

2006 Annual Report & Accounts



INNOVATIVE SOLUTIONS FOR AQUACULTURE

AQUA BOUNTY Technologies™

Health and Productivity Solutions for a Growing Industry

Opportunity

- Aquaculture is one of the fastest growing sectors of the agriculture industry
- Average annual growth of 10% over the past decade compared to less than 3% for land based agriculture
- Production expected to double over the next two decades
- Global demand for seafood has increased by approximately 50% since 1990 and is projected to increase by another 50% by 2015
- 90 percent of major food fisheries are over-harvested to supply 90 million tones of edible seafood each year
- Aquaculture is the only source of seafood supply that is expanding and it currently provides approximately one-third of all fish consumed globally
- Fish farm production doubled during the 1990's and must double again by 2015 to meet the growing demand

Solutions

Aquatic Animal Health and Productivity Program

- * A suite of interventional therapeutics and leading edge diagnostic tools
- * Designed to address disease and optimize health in farmed finfish and crustaceans
- * A multilayered approach to aquatic animal health management

AquAdvantage Broodstock Program

- * Focused on improving the genetics of farm-raised finfish and shrimp
- * Advanced hybrid finfish engineered to grow to market weight in half the time of farmed fish
- * Improvements could offer dramatic economic and environmental advantages to the industry

Chairman's and Chief Executive's Statement

This is the first annual report of Aqua Bounty Technologies since the Company was admitted to the AIM in March 2006. It covers the twelve months to December 2006. The proceeds of the public offering were approximately US\$32.5 million, and the offering costs incurred in the year were US\$3.5 m. The amount remaining as of December 31, 2006 is US\$23.3 m in cash and marketable securities.

We report that the loss for the year of US\$8.1 m was slightly behind Directors' expectations and the net cash used in operations for the year was contained to US\$5.6m. A major non-cash item was stock based compensation of US\$2.4m. However, the development of revenues fell significantly short of our targets. The major obstacles to increasing revenues from our initial product, Shrimp IMS, in the target countries in South America and Asia have been unpredictability in the regulatory approval process and the time required to undertake numerous field trials required both for regulatory purposes and for the establishment of commercial relationships with distributors.

PRIORITIES

The priorities during the year have been to establish a sales team and distribution structure, to demonstrate the effectiveness of the immuno-stimulant Shrimp IMS in selected markets, secure the required regulatory approvals and finally to bring the next products, the viral blocker VPX and AquAdvantage salmon, to market. Six people have been recruited to the sales team and this has substantially increased our ability to establish field trials of Shrimp IMS in target countries, ensure that they are carried out effectively and provide technical assistance to both shrimp farmers and feed mills, our primary customers. Progress has also been made in establishing partners in Mexico, Ecuador and Panama for the distribution of our products. Vimifos (the largest feed producer in Mexico) and Expalsa (the largest in Ecuador) were newly added, complementing our existing relationship with Malta Cleyton in Mexico, and each is anticipating significant demand for IMS this shrimp season. Field trials and sales activity are also underway in Panama in cooperation with Grupo Calesa, that country's market leader in shrimp production, feed manufacturing, larval sales, and shrimp technology.

PRODUCT DEVELOPMENT AND MARKETING

IMS

The majority of field trials concluded over the past year have shown positive results. There are currently 15 field trials under way in five countries: Mexico, Ecuador, Panama, Peru, and Indonesia. Field trials are expected to begin shortly in China, as well as a laboratory trial in Thailand with a native species (*p. monodon*), which, if successful, will enable us to expand our addressable market in Asia. Other trials completed by three independent laboratories have confirmed responses to IMS, which, if repeated in the field, would be highly profitable for the producer.

IMS Emulsion

In collaboration with leading shrimp producers, a second-generation product form of Shrimp IMS is in development. IMS Emulsion, containing a blend of oils, attractants and stabilizers along with the active protein is easier to administer than the original and simplifies adoption by hatcheries. It is being tested in Panama, Mexico and Indonesia and initial reports are encouraging.

AquAdvantage™ Viral Blocker (VPX)

VPX, the Company's working name for its potent blocker of the White Spot Virus, has been demonstrated in the laboratory to be highly effective in limiting mortalities from the disease in shrimp. This virus is the single greatest cause of mortality in farm-raised shrimp worldwide. At our laboratory in San Diego, we have strengthened the product development team and made significant progress in production scale up. Further trials are required to determine optimal concentration and methods of incorporation in feed before proceeding to field trials with customers which we anticipate to occur in 2008.

AquAdvantage Salmon

The AquAdvantage breeding programme is focused on crossbreeding the best farmed varieties of Atlantic salmon with our AquAdvantage fish. Growth trials continue to confirm the superiority of AquAdvantage salmon over any farm-raised salmon currently used for commercial production.

Diagnostic Kits, Vaccines and Other Products.

The Company has introduced its SybrShrimp diagnostic kits into South America and Vietnam, and has developed a vaccine to prevent Rickettsia in salmon which is now undergoing registration in Chile. While neither of these products is expected to be a major revenue generator, they will help build positive recognition for the Company in the industry.

REGULATORY APPROVALS

Regulatory approval for commercial use of Shrimp IMS has been secured in Mexico and Ecuador. Under the leadership of Dr Ron Stotish, who joined the Company in April, applications have been filed or are in preparation in every major shrimp producing country in the world.

In the case of AquAdvantage Salmon, the objective of our current regulatory submissions is to obtain approval for salmon grown outside the country to be allowed entry into the U.S. as food under the "Import Tolerance" provisions. While the Company cannot predict the timing of the process, to date there have been no indications that the FDA has any substantive concerns associated with the health or safety of AquAdvantage salmon.

OUTLOOK

The Company is in a strong financial position with cash reserves that will finance its activities for several years. We are confident in the efficacy and commercial viability of the lead products, Shrimp IMS and VPX, the White Spot Virus blocker. The indications are that these products perform effectively and are capable of yielding a significant economic benefit for the customer. As the regulatory hurdles are overcome and the distribution network is built, we expect sales to grow strongly. In the case of the AquAdvantage brood stock lines, it has the potential to make a substantial contribution once regulatory approval is obtained.

Richard Clothier
Chairman

Elliot Entis
Chief Executive Officer



Market Leaders in the Aquaculture Industry

It is widely recognized that the world's oceans are not capable of naturally providing further increases in fish production. At the same time, consumption is growing compared to other food sources, and a growing world population will only further drive increases in the demand for fish products. The aquaculture industry is expected to undergo tremendous growth and expansion over the next decade.

AquaBounty Technologies is a discovery-driven biotechnology company dedicated to enhancing productivity in aquaculture.

At the beginning of the 1970's, aquaculture accounted for only 4% of the world's fish production whereas today it accounts for 31% of fish production (according to United Nations' Food and Agriculture Organization, "FAO").

