

**STONEPOINT GLOBAL BRANDS INC.**  
**(formerly StonePoint Group Limited)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in United States Dollars)**  
**(Unaudited – Prepared by Management)**

**JUNE 30, 2006**

## **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 GLOBAL BRANDS INC.**  
(formerly StonePoint Group Limited)  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States dollars)  
(Unaudited – Prepared by Management)

	June 30, 2006	December 31, 2005 (audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,033,610	\$ 356,544
Accounts receivable	674,152	207,676
Current portion of note receivable (Note 4)	<u>119,801</u>	<u>190,000</u>
	1,827,563	754,220
<b>Notes receivable</b> (Note 4)	84,588	95,880
<b>Intangible assets</b> (Note 5)	159,636	43,177
<b>Deferred financing costs</b> (Note 5)	-	4,702
<b>Equipment</b> (Note 6)	<u>95,928</u>	<u>2,949</u>
	<u>\$ 2,167,715</u>	<u>\$ 900,928</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 735,815	\$ 414,209
Notes payable (Note 8)	<u>534,967</u>	<u>390,390</u>
	<u>1,270,782</u>	<u>804,599</u>
<b>Shareholders' equity</b>		
Capital stock (Note 9)		
Authorized		
Unlimited number of preferred shares		
Unlimited number of special shares		
Unlimited number of voting common shares		
Issued (reflecting 10:1 consolidation)		
10,951,487 common shares (December 31, 2005 – 8,555,387 common shares)	7,366,752	6,746,348
Subscriptions received in advance (Note 9)	4,534	-
Contributed surplus	309,880	288,414
Cumulative translation adjustment	27,942	(2,110)
Deficit	<u>(6,812,175)</u>	<u>(6,936,323)</u>
	<u>896,933</u>	<u>96,329</u>
	<u>\$ 2,167,715</u>	<u>\$ 900,928</u>

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

**Commitments** (Note 10)

**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 GLOBAL BRANDS INC.**  
(formerly StonePoint Group Limited)  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Expressed in United States dollars)  
(Unaudited – Prepared by Management)

	Three Month Period Ended June 30, 2006	Three Month Period Ended June 30, 2005	Six Month Period Ended June 30, 2006	Six Month Period Ended June 30, 2005
<b>REVENUES</b>				
Sales	\$ 2,097,090	\$ 954,735	\$ 3,116,700	\$ 1,473,952
Royalties	<u>47,322</u>	<u>7,066</u>	<u>78,000</u>	<u>18,334</u>
	2,144,412	961,801	3,194,700	1,492,266
<b>COST OF GOODS SOLD</b> (Schedule)	<u>(1,536,497)</u>	<u>(734,364)</u>	<u>(2,284,699)</u>	<u>(1,138,215)</u>
<b>GROSS PROFIT</b>	607,915	227,437	910,001	354,071
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Schedule)	<u>(490,849)</u>	<u>(326,258)</u>	<u>(790,312)</u>	<u>(605,555)</u>
<b>Income (loss) before other items</b>	117,066	(98,821)	119,689	(251,484)
<b>OTHER ITEM</b>				
Interest income and renewal fees	<u>1,936</u>	<u>39,261</u>	<u>4,459</u>	<u>48,886</u>
<b>Income (loss) for the period</b>	<u>\$ 119,002</u>	<u>\$ (59,560)</u>	<u>\$ 124,148</u>	<u>\$ (202,598)</u>
<b>Basic and diluted loss per common share</b>	\$ 0.01	\$ (0.01)	\$ 0.01	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>	9,717,563	4,453,019	9,145,211	4,444,827

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**STONEPOINT GLOBAL BRANDS INC.**  
(formerly StonePoint Group Limited)  
**CONSOLIDATED SCHEDULES**  
(Expressed in United States dollars)  
(Unaudited – Prepared by Management)

