

**THE SPICE DEPOT, INC.**  
**(A Development Stage Company)**

Consolidated Financial Statements  
(Expressed in U.S. Dollars)  
**April 30, 2008 and 2007**

**REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of  
The Spice Depot, Inc.

We have audited the accompanying consolidated balance sheets of The Spice Depot, Inc. as at April 30, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended and for the period from the date of inception on April 1, 2004 to April 30, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at April 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended and for the period from the date of inception on April 1, 2004 to April 30, 2008 in conformity with generally accepted accounting principles in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company is dependent upon financing to continue operations, has suffered recurring losses from operations, and has a working capital deficit as of April 30, 2008. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

December 5, 2008



# THE SPICE DEPOT, INC. (A Development Stage Company)

Consolidated Balance Sheets

(Expressed in U.S. Dollars)

As at April 30

	2008	2007
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 41,879	\$ 44,139
Accounts receivable (note 3)	240,606	57,988
Inventory (note 4)	883,888	380,905
<b>Total Current Assets</b>	<b>1,166,373</b>	<b>483,032</b>
<b>Property, plant and equipment (note 6)</b>	<b>7,014</b>	<b>-</b>
<b>Trademarks (note 5)</b>	<b>71,107</b>	<b>48,592</b>
<b>Total Assets</b>	<b>\$ 1,244,494</b>	<b>\$ 531,624</b>
<b><u>Liabilities and Stockholders' Deficit</u></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 494,877	\$ 180,259
Short-term convertible notes payable (note 9)	1,440,312	146,483
Due to related parties (note 8(b))	407,121	391,255
<b>Total Current Liabilities</b>	<b>\$ 2,342,310</b>	<b>\$ 717,997</b>
<b>Stockholders' Deficit (note 10)</b>		
Common stock, \$0.001 par value, 100,000,000 shares authorized; 8,436,503 (2007 – 8,436,503) shares issued and outstanding	8,437	8,437
Preferred "A" stock, \$0.001 par value, 7,000,000 shares authorized; 1,715,000 (2007 – 240,000) shares issued and outstanding (note 10(b))	1,715	240
Preferred "B" stock, \$0.001 par value, 500,000 shares authorized; 121,590 (2007 – 121,590) shares issued and outstanding (note 10(b))	122	122
Additional paid-in capital	1,649,996	1,503,971
Funds received in advance of share subscription (note 13)	602,889	-
Deficit, accumulated in the development stage	(3,360,975)	(1,699,143)
<b>Total Stockholders' Deficit</b>	<b>(1,097,816)</b>	<b>(186,373)</b>
<b>Total Liabilities and Stockholders' Deficit</b>	<b>\$ 1,244,494</b>	<b>\$ 531,624</b>

**Nature and Continuance of Operations (note 1)**

**Commitments and Contingencies (note 7)**

**Subsequent Events (note 13)**

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

# THE SPICE DEPOT, INC. (A Development Stage Company)

## Consolidated Statements of Operations

(Expressed in U.S. Dollars)

	<b>For the period from the date of inception on April 1, 2004 to April 30, 2008</b>	<b>Year ended April 30, 2008</b>	<b>Year ended April 30, 2007</b>
<b>Sales</b>	\$ 610,472	\$ 473,951	\$ 130,866
<b>Cost of sales</b>	909,673	734,336	172,308
<b>Gross profit (loss)</b>	<u>(299,201)</u>	<u>(260,385)</u>	<u>(41,442)</u>
<b>Selling, General and Administrative Expenses</b>			
Advertising	220,905	95,309	87,289
Bad debts (note 3)	17,215	14,605	2,610
Consulting fees	1,404,905	507,176	348,469
Legal and accounting	375,271	185,098	149,216
Office expense	260,861	146,137	105,833
Product development	143,307	48,013	54,062
Rent	119,570	51,661	31,909
Stock based compensation (note 10(d))	157,500	147,500	10,000
Travel	186,700	113,946	51,816
Warehouse charges	71,498	33,142	36,669
<b>Total operating expenses</b>	<u>2,957,732</u>	<u>1,342,587</u>	<u>877,873</u>
<b>Loss before other items</b>	<u>(3,256,933)</u>	<u>(1,602,972)</u>	<u>(919,315)</u>
<b>Other</b>			
Foreign exchange gain (loss)	16,527	46,919	(19,035)
Interest expense	(120,569)	(105,779)	(13,131)
	<u>(104,042)</u>	<u>(58,860)</u>	<u>(32,166)</u>
<b>Loss for the period</b>	<u>\$ (3,360,975)</u>	<u>\$ (1,661,832)</u>	<u>\$ (951,481)</u>
Basic and diluted loss per common share		\$ <u>(0.20)</u>	\$ <u>(0.13)</u>
Weighted average common shares outstanding		<u>8,436,503</u>	<u>7,143,294</u>