The aquaculture industry is experiencing the challenges facing any fast growing industry. One of the greatest challenges relates to efforts to increase productivity. The basic structure of a farm results in an environment that is significantly more contained than the ocean's natural environment. This results in significantly higher densities of fish co-existing in a particular body of water. Higher densities create higher levels of stress on the fish which can directly affect their immune system, thereby increasing the risk of disease. Aqua Bounty Technologies is a pioneer in the development of products to help the aquaculture industry address these fundamental issues. We are developing products to help the industry address the challenges of disease management resulting in higher productivity, output and profitability.

Global production from aquaculture is increasing by 11% per year and is the world's fastest growing food producing sector, (FAO).

Our core product development areas include:

Aquatic Animal Health & Productivity Program – A promising suite of interventional therapeutics and leading edge diagnostic tools designed to address disease and optimize health in farmed finfish and crustaceans. A multilayered approach to aquatic animal health management.

AquAdvantage Broodstock Program – Focusing on improving the genetics of farm-raised finfish and shrimp. Initial products include AquAdvantage salmon and trout, advanced hybrid finfish that can grow to market weight in half the time of their farmed counterparts. These improvements offer potentially revolutionary economic and environmental advantages to the aquaculture community.

Fish is the fastest growing source of food in the developing world yet demand exceeds supply and the problem is growing (WorldFish Centre)



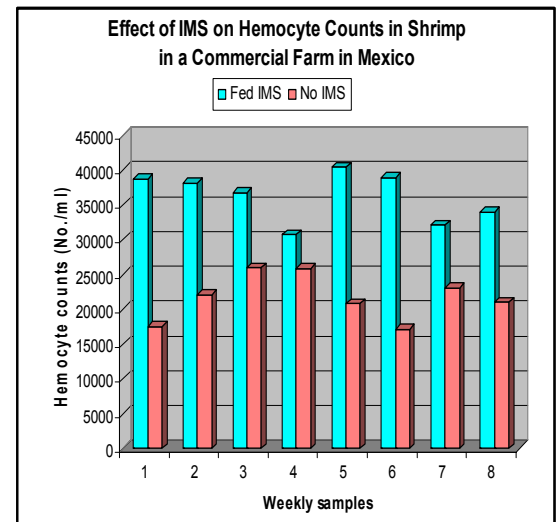
The aquaculture industry is a global marketplace; however, most of our customers are concentrated in tropical and sub-tropical regions. According to FAO, approximately 75% of the world’s production of farmed shrimp is produced in Asian countries. China is the largest producer followed by Thailand, Vietnam, Indonesia, and India. The remaining 25% of world production is based in South and Central America where the biggest producer is Ecuador. Other major producers in this area include Mexico and Brazil.

We recognize that each of our target markets has its own governmental rules and regulations, as well as local customs and business practices. In order to efficiently address each market, we plan to develop collaborative relationships with leading, local companies that have the knowledge and experience to operate effectively in their market. Our

collaboration with Grupo Calesa in Panama is one example of the type of collaborative relationships we plan to develop throughout the world. Grupo Calesa consists of a shrimp farming company (Camaco), a shrimp feed manufacturing company (INASA), as well as a number of other agribusiness enterprises in Panama. Our partnership with Calesa will enable us to take advantage of their modern production and research facilities in Panama to conduct lab and field evaluations of Shrimp IMS and VPX. Calesa also offers us a unique environment to advance our discovery and new product development programs. The above picture is a poster of a jointly sponsored trade show event in Central America with Grupo Calesa. The poster highlights products offered by Aqua Bounty and by Grupo Calesa’s shrimp feed company whose Larro brand shrimp feed is widely used in Panama.

Shrimp IMS – A novel immune booster for Shrimp

We introduced our first commercial product in Mexico in late 2004 and are presently expanding sales into additional markets throughout South America. Shrimp IMS is an innovative protein-based feed additive that stimulates the natural immune system of shrimp by elevating hemocyte counts (the functional equivalent of white blood cells) and other immune system factors. These increases strengthen the shrimp’s immune defenses against both viral and bacterial pathogens (diseases). While shrimp treated with IMS and unprotected animals both suffer declines in hemocyte counts during disease fighting episodes, the higher initial level of hemocytes in IMS-protected shrimp allows for a more effective response to pathogens and a lower mortality rate. The graph to the right demonstrates the effect of Shrimp IMS on hemocyte counts.



Shrimp IMS has undergone extensive testing in commercial settings with results that demonstrate that increased crop yields result from its use. One series of tests were conducted across eight farms in Mexico. The data measured the percentage of shrimp surviving from stocking through harvest, comparing ponds treated with IMS to untreated ponds. On average, ponds treated with IMS had a 27.5% higher relative survival rate. Similar tests were completed in Ecuador in 2007 and the results of those tests were even more impressive with relative survival rates 43% higher for IMS treated ponds.

Shrimp IMS field trial conducted in a research farm in Ecuador (2006)	
➤	Experimental ponds (9) infected by WSSV, NHP, and IHHNV.
➤	First outbreak of WSSV occurred in control ponds.
➤	Yields (kg/ha) of IMS ponds were 31% higher than control ponds.
➤	Survival of IMS ponds was 40% higher than control ponds.
➤	Cumulative daily mortalities in control ponds were 130% higher than IMS ponds.
➤	Gross profit of IMS ponds was 31% higher than control ponds.

Results of Shrimp IMS evaluation in a commercial farm in Ecuador (2007)			
	Shrimp IMS ponds	Control ponds	Improvement (%)
Survival (%)	64.4	45.0	43%
Growth (g/wk)	0.97	0.87	12%
Feed conversion	0.76	1.15	52%
Yield (kg/1000 PL)	5.81	3.74	55%

We believe that the basic economics realized through the use of IMS represent one of its strongest selling features. Under most farming conditions, with normal product and market price conditions, a farmer only needs a 1% to 4% increase in survival rates to recover the cost of including IMS in its feed. It has been estimated that for each dollar spent on IMS, a farmer's profitability will increase between \$2 to \$3.

VPX – A potential therapeutic to combat WSSV

Infectious diseases represent one of the most significant challenges to the growth of the aquaculture industry. White Spot Syndrome Virus (“WSSV”) is one of the most devastating threats to the global shrimp industry. WSSV can appear suddenly and infection can result in mortality rates of 100% in as little as 72 hours. The disease is endemic in many shrimp producing territories and is estimated to have caused cumulative worldwide losses of more than \$6 billion between 1994-1999. The virus can potentially destroy the shrimp output of an entire country. For example, shrimp export levels declined by almost 70 percent in Ecuador after its farms suffered an outbreak of WSSV in 2000/2001.

We are developing VPX, a proprietary protein-based product to help farmers combat the potentially debilitating effects of WSSV. VPX diminishes infection by WSSV by effectively blocking viral entry into the shrimp. It is administered through shrimp feed. We plan to utilize the strategic relationships that we are now developing with major shrimp feed manufacturers to sell IMS to also market and distribute VPX.

Laboratory studies completed to date have been encouraging. In one laboratory study, control groups of shrimp and an equal size group treated with VPX were each fed WSSV infected material. After 7 days, more than 90% of the control animals had died. By comparison, more than 90% of the shrimp treated with VPX survived. Other laboratory studies have resulted in treated shrimp having survival rates of 80% or more.

