\$	<u>39,600</u>

Under the terms of a Purchase Agreement with BEVSystems to purchase business and intellectual properties located in Asia dated April 3, 2003, the Company agreed to pay a marketing fee to its principal customer in the amount of \$500,000, subject to adequate future shipments of product.

Under the terms of its promissory notes payable (Note 8), the Company has committed to issue 480,000 common shares as a bonus to the holders of the notes, subject to regulatory approval.

11. CONTINGENCIES

- a) The Company and One Water Source LLC (“WSO”) have an agreement dated October 19, 2000 (the “Agreement”), pursuant to which WSO bottles certain water products for the Company. WSO claims that the Agreement requires the Company to exclusively use WSO for these services and alleges that the Company has violated the Agreement by using other companies for such services. In March 2002, WSO filed a lawsuit against the Company. The parties settled the case in August of 2002. However, after the settlement, one of WSO’s bottling companies, Wissahickon Mountain Spring Water (“Wissahickon”), sent the Company a demand letter, claiming that the Company owed Wissahickon \$69,571 for repurchase of inventory and other matters. The Company denies owing this amount, and sent Wissahickon a check for \$5,185 as full and final payment of all outstanding amounts due to Wissahickon. Wissahickon deposited the check but contended in a subsequent letter that the Company still owes the remaining balance. The last correspondence on this matter from Wissahickon that the Company received was dated October 25, 2002. In the opinion of management this matter is frivolous and without merit and the Company will be successful in any defence of this matter.

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11. CONTINGENCIES (cont'd...)

- b) The Company is currently in default of the terms of its shareholder loan (Note 7).
- c) A claim against the Company for \$40,000 has been filed. The Company believes this claim is without merit and the outcome cannot be determined at this time.

12. ECONOMIC DEPENDENCE AND CREDIT RISK

The Company now sells products to one customer in Japan, under a 5 year agreement which commenced in January, 2003. This customer accounts for over 90% of enhanced beverage revenues from continuing operations (Note 3). The Company performs ongoing credit evaluations of its customer and provides, if necessary, allowances for potential credit losses.

13. SEGMENTED INFORMATION

The Company operates in one segment and supplies private label beverages to customers in the retail food industry in various geographic locations.

Geographic information is as follows:

	(six month period)		(As at)	
	Sales based on location of customer		Net book value of equipment based on location of assets	
	June 30, 2004	June 30, 2003	June 30, 2004	December 31, 2003
Canada	\$ 24,594	\$ 45,515	\$ 33,473	\$ 4,789
Japan	842,009	409,414	-	-
United States	-	26,070	-	38,406
	\$ 866,603	\$ 480,999	\$ 33,473	\$ 43,195

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14. INCOME TAXES

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

	2004	2003
Expected income tax expense (recovery)	\$ (26,775)	\$ (61,011)
(Recognized) unrecognized benefit of non-capital losses	<u>26,775</u>	<u>61,011</u>
Income tax expense	\$ -	\$ -

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

	June 30, 2004	December 31, 2003
Loss carryforwards		
Canadian non-capital losses	\$ 1,075,733	\$ 1,048,958
United States net operating losses	<u>-</u>	<u>-</u>
Total loss carryforward	1,075,733	1,048,958
Less: valuation allowance	<u>(1,075,733)</u>	<u>(1,048,958)</u>
	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$3,021,000. These losses, if not utilized, will expire through to 2010. Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements and have been offset by a valuation allowance.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2004	2003
Cash paid during the period for interest	\$ 23,210	\$ 4,230
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>

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16. FINANCIAL INSTRUMENTS

The Company's financial instruments consists of cash and cash equivalents, accounts receivable, note receivable, accounts payable and accrued liabilities and shareholder loan. Management has determined that the carrying value of the financial instruments approximate fair value due to their short-term nature.

Credit risk:

The Company is exposed to credit risk only with respect to uncertainties as the timing and amount of collectibility of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.

17. SUBSEQUENT EVENT

The following events occurred subsequent to period end:

- a) Subject to regulatory approval, the Company has issued additional notes payable of \$40,000 (see Note 8).

SCHEDULE A: FINANCIAL INFORMATION

See attached unaudited consolidated financial statements for the period ended June 30, 2004.

SCHEDULE B: SUPPLEMENTARY INFORMATION

1. For the current fiscal year to date:

a) General and administrative expenses:

See the schedule in the attached unaudited financial statements.