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

# THE SPICE DEPOT, INC. (A Development Stage Company)

## Consolidated Statements of Cash Flows

(Expressed in U.S. Dollars)

	For the period from the date of inception on April 1, 2004 to April 30, 2008	Year ended April 30, 2008	Year ended April 30, 2007
<b>Operating Activities</b>			
Net loss	\$ (3,360,975)	\$ (1,661,832)	\$ (951,481)
Adjustments to reconcile net loss to net cash used in operating activities:			
Bad debt expense (note 3)	17,215	14,605	2,610
Stock based compensation	157,500	147,500	10,000
Changes in operating assets and liabilities			
Increase in accounts receivable	(257,821)	(197,223)	(52,736)
Increase in inventory	(883,888)	(502,983)	(192,283)
Accrual of goods and services received	63,138	-	63,138
Accrued interest payable (note 9)	122,892	106,659	16,233
Increase in accounts payable and accrued liabilities	497,043	314,618	127,096
Increase in accounts payable to related parties	407,107	153,036	254,071
<b>Net Cash Used in Operating Activities</b>	<u>(3,237,789)</u>	<u>(1,625,620)</u>	<u>(723,352)</u>
<b>Investing Activities:</b>			
Purchase of property plant and equipment (note 6)	(7,014)	(7,014)	-
Expenses capitalized for trademarks (note 5)	(71,107)	(22,515)	(23,577)
<b>Net Cash Used in Investing Activities</b>	<u>(78,121)</u>	<u>(29,529)</u>	<u>(23,577)</u>
<b>Financing Activities:</b>			
Proceeds from issuance of stock	1,461,770	-	691,000
Proceeds from issuance of convertible notes	1,229,725	1,050,000	20,250
Repayment of convertible notes	(11,092)	-	(11,092)
Advances from related parties	74,032	-	74,032
Funds received in advance of share subscription (note 13)	602,889	602,889	-
<b>Net Cash Provided by Financing Activities</b>	<u>3,357,324</u>	<u>1,652,889</u>	<u>774,190</u>
<b>Increase (decrease) in cash and cash equivalents</b>	41,414	(2,260)	27,261
<b>Cash and cash equivalents, beginning of period</b>	<u>465</u>	<u>44,139</u>	<u>16,878</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 41,879</u>	<u>\$ 41,879</u>	<u>\$ 44,139</u>

Supplemental disclosure with respect to cash flows (note 11)

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

## THE SPICE DEPOT, INC. (A Development Stage Company)

Consolidated Statements of Stockholders' Equity (Deficit)

(Expressed in US Dollars)

