## Directors Report for Technico Technologies Inc.

Your Directors present their Report, together with the Audited Financial Statements, for the financial year ended 31 March 2008.

**Directors**
The following directors held office since the start of the financial year until the date of this report, unless otherwise stated :

Mr. David McDonald
Ms. Bhavani Parameswar (appointed 7 September 2007)

**Corporate information**
Technico Technologies Inc. is a company limited by shares that is incorporated and domiciled in Canada. It is a wholly owned subsidiary of Technico Pty Ltd., a company incorporated in Australia.

The registered office of Technico Technologies Inc. is located at :

Stewart McKelvey Stirling Scales
Suite 600, Frederick Square,
77 Westmoreland
Fredericton New Brunswick
E3B 5B4 Canada

The company operates through employees engaged on contract basis with technical and management support from its parent entity.

**Principal activities**
The principal activities of your company during the financial year under review were production of TECHNITUBER® seed for sale in the North America and Canadian markets and production of early generation field seed under a joint farming arrangement with a local potato farmer.

**Review and results of operations**
The Canadian market is a mature market and long term supply relationships are difficult to break. Your company has an advantage of "speed to market" ability to introduce new varieties suitable for the region and a high quality product and this has clearly been demonstrated during the past twelve months. Acceptance has been stronger this year but it will take more time before our product gains full market recognition.

The New Brunswick government continues to fully support this project at all levels of government.

For the year under review, the net loss of the company stood at $279,366 (2007 : Loss $246,211).

No dividends have been paid or declared during the financial year.

**Auditors**
The Company has engaged M/s Teed Saunders Doyle & Co. as auditors for the year under review whose report is annexed to the financial report.

**Significant events after balance sheet date**
On 7 April 2008, the local potato farmer with whom your Company had joint farming arrangement died unexpectedly. At the time of this report, management is reviewing the options to identify a suitable replacement for continuing with the joint farming arrangement.

**Future developments and results**
Your company's early generation seed continues to show its superior quality and although volumes to date are small, interest has been stronger for the product. The future focus of this business will be to build on the reputation of its technology and isolated seed production environment. The company will also focus more of its attention to new and upcoming varieties that are emerging in the North American market.

**Environmental regulation and performance**
Your company is not subject to any particular or significant environmental regulation.

Place : Hoyt, New Brunswick, Canada
Date : 14 April 2008

D McDonald
*Director*

## AUDITOR'S REPORT

To the Shareholder of Technico Technologies Inc.

We have audited the balance sheet of Technico Technologies Inc. as at March 31, 2008 and the statements of income, 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 March 31, 2008 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year's financial statements are unaudited.

Place : Fredericton, NB
Date : April 14, 2008

Teed Saunders Doyle & Co.
*Chartered Accountants*

## BALANCE SHEET AS AT MARCH 31, 2008

| | 2008 $ | 2008 Rs. | (Unaudited) 2007 $ | (Unaudited) 2007 Rs. |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash | 974 | 38,295 | 1,141 | 42,513 |
| Accounts receivable | 3,919 | 154,085 | 7,451 | 277,610 |
| Inventory | 218,288 | 8,582,538 | 257,067 | 9,577,828 |
| Prepaid expenses | 4,032 | 158,528 | 2,449 | 91,245 |
| | 227,213 | 8,933,446 | 268,108 | 9,989,196 |
| **Capital Assets (note 3)** | 278,679 | 10,956,962 | 338,338 | 12,605,831 |
| **Technology License (note 4)** | — | — | 90,000 | 3,353,229 |
| | 505,892 | 19,890,408 | 696,446 | 25,948,256 |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued liabilities | 26,533 | 1,043,210 | 25,878 | 964,165 |
| Current portion of long-term debt | 46,667 | 1,834,830 | 10,000 | 372,581 |
| Deferred revenue | 17,000 | 668,398 | 29,489 | 1,098,704 |
| Demand loan (note 5) | 365,000 | 14,350,888 | 365,000 | 13,599,207 |
| | 455,200 | 17,897,326 | 430,367 | 16,034,657 |
| **Due To Technico Pty Limited (Australia) (note 7)** | 435,771 | 17,133,426 | 325,125 | 12,113,540 |
| **Long-Term Debt (note 6)** | 774,099 | 30,435,637 | 820,766 | 30,580,182 |
| | 1,665,070 | 65,466,389 | 1,576,258 | 58,728,379 |
| **SHAREHOLDERS' EQUITY** | | | | |
| **Capital Stock (note 9)** | 410,000 | 16,120,175 | 410,000 | 15,275,821 |
| **Deficit** | (1,569,178) | (61,696,156) | (1,289,812) | (48,055,944) |
| | (1,159,178) | (45,575,981) | (879,812) | (32,780,123) |
| | 505,892 | 19,890,408 | 696,446 | 25,948,256 |