AquAdvantage Broodstock Program

Our broodstock program represents an entirely different approach towards increasing the productivity and profitability of the aquaculture industry. In 1996, we obtained the exclusive rights to a gene construct derived from Arctic fish which, when bred into fin fish, was found to stimulate rapid growth. Over the past decade, we have completed extensive research aimed at accelerated growth rates and have created a salmon broodstock of “fast-growing” fish. To date, we have bred 6 generations of our salmon broodstock over the past 14 years and have established stable genetic lines in these fish.

The potential impact of this program on the economics of the industry are quite compelling. Our *AquAdvantage* salmon reach 100 grams weight within three to four months following their first feeding. This is the weight at which salmon are commonly transferred from the farm hatchery to an ocean pen. In contrast, conventional salmon require up to 15 months of feeding in the hatchery. By accelerating the early stages of growth, costs associated with maintaining a fish in the hatchery environment can be significantly reduced. We project an overall time to market of 16 to 18 months for *AquAdvantage* salmon compared to the existing commercial standard of 31 to 36 months. We believe that our broodstock program has the potential to reduce growth time to market size by up to 50%, resulting in substantial productivity gains for commercial farmers.

It is important to note that *AquAdvantage* salmon achieve final body weights comparable to those of standard salmon and do not grow beyond normal size. Over the past 6 years, we have completed 7 major studies comparing *AquAdvantage* salmon and standard farm raised salmon. No statistically significant differences were found in the levels of any hormone, nor were there any significant differences found among 46 nutritional factors. All studies completed to date indicate that *AquAdvantage* salmon are compositionally identical to all other Atlantic salmon.

We have submitted a formal application to the U.S. Food and Drug Administration (“FDA” or “Agency”) for approval to sell the product in the U.S. We have submitted numerous regulatory filings with the Agency whose review is ongoing. To date, there have been no adverse findings; however, the Agency may require us to submit additional data which may require the completion of additional studies. It is our policy not to anticipate or predict regulatory outcomes for any of our applications. Following satisfactory completion of FDA requirements, we plan to seek approval from the regulatory authorities in the countries where we plan to commercially produce our fish.

Other products

In addition to our core products, we are also developing diagnostic kits, vaccines, and other products which address important needs of the aquaculture industry. While not expected to comprise a substantial percentage of our long term revenues, we believe that these products will help us gain access to and penetrate markets across the industry. One of our first products in this area is our SybrShrimp diagnostic kits which are designed for use with “real time PCR” and can detect a single strand of DNA from a pathogen in a sample. The SybrShrimp diagnostic kits are faster, easier, and more sensitive to use than conventional PCR based technologies.

CORPORATE GOVERNANCE

The Board of Directors is accountable to shareholders for the proper corporate governance of the Company. The principles of corporate governance and a code of best practices are set forth in the Combined Code on Corporate Governance (the “Combined Code”). Under the rules of the AIM market, where the Company’s shares are listed, the Company is not required to comply with all provisions of the Combined Code. However, the Company intends, where practicable, to comply with the main provisions of the Combined Code.

BOARD OF DIRECTORS

The Chairman of the Board of the Company is Richard Clothier. Elliot Entis is the Chief Executive Officer and is responsible for running the organization on a day-to-day basis. In total, the Board consists of one Executive Director and six Non-Executive Directors.

The overall responsibility of the Board of Directors is to ensure that the affairs of the Company are managed in the best long term interests of shareholders, having regard to the interests of the employees and the community. In fulfilling their responsibilities, Directors are required to keep themselves informed about the Company’s activities and the business, political, social and market environments in which the Company operates.

The Board of Directors has adopted Terms of Reference to define its objectives and those of each committee. Key areas of responsibility include:

- a. Review and approve the Company’s overall business strategy;
- b. Foster management development and succession to ensure that the Company is well managed at all levels;
- c. Monitor and approve the allocation of financial resources to enhance short-term profitability and long-term development activities;
- d. Establish standards for business ethics, employee relations, community involvement and environmental considerations;
- e. Maintain effective communication with shareholders and ensure that the Board has an understanding of the views of major shareholders;
- f. Review and evaluate the performance of the members of the Board and executive management against their respective terms of reference.

AUDIT COMMITTEE

The Audit Committee is chaired by William Marcus and the other member is Richard Huber. The Chief Financial Officer, Corporate Controller and external auditors may also attend a portion or all of the meetings of the Audit Committee. The Audit Committee meets at least twice a year.

The Committee has responsibility to:

- a. Consider and recommend to the Board the appointment of the auditor, audit fees and any questions regarding resignation or dismissal;
- b. Discuss the nature and scope of the audit with the auditor before the engagement commences;
- c. Review the results of the annual audit, including the effectiveness of the audit process and the independence, objectivity and quality of the auditor's services;
- d. Review and approve all reports, press releases and any other formal statements or regulatory filings relating to financial performance, before submission to the Board, giving due consideration to:
 - any changes in accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from the audit;
 - the going concern assumption;
 - compliance with accounting and regulatory standards, including those related to stock exchange requirements and the Companies Act;

The Audit Committee reviews the Annual Report and other periodic financial filings and then recommends to the Board of Directors whether such reports should be approved.

- e. Consider the appropriateness of the Company's accounting policies and recommended changes thereto;
- f. Evaluate and monitor the adequacy of the Company's internal control environment and risk management systems.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Dave Stevens and the other member is Eric Steiner.

The responsibilities of the Remuneration Committee shall be to:

- a. Determine corporate policy for the remuneration of the Chief Executive, Executive directors and other members of executive management;
- b. Establish the remuneration of the Chairman, Chief Executive Officer and each Executive and Non-Executive director;
- c. Approve the terms of any service agreement of the Chairman, the Chief Executive, and any other director or member of executive management;

- d. Administer the provisions of all executive share option and other incentive schemes including the determination of performance criteria for each scheme, and approval of the timing and terms of grants of shares, options and other incentive schemes.

CORPORATE GOVERNANCE & NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee is chaired by Richard Clothier and the other member is Elliot Entis. The responsibilities of the Corporate Governance and Nominating Committee are to:

- a. Advise the Board concerning the appropriate composition of the Board and its committees and recommend changes, when appropriate;
- b. Identify and evaluate potential candidates for Board membership;
- c. Recommend nominees for each committee of the Board;
- d. Recommend nominees for election at each annual meeting of shareholders;
- e. Establish appropriate corporate governance guidelines and monitor compliance therewith;
- f. Evaluate, at least annually, the performance of the Board and its committees.

INTERNAL CONTROLS

The Board of Directors is ultimately responsible for the Company's system of internal controls and for reviewing and monitoring its effectiveness. The Company maintains a comprehensive process of financial reporting. The annual budget is reviewed and approved by the Board of Directors before being fully adopted. The Board presently receives a monthly report of the Company's operating performance compared against both the budget and the prior year's results with explanations of significant variances.