	Three Month Period Ended June 30, 2006	Three Month Period Ended June 30, 2005	Six Month Period Ended June 30, 2006	Six Month Period Ended June 30, 2005
<b>COST OF GOODS SOLD</b>				
Purchases and other product costs	\$ 1,350,643	\$ 572,113	\$ 2,005,520	\$ 885,866
Commissions	-	81,032	-	125,082
Freight	<u>185,854</u>	<u>81,219</u>	<u>279,179</u>	<u>127,267</u>
	<u>\$ 1,536,497</u>	<u>\$ 734,364</u>	<u>\$ 2,284,699</u>	<u>\$ 1,138,215</u>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Amortization of deferred financing costs	\$ 134	\$ 12,500	\$ 4,881	\$ 19,563
Amortization of equipment	501	125	926	250
Amortization of intangible assets	13,019	29,665	43,869	42,165
Bad debts	(197)	-	559	-
Consulting	113,909	103,954	174,226	176,308
Design and marketing	44,328	14,443	66,567	26,689
Financing	8,996	-	8,996	6,482
Foreign exchange	24,150	(3,538)	19,881	(7,415)
Insurance	3,527	3,585	8,559	6,670
Interest	23,589	14,517	42,487	24,841
Investor relations	139	-	5,057	-
Office	14,479	15,512	24,668	26,526
Rent	7,853	3,966	12,601	7,830
Professional fees	63,247	37,384	81,664	60,846
Regulatory and filing fees	6,248	3,165	13,760	6,731
Stock based compensation	42,431	-	42,431	-
Telephone	9,652	5,588	15,494	11,059
Travel	57,170	23,132	87,851	51,888
Wages and benefits	<u>57,674</u>	<u>62,260</u>	<u>135,835</u>	<u>145,122</u>
	<u>\$ 490,849</u>	<u>\$ 326,258</u>	<u>\$ 790,312</u>	<u>\$ 605,555</u>

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**STONEPOINT GLOBAL BRANDS INC.**  
(formerly StonePoint Group Limited)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in United States dollars)  
(Unsaudited – Prepared by Management)

	Three Month Period Ended June 30, 2006	Three Month Period Ended June 30, 2005	Six Month Period Ended June 30, 2006	Six Month Period Ended June 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) for the period	\$ 119,002	\$ (59,560)	\$ 124,148	\$ (202,598)
Items not affecting cash:				
Amortization	13,654	42,290	49,676	61,978
Stock based compensation	42,431	-	42,431	-
Interest and fees accrued on note receivable	(1,936)	(39,261)	(4,459)	(48,886)
Bad debts	(197)	-	559	-
Change in non-cash working capital items:				
Accounts receivable	(405,436)	207,029	(467,036)	72,273
Accounts payable and accrued liabilities	<u>312,386</u>	<u>(128,943)</u>	<u>334,493</u>	<u>(48,643)</u>
Net cash provided by (used in) operating activities	<u>79,904</u>	<u>21,555</u>	<u>79,812</u>	<u>(165,876)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Intangible assets	(65,798)	-	(155,652)	-
Purchase of equipment	(90,889)	-	(93,905)	-
Note receivable	<u>(44,655)</u>	<u>80,837</u>	<u>85,949</u>	<u>80,837</u>
Net cash provided by (used in) investing activities	<u>(201,342)</u>	<u>80,837</u>	<u>(163,608)</u>	<u>80,837</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of common shares for cash	406,794	-	599,439	-
Subscriptions received in advance	4,534	-	4,534	-
Proceeds from notes payable	<u>128,607</u>	<u>-</u>	<u>128,607</u>	<u>113,221</u>
Net cash provided by financing activities	<u>539,935</u>	<u>-</u>	<u>732,580</u>	<u>113,221</u>
<b>Foreign exchange effect on cash</b>	<u>32,042</u>	<u>509</u>	<u>28,282</u>	<u>1,172</u>
<b>Change in cash</b>	450,539	102,901	677,066	29,354
<b>Cash, beginning of period</b>	<u>583,071</u>	<u>25,048</u>	<u>356,544</u>	<u>98,595</u>
<b>Cash, end of period</b>	<u>\$ 1,033,610</u>	<u>\$ 127,949</u>	<u>\$ 1,033,610</u>	<u>\$ 127,949</u>

**Supplemental disclosure with respect to cash flows (Note 15)**

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

**STONEPOINT GLOBAL BRANDS INC.**  
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**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
(Expressed in United States dollars)  
(Unaudited – Prepared by Management)