Description	Common		Preferred "A"		Preferred "B"		Additional Paid-in Capital	Funds Received in Advance	Deficit Accumul- ated in the Develop- ment Stage	Total
	Shares Out- standing	Amount	Shares Out- standing	Amount	Shares Out- standing	Amount				
<b>Balance as at April 1, 2004 (inception)</b>	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss for the period	-	-	-	-	-	-	-	-	(1,000)	(1,000)
<b>Balance as at April 30, 2004</b>	-	-	-	-	-	-	-	-	(1,000)	(1,000)
Shares issued for cash	349,811	350	-	-	121,590	122	500,381	-	-	500,853
Shares issued for services	3,875,000	3,875	240,000	240	-	-	13,785	-	-	17,900
Net loss for the year	-	-	-	-	-	-	-	-	(261,439)	(261,439)
<b>Balance as at April 30, 2005</b>	4,224,811	4,225	240,000	240	121,590	122	514,166	-	(262,439)	256,314
Shares issued for cash	935,025	935	-	-	-	-	251,082	-	-	252,017
Net loss for the year	-	-	-	-	-	-	-	-	(485,223)	(485,223)
<b>Balance as at April 30, 2006</b>	5,159,836	5,160	240,000	240	121,590	122	765,248	-	(747,662)	23,108
Shares issued for redemption of convertible debt	34,167	34	-	-	-	-	40,966	-	-	41,000
Shares issued for cash	2,992,500	2,993	-	-	-	-	688,007	-	-	691,000
Stock based compensation	250,000	250	-	-	-	-	9,750	-	-	10,000
Net loss for the year	-	-	-	-	-	-	-	-	(951,481)	(951,481)
<b>Balance as at April 30, 2007</b>	8,436,503	8,437	240,000	240	121,590	122	1,503,971	-	(1,699,143)	(186,373)
Stock based compensation	-	-	1,475,000	1,475	-	-	146,025	-	-	147,500
Cash received in advance of shares subscriptions	-	-	-	-	-	-	-	602,889	-	602,889
Net loss for the year	-	-	-	-	-	-	-	-	(1,661,832)	(1,661,832)
<b>Balance as at April 30, 2008</b>	8,436,503	\$ 8,437	1,715,000	\$1,715	121,590	\$ 122	\$ 1,649,996	\$602,889	\$(3,360,975)	\$ (1,097,816)

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

# THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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## 1. Nature and Continuance of Operations

The Spice Depot, Inc. (the "Company") was incorporated under the laws of the State of Colorado on April 1, 2004 and re-domiciled to the State of Nevada on February 4, 2005 to undertake the marketing, importing and processing of a wide variety of premium spices throughout the United States and Canada.

The Company's financial statements as at April 30, 2008 and 2007, and for the years then ended, and for the period from inception on April 1, 2004 to April 30, 2008 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, as shown in the accompanying consolidated financial statements, the Company has sustained substantial losses from operations since inception. In addition, the Company has used, rather than provided, cash in its operations. As of April 30, 2008, the Company has utilized all of its available funding. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern. It is management's plan in this regard to obtain additional working capital through equity financing. The Company is considered to be in the development stage.

	2008	2007
Working capital (deficiency)	\$ (1,175,937)	\$ (234,965)
Deficit accumulated in the development stage	(3,360,975)	(1,699,143)

## 2. Summary of Significant Accounting Policies

### Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States, and are expressed in U.S. dollars. The Company is a development stage company as defined by Statement of Financial Accounting Standard ("SFAS") No. 7, "Accounting and Reporting by Development Stage Enterprises". The Company's fiscal year end is April 30.

### Principles of consolidation

The consolidated financial statements include the accounts of The Spice Depot, Inc. and its wholly owned subsidiary, Spice Depot (Canada), Inc. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from these estimates.

# **THE SPICE DEPOT, INC. (A Development Stage Company)**

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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## **2. Summary of Significant Accounting Policies (cont'd...)**

### **Cash and cash equivalents**

For the purpose of reporting within the statement of cash flows, the Company considers all cash on hand, cash accounts not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less with an insignificant risk of loss in value to be cash and cash equivalents. As of April 30, 2008 and 2007, cash and cash equivalents consists of cash on hand only.

### **Financial instruments**

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of the short maturity of these instruments. The Company's operations are in Canada and virtually all of its assets and liabilities are giving rise to significant exposure to market risks from changes in foreign currency rates. The Company's financial risk is the risk that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

### **Accounts receivable, net of allowance for doubtful accounts**

Accounts receivable are recorded at face value less an allowance for doubtful accounts. The allowance for doubtful accounts is an estimated amount based on an analysis of current business and economic risks, customer credit-worthiness and specific identifiable risks that may indicate a potential loss. The allowance is reviewed regularly to ensure that it adequately provides for all reasonably expected losses.