The effectiveness of the Company's internal controls is the responsibility of the Chief Financial Officer. The maintenance, review and improvement of the Company's internal controls is the responsibility of the Chief Financial Officer. The external auditors review the internal financial controls as a basis for determining the nature and extent of their audit testing procedures.

GOING CONCERN

After considering the Company's financial position and reviewing its cash flow forecasts for 2007 and beyond, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Consolidated Financial Statements

Aqua Bounty Technologies, Inc.

Years ended December 31, 2006 and 2005

(expressed in US dollars, unless otherwise stated)

Aqua Bounty Technologies, Inc.
Consolidated Financial Statements

Years ended December 31, 2006 and 2005

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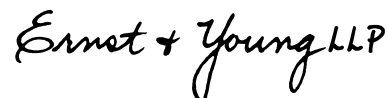
Report of Independent Auditors

The Board of Directors and Shareholders of Aqua Bounty Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Aqua Bounty Technologies, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aqua Bounty Technologies, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S generally accepted accounting principles.



St. John's, Canada,
May 18, 2007.

Chartered Accountants

Aqua Bounty Technologies, Inc.**CONSOLIDATED BALANCE SHEET**

As at December 31

	2006	2005
Assets (Note 12)		
Current assets:		
Cash and cash equivalents	\$ 5,300,833	\$ 246,893
Marketable securities (Note 6)	18,084,246	-
Accounts receivable (Note 4)	278,970	200,752
Accounts receivable – officers (Note 16)	15,229	35,278
Due from related parties (Note 16)	37,225	8,130
Contributions receivable (Note 5)	-	3,209
Investment tax credit receivable	86,532	275,383
Prepaid expenses and other	110,025	13,853
Total current assets	\$ 23,913,060	\$ 783,498
Property and equipment (Note 7)	1,527,944	1,449,622
Patents (Note 8)	218,859	218,199
Licenses (Note 8)	23,750	26,875
Deferred offering costs (Note 9)	-	937,589
Other assets	86,842	29,048
Total assets	\$ 25,770,455	\$ 3,444,831
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable and accrued liabilities (Note 10)	\$ 756,906	\$ 1,818,954
Notes payable to shareholders (Note 11)	-	2,138,619
Due to related parties (Note 16)	2,668	39,369
Current portion of long-term debt (Note 12)	89,974	116,044
Total current liabilities	\$ 849,548	\$ 4,112,986
Long-term debt (Note 12)	2,937,221	3,012,777
Commitments and Contingencies (Note 15)		
Stockholders' equity (deficit) (Note 13):		
Convertible preferred stock, \$0.01 par value, 40,000,000 shares authorized; nil (2005 – 13,309,607) shares outstanding	-	133,096
Common stock, \$.001 par value, 100,000,000 shares authorized; 49,797,333 (2005 – 21,311,634) shares outstanding	49,797	21,312
Additional paid-in capital	63,585,762	29,801,420
Accumulated other comprehensive loss	(488,078)	(531,008)
Accumulated deficit	(41,163,795)	(33,105,752)
Total stockholders' equity (deficit)	\$ 21,983,686	\$ (3,680,932)
Total liabilities and stockholders' equity (deficit)	\$ 25,770,455	\$ 3,444,831

See independent auditors' report and accompanying notes.

Aqua Bounty Technologies, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31

	2006	2005
Revenues and grants:		
Product sales	\$ 225,769	\$ 777,354
Research and development grants	416,912	543,219
	\$ 642,681	\$ 1,320,573
Costs and expenses:		
Cost of goods	89,766	480,966
Sales & marketing	401,249	78,047
Research and development	3,535,255	2,809,434
General & administrative	4,532,576	3,025,191
	\$ 8,558,846	\$ 6,460,670
Operating loss	\$(7,916,165)	\$(5,140,097)
Interest expense, net	(141,878)	(2,357,471)
Net Loss	\$(8,058,043)	\$(7,497,568)
Basic and diluted net loss per share	\$ (0.19)	\$ (0.60)
Weighted average number of common shares – basic and diluted	43,542,334	12,485,677

See independent auditors' report and accompanying notes.

Aqua Bounty Technologies Inc.
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
Years Ended December 31, 2005 and 2006

	Preferred Stock	Common Stock	Par Value	Issued and Outstanding	Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at December 31, 2004	13,309,607	12,442,248	\$12,442	12,442,248	\$12,442	\$23,127,537	(\$463,177)	(\$25,608,184)	(\$2,798,286)
Net loss								(7,497,568)	(7,497,568)
Foreign currency translation							(67,831)		(67,831)
Total comprehensive loss									(7,565,398)
Exercise of warrants for common stock		156,472	156	156,472	156	122,218			122,374
Exercise of options for common stock		80,000	80	80,000	80	6,420			6,500
Exercise of warrants for common stock-cashless		5,535,059	5,535	5,535,059	5,535	(5,535)			-
Exercise of options for common stock-cashless		205,000	205	205,000	205	(205)			-
Conversion of notes payable into common stock		2,892,855	2,893	2,892,855	2,893	2,259,553			2,262,446
Issuance and extension of warrants						905,190			905,190
Beneficial conversion feature on convertible notes payable						905,190			905,190
Warrants issued for consulting services						110,589			110,589
Issuance of options						2,370,463			2,370,463
Balance at December 31, 2005	13,309,607	21,311,634	21,312	21,311,634	21,312	29,801,420	(531,008)	(33,105,752)	(3,680,932)
Net loss								(8,058,043)	(8,058,043)
Foreign currency translation									36,987
Unrealized gains on marketable securities									5,943
Total comprehensive loss									(8,015,113)
Conversion of preferred stock to common	(13,309,607)	13,309,607	13,310	13,309,607	13,310	119,786			-
Exercise of warrants for common stock		983,593	984	983,593	984	768,265			769,249
Exercise of options for common stock		195,545	195	195,545	195	13,160			13,355
Issuance of common stock related to preferred stock conversion		125,000	125	125,000	125	(125)			-
Issuance of warrants						639,712			639,712
Conversion of notes payable into common stock		1,173,048	1,173	1,173,048	1,173	2,367,699			2,368,872
Issuance of common stock for compensation		6,196	6	6,196	6	15,876			15,882
Issuance of common stock at initial public offering		12,692,710	12,692	12,692,710	12,692	32,491,363			32,504,055
Initial public offering costs						(5,053,361)			(5,053,361)
Issuance of options						2,421,967			2,421,967
Balance at December 31, 2006	-	49,797,333	\$49,797	49,797,333	\$49,797	\$63,585,762	(\$488,078)	(\$41,163,795)	\$21,983,686

See independent auditors' report and accompanying notes.