	Number of Shares Issued	Capital Stock Amount	Subscriptions Received in Advance	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total
Balance at December 31, 2004	4,444,588	\$ 6,368,887	\$ -	\$ 211,059	\$ (132)	\$ (6,345,265)	\$ 234,549
Shares issued as bonus for note holders	54,800	17,755	-	-	-	-	17,755
Shares issued as settlement of debt	690,998	73,681	-	-	-	-	73,681
Private placement	3,365,000	286,025	-	-	-	-	286,025
Stock-based compensation	-	-	-	77,355	-	-	77,355
Cumulative translation adjustment	-	-	-	-	(1,978)	-	(1,978)
Loss for the year	-	-	-	-	-	(591,058)	(591,058)
Balance at December 31, 2005	8,555,387	6,746,348	-	288,414	(2,110)	(6,936,323)	96,329
Private placement	1,206,100	474,626	-	-	-	-	474,626
Subscriptions received in advance	-	-	4,534	-	-	-	4,534
Exercise of stock options	190,000	17,821	-	-	-	-	17,821
Exercise of warrants	1,000,000	106,992	-	-	-	-	106,992
Stock-based compensation	-	20,965	-	21,466	-	-	42,431
Cumulative translation adjustment	-	-	-	-	30,052	-	30,052
Income for the period	-	-	-	-	-	124,148	124,148
Balance at June 30, 2006	10,951,487	\$ 7,366,752	\$ 4,534	\$ 309,880	\$ 27,942	\$ (6,812,175)	\$ 896,933

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

**STONEPOINT GLOBAL BRANDS INC.**  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in United States dollars)  
(Unaudited – Prepared by Management)  
JUNE 30, 2006

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

StonePoint Global Brands Inc. (the “Company”) was incorporated under the laws of the Province of Ontario on January 23, 1997. The Company’s current business is the sale and development of enhanced beverage products. The Company's current business is the development, branding and distribution of premium beverage products. Effective June 28, 2005, the Company changed its name from StonePoint Group Limited and completed a consolidation of its issued and outstanding capital stock, warrants and options on the basis of ten old shares for one new share (10 for 1). All share, warrant, option and per unit data included in these financial statements have been adjusted to retroactively reflect this change.

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.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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	June 30, 2006	December 31, 2005
Working capital (deficiency)	\$ 556,781	\$ (50,379)
Deficit	(6,812,175)	(6,936,323)

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**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 and are expressed in United States dollars, unless stated otherwise.

**Principles of consolidation**

The financial statements 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Financial results as determined by actual events may differ from those estimates.

**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	5 years straight-line
Computer software	2 years 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.

**Intangible assets**

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

**Deferred financing costs**

Deferred financing costs to obtain notes payable are deferred and amortized on a basis consistent with the repayment terms of the underlying debt.

**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. The Company recognizes royalty revenue as earned and collection is reasonably assured.

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

**Foreign currency translation**

The Company's functional currency is the Canadian dollar. The Company uses the current rate method to translate from the functional currency to the United States dollar whereby 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 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.

**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 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. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

**Stock-based compensation**

The Company uses the fair value-based method for stock-based compensation and therefore all awards to employees and non-employees will be recorded at fair value on the date of the grant and expensed over the period of vesting. 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 period's presentation.

**3. CORPORATE REORGANIZATION**

During the year ended December 31, 2003, the Company reorganized and restructured its operations by winding-up certain companies, transferring certain divisional assets and liabilities and operations to separate subsidiary companies, and selling both the Custom Label and Private Label divisions. Those operations were reported as discontinued operations in fiscal 2003 and any related wind up costs were also reported as such during the year ended December 31, 2004.

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**4. NOTE RECEIVABLE**

	December 21, 2005 Promissory Note	June 16, 2006 Promissory Note	Total
Balance December 31, 2005	\$ 285,880	\$ -	\$ 285,880
Advances	-	44,655	44,655
Accrued interest	4,459	-	4,459
Repayments	<u>(130,605)</u>	<u>-</u>	<u>(130,605)</u>
	159,734	44,655	204,389
Less current portion	<u>(119,801)</u>	<u>-</u>	<u>(119,801)</u>
	<u>\$ 39,933</u>	<u>\$ 44,655</u>	<u>\$ 84,588</u>

**a) December 21, 2005 promissory note:**

On January 14, 2006, the Company entered into a Debt Settlement Agreement (the “DSA”), subsequently amended, with the borrower whereby the principal of \$300,663 and fees and accrued interest of \$52,867 owing to December 21, 2005 were re-capitalized for \$285,396 (C\$332,727) resulting in a write-down of \$68,134. The terms of the DSA provide for interest at 5% per annum, compounded quarterly, and principal repayments of C\$150,000 due on or before January 22, 2006 (received by March 31, 2006) and semi-annual repayments commencing May 31, 2006 of C\$45,685.