### **Inventory**

Inventory consists primarily of raw materials for bottled spices and finished products. As the production cycle is very short, the Company does not have work in progress inventory. Inventories are stated at the lower of cost or market as determined by the average cost method. Allowance for slow-moving items and obsolescence is an estimated amount based on an analysis of current business and economic risks, the duration of inventories held and other specific risks that may indicate a potential loss. The allowance is reviewed regularly to ensure that it adequately provides for all reasonable expected losses.

### **Property, plant and equipment**

Property, plant and equipment are recorded at cost. Significant additions and improvements are capitalized while repairs and maintenance are charged to expenses as incurred. Amortization of property, plant and equipment is based on the estimated useful life of the assets. Amortization is recognized using the straight line method over the following estimated useful life:

Office Equipment – 5 years

# **THE SPICE DEPOT, INC. (A Development Stage Company)**

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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## **2. Summary of Significant Accounting Policies (cont'd...)**

### **Trademarks**

Trademarks are initially recorded at cost. The Company determined that its trademarks meet the definition of indefinite-lived intangible assets under SFAS No. 142 "Goodwill and Other Intangible Assets" because the Company expects to renew the trademarks for the foreseeable future by a nominal fee.

### **Impairment of indefinite-lived intangible assets**

In accordance with SFAS No. 142, the Company assesses potential impairments to its indefinite-lived intangible assets, including trademarks, annually to determine whether there is evidence that events or changes in circumstances indicate that an impairment in the assets exist. An impairment loss is recognized when the fair value of the asset is less than its carrying value, and would be measured as the amount by which the asset's carrying value exceeds its fair value. Any required impairment loss would be recorded as a reduction in the carrying value of the related asset and charged to the results of operations. At April 30, 2008 and 2007, it was determined that there were no impairments that affect the carrying value of the Company's trademarks.

### **Convertible Debt**

The Company accounts for the issuance of and modifications to the convertible debt issued with stock purchase warrants in accordance with APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", EITF No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", and EITF No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" and SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings".

### **Revenue recognition**

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements". Revenues are recognized when all of the following criteria have been met: persuasive evidence for an arrangement exists; delivery has occurred; the fee is fixed or determinable; and collection is reasonably assured.

### **Shipping and handling costs**

The Company incurs certain expenses related to preparing, packaging and shipping its products to its customers, mainly third-party transportation fees. All costs related to these activities are included as a component of cost of goods sold in the consolidated statement of operations. All costs billed to the customer are included as revenue in the consolidated statement of operations.

## **THE SPICE DEPOT, INC. (A Development Stage Company)**

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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### **2. Summary of Significant Accounting Policies (cont'd...)**

#### **Stock based compensation**

The Company accounts for stock based compensation in accordance with SFAS No. 123(R), "Share-Based Payment". SFAS No.123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed.

#### **Income taxes**

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109 "Accounting for Income Taxes" as of its inception. Pursuant to SFAS No. 109, the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

#### **Basic and diluted net loss per share**

The Company computes net loss per share in accordance with SFAS No. 128, "*Earnings per Share*" ("SFAS 128"). SFAS 128 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the statement of operations. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all potentially dilutive shares if their effect is anti-dilutive.

#### **Comprehensive loss**

SFAS No. 130, "Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at April 30, 2008 and 2007, comprehensive loss consisted of the net loss.

#### **Segments of an enterprise and related information**

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" establishes standards for the way that public companies report information about operating segments in annual financial statements. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS No. 131 defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has evaluated this SFAS and does not believe it is applicable at this time.

# **THE SPICE DEPOT, INC. (A Development Stage Company)**

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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## **2. Summary of Significant Accounting Policies (cont'd...)**

### **Start-up expenses**

The Company has adopted Statement of Position No. 98-5, "*Reporting the Costs of Start-up Activities*", which requires that costs associated with start-up activities be expensed as incurred. Accordingly, start-up costs associated with the Company's formation have been included in the Company's general and administrative expenses for the period from the date of inception on April 1, 2004 to April 30, 2008.

