
AGRAPOINT INTERNATIONAL INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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Governor's Place
2nd Floor, 26 Union Street
Bedford, Nova Scotia
Canada B4A 2B5

Tel: (902) 835-7333
Fax: (902) 835-5297
E-mail: BedfordOffice@wbli.ca
www.wbli.ca

Partners
R. Brian Burgess, CA, CFI
Brad J. Langille, FCA
Jerry M. Inman, FCA, TEP
Kirk D. Higgins, CA, CFE
J. William Vienneau, CA-CBV, TEP
Robert Teale Incorporated
Gregory C. Mosher Incorporated
Stephanie M. Roberts Incorporated
Sarah J. Veinot Incorporated

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AUDITORS' REPORT

To The Shareholder of Agrapoint International Inc.

*Member of DFK
Accountancy Group
Inc. (Canada) and
DFK International*

We have audited the balance sheet of Agrapoint International Inc. as at December 31, 2006 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of operations and cash flows of the company for the year then ended, in accordance with Canadian generally accepted accounting principles.

W B L I
CHARTERED ACCOUNTANTS

Truro Office
640 Prince St., Suite 301
Truro, N.S.
Canada B2N 1G4

Bedford, Nova Scotia

February 15, 2007

Tel: (902) 897-9291
Fax: (902) 897-9293
E-mail: TruroOffice@wbli.ca
www.wbli.ca

AGRAPOINT INTERNATIONAL INC.

BALANCE SHEET

AS AT DECEMBER 31, 2006

	2006	2005
	\$	\$
A S S E T S		
CURRENT ASSETS		
Cash	161,890	118,048
Short-term investments (note 4)	240,442	275,055
Accounts receivable	421,742	174,601
HST recoverable	6,560	29,077
Inventory	1,015	2,060
Prepaid expenses	61,732	51,388
Deferred Agrifest 2006 expenses	-	79,287
	893,381	729,516
PROPERTY, PLANT AND EQUIPMENT (note 5)	228,374	241,552
LONG-TERM INVESTMENTS (note 7)	905,359	1,310,521
OTHER LONG TERM ASSETS (note 8)	-	5,136
	2,027,114	2,286,725
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	130,770	233,888
Current portion of long-term debt	5,895	18,611
Deferred revenue	550,000	512,500
Deferred Agrifest 2006 revenue	-	41,400
	686,665	806,399
DEFERRED GOVERNMENT ASSISTANCE (note 9)	18,402	30,850
LONG TERM DEBT (note 10)	-	5,895
	705,067	843,144
S H A R E H O L D E R ' S E Q U I T Y		
CAPITAL STOCK (note 11)	1	1
RETAINED EARNINGS	1,322,046	1,443,580
	1,322,047	1,443,581
	2,027,114	2,286,725
COMMITMENTS (note 12)		
APPROVED ON BEHALF OF THE BOARD		
Director	Director	

AGRAPOINT INTERNATIONAL INC.

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
	\$	(9 months) \$
RETAINED EARNINGS - beginning of year	1,443,580	1,370,851
Change in accounting policy (note 15)	42,557	-
	<u>1,486,137</u>	<u>1,370,851</u>
Net earnings (loss) for the year	<u>(164,091)</u>	<u>72,729</u>
RETAINED EARNINGS - end of year	<u>1,322,046</u>	<u>1,443,580</u>

AGRAPOINT INTERNATIONAL INC.

STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
		(9 months)
	\$	\$
REVENUE		
Consulting and fee revenue (note 13)	3,190,075	2,163,636
Other revenue	86,973	48,383
	3,277,048	2,212,019
COST OF SERVICES	844,126	627,016
	2,432,922	1,585,003
EXPENSES		
Salaries, wages and benefits	1,672,745	1,043,234
Office and administration	190,110	116,694
Amortization net of deferred government assistance (\$12,447; 2005 - \$38,577)	97,594	49,648
Occupancy	106,402	58,578
Travel	85,090	67,053
Marketing and communications	72,082	44,867
Professional fees	48,391	43,712
Dues and professional development	58,989	33,591
Board expense	38,865	32,178
Insurance	31,559	22,239
Business development	1,359	-
	2,403,186	1,511,794
EARNINGS FOR THE YEAR BEFORE OTHER ITEMS	29,736	73,209
OTHER ITEMS		
Loss on disposal of property, plant and equipment	(4,770)	(455)
Equity interest in investment	-	(25)
Net loss from Agrifest (schedule)	(189,057)	-
	(193,827)	(480)
NET EARNINGS (LOSS) FOR THE YEAR	(164,091)	72,729