Aqua Bounty Technologies, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31

	2006	2005
Operating activities		
Net loss	\$ (8,058,043)	\$(7,497,568)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	243,641	200,662
Stock-based compensation	2,437,849	2,370,463
Warrants issued for service	-	110,589
Accretion of secured promissory notes	33,411	2,055,460
Interest on conversion of notes payable	1,041,029	-
Amortization of premium on marketable securities	(208,075)	-
Unrealized gains on marketable securities	(5,943)	-
Changes in operating assets and liabilities:		
Accounts receivable	(78,218)	(163,214)
Accounts receivable – officers	20,049	(21,087)
Due from related parties	(29,095)	(1,722)
Contributions receivable	3,209	90,689
Investment tax credit receivable	188,851	(141,614)
Prepaid expenses and other	(96,172)	160
Accounts payable and accrued liabilities	(1,025,234)	1,093,117
Due to related parties	(36,708)	(1,238)
Net cash used in operating activities	\$ (5,569,449)	\$(1,905,303)
Investing activities		
Purchases of equipment	(247,825)	(21,591)
Purchases of marketable securities	(29,120,228)	-
Maturities of marketable securities	11,250,000	-
Payment of patent costs	(77,294)	(58,169)
Payment of license fees	-	(15,000)
Other	(57,794)	(4,855)
Net cash used in investing activities	\$ (18,253,141)	\$ (99,615)
Financing activities		
Payment of long-term debt	(115,370)	(140,082)
Proceeds from notes payable to stockholders	36,000	1,005,029
Proceeds from issuance of convertible promissory notes	-	2,100,453
Payment of convertible promissory notes	(417,000)	(50,000)
Payment of stockholders loans	(500,000)	-
Payment of initial public offering costs	(3,476,060)	(937,589)
Proceeds from issuance of common stock	32,504,055	-
Proceeds from exercise of stock options and warrants	782,604	128,875
Net cash provided by financing activities	\$ 28,814,229	\$ 2,106,686
Effect of exchange rate changes on cash and cash equivalents	62,301	(23,160)
Net increase in cash and cash equivalents	\$ 5,053,940	\$ 78,608
Cash and cash equivalents at beginning of year	246,893	168,285
Cash and cash equivalents at end of year	\$ 5,300,833	\$ 246,893

See independent auditors' report and accompanying notes.

Aqua Bounty Technologies, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS (con't)

Year ended December 31

	2006	2005
Supplemental cash flow information		
Non-cash financing and investing activities		
Conversion of notes payable to common stock	\$2,368,872	\$2,262,446

See independent auditors' report and accompanying notes.

Aqua Bounty Technologies, Inc.

Notes to Consolidated Financial Statements

December 31, 2006

1. NATURE OF BUSINESS AND ORGANIZATION

Nature of Business

Aqua Bounty Technologies, Inc. (the "Parent") was incorporated in December 1991 in the state of Delaware for the purpose of conducting research and development of the commercial viability of a group of proteins commonly known as antifreeze proteins (AFPs). In 1996, the Parent obtained the exclusive licensing rights for a gene construct (transgene) used to create a breed of farm-raised salmon that are expected to exhibit growth rates substantially faster than natural growth rates.

Aqua Bounty Canada, Inc. (the "Canadian Subsidiary") was incorporated in January 1994 in Canada for the purpose of establishing a commercial biotechnology laboratory to produce antifreeze proteins and to conduct research and development programs related to the commercialization of cryopreservatives and the antifreeze gene construct.

Aqua Bounty Pacific, Inc., (the "U.S. Subsidiary") was incorporated in September 2002 in the state of California for the purpose of developing products for the shrimp aquaculture industry, including therapeutics, vaccines and genetically improved brood stock. In late 2004, the U.S. Subsidiary commenced sales of the Company's first commercial product which is designed to increase the growth rate and disease resistance of shrimp. In October 2006, the U.S. Subsidiary was merged into the Parent and ceased to operate as a separate legal entity.

Initial Public Offering

In March 2006, the Company completed an initial public offering ("IPO" or "Offering") on the Alternative Investment Market ("AIM") of the London Stock Exchange ("LSE"). In connection with the IPO, the Company sold 12,692,710 shares of common stock at a price of \$2.56 (1.48 GBP (Great British Pounds)) which generated gross proceeds of \$32,504,055. Costs incurred in connection with the IPO totaled approximately \$4,413,649, resulting in gross proceeds of \$28,090,406.

Development Stage Entity

Prior to 2006, the Company considered itself a development stage entity in accordance with Statement of Financial Accounting Standards ("SFAS") No. 7, *Accounting and Reporting by Development Stage Enterprises*. Attributes associated with development stage entities include a lack of revenues and a need to allocate significant resources to raising capital to sustain operations. The Company commenced sales of its first product in 2004 and has subsequently expanded the markets into which that product is sold and increased the number of sales and marketing personnel. In addition, the completion of its IPO in March 2006 means that the Company will no longer be required to allocate a significant portion of its resources to raising capital. Based on the foregoing factors, the Company has determined that it is no longer a development stage entity.

Notes to Consolidated Financial Statements

December 31, 2006

1. NATURE OF BUSINESS AND ORGANIZATION (con't)

Basis of Consolidation

The consolidated financial statements include the accounts of Aqua Bounty Technologies, Inc. and its wholly owned subsidiary, Aqua Bounty Canada, Inc. The entities are collectively referred to herein as the "Company". All inter-company transactions and accounts have been eliminated upon consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Comprehensive Income (Loss)

The Company follows SFAS No. 130, *Reporting Comprehensive Income*, which establishes standards for reporting and displaying comprehensive income (loss) and its components as part of its full set of financial statements. Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Foreign Currency Translation

The functional currency of the Company is the US Dollar. The functional currency of the Canadian Subsidiary is the Canadian Dollar. In accordance with SFAS No. 52, *Foreign Currency Translation*, the balance sheet accounts of the Canadian Subsidiary are translated at the exchange rates in effect at the balance sheet date. The income statement accounts are translated at the average rate for the year. Net translation gains or losses are adjusted directly to a separate component of other comprehensive income (loss) within stockholders' equity (deficit). Foreign currency transaction gains and losses are included in the determination of net loss and were insignificant in each of the two years ended December 31, 2006 and 2005.

Notes to Consolidated Financial Statements

December 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Cash Equivalents and Available-for-Sale Securities

Cash equivalents and short-term marketable securities primarily consist of money market funds, asset-backed securities, corporate obligations, and U.S. government agency obligations. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash equivalents, which consist primarily of money market funds, are stated at cost, which approximates market value.

The Company accounts for its short-term marketable securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. All of the Company's marketable securities at December 31, 2006 and 2005 have been classified as "available-for-sale." Available-for-sale securities are reported at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income (loss), which is a separate component of stockholders' equity. The fair value of these securities is based on quoted market prices.

The cost of available-for-sale securities is adjusted for the amortization of premiums and the accretion of discounts to maturity. Realized gains and losses, and declines in value, if any, that are determined to be other-than-temporary on available-for-sale securities are reported in interest and investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income. Unrealized gains and losses on securities classified as available-for-sale are included in comprehensive income.

Investment Tax Credit Receivable

The Scientific Research and Experimental Development ("SRED") program is a Canadian federal tax incentive program designed to encourage Canadian businesses to conduct research and development in Canada. Under the SRED program, the Canadian Subsidiary is eligible to receive a refundable tax credit in an amount equal to fifteen percent (15%) of qualified research and development expenditures. The Company records an investment tax credit receivable as qualified costs are incurred and recognizes the credit as a reduction in the amount of the expenditures to which it relates.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market value. Management regularly reviews inventory balances and evaluates whether product obsolescence or lack of market demand require an adjustment to net realizable value. The Company does not believe its inventory is subject to rapid technological change or obsolescence. However, the actual utilization of existing inventory may differ from the Company's estimates.