### **Foreign currency translation**

These consolidated financial statements are presented in United States dollars, the functional currency of the Company. The Company accounts for foreign currency transactions and translation of foreign currency financial statements under SFAS No. 52, "Foreign Currency Translation". Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the rates approximating those on the transaction date. Translation gains and losses are included in the statement of operations.

### **Recent accounting pronouncements**

In February, 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 159 on our financial position and results of operations, but do not anticipate a material impact.

On December 4, 2007, the FASB issued SFAS No. 160, "*Non-controlling interest in Consolidated Financial Statements*". SFAS No. 160 requires all entities to report non-controlling (minority) interests in subsidiaries as equity in the consolidated financial statements. The statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation and expands disclosures in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company has not yet determined the impact of the adoption of SFAS No. 160 on its consolidated financial statements and footnote disclosures.

On December 4, 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*". SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed, establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to expand disclosures about the nature and financial effect of the business combination. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The company has not yet determined the impact of the adoption of SFAS No. 141(R) on its consolidated financial statements and footnote disclosures.

## THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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### 2. Summary of Significant Accounting Policies (cont'd...)

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities*". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact of adopting SFAS No. 161 on its consolidated financial statements.

In April 2008, the FASB issued Staff Position FAS 142-3, "*Determination of the Useful Life of Intangible Assets*". (FSP FAS No. 142-3) which amends the factors an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, "*Goodwill and Other Intangible Assets*" (FAS No. 142). FSP FAS 142-3 applies to intangible assets that are acquired individually or with a group of assets and intangible assets acquired in both business combinations and asset acquisitions. It removes a provision under FAS No. 142, requiring an entity to consider whether a contractual renewal or extension clause can be accomplished without substantial cost or material modifications of the existing terms and conditions associated with the asset. Instead, FSP FAS 142-3 requires that an entity consider its own experience in renewing similar arrangements. An entity would consider market participant assumptions regarding renewal if no such relevant experience exists. FSP FAS 142-3 is effective for year ends beginning after December 15, 2008 with early adoption prohibited. The Company has not yet determined the effect, if any, of the adoption of this statement on its financial condition or results of operations.

In February 2008, the FASB issued staff position FSP 157-2, "*Effective Date of FAS 157*", which delays the effective date of FAS 157, fair value measurements, for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 is effective for year ends beginning after November 15, 2008. The Company has not yet determined the effect, if any, of the adoption of this statement on its financial condition or results of operations.

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" or SFAS No. 162. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with GAAP. This statement shall be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU section 411, "*The meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*". The Company does not believe that implementation of this standard will have a material impact on the Company's financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP No. EITF 03-6-1, "*Determining Whether Instruments Granted in Share Based Payment Transactions are Participating Securities*," (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. Management has determined that adoption of FSP EITF 03-6-1 will not have an impact on the financial statements.

## THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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### 3. Accounts Receivable, Net of Allowance for Doubtful Accounts

	2008	2007
Accounts receivables	\$ 257,821	\$ 60,598
Allowance for doubtful accounts	<u>(17,215)</u>	<u>(2,610)</u>
Accounts receivables net of allowance for doubtful accounts	<u>\$ 240,606</u>	<u>\$ 57,988</u>

  

	2008	2007
Allowance for doubtful accounts, beginning balance	\$ 2,610	\$ -
Bad debt expense charged during the year	<u>14,605</u>	<u>2,610</u>
Allowance for doubtful accounts	<u>\$ 17,215</u>	<u>\$ 2,610</u>

### 4. Inventory

At April 30, 2008 and 2007, inventories consisted of the following:

	2008	2007
Raw materials	\$ 527,445	\$ -
Finished products	<u>356,443</u>	<u>380,905</u>
Total	<u>\$ 883,888</u>	<u>\$ 380,905</u>

### 5. Trademarks

	2008	2007
Balance, beginning of the year	\$ 48,592	\$ 25,015
Addition during the year	<u>22,515</u>	<u>23,577</u>
Balance, end of the year	<u>\$ 71,107</u>	<u>\$ 48,592</u>

### 6. Property, Plant and Equipment

The Company purchased \$7,014 of office equipment during the year ended April 30, 2008. No amortization was recorded, as the office equipment was purchased in the last month of the year ended April 30, 2008 and the amount was insignificant.