AGRAPOINT INTERNATIONAL INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005
		(9 months)
	\$	\$
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Cash provided from operations		
Net earnings (loss) for the year	(164,091)	72,729
Items in earnings not involving cash		
Amortization	110,041	88,225
Amortization of deferred government assistance	(12,447)	(38,577)
Loss on disposal of property, plant and equipment	4,770	455
	(61,727)	122,832
Change in noncash working capital balances		
Accounts receivable	(247,141)	56,490
HST recoverable	22,517	(18,917)
Inventory	1,045	(1,395)
Prepaid expenses	(10,344)	(11,889)
Deferred Agrifest 2006 expenses	79,287	(79,287)
Accounts payable and accrued liabilities	(103,119)	202
Deferred Agrifest 2006 revenue	(41,400)	41,400
Deferred revenue	37,500	512,500
	(323,382)	621,936
Adjustment to opening retained earnings for change in accounting policy	42,557	-
	(280,825)	621,936
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayment of long-term debt	(18,611)	(15,422)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(101,122)	(78,460)
Proceeds on disposal of property, plant and equipment	4,625	525
Net (acquisition) disposal of long-term investments	405,162	(741,830)
Net disposal of short-term investments	34,613	63,213
Decrease in equity interest in Global Food Excellence Inc.	-	25
	343,278	(756,527)
CHANGE IN CASH DURING THE YEAR	43,842	(150,013)
CASH - beginning of year	118,048	268,061
CASH - end of year	161,890	118,048
NOTE:		
	2006	2005
	\$	\$
Interest paid	3,555	1,020

AGRAPOINT INTERNATIONAL INC.
AGRIFEST PROJECT SUMMARY SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006	2005 (9 months)
	\$	\$
REVENUE		
Sponsors	189,350	-
Event	98,167	-
	<u>287,517</u>	<u>-</u>
EXPENSES		
Administration	11,745	-
Field and crop expenses	186,632	-
Marketing and program	136,241	-
Site operations	141,956	-
	<u>476,574</u>	<u>-</u>
NET LOSS FROM AGRIFEST	<u>(189,057)</u>	<u>-</u>

AGRAPOINT INTERNATIONAL INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. NATURE OF OPERATIONS

The Agricultural Development Institute Limited was incorporated under the Nova Scotia Companies Act on August 21, 2000, and actively began providing services to the agricultural industry of Nova Scotia in April 2001. Effective October 15, 2002, the Institute changed its name to AgraPoint International Inc. AgraPoint International Inc. is a governmental unit as defined in section 74(c) of the Provincial Finance Act. AgraPoint's objectives are to provide innovative development services that empower the agri-food industry to create new value. Its three main core values are empowerment of the client, importance of rural life and commitment to the future development of the agri-food industry.

2. SIGNIFICANT ACCOUNTING POLICIES

Inventory

Inventory is valued at the lower of cost, determined on a first in, first out basis, and net realizable value.

Credit risk

The company is exposed to credit risk on the accounts receivable from its customers. In order to reduce its credit risk, the company regularly monitors the balances outstanding from its customers. The customer base is made up of individual farmers and government agencies.

The company does not have a significant exposure to any individual customer or counterpart other than the Province of Nova Scotia as discussed in note 13. The company's customers vary in size and nature. The company incurred bad debt expense in the current year of \$1,990 (2005 - \$828).

Investments

Short-term investments are classified as held for trading and are recorded at fair market value. At year end, the quoted market value was substantially the same as the cost. Unrealized gains and losses are included in net earnings for the year.