Notes to Consolidated Financial Statements

December 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Intangible Assets

Patent costs consist primarily of legal and filing fees incurred to file patents on proprietary technology developed by the Company. Patent costs are amortized on a straight-line basis over twenty years beginning with the issue date of the applicable patent.

Licensing fees are capitalized and expensed over the term of the licensing agreement.

Property and Equipment

Property, equipment and leasehold improvements are carried at cost, except for those owned by the Canadian Subsidiary which records such assets net of any Canadian government grants received. Depreciation for the Canadian Subsidiary is computed using the straight-line method over the estimated useful lives of the assets for buildings & leasehold improvements and the declining balance method for all other assets. The estimated useful lives and percentages for declining balance utilized are as follows:

Building	25 years
Laboratory equipment	30 percent
Office furniture and equipment	20 percent
Leasehold improvements	3 years or the term of the lease, if shorter
Vehicle	30 percent

Depreciation for all other property and equipment is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives utilized are as follows:

Laboratory equipment	5 years
Office furniture and equipment	5 years

Notes to Consolidated Financial Statements

December 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Impairment of Long-lived Assets

The Company tests long-lived assets (which includes property and equipment, intangibles and other assets) for impairment whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. Indicators of potential impairment include damage or obsolescence; plans to discontinue use or restructure; and poor financial performance compared with original plans. If indicators of impairment are present, a long-lived asset is tested for recoverability by comparing the carrying amount of the asset to the related estimated undiscounted future cash flows expected to be derived from the asset. If the expected cash flows are less than the carrying amount of a long-lived asset, then the long-lived asset is considered to be impaired and the carrying amount of the asset is written down to its fair value, based on the related estimated discounted future cash flows.

Revenue Recognition

The Company records revenue from the sale of product upon shipment. Research and development grant revenue primarily consists of funding received from U.S. and Canadian government agencies under which the Company conducts research and development activities. The Company records revenue from these funding agreements when it incurs reimbursable costs or otherwise meets the conditions under which it becomes eligible to receive the funding.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recorded for the expected future tax consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. A valuation allowance is established to reduce net deferred tax assets to the amount expected to be realized.

Net Loss Per Share

Basic and diluted net loss per share available to common stockholders has been calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Basic net loss is based solely on the number of common shares outstanding during the period. Fully diluted net loss per share includes the number of shares of common stock issuable upon conversion of preferred stock and convertible debt, and the exercise of warrants and options with an exercise price less than the fair value of the common stock. Since the Company is reporting a net loss for all periods presented, all potential common shares are considered anti-dilutive and are excluded from the calculation of diluted net loss per common share.

Notes to Consolidated Financial Statements

December 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)"), which requires the measurement and recognition, based on estimated fair values, of all share-based payment awards, including stock options, made to employees and directors. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), which was utilized for all periods prior to January 1, 2006.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's 2006 fiscal year. The Company's consolidated financial statements for the year ended December 31, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the consolidated financial statements for prior periods have not been restated to include the impact of SFAS 123(R).

SFAS 123(R) requires that the fair value of share-based payment awards be estimated on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's statement of operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB No. 25. Under the intrinsic value method, no stock-based compensation expense was recognized for stock options grants if the exercise price of the stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant. If the exercise price of options granted was less than the fair value of the underlying stock on the date of grant, the Company recognized the difference as compensation expense over the vesting term.

The Company used the Black-Scholes option-pricing model ("Black Scholes") as its method of valuation under SFAS 123(R) in 2006. This fair value is then amortized on a straight-line basis over the requisite service period which is generally the vesting period. Black Scholes was also previously used for pro-forma disclosures required under SFAS 123 for periods prior to 2006.

Non-employee stock-based compensation is accounted for in accordance with SFAS 123(R) and Emerging Issues Task Force 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring or in Conjunction with Selling, Goods or Services*. In such cases, the Black-Scholes pricing model is used to determine the fair value of warrants or options awarded to non-employees with the fair value of such issuances expensed over the period of service.

Notes to Consolidated Financial Statements

December 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Beneficial Conversion Feature

The Company has, at certain times, issued preferred stock and debt instruments that were convertible into common stock. Certain of such transactions have included the issuance of warrants to purchase shares of common stock. In such instances, the proceeds received are allocated to the securities issued in the transaction on a fair value basis. Warrants issued in 2005 in connection with equity and debt financings were valued utilizing the Black Scholes pricing model with the following assumptions:

	<u>2005</u>
Volatility	80%
Risk-free interest rate	4.06%
Expected dividend yield	0%
Expected lives (in years)	7

The amount ascribed to the warrants is recognized as additional paid in capital. The allocation of a portion of the proceeds to the warrants results in the preferred stock or notes being convertible into common stock at an effective price per share which is less than the per share fair value of the common stock on the date of issuance. This discounted amount represents an incremental yield, commonly referred to as a “beneficial conversion feature”.

A beneficial conversion feature associated with preferred stock is recognized as a return to the preferred stockholders, and is recognized immediately if there is no redemption date for the preferred stock and the preferred stock is immediately convertible, or over the period of conversion through the redemption date, if applicable. A beneficial conversion feature associated with notes or other debt instruments is recognized as a decrease in the value of the debt and an increase in additional paid in capital. The value of the beneficial conversion feature, along with the fair value ascribed to the warrants issued in connection with a debt financing, are recognized as interest expense ratably through the maturity date of the debt instrument.

Segment Information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes standards for the manner in which companies report information about operating segments in their financial statements. The Company makes operating decisions based upon the performance of the enterprise as a whole and utilizes the consolidated financial statements for decision-making purposes. The Company operates in one business segment which focuses on providing biotechnology based products to the aquaculture industry.

Notes to Consolidated Financial Statements

December 31, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is evaluating the potential impact of the implementation of SFAS 157 on its financial position and results of operations.

In June 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (the “Interpretation”). The Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not completed its evaluation of the Interpretation, but it does not currently believe that it will have a material impact on its results of operations or financial position.

3. RISKS AND UNCERTAINTIES

The Company is subject to risks and uncertainties common in the biotechnology and aquaculture industries. Such risks and uncertainties include, but are not limited to: (i) results from current and planned product development studies and trials, (ii) decisions made by the FDA or similar regulatory bodies in other countries with respect to approval and commercial sale of any of the Company’s proposed products, (iii) the commercial acceptance of any products approved for sale and the Company’s ability to manufacture, distribute and sell for a profit any products approved for sale, (iv) the Company’s ability to obtain the necessary patents and proprietary rights to effectively protect its technologies, and (v) the outcome of any collaborations or alliances entered into by the Company.