### 7. Commitment and Contingency

The Company does not have any commitments or contractual obligations due beyond one year.

# THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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## 8. Related Party Transactions

(a) Included in short term convertible notes payable (note 9) is \$793,176 (2007 - \$145,840) including \$75,756 (2007 - \$15,630) of accrued interest owing to directors, significant shareholders and companies related to such persons.

(b) Included in due to related parties are:

	2008	2007
i. Payables to directors, a significant shareholder of the Company, and companies or firms related to such persons with respect to legal fees, consulting fees and expenses. These amounts have no stated repayment terms and are non interest bearing.	\$ 407,121	\$ 254,085
ii. Advance to the Company by directors and a significant shareholder of the Company. In May 2007, the funds advanced were converted to convertible promissory notes (note 9(c)). No interest was accrued with respect to the advance.	<u>-</u>	<u>137,170</u>
Total due to related parties	\$ <u>407,121</u>	\$ <u>391,255</u>

(c) The following transactions with related parties, were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties:

i. \$58,701 (2007 - \$52,789) in legal fees to a law firm in which a partner is a director of the Company.

ii. \$120,000 (2007- \$120,000) in consulting fees to an officer who is also a director of the Company.

iii. \$221,701 (2007 - \$15,660) in consulting and accounting fees to a company in which an officer, who is also a director of the Company, has a significant interest in.

# THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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## 9. Short-term Convertible Notes Payable

	2008	2007
(a) In April 2006, the Company issued 151 convertible debenture notes, with a face value of \$1,000, at a simple interest rate of 12% per annum, due on or before April 30, 2007 for total proceeds of \$151,000. The notes are unsecured with no stated default terms. Each debenture note is convertible at the holder's election, into 833 units, whereby each unit consists of one share of the Company's common stock and a ½ warrant, whereby a full warrant entitles the holder to purchase an additional share of common stock at a pre-determined price of \$2.40 per share on or before February 15, 2008.	\$ 110,000	\$ 151,000
In June 2006, 41 convertible notes were converted to 34,167 units. As a result, 34,167 shares of the Company's common stock, and 17,083 warrants were issued, the warrants expired in February 2008. (notes 10(a)(ii) and 10(c))	<u>-</u>	<u>(41,000)</u>
Total convertible debenture notes issued in April 2006 less redemption	110,000	110,000
(b) In May 2006, the Company issued 135 convertible debenture notes, with a face value of \$150, at a simple interest rate of 12% per annum, due on or before April 30, 2007 for total proceeds of \$20,250. The notes are unsecured with no stated default terms. Each debenture note is convertible at the holder's election into 125 units, whereby each unit consists of one share of the Company's common stock and a ½ warrant, whereby a full warrant entitles the holder to purchase an additional share of common stock at a pre-determined price of \$2.40 per share on or before February 15, 2008.	20,250	20,250
(c) In May 2007, the Company issued convertible promissory notes with a face value totalling \$137,170, at an interest rate of 8% per annum, due on or before May 1, 2008. The promissory notes are unsecured with no stated default terms. The promissory notes are convertible at the holder's election at \$0.20 per unit, whereby each unit consists of one share of the Company's common stock, and a warrant, whereby each warrant entitles the holder to purchase an additional share of common stock at a pre-determined price of \$0.50 per share on or before April 30, 2010.	137,170	-

## THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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### 9. Short-term Convertible Notes Payable (cont'd...)

- (d) In May 2007, the Company issued convertible promissory notes with a face value totalling \$1,050,000, at an interest rate of 8% per annum, due on or before May 1, 2008. The promissory notes are unsecured with no stated default terms. The promissory notes are convertible at the holder's election at \$0.20 per unit, whereby each unit consists of one share of the Company's common stock, and a warrant, whereby each warrant entitles the holder to purchase an additional share of common stock at a pre-determined price of \$0.50 per share on or before April 30, 2010.