Approved By The Board :

D McDonald *Director*

## STATEMENT OF RETAINED EARNINGS (DEFICIT) FOR THE YEAR ENDED MARCH 31, 2008

| | 2008 $ | 2008 Rs. | (Unaudited) 2007 $ | (Unaudited) 2007 Rs. |
|---|---|---|---|---|
| **Deficit At Beginning Of Year** | (1,289,812) | (48,055,944) | (1,043,601) | (39,893,892) |
| **Net Loss For The Year** | (279,366) | (10,696,309) | (246,211) | (9,292,643) |
| **Change In Unrealized Foreign Exchange During The Year** | — | (2,943,902) | — | 1,130,591 |
| **Deficit At End Of Year** | (1,569,178) | (61,696,155) | (1,289,812) | (48,055,944) |

## STATEMENT OF INCOME (LOSS) FOR THE YEAR ENDED MARCH 31, 2008

| | 2008 $ | 2008 Rs. | (Unaudited) 2007 $ | (Unaudited) 2007 Rs. |
|---|---|---|---|---|
| **Sales** | 179,890 | 6,887,592 | 97,260 | 3,670,845 |
| **Cost Of Sales** | 214,817 | 8,224,870 | 102,689 | 3,875,750 |
| **Gross Profit (Loss)** | (34,927) | (1,337,278) | (5,429) | (204,905) |
| **Expenses** | | | | |
| Advertising | 1,870 | 71,598 | 15,456 | 583,350 |
| Amortization | 111,648 | 4,274,755 | 35,287 | 1,331,823 |
| Bad debt expense | — | — | 1,200 | 45,291 |
| Foreign exchange losses | 8,421 | 322,422 | 31,346 | 1,183,080 |
| Insurance | 7,709 | 295,161 | 1,690 | 63,785 |
| Interest and bank charges | 18,221 | 697,642 | 24,529 | 925,788 |
| Interest on long-term debt | 46,686 | 1,787,504 | 45,173 | 1,704,946 |
| Occupancy costs | 5,716 | 218,853 | 1,137 | 42,913 |
| Office and supplies | 2,877 | 110,154 | 1,794 | 67,710 |
| Professional services | 10,437 | 399,610 | 3,752 | 141,610 |
| Repairs and maintenance | 3,494 | 133,778 | 738 | 27,854 |
| Staff training | 3,405 | 130,370 | 3,849 | 145,271 |
| Telephone | 4,937 | 189,027 | 8,816 | 332,739 |
| Vehicle and travel expenses | 6,463 | 247,454 | 11,041 | 416,716 |
| Wages and benefits | 12,555 | 480,703 | 54,974 | 2,074,862 |
| | 244,439 | 9,359,031 | 240,782 | 9,087,738 |
| **Net Loss For The Year** | (279,366) | (10,696,309) | (246,211) | (9,292,643) |