The DSA also provides that the Company will release the borrower from any further obligations under the DSA should all payments comprising the recapitalized amount be made to the satisfaction of the Company. Accordingly, the Company has written down the note to the recapitalized amount, plus accrued interest to December 31, 2005. The note is secured under a security agreement dated January 12, 2006 which provides the Company a security interest in certain assets of the borrower.

The balance at June 30, 2006 includes accrued interest of \$4,943 (December 31, 2005 - \$484).

**b) June 16 promissory note:**

On June 16, 2006, The Company advanced \$44,655 (C\$50,000) to a supplier under a promissory note, without interest and unsecured, due in eighteen equal monthly instalments commencing upon the termination of the underlying supply agreement.

**5. INTANGIBLE ASSETS AND DEFERRED FINANCING COSTS**

**Royalty rights**

In 2003, the Company obtained the royalty rights for the “Life O2 Super-Oxygenated Water” technology for Asia at a cost of \$150,000 which is being amortized commencing July 1, 2003 on a straight line basis over a 3 year period.

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**5. INTANGIBLE ASSETS AND DEFERRED FINANCING COSTS (cont'd...)**

**Product development costs**

The Company has focused significant efforts on the development of a proprietary brand of enhanced water as well as a line of products for the hospitality industry. During the period ended June 30, 2006, the Company capitalized \$159,636 (2005 - \$Nil) of costs directly related to the development of products and supporting materials, less a write-down of \$Nil (2005 - \$Nil) to estimated realizable value. These costs have resulted in the Company owning proprietary packaging designs, branding, trademark applications, market data and formulations for a product line that has advanced to the stage where channel partner discussions are occurring during Q3 of 2006. The Company expects to commercialize the products in late 2006 or early 2007.

**Deferred financing costs**

The Company has deferred the cost of bonus shares issued to the note holders referred to in Note 8 and is amortizing the cost thereof on a straight line basis over the period to maturity of the related notes.

	June 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Product development costs	\$ 230,321	\$ 70,685	\$ 159,636	\$ 70,685	\$ 52,508	\$ 18,177
Royalty rights	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>	<u>125,000</u>	<u>25,000</u>
	380,321	220,685	159,636	220,685	177,508	43,177
Deferred financing costs	<u>48,481</u>	<u>48,481</u>	<u>-</u>	<u>48,481</u>	<u>43,779</u>	<u>4,702</u>
	<u>\$ 428,802</u>	<u>\$ 269,166</u>	<u>\$ 159,636</u>	<u>\$ 269,166</u>	<u>\$ 221,287</u>	<u>\$ 47,879</u>

**6. EQUIPMENT**

	June 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 90,517	\$ 562	\$ 89,955	\$ 616	\$ 530	\$ 86
Computer software	37,701	37,701	-	36,220	36,220	-
Computer hardware	<u>8,477</u>	<u>2,503</u>	<u>5,973</u>	<u>4,386</u>	<u>1,523</u>	<u>2,863</u>
	<u>\$ 136,695</u>	<u>\$ 40,767</u>	<u>\$ 95,928</u>	<u>\$ 41,222</u>	<u>\$ 38,273</u>	<u>\$ 2,949</u>

**7. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued wages and benefits of \$87,172 (2005 - \$97,779) to directors and officers of the Company.
- b) Paid or accrued consulting fees of \$30,107 (2005 - \$29,205) to companies controlled by two directors of the Company.
- c) Directors exercised 190,000 stock options for gross proceeds of \$17,821 (2005 – Nil)
- d) A related party exercised 1,000,000 share purchase warrants to hold a control block position in the common shares of the Company. Also, the Company retained this entity in June, 2006 to provide investor relations services in exchange for a monthly fee of C\$5,000 per month and the grant of 100,000 stock options at a price of C\$0.82 per for a period of two years (Note 9).