	<u>1,050,000</u>	<u>-</u>
Total short term convertible notes payable	\$ 1,317,420	\$ 130,250
Total interest accrued	<u>122,892</u>	<u>16,233</u>
Total short term convertible notes payable with accrued interest	\$ <u>1,440,312</u>	\$ <u>146,483</u>

All convertible notes stated above allow the holders to convert into units which consist of shares and warrants. At the time of issuance, the Company determined that the embedded conversion features contained in these convertible notes were not beneficial. Management further determined that the conversion features were un-detachable. As prescribed by APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, all proceeds from the issuance of the above convertible debt were treated as liabilities on the consolidated financial statements.

### 10. Share Capital

#### Authorized

The total authorized capital is 100,000,000 common shares with a par value of \$0.001 per common share and 50,000,000 preferred shares with a par value of \$0.001 per common share.

#### (a) Common shares

The total authorized common stock is 100,000,000 shares with a par value of \$0.001. Effective April 23, 2007, the Company declared a 4 for 1 consolidation of the Company's common stock. The number of shares, and loss per share presented elsewhere in these financial statements has been adjusted to reflect the result of the share consolidation.

## THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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### 10. Share Capital (cont'd...)

During the year ended April 30, 2007, the Company:

	Number of Shares	Consideration
i. Issued 250,000 common shares valued at \$10,000 as stock based compensation to the previous president of the Company.	250,000	\$ 10,000
ii. Issued 34,167 common shares for conversion of convertible note with a face value totaling \$41,000 (note 9(a)).	34,167	\$ 41,000
iii. Completed a private placement offering of 2,500,000 shares of common stock at a subscription price of \$0.04 per common share to eligible investors for total proceeds of \$100,000.	2,500,000	\$ 100,000
iv. Completed a private placement offering of 492,500 units at a subscription price of \$1.20 per unit to eligible investors for total proceeds of \$591,000. Each unit consists of one share of common stock and a ½ warrant, whereby each full warrant entitles the holder to purchase one additional share of common stock at a pre-determined price of \$2.40 on or before February 15, 2008. The warrants were unexercised and expired February 15, 2008.	492,500	\$ 591,000
Total Common stock issued during the year ended April 30, 2007	<u>3,276,667</u>	<u>\$ 742,000</u>

No Common stock was issued for the year ended April 30, 2008. As at April 30, 2008 and 2007, total issued and outstanding Common stock is 8,436,503.

#### (b) Preferred shares

The Company has authorized 50,000,000 preferred shares with a par value of \$0.001. The preferred stock may be issued from time to time in series having such designated preferences and rights qualifications and to such limitations as the Board of Directors may determine.

The total authorized Series "A" preferred stock is 7,000,000 shares. Each Series "A" preferred share entitles the holder to 100 votes for each Series "A" preferred share. Under certain conditions, when the Company's aggregate after tax profit exceeds \$1,000,000, each Series "A" preferred share may be automatically converted to 10 common shares and each Series "A" preferred share may receive dividends in amounts equal to dividends paid on the Common Stock.

# THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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## 10. Share Capital (cont'd...)

Effective April 23, 2007, the Company declared a 10 for 1 consolidation of the Company's Series "A" preferred shares and the number of authorized Series "A" preferred stock was also changed to 3,000,000. Effective April 4, 2008, the company increased the number of authorized Series "A" preferred stock back to 7,000,000. The number of shares presented elsewhere in these financial statements has been adjusted to reflect the result of the share consolidation.

During the year ended April 30, 2008, the Company issued 1,475,000 Preferred "A" stock valued at \$147,500 as stock based compensation to directors, officers, and consultants of the Company. As at April 30, 2008, total issued and outstanding Series "A" preferred stock is 1,715,000.

The total authorized Series "B" preferred is 500,000 shares. Each share of Series "B" preferred stock may be converted to 10 common shares. As at April 30, 2008, total issued and outstanding Preferred "B" stock is 121,590.

### (c) Warrants

The following is a summary of share purchase warrants information:

	Number of warrants	Average exercise price
Outstanding, April 30, 2006	250,539	\$ 2.40
Issued for redemption of convertible note (note 9(a))	17,803	\$ 2.40
Issued for private placement	246,250	\$ 2.40
Expired	(250,539)	\$ 2.40
Outstanding, April 30, 2007	264,053	\$ 2.40
Expired	(264,053)	\$ 2.40
Outstanding, April 30, 2008	-	-

### (d) Stock based compensation

During the year ended April 30, 2008, the Company issued 1,475,000 Preferred "A" stock valued at \$147,500 as stock based compensation to directors, officers, and consultants of the Company.