Long-term investments are comprised of fixed income bonds and investments in equities. The long-term investments have been classified as held for trading because of the activity in the portfolio that has occurred during the past two years. Unrealized gains and losses related to the long-term investments are included in net earnings for the year.

Property, plant and equipment

Property, plant and equipment are stated at cost. Amortization is provided by the diminishing balance method at the following annual rates:

Computer equipment	50%
Computer software	100%
Furniture and fixtures	20%
Leasehold improvements	20%

Amortization is calculated at one-half of the normal annual rate in the year of acquisition; no amortization is recorded in the year of disposal.

AGRAPOINT INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in significantly influenced entity

The company's investment in Global Food Excellence Inc., of which it owns 25% of the outstanding voting shares and over which it exercises significant influence, is accounted for by the equity method. Under this method, the investment is initially recorded at cost and is increased for the proportionate share of any post acquisition earnings and is decreased by any post acquisition losses and dividends received.

Other assets

Other assets are recorded at cost, and are amortized using the straight-line method over five years. Amortization is calculated at one-half of the normal annual rate in the year of acquisition; no amortization is recorded in the year of disposal.

Government assistance

Government assistance related to property, plant and equipment and other assets is deferred and amortized to earnings on the same basis as the related asset.

Revenue recognition

Revenue related to the Province of Nova Scotia's annual contribution is recognized equally over the year in which it is received.

Investment income is recognized as revenue when earned.

Consulting and fee income is recognized as revenue as it is earned.

Revenue relating to the sale of goods is recorded when the risk and rewards of ownership have been transferred, which is normally the date of shipment.

Non-monetary transactions

Non-monetary transactions are recorded at the fair value of the service provided to the company.

Financial instruments

The company's financial instruments comprise cash, short-term investments, accounts receivable, long-term investments, accounts payable and accrued liabilities and long-term debt.

Cash, accounts receivable and accounts payable and accrued liabilities are reported at their fair values on the balance sheet. The fair values are the same as the carrying values due to their short-term nature.

The fair values of short and long-term investments are disclosed in the respective notes to the financial statements.

The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements, based upon market interest rates for loans with similar conditions and maturities.

Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

AGRAPOINT INTERNATIONAL INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

3. INCOME TAXES

The company and its property are exempt from taxation under section 149(1)(e) of the Income Tax Act.

4. SHORT TERM INVESTMENTS

The short-term investments are comprised of government bonds, treasury bills and other interest bearing investments. The carrying amount of the short-term investments at the end of the year is \$240,526. The market value of the investments at the end of the prior year was \$274,954.

5. PROPERTY, PLANT AND EQUIPMENT

	2006		2005	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Computer hardware	240,123	173,355	66,768	79,340
Computer software	97,896	94,149	3,747	9,331
Furniture, fixtures and equipment	178,248	82,988	95,260	101,756
Leasehold improvements	117,470	54,871	62,599	51,125
	633,737	405,363	228,374	241,552

6. INVESTMENT IN COMPANY SUBJECT TO SIGNIFICANT INFLUENCE

	2006	2005
	\$	\$
25% Investment in Global Food Excellence Inc.	-	25
Equity in earnings (loss) since acquisition	-	(25)
	-	-

The company's share of the income of Global Food Excellence Inc. for the year ending December 31, 2006 is \$536 (2005 - loss of \$284). The company recognized a loss equal to the original investment in Global Food Excellence Inc. in its financial statements in the prior year. The cumulative loss in Global Food Excellence Inc. up to December 31, 2006 is \$2,743. The company will apply its share in the the cumulative unrecognized loss, which is \$686 against its share of future profits from Global Food Excellence Inc. Once the company's share of profits equal its share of the losses not recognized, the company will resume including its share of profits from Global Food Excellence Inc. in its earnings and increase the carrying value of its investment.