2. Related party transactions:

See Note 7 in the attached unaudited financial statements.

3. For the current fiscal year to date:

a) Summary of securities issued:

Date	Type of Security	Type of Issue	Number	Price	Total Proceeds	Type of Consideration	Commission Paid
NIL							

b) Summary of options granted:

Date	Number of Options	Optionee	Exercise Price	Expiry Date
NIL				

4. As at the end of the reporting period:

a) Authorized share capital: 100,000,000 common shares without par value

b) Shares issued and outstanding:

See Note 9 in the attached audited financial statements.

c) Options, warrants and convertible securities outstanding:

See Note 9 in the attached audited financial statements.

SCHEDULE B: SUPPLEMENTARY INFORMATION (cont'd...)

5. List of directors and officers:

James Borkowski, Chairman and CEO
Aubrey Ryals, Vice-President
Michael Kinley
Boyd Stevens

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

To The Shareholders of StonePoint Group Limited

OVERALL PERFORMANCE

- Sales for the six months ended June 30, 2004 from continuing operations already amount to 95% of total 2003 annual revenues despite the Company not shipping product for most of June.
- The Company's exports to Japan have been growing steadily and with increased capacity being brought on-line, management believes that same customer growth and new customer growth can be accelerated.
- As a result of the Company successfully selling the Private Label and Custom Label divisions in 2003, there has been a significant reduction of debt and operating expenses resulting in the re-establishment of a positive equity and working capital position.
- The Company is now focused on growing its enhanced beverage line (utilizing the Life O2 patent and technology acquired in April, 2003) and developing higher margin opportunities in categories which can benefit from the Company's services and experience. These categories include wine, nutraceutical beverages and other enhanced water products.

SELECTED FINANCIAL INFORMATION

	June 30, 2004	March 31, 2004	December 31, 2003	December 31, 2002
	<u>Six months</u>	<u>Three months</u>	<u>Annual</u>	<u>Annual</u>
<i>Period ended:</i>				
Sales	866,603	402,820	\$ 910,379	465,518
Cost of sales	<u>595,592</u>	<u>263,517</u>	<u>625,730</u>	<u>421,722</u>
Gross profit	271,011	139,303	284,649	43,796
<i>Gross profit %</i>	<i>31.2%</i>	<i>34.6%</i>	<i>31.5%</i>	<i>9.4%</i>
Selling, general and administrative expenses	333,420	168,380	797,984	1,219,572
Other items:				
Interest income	10,500	5,250	10,500	-
Write-down of license			-	(406,593)
Write-down of acquisition costs			=	-
Income (loss) from continuing operations	(51,909)	(23,827)	(502,835)	(1,582,369)

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Gain on sale of discontinued operations	-	-	5,846,550	-
Income (loss) from discontinued operations	(19,303)	9,173	(2,136,860)	(1,008,745)
Income (loss) for the year	\$(71,212)	\$(14,655)	\$ 3,206,855	(2,591,114)
Income (loss) per share	(\$0.001)	(\$0.01)	(\$0.07)	(0.06)

The table above presents the Company's results of operations for each of its last two completed fiscal years, and the most recent three and six month periods. The comparative figures for the 2002 year were restated in 2003 in order to properly reflect discontinued operations disclosure resulting from the Company's sale of both its custom label and private label bottled water businesses during 2003.

	June 30, 2004	December 31, 2003	December 31, 2002
<i>Balance sheet data:</i>			
Assets			
Cash and equivalents	124,882	189,487	11,416
Receivables	119,008	64,744	14,135
Note receivable	371,000	360,500	-
Assets held for resale		-	3,169,997
Deferred charges (royalty rights and brand development costs)	177,227	125,000	-
Equipment	33,472	43,195	18,805
Liabilities / equity			
Notes payable	89,280	-	-
Other current liabilities	357,372	335,441	6,011,645
Shareholders' equity (deficiency)	379,157	447,515	(2,763,238)
Average shares outstanding	43,754,183	43,754,183	40,677,402

The above balance sheet data shows a return to a positive working capital position at December 31, 2003 and June 30, 2004, due to the sale of the Company's Custom and Private Label water businesses and the continued growth of the core exports to Japan. A small debt financing (notes payable) has also helped the Company's cash position, all of which has resulted in restoring a net shareholders' equity position for the first time since the 2000 fiscal year.