During the year ended April 30, 2007 the Company Issued 250,000 common shares valued at \$10,000 as stock based compensation to the previous president of the Company.

# THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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## 11. Supplemental Disclosure with Respect to Cash Flows

	2008	2007
Cash paid during the year for		
Interest expense	\$ -	\$ -
Income tax	-	-

The significant non-cash financing and investing transactions for the year ended April 30, 2008 included:

- (a) Issuing notes payable totaling \$137,170 (note 9(c)) with respect to a cash advance of \$74,032 and goods and services received by the Company valued at \$63,138 during the year ended April 30, 2007. \$137,170 was recorded as due to related parties for the year ended April 30, 2007 (note 8(b)(ii)).
- (b) Issuing 1,475,000 Preferred "A" stock valued at \$147,500 as stock based compensation to directors, officers, and consultants of the Company.

The significant non-cash financing and investing transactions for the year ended April 30, 2007 included:

- (a) Issuing 34,167 units, each unit consisting of one common share and a 1/2 warrant to redeem \$41,000 of convertible debenture notes (notes 9(a) and 10(a)(ii)).
- (b) Issuing 250,000 common shares valued at \$10,000 as stock based compensation to the previous president of the Company.

## 12. Income Taxes

The Company is subject to US tax, and its subsidiary is subject to Canadian Income Tax. A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year Ended April 30, 2008	Year Ended April 30, 2007
Net loss for the year	\$ 1,661,832	\$ 951,481
Expected income tax recovery	(552,509)	(324,645)
Taxable temporary difference	73,705	13,142
Unrecognized benefits of non-capital losses	478,804	311,503
Income tax provision	\$ -	\$ -

## THE SPICE DEPOT, INC. (A Development Stage Company)

Notes to Consolidated Financial Statements

(Expressed in U.S. Dollars)

For the Years Ended April 30, 2008 and 2007

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### 12. Income Taxes (Cont'd...)

The primary components of temporary differences which might give rise to the Company's deferred tax assets or liabilities were as follows:

	As at April 30, 2008	As at April 30, 2007
Net operating loss carry forwards	\$ 810,000	\$ 433,000
Valuation allowance	<u>(810,000)</u>	<u>(433,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

Subject to the approval of the relevant tax authorities, as at April 30, 2008 and 2007, the Company had tax losses carry-forward against future years' taxable income of \$3,100,000 and \$1,700,000 respectively. Deferred tax benefits which may arise as a result of these losses have been offset in these financial statements by a valuation allowance due to the uncertainty surrounding their realization

### 13. Subsequent Events

Subsequent to April 30, 2008, the Company:

- (a) Is continuing a private placement offering at a subscription price of \$0.10 per unit to eligible investors. Each unit consists of one share of common stock and one warrant, whereby each warrant entitles the holder to purchase one additional share of common stock at a pre-determined price of \$0.11 per share on or before March 31, 2011. As at April 30, 2008, \$602,889 was received with respect to this private placement offering.
- (b) Is continuing a second private placement offering at a subscription price of \$0.20 per unit to eligible investors. Each unit consists of one share of common stock and one warrant, whereby each warrant entitles the holder to purchase one additional share of common stock at a pre-determined price of \$0.30 per share on or before March 31, 2011.
- (c) Issued 3,733,000 shares of Series "A" preferred stock valued at \$373,300 as stock based compensation to officers, directors, shareholders and companies related to such persons.
- (d) Issued 5,063,590 shares of common stock to officers, directors, shareholders, and companies related to officers and directors of the Company to settle \$406,359 of accounts payables and accrued liabilities and due to related parties (note 8(b)(i)).
- (e) 67,800 shares of Series "B" preferred stock were converted to 678,000 shares of common stock as per an agreement reached with certain holders of Series "B" preferred stock.