Included in accounts payable was \$Nil (December 31, 2005 - \$1,235) owing to directors of the Company.

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

**8. NOTES PAYABLE**

The notes payable bear interest at the rate of 12% per annum and are repayable one year from the date of issuance.

During the period ended June 30, 2006, the Company issued additional notes totalling \$128,607 (C\$ 144,000) under the same terms and conditions.

During the year ended December 31, 2005, the Company issued additional notes totalling \$259,209 (C\$315,000), repaid a US\$25,000 note and issued 54,800 common shares as a bonus to those note holders valued at \$17,755.

**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.

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

**Share consolidation**

Effective June 28, 2005, of the Company consolidated its issued and outstanding share capital on a 10:1 basis. All share and per share amounts have been restated to reflect the consolidation.

**Issuances**

During the period ended June 30, 2006, the Company issued 1,206,100 common shares pursuant to a private placement at a price of C\$0.45 per share for gross proceeds of \$474,626 (C\$542,745), 1,000,000 common shares pursuant to the exercise of warrants at a price of C\$0.12 per share for proceeds of \$106,992 (C\$120,000) and 190,000 common shares on the exercise of options for proceeds of \$17,821 (C\$19,800). Subscriptions for 11,111 additional shares in the above private placement for gross proceeds of \$4,534 (C\$5,000) were also received (subsequently issued).

During the year ended December 31, 2005, the Company completed a private placement issuing 3,365,000 units at a price of C\$0.10 per unit for gross proceeds of \$286,025 (C\$336,500), each unit consisting of one common share and one warrant to purchase one additional common share at a price of C\$0.12. The expiry date of 3,165,000 and 200,000 of the warrants is October 18, 2007 and November 18, 2007 respectively. The Company also issued 690,998 shares valued at \$73,681 in settlement of accounts payable totalling \$84,988 (C\$103,650) resulting in a gain on settlement of debt of \$11,307, and 54,800 bonus shares valued at \$17,755 relating to additional notes payable issued during the year (Note 8).

**Stock options**

The Company has a stock option plan (the "Plan") under which a maximum of 10% of the issued and outstanding shares of the Company can be reserved for issuance from time to time. 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 and have a maximum term of 5 years. Options granted either vest immediately or are subject to certain vesting requirements as determined by the Board of Directors.

During the period ended June 30, 2006, the Company granted 50,000 stock options at a price C\$0.50 per share expiring April 20, 2007, 35,000 stock options at a price of C\$0.60 expiring September 1, 2007 and 100,000 stock options at a price of C\$0.82 expiring June 7, 2008. Also, 150,000 stock options were exercised at a price of \$0.10 per share and 40,000 stock options were exercised at a price of \$0.12 per share.

During the year ended December 31, 2005, the Company granted 490,000 stock options at a price C\$0.10 per share expiring August 2, 2010 and 307,000 stock options at a price of C\$0.12 expiring November 10, 2010.

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

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, December 31, 2004	-		-
Options granted	<u>797,000</u>		0.11
Balance, December 31, 2005	797,000	C\$	0.11
Options granted	185,000		0.69
Options exercised	<u>(190,000)</u>		0.10
Balance, June 30, 2006	792,000	C\$	0.25

**Warrants**

During the period ended June 30, 2006, 1,000,000 warrants were exercised at a price of \$0.12 for gross proceeds of \$106,992 (C\$ 120,000). At June 30, 2006 there were 2,165,000 warrants outstanding to purchase common shares at a price of C\$0.12 until October 18, 2007 and 200,000 warrants outstanding to purchase common shares at a price of C\$0.12 until November 18, 2007.

**Stock-based compensation**

During the period ended June 30, 2006, the Company granted 50,000 stock options with a weighted average fair value of \$0.46 per option, 35,000 stock options with a weighted average fair value of \$0.45 per option, and 100,000 stock options with a weighted average fair value of \$0.46 per option. The options vested on the date of grant, with the exception of the 100,000 stock options which vest quarterly commencing with the date of the grant. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value of \$42,431 in the statement of operations. The amount was also recorded as contributed surplus on the balance sheet.