AGRAPOINT INTERNATIONAL INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

7. LONG-TERM INVESTMENTS

	2006	2005
	\$	\$
Fixed Income		
Imperial short-term bond pool is made up of bonds, debentures, notes or other debt instruments, of Canadian and non-Canadian issuers, with a remaining term to maturity of one to five years. The interest rate exposure for the top ten holdings ranges from 3.15% to 4.65% (refer to note 15).		
- at market (cost - \$134,416)	133,887	
- at cost (market - \$218,796)		221,522
Imperial Canadian bond pool is made up of bonds, debentures, notes, other debt instruments (whether secured or unsecured), preferred shares and convertible preferred shares of Canadian and non-Canadian issuers. The interest rate exposure for the top ten holdings ranges from 4.00% to 11.00% (refer to note 15).		
- at market (cost - \$228,268)	227,948	
- at cost (market - \$461,574)		459,711
	361,835	681,233
Investments in equities (refer to note 15)		
- at market (cost - \$517,263)	543,524	
- at cost (market - \$672,809)		629,288
	905,359	1,310,521

8. OTHER ASSETS

	2006		2005	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Web site development	34,215	34,215	-	5,136

AGRAPOINT INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

9. DEFERRED GOVERNMENT ASSISTANCE

	2006		2005	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Deferred government assistance	215,429	197,026	18,402	30,850

10. LONG-TERM DEBT

	2006	2005
	\$	\$
Non-interest bearing, financing of leasehold improvements, is being repaid in monthly principal instalments of \$737, matures in August 2007.	5,895	14,738
Non-interest bearing, financing of computer software, licenses and support, was being repaid in monthly instalments of \$977. This loan was repaid during the year.	-	9,768
	5,895	24,506
Less current portion	5,895	18,611
	-	5,895

The approximate principal due within the next year is as follows:

	\$
2007	5,895

AGRAPOINT INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

11. CAPITAL STOCK

	2006	2005
	\$	\$
Authorized		
1,000,000 Common shares without nominal or par value		
1,000,000 Common shares with a par value of \$1 each		
Issued		
1 Common share without nominal or par value	1	1

12. COMMITMENTS

The company is renting its office premises in both Truro and Kentville. The long-term leases expire in August 2007 and April 2012 respectively. The annual rent is \$35,472 and \$110,102 respectively.

The company is leasing office equipment expiring October 2010, January 2011 and October 2011. The annual rent is \$5,876, \$984 and \$1,616 respectively.

The Board of Directors has made a commitment to the Soil and Crop Improvement Association of Nova Scotia to provide funding for an industry nutrient management chair position at \$25,000 per year for five years commencing in the year when the position is created.

13. ECONOMIC DEPENDENCE

The company has signed a Memorandum of Understanding with the Province of Nova Scotia to provide services as described in this document for a five year period ending in 2010. The annual fee to be paid for the services performed is \$2,200,000. Due to the company changing its fiscal year end to December 31 in the prior fiscal period, the annual fee from the Province of Nova Scotia reported as revenue for the nine month period ended December 31, 2005 was \$1,650,000.

14. COMPARATIVE FIGURES

Certain comparative figures in the financial statements have been reclassified to conform with the financial statement presentation adopted for the current year. The reader should note that the amounts reported on the Statement of Earnings for the prior period cover the nine month period from April 1, 2005 to December 31, 2005 due to the company changing its fiscal year end from March 31 to December 31.

AGRAPOINT INTERNATIONAL INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

15. CHANGE IN ACCOUNTING POLICY

The company adopted the provisions of CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement on January 1, 2006 which address the classification, recognition and measurement of financial instruments.

The company is required to classify its financial assets and financial liabilities on the adoption date in one of the following categories:

- financial asset or liability held for trading
- held-to-maturity investments
- loans and receivables
- available-for-sale financial assets

The company has disclosed in the significant accounting policies note the method it will be following for recognizing and measuring financial instruments.

As a result of adopting these new standards, the company recorded an increase to its investments and its opening retained earnings of \$42,557 to record the investments held for trading at their fair market value on January 1, 2006. This adjustment reports the one-time cumulative effect of this change in accounting policy. Future adjustments due to market fluctuations will be recorded through the statement of earnings for investments held for trading as they are incurred.