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2008

| | 2008 $ | 2008 Rs. | (Unaudited) 2007 $ | (Unaudited) 2007 Rs. |
|---|---|---|---|---|
| **Cash Provided By (Required for) :** | | | | |
| **Operating Activities** | | | | |
| Net loss for the year | (279,366) | (10,696,310) | (246,211) | (9,292,643) |
| Items not affecting cash | | | | |
| Amortization of capital assets | 21,648 | 828,854 | 20,287 | 765,684 |
| Amortization of technology license | 90,000 | 3,445,902 | 15,000 | 566,139 |
| Amortization capitalized to inventory | 41,046 | 1,571,561 | 40,877 | 1,542,804 |
| | (126,672) | (4,849,993) | (170,047) | (6,418,016) |
| Changes in non-cash operating working capital (note 10) | 28,894 | 1,136,041 | (93,597) | (3,487,246) |
| | (97,778) | (3,713,952) | (263,644) | (9,905,262) |
| **Investing Activities** | | | | |
| Purchase of capital assets | (3,035) | (119,329) | (22,868) | (852,018) |
| **Financing Activities** | | | | |
| Demand loan | — | — | 65,000 | 2,421,777 |
| Proceeds on long-term debt | — | — | 66,659 | 2,565,976 |
| Repayment of long-term debt | (10,000) | (421,261) | — | — |
| Due to Technico Pty Limited (Australia) | 110,646 | 4,250,324 | 154,854 | 5,769,566 |
| | 100,646 | 3,829,063 | 286,513 | 10,757,319 |
| **Increase (Decrease) In Cash During The Year** | (167) | (4,218) | 1 | 39 |
| **Cash Position At Beginning Of Year** | 1,141 | 42,513 | 1,140 | 42,474 |
| **Cash Position At End Of Year** | 974 | 38,295 | 1,141 | 42,513 |
| **Supplementary Cash Flow Information** | | | | |
| Interest paid during the year | 64,908 | 2,552,020 | 69,702 | 2,596,964 |

**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED MARCH 31, 2008**

**1. Nature of Business Activities**

The company is a wholly-owned subsidiary of Technico Pty Limited (Australia) and produces early generation seed potatoes for the North American Market.

**2. Significant Accounting Policies**

Basis of Presentation

The financial statements of the company are prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern and are represented in Canadian dollars. Because of significant financial losses of the past several years and the loss of an important partner subsequent to year-end, the company's continuance as a going concern is dependent on adequate re-financing of existing loans, additional investment of the parent company and improved levels of profitability.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset and liability amounts that might be necessary should the company be unable to continue in existence.

The financial statements include Indian Rupee equivalent figures, arrived at by applying the year-end exchange rate of CAD $1 = Rs. 39.3175 (2007 – CAD $1 = Rs. 37.2581) to the balance sheet and the average annual exchange rate of CAD $1 = Rs. 38.2878 (2007 – CAD $1 = Rs. 37.7426) to the income statement as provided by the parent company.

Use of Estimates

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

Financial Instruments

The carrying values of cash, accounts receivable and accounts payable and other liabilities approximate fair values due to the short-term maturity of these instruments. The carrying amount of long-term debt approximates its fair value because the interest rates are close to market rates. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from financial instruments.

Income taxes

The company uses the asset and liability method to account for income taxes. Under this method, current income taxes are recognised for the estimated income taxes payable for the current year. Future income tax assets and liabilities for financial reporting purposes compared with tax purposes as well as the benefit of losses available to be carried forward to future years for tax purposes. A valuation allowance is recorded to reduce future income tax assets to the amount more likely than not to be realized.

Inventory

Inventory is valued at the lower of production cost and net realizable value. Inventory includes capitalized amortization of $41,046 (2007 – $40,877).

Revenue

Revenue is recognized when products are delivered to the customer and ultimate collection is reasonably assured.

Amortization

Amortization of capital assets is recorded using the declining balance method at the following annual rates:

| | |
|---|---|
| Buildings | 4% |
| Equipment | 20% |

Amortization of the technology license is recorded using the straight-line method over ten years.

**3. Capital Assets**

| | Cost $ | Accumulated Amortization $ | 2008 Net $ | (Unaudited) 2007 Net $ |
|---|---|---|---|---|
| Land | 33,239 | — | 33,239 | 33,239 |
| Buildings | 285,348 | 130,616 | 154,732 | 182,093 |
| Equipment | 233,326 | 142,618 | 90,708 | 123,006 |
| | 551,913 | 273,234 | 278,679 | 338,338 |

| | Cost Rs. | Accumulated Amortization Rs. | 2008 Net Rs. | (Unaudited) 2007 Net Rs. |
|---|---|---|---|---|
| Land | 1,306,874 | — | 1,306,874 | 1,238,422 |
| Buildings | 11,219,170 | 5,135,495 | 6,083,675 | 6,784,439 |
| Equipment | 9,173,796 | 5,607,383 | 3,566,413 | 4,582,970 |
| | 21,699,840 | 10,742,878 | 10,956,962 | 12,605,831 |

**4. Technology License**

Management has written-down the technology license asset to $nil during the year due to a permanent decline in fair value by recording amortization of $90,000 (2007 – $15,000).