The Company's financial statements are prepared in conformity with Canadian generally accepted accounting principles, and include the accounts of the Company and its wholly owned subsidiaries expressed in Canadian dollars. All foreign currency amounts are converted into Canadian dollar equivalents using the temporal method as explained in the notes accompanying the Company's audited annual financial statements.

RESULTS OF OPERATIONS

Sales from continuing operations include international sales of its enhanced beverage line of \$866,603 for the six months to June 30, 2004, compared with \$ 480,999 for the same period last year, and annual figures of \$910,379 in 2003 and Nil in 2002. Consulting and royalty income, together with these higher margin sales, have kept the gross profit percentage over 30%.

SG&A expense from continuing operations for the six months to June 30, 2004 decreased 7.6% from the comparable period in 2003, due primarily to lower consulting fees (\$32,755 vs \$92,873) and travel costs (\$19,012 vs \$36,610) following the

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capitalization of product / brand development costs for the Wine & Spirits Division (see deferred charges). This was somewhat offset by higher professional fees (\$60,342 vs \$35,459) relating to the divestiture of its bottled water businesses, increased amortization due to a \$25,000 charge (2003 – Nil) for the amortization of its O2 royalty right and increased interest expense from the new notes payable. Office and advertising costs have also been reduced. The Company expects ongoing comparative cost saving in this area due to the more streamlined nature of its continuing operations in comparison to its previous bottled water operations.

On June 26, 2003, the Company sold StonePoint (California) Inc., formerly the Custom Label Division, and on September 12, 2003, sold th

The income (loss) from discontinued operations is as follows:

	June 30, 2004	June 30, 2003
Sales		
StonePoint Inc.	\$ -	\$ 16,017,531
StonePoint (California) Inc.	-	1,419,384
	\$ -	\$ 17,436,915
Income (loss) on discontinued operations		
StonePoint Inc.	\$ (19,303)	\$ (169,035)
StonePoint (California) Inc.	-	8,339
Loss from discontinued operations	\$ (19,303)	\$ (160,696)

QUARTERLY FINANCIAL INFORMATION

<i>Selected data only:</i>	June, 2004	March, 2004	December, 2003	September, 2003
Sales	\$ 463,783	402,820	184,951	\$ 244,427
Gross profit	131,706	139,303	57,345	18,960
Gross profit %	28.4%	34.6%	31.0%	7.8%
SG&A expense	170,215	163,204	278,152	157,719
<i>Net Continuing operations</i>	<i>(33,257)</i>	<i>(23,901)</i>	<i>(203,155)</i>	<i>(147,025)</i>
Gain on sale discontinued operation		-	(228,399)	5,923,930
Discontinued operations	(23,300)	3,997	(57,222)	(1,919,012)
Net income (loss)	(56,557)	(14,655)	(488,775)	3,857,893
Per common share	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.09)

	June, 2003	March, 2003	December, 2002 (Previously filed)	September, 2002 (Previously filed)
Sales	\$ 467,583	13,416	5,302,325	\$ 9,484,460
Gross profit	201,990	7,065	(367,539)	1,080,173

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Gross profit %	43.2%	47.3%	(6.9%)	11.4%
SG&A expense	213,321	147,607	1,110,928	1,145,428
<i>Net continuing operations</i>	<i>(11,331)</i>	<i>(141,256)</i>		
Gain on sale – discontinued	151,020	-	-	-
Discontinued operations	(78,262)	(82,434)	n/a	n/a
Net income (loss)	61,428	(223,690)	(2,077,544)	(212,238)
Per common share	(\$0.01)	(\$0.01)	(0.01)	(\$0.01)

As indicated by the table above, severe price compression began to effect operations more profoundly in the 3rd and 4th quarters of 2002 and continued into 2003. Private Label growth resulted in higher expenses with little or no margin, especially with new business. These developments prompted the Company’s decision to dispose of its bottled water businesses in quarters ended June and September, 2003.

The quarter ended June 30, 2004 was highlighted by sales totaling \$463,783 compared to \$467,583 in the same period in 2003. The Company has continued to grow its exports of Super Oxygenated bottled water to Japan, but has also devoted significant effort and resources to the development of its new Wine & Spirits Division (see deferred charges) which is expected to begin generating revenues in the fourth quarter of the current fiscal year.