Concentration of Credit Risk

Financial instruments that subject the Company to a concentration of credit risk consist of cash and cash equivalents, marketable securities and accounts receivable. The risk with respect to cash and cash equivalents and marketable securities is minimized by maintaining deposits and securities at federally insured institutions. The risk with respect to accounts receivable is minimized by the creditworthiness of the Company’s customers and the Company’s credit and collection policies. The Company performs periodic credit evaluations of its customers’ financial condition and generally does not require collateral.

Notes to Consolidated Financial Statements

December 31, 2006

3. RISKS AND UNCERTAINTIES (con't)

Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, notes payable to shareholders and certain long term debt approximate their fair values as of December 31, 2006. As further described in Note 12, the Company's debt obligations to Technology Partnerships Canada is repayable in the form of royalties on the sale of certain products, however, the obligation terminates on June 30, 2014 even if the debt has not been fully repaid as of that date. Based on these terms, the fair value of the Company's long term debt due to Technology Partnerships Canada is not determinable. The fair value of marketable securities is based on quoted market prices.

Foreign Sales

The Company presently sells therapeutic and diagnostic products to the aquaculture industry. Substantially all of the Company's product revenues are derived from sales to foreign customers, principally in South America. All of these sales transactions are denominated in the United States dollar to mitigate any foreign currency exchange risks. However, the Company is not able to predict the effect of political, geographical and other related risks upon future operating results.

4. ACCOUNTS RECEIVABLE

Accounts receivable amounts are net of allowances for doubtful accounts which totaled \$22,335 (2005-\$22,010).

5. CONTRIBUTIONS RECEIVABLE

The Canadian Subsidiary has periodically received funding commitments from various Canadian local, regional and federal government agencies (Note 12).

The Company was awarded a grant from the National Institute of Science and Technology ("NIST"), a federal agency of the United States, in September 2003. The grant was made under NIST's Advanced Technology Program which provides funding to support the development of early-stage, innovative technologies. The scope of work and budget incorporated into the award covers a three year period with the total amount of federal funding targeted at \$528,417, \$600,867, and \$550,716 for the twelve month contract periods ending September 30, 2004, 2005 and 2006 respectively. The Company is required to contribute in direct costs a total of \$149,167, \$169,619, and \$155,462 during the same periods, respectively. During 2006 and 2005, the Company recognized \$416,912 (2005 - \$459,873), of which nil (2005 - \$3,209) was recorded as contributions receivable at year end.

Notes to Consolidated Financial Statements

December 31, 2006

6. MARKETABLE SECURITIES

The following is a summary of marketable securities at December 31, 2006:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds due in 91 - 365 days	\$14,833,706	\$6,073	(\$272)	\$14,839,507
Corporate bonds due in 90 days or less	1,595,325	-	-	1,595,325
Asset backed securities due in one year or less	1,745,958	142	-	1,746,100
Guaranteed investment contract	1,498,639	-	-	1,498,639
Total marketable securities	\$19,673,628	\$6,215	(\$272)	\$19,679,571
Marketable securities included in cash and cash equivalents	1,595,325	-	-	1,595,325
Marketable securities	\$18,078,303	\$6,215	(\$272)	\$18,084,246

Interest income of \$991,848 (2005 - nil), unrealized gains of \$6,215 (2005 - nil), and unrealized losses of \$272 (2005 - nil) were recognized during 2006. The unrealized gains on investments in corporate bonds and asset-backed securities at December 31, 2006 were generated from 16 and two securities, respectively. The unrealized loss on investments in corporate bonds was generated from one security. There were no realized gains and losses from the sale of marketable securities during the years ended December 31, 2006 and 2005.

Aqua Bounty Technologies, Inc.

Notes to Consolidated Financial Statements

December 31, 2006

7. PROPERTY AND EQUIPMENT

Major classifications of property and equipment are summarized as follows:

	2006	2005
Land	\$ 87,416	\$ 87,032
Building	1,271,088	1,265,041
Laboratory equipment	1,318,808	1,199,478
Office furniture and equipment	434,573	330,051
Leasehold improvements	163,335	133,172
Vehicle	9,536	9,494
	\$ 3,284,756	\$ 3,024,268
Less accumulated depreciation	1,756,812	1,574,646
	\$ 1,527,944	\$ 1,449,622

8. PATENTS AND LICENSES

The Company has capitalized a total of \$422,059 related to patents. Amortization expense for 2006 was \$76,634 (2005 - \$48,928). Estimated amortization expense for each of the next five years is \$28,783 per year. Accumulated amortization at December 31, 2006 was \$203,200 (2005 - \$126,566).

The Company has capitalized a total of \$45,000 related to licenses. Amortization expense for 2006 was \$3,125 (2005 - \$2,842). Estimated amortization expense for each of the next five years is \$3,125 per year. Accumulated amortization at December 31, 2006 was \$21,250 (2005 - \$18,125).

9. DEFERRED OFFERING COSTS

The Company incurred certain direct costs, principally fees billed by professional service providers, totaling \$3,476,060 in 2006 (2005 - \$937,589) prior to completion of the IPO. Following completion of the IPO, the total deferred offering costs of \$4,413,649 were recognized as a direct offset to paid in capital. In addition, the Company issued 507,708 warrants to one of the placement agents associated with the IPO. The warrants are exercisable at \$2.56 (1.48 GBP) per share of common stock and expire in March 2011. The fair value of these warrants totaled \$639,712 and were recognized as a direct offset to paid in capital.

Aqua Bounty Technologies, Inc.

Notes to Consolidated Financial Statements

December 31, 2006

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities include the following at December 31, 2006 and 2005:

	2006	2005
Accounts payable	\$ 344,376	\$ 847,938
Accrued payroll including vacation	110,384	101,904
Accrued interest	-	77,679
Accrued research and development costs	74,343	25,000
Accrued professional fees	227,803	177,477
Accrued IPO related costs	-	588,956
	<u>\$ 756,906</u>	<u>\$ 1,818,954</u>

11. NOTES PAYABLE TO SHAREHOLDERS

Prior to completing its IPO in March 2006, the Company consistently secured debt financing from shareholders to support its operations. These notes generally had extended maturity dates ranging between one and two years from the date of issuance. All outstanding notes payable to shareholders were either converted into shares of common stock or repaid prior to or following completion of the Company's IPO in March 2006.

Bank Notes

In March 2003, five shareholders of the Company each obtained a \$100,000 line of credit with Citizens Bank (the "Bank") and allowed the Company to use the proceeds totaling \$500,000 (the "Bank Notes"). The Bank Notes incurred interest at the prime rate and were payable upon demand if the shareholders receive such a request from the Bank. The Company entered into an agreement with the Bank under which the monthly interest on the Bank Notes was paid by the Company. However, the Company had no legal obligation to the Bank to repay the Bank Notes, and there was no formal agreement between the Company and the shareholders until November 2005 when the Company entered into a promissory note agreement with each shareholder. The promissory note agreement between the Company and the shareholders was also due on demand. In connection with the transaction, the Company issued 200,000 warrants to each of the five shareholders. These warrants were exercisable at \$0.78 and had a seven year term. Based on their relative fair values, \$268,519 and \$231,481 of the net proceeds were allocated to the warrants and Bank Notes, respectively. In 2006 the Company recognized interest expense of \$9,715 (2005 – \$31,385), in connection with the monthly interest incurred on the Bank Notes. The Company repaid the principal amount of \$500,000 in April 2006 following the completion of its IPO.