**5. Demand Loan**

The company has a revolving line of credit to a limit of $375,000 at bank prime plus 1%, secured by a first charge on inventory, a general security agreement and a loan guarantee of the Province of New Brunswick until August 31, 2011.

**6. Long-Term Debt**

| | 2008 $ | 2008 Rs. | (Unaudited) 2007 $ | (Unaudited) 2007 Rs. |
|---|---|---|---|---|
| Non-interest bearing loan payable to the Atlantic Canada Opportunities Agency in annual installments of $10,000, $10,000, $60,000, $100,000 and $90,766, unsecured, due August 2012. | 270,766 | 10,645,842 | 280,766 | 10,460,808 |
| Loan payable to Royal Bank of Canada in annual installments of $36,667 plus interest at 9.60%, secured by a mortgage on land and buildings and a loan guarantee of the Province of New Brunswick until 31st August, 2011. | 550,000 | 21,624,625 | 550,000 | 20,491,955 |
| | 820,766 | 32,270,467 | 830,766 | 30,952,763 |
| Less current portion | 46,667 | 1,834,830 | 10,000 | 372,581 |
| | 774,099 | 30,435,637 | 820,766 | 30,580,182 |

Principal repayment of long-term debt over the next five years is as follows:

| | $ | Rs. |
|---|---|---|
| 2009 | 46,667 | 1,834,830 |
| 2010 | 46,667 | 1,834,830 |
| 2011 | 90,667 | 3,564,800 |
| 2012 | 136,667 | 5,373,405 |
| 2013 | 127,433 | 5,010,347 |
| | 448,101 | 17,618,212 |

**7. Due to Technico Pty Limited (Australia)**

The loan payable to the parent company is non-interest bearing and unsecured with no specified repayment terms.

**8. Income Taxes**

A valuation allowance has been recorded to reduce the company's future income tax assets to $nil. The company has non-capital losses for income tax purposes of $1,574,109 which may be carried forward to reduce taxable income in future years. If not applied against taxable income, the non-capital losses will expire as follows:

| | $ | Rs. |
|---|---|---|
| 2010 | 7,401 | 290,989 |
| 2014 | 381,107 | 14,984,174 |
| 2015 | 320,732 | 12,610,380 |
| 2026 | 366,483 | 14,409,195 |
| 2027 | 283,750 | 11,156,341 |
| 2028 | 214,636 | 8,438,951 |
| | 1,574,109 | 61,890,030 |

The company has investment tax credits of $30,490 available to reduce taxes payable of future years. The benefit of investment tax credits and non-capital losses carried forward have not been recorded in the financial statements due to the uncertaintly that may never be realized.

## 9. Capital Stock

| | 2008 $ | 2008 Rs. | (Unaudited) 2007 $ | (Unaudited) 2007 Rs. |
|---|---|---|---|---|
| **Authorized** | | | | |
| An unlimited number of common shares | | | | |
| **Issued** | | | | |
| 1 Common Share | 410,000 | 16,120,175 | 410,000 | 15,275,821 |

## 10. Changes In Non-Cash Operating Working Capital

| | 2008 $ | 2008 Rs. | (Unaudited) 2007 $ | (Unaudited) 2007 Rs. |
|---|---|---|---|---|
| Accounts receivable | 3,532 | 138,869 | 2,892 | 107,750 |
| Inventory | 38,779 | 1,524,693 | (119,900) | (4,467,246) |
| Prepaid expenses | (1,583) | (62,240) | 4,852 | 180,776 |
| Accounts payable and accrued liabilities | 655 | 25,755 | 1,450 | 54,025 |
| Deferred revenue | (12,489) | (491,036) | 17,109 | 637,449 |
| | 28,894 | 1,136,041 | (93,597) | (3,487,246) |