The Company has continued to actively reduce SG&A expenses to a level commensurate with its continuing operations (2004 Q2 - \$170,215 ; 2003 Q2 - \$213,321), and ongoing costs relating to the winding down of discontinued operations are now near break even level of (\$19,303) and are expected to be curtailed entirely within the next two quarters.

LIQUIDITY

Following the completion of the divestiture of its bottled water businesses in September, 2003, the Company has returned to a positive working capital position:

	June 30, 2004	December 31, 2003	December 31, 2002
Working capital (deficiency)	\$ 168,458	\$ 279,320	\$ (2,782,043)

Improved sales of its enhanced beverage line, together with higher margins now being achieved, should enable the Company to generate sufficient cash to cover its working capital requirements on a monthly basis, which now total approximately \$55,000 per month.

Included in current assets at June 30, 2004 is a note receivable of \$371,000 concerning which the Company attributes a reasonable financial risk. The note is due from a company which has recently secured a public listing and is continuing to grow its sales while reducing its debt.

The Company’s ongoing commitments for annual premises lease / rental have now been reduced to approximately \$1,100 per month and are not considered a factor in its future liquidity circumstances.

CAPITAL RESOURCES

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The Company depends upon the junior capital markets to raise equity and debt financing needed to fund its working capital requirements to the extent not generated internally. Recent improvements in its enhanced beverage sales and related margins, together with a significantly reduced cost structure from its continuing operations, have largely eliminated the necessity of raising additional equity capital for this purpose.

Its ability to continue to raise equity financing for any purpose, or course, remains subject to the general investment climate and investors' interest in supporting the Company's business objectives. No significant financial commitments exist beyond its now reduced working capital needs.

OFF – BALANCE SHEET ARRANGEMENTS

The Company has not entered into any significant off-balance sheet arrangements or commitments.

RELATED PARTY TRANSACTIONS

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	Six months	Annual	Annual
<i>For the period:</i>			
Consulting fees, wages and benefits	70,506	290,202	563,085
Lease of equipment from a Director	-	7,200	11,238
Number of shares issued for financing fees	-	-	270,000
<i>As at balance sheet date:</i>			
Included in accounts payable	-	-	53,447
Shareholder loan	49,500	47,000	107,395
Due to related party	-	-	104,557

Amounts due to related parties are unsecured and non-interest bearing with no specific terms of repayment (except the shareholder loan which bears interest at 10% per annum). All transactions are in the normal course of operations and are recorded at exchange amounts established and agreed between the related parties.

LAST QUARTER

The Company has been working to develop additional production capacity required to support anticipated increased sales of its O2 oxygenated beverage line and is well into the development of its new Wine & Spirits Division. These expenses (Wine & Spirits) have resulted in the Company owning several proprietary brands that will be marketed in North America and internationally. Initial presentations have generated significant interest in the Company's new brands and programs.

PROPOSED TRANSACTIONS AND RECENT DEVELOPMENTS

(a) The Company entered into a partnership agreement with Northridge Property to develop brands and sales for its Australian wine products. These new brands will be either owned or exclusively represented by the Company in both North America and Japan. Presentations to several potential customers have already occurred with final negotiations scheduled for Q3 2004.

(b) In March of 2004, the Company secured the rights to a line of spirits produced in the U.K. These products, including Highland Stag Scotch Whiskey, have been incorporated into the Company's portfolio and several potential customers in Asia have expressed serious interest in carrying the products.

(c) As part of the overall growth strategy of the Company, additional costs were reduced during the first six months of 2004. From a peak of approximately \$400,000 US in monthly expenses, the Company has reduced this amount by well over 80%. Continued efficiencies will be sought and new water, wine and spirits business will be incorporated without any significant additional costs.

(d) On June 1, 2004, the Company announced that it had applied to the TSX Venture Exchange regarding its intent to secure financing up to \$US 250,000 through a 12-month secured debenture. Under the terms of the financing, the Company is offering an annual interest rate of 12% in addition to bonus shares. As of June 30, 2004, \$89,280 has been received under this financing arrangement resulting in a commitment to issue 480,000 bonus shares. Subsequent to quarter end, an additional \$40,000 has also been received.

CHANGES IN ACCOUNTING POLICIES

The Company has not changed accounting policies

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, note receivable, accounts payable and accrued liabilities and shareholder loan. Management has determined that the carrying value of the financial instruments approximate fair value due to their short-term nature. The Company is exposed to credit risk only with respect to uncertainties as the timing and amount of collectibility of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.