During the year ended December 31, 2005, the Company granted 797,000 (2004 – Nil) stock options with a weighted average fair value of \$0.10 (2004 - \$Nil) per option. The options vested on the date of grant. Accordingly, using the Black-Scholes option pricing model, the stock options are recorded at fair value of \$77,355 (2004 - \$Nil) in the statement of operations. The amount was also recorded as contributed surplus on the balance sheet.

The following assumptions were used for the Black-Scholes valuation of stock options granted:

	Weighted Average 2006 (Six months)	Weighted Average 2005 (annual)
Risk-free interest rate	4.00%	3.59%
Expected life of options	1.8 years	5 years
Annualized volatility	117.55%	206.11%
Dividend rate	0.00%	0.00%

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**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:

2006 (remaining)	\$ 18,637
2007	37,274
2008	37,274
2009	37,274
2010	<u>37,274</u>
	<u>\$ 167,733</u>

Pursuant to the acquisition of royalty rights (Note 5), the Company agreed to pay a rebate to its principal customer in the amount of \$500,000, subject to adequate future shipments of product. The full amount of this obligation had been paid as of September, 2005.

**11. CONTINGENCIES**

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. No provision for this claim has been made as of June 30, 2006.

**12. ECONOMIC DEPENDENCE AND CREDIT RISK**

The Company sells products to one customer in Japan, under a 5 year agreement which commenced in January, 2003. This customer accounts for 97% (2005 - 96%) of revenues from continuing operations and 84% (2005 - 71%) of accounts receivable. The agreement with this customer was extended through 2013.

**13. SEGMENTED INFORMATION**

The Company operates in one business segment being the sale and development of enhanced beverage products in various geographic locations.

Geographic information is as follows:

	2006	2005
<i>Period ended June 30:</i>		
Sales and royalties during the period:		
Canada (including royalties)	\$ 89,517	\$ 35,008
Japan	3,105,183	1,457,278
United States	<u>-</u>	<u>-</u>
	<u>\$ 3,194,700</u>	<u>\$ 1,492,286</u>

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**13. SEGMENTED INFORMATION (cont'd)...**

	2006	2005
<i>As at June 30:</i>		
Capital assets:		
Canada	\$ 95,928	\$ 748
Japan	-	-
United States	-	-
	<u>\$ 95,928</u>	<u>\$ 748</u>

**14. INCOME TAXES**

The reconciliation of income taxes at statutory rates is as follows for the period ended June 30:

	2006	2005
Income (loss) for the period	\$ 124,148	\$ (202,598)
Expected income tax (recovery)	\$ 42,359	\$ (72,125)
Non-deductible items	31,427	22,064
Unrecognized benefit (utilization) of non-capital losses	<u>(73,786)</u>	<u>50,061</u>
Income tax expense (current)	<u>\$ -</u>	<u>\$ -</u>

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

	June 30, 2006	December 31, 2005
Loss carryforwards		
Canadian non-capital losses	\$ 717,000	\$ 717,000
Finance costs	20,000	20,000
United States net operating losses	<u>48,000</u>	<u>32,000</u>
Total loss carryforwards	785,000	769,000
Less: valuation allowance	<u>(785,000)</u>	<u>(769,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company has available for deduction against future taxable income non-capital losses of approximately \$2,100,000. Canadian losses, if not utilized, will expire through to 2015. Future tax benefits which may arise as a result of these non-capital losses and other tax assets have not been recognized in these financial statements and have been offset by a valuation allowance.

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**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2006	2005
Cash paid during the period for interest	\$ 42,487	\$ 24,841
Cash paid during the year for income taxes	\$ -	\$ -

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During the year ended December 31, 2005, the Company issued 54,800 common shares as a bonus for notes payable issued valued at \$17,755, and 690,998 shares were issued in settlement of debts valued at \$73,681.

**16. FINANCIAL INSTRUMENTS**

The Company's financial instruments consists of cash, accounts receivable, note receivable, accounts payable and accrued liabilities, and notes payable. 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 to the timing and collectibility of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.

Currency risk:

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.

**17. SUBSEQUENT EVENTS**

Subsequent to June 30, 2006, the Company:

- a) announced its intention, subject to regulatory approval, to secure up to C\$500,000 of additional unsecured debenture financing, to which bonus shares and finder's fees may apply;
- b) advanced an additional C\$50,000 in exchange for an unsecured, non interest bearing promissory note receivable to the same borrower referred to in Note 4(b).