Notes to Consolidated Financial Statements

December 31, 2006

11. NOTES PAYABLE TO SHAREHOLDERS (con't)

Trust Convertible Note

In September 2004, the Company entered into a Convertible Note agreement with the Grantor Retained Annuity Trust (the "Trust Note") under which it borrowed \$100,000. The Trust Note had a maturity date of June 30, 2005 and incurred interest at 6% through maturity, increasing to 18% if the Trust Note was not repaid on or before maturity. The Trust Note was convertible into shares of the Company's Common Stock at a conversion price of \$0.78. In connection with the issuance of the Trust Note, the Company issued warrants to purchase 100,000 shares of the Company's Common Stock exercisable at a price of \$0.78 for a seven year term. The net proceeds were allocated to the warrants and the Trust Note based on their relative fair values, and a beneficial conversion feature of \$36,709 was recognized. The initial carrying value of the Trust Note of \$26,582 was accreted ratably through its maturity date and totaled \$100,000 at December 31, 2005. The Company recorded interest expense of \$54,722 in 2005, of which \$42,505 was a non-cash charge associated with accretion and \$12,217 related to the coupon on the Note. The Company repaid the principal amount of \$100,000 plus accrued interest thereon of \$19,033 in April 2006 following completion of its IPO.

Bridge Loan

During the period December 2004 to October 2005, the Company entered into Promissory Note Agreements (the "Notes") with certain of its shareholders under which it borrowed a total of \$2,475,454. The Notes were convertible into common stock at a conversion price of \$0.78. The Notes had original maturity terms ranging between two months and one year, and accrued interest at rates ranging between 8% and 12%. In connection with the issuance of the Notes, the holders received one or two warrants to purchase a share of common stock for each dollar loaned to the Company resulting in the issuance of 3,264,854 warrants. The warrants are exercisable at \$0.78 for a seven year term. The net proceeds were allocated to the Notes and warrants based on their relative fair values and a beneficial conversion feature of \$1,042,848 was recognized. The initial carrying value of the Notes was accreted ratably through their maturity date. In 2005, the Company recorded interest expense of \$2,195,434, of which \$2,012,955 was a non-cash charge associated with accretion of the Notes and \$182,479 related to the coupon on the Notes. In 2005, certain of the Notes outstanding, totaling \$2,108,453 in principal amount plus accrued interest of \$181,580 were converted into 2,892,858 shares of common stock. In 2005, the Company repaid certain Notes in the principal amount of \$50,000 plus accrued interest thereon. In 2006, the Company repaid the remaining Notes in the principal amount of \$317,000 plus \$39,629 of accrued interest thereon.

Notes to Consolidated Financial Statements

December 31, 2006

11. NOTES PAYABLE TO SHAREHOLDERS (con't)

During the period from October 2005 through January 2006, certain notes (the "IPO Notes") were issued for a total of \$1,041,029. If an IPO was completed prior to March 30, 2006, the IPO Notes were non-interest bearing, and the principal amount was convertible into common stock at a conversion price equal to 50% of the price that common shares were sold for in the IPO. In March 2006, following completion of its IPO, the Company issued 806,316 shares of common stock resulting from the conversion of the IPO Notes into common stock. The Company recognized non-cash interest expense of \$1,041,029 which represented the fair value of the discount realized in connection with the conversion.

NANAF Notes

In February 2004, The North American Nutrition and Agribusiness Fund ("NANAF") agreed to convert an 8% Promissory Note dated May 25, 2001 into shares of Series C-1 Preferred Stock. The entire principal amount of \$300,000 plus accrued interest totaling \$64,000 was converted into 465,426 shares of Series C-1 Preferred Stock.

In November 2004, the Company entered into a Convertible Secured Note and Security Agreement (the "Secured Note") with NANAF under which it borrowed \$250,000. NANAF held the right to (i) convert the Secured Note into shares of the Company's Series C-1 or Series D Preferred Stock at a conversion price of \$0.78 for each share or (ii) convert the Secured Note into shares of any other equity securities issued by the Company in a future financing at a price equal to 90% of the price of the securities issued in the future financing. The Company granted NANAF a continuing lien and security in all of the Company's right, title and interest in and to all of its tangible and intangible property, including its intellectual property.

The Secured Note initially incurred interest at 8% compounded monthly and had a stated maturity date of December 31, 2004. In January 2006, the Company agreed to adjust the interest rate to 12% and to make the adjustment retroactively to July 2005. In March 2006, the Company issued 366,732 shares of common stock resulting from the conversion of the Secured Note plus accrued interest into common stock in connection with completion of the IPO.

Aqua Bounty Technologies, Inc.

Notes to Consolidated Financial Statements

December 31, 2006

12. LONG-TERM DEBT

The current terms and conditions of long term debt outstanding at December 31, 2006 and 2005 are as follows:

	2006	2005
EPEI loan in the amount of C\$400,000, bearing interest at 8.353%, and repaid during the year.	\$ -	\$28,587
EPEI loan in the amount of C\$300,000, bearing interest at 7.50% (2005 – 7.25%) and being repaid in monthly installments of principal and interest of C\$3,543, with the outstanding balance due in August 2008.	210,208	229,176
EPEI loan in the amount of C\$300,000, bearing interest at 7.25 % (2005 – 7.143%) and being repaid in monthly installments of principal and interest of C\$2,072, and maturing in November 2009.	56,411	72,763
ACOA loan in the amount of C\$151,382, non-interest bearing provided all payments are made as due, payable in quarterly installments of C\$7,569 beginning August 2003 through May 2008.	39,121	64,916
ACOA loan in the amount of C\$250,000, non-interest bearing provided all payments are made as due, payable in monthly installments of C\$2,315 beginning January 2005 through December 2013.	167,490	190,583
TPC funding in the total amount of C\$2,964,900 repayable in the form of royalties on revenues generated from the sale of transgenic-based growth enhanced fin-fish commercial products in an amount equal to 5.2% of gross sales, provided that such royalties are payable until the earlier of (i) June 30, 2014 or (ii) until cumulative royalties of C\$5.75 million have been paid.	2,553,965	2,542,796
	\$3,027,195	\$3,128,821
Less current portion	89,974	116,044
	\$2,937,221	\$3,012,777

Future maturities of long-term debt are as follows:

	<u>Amount</u>
2007	\$ 89,974
2008	244,522
2009	43,032
2010	23,930
2011	23,930
Thereafter	2,601,807
	<u>\$3,027,195</u>

Notes to Consolidated Financial Statements

December 31, 2006

12. LONG-TERM DEBT (con't)

Enterprise PEI

Enterprise PEI (“EPEI”) is a Provincial government agency which provides funding to promote the growth and development of companies within the province of Prince Edward Island. In June 1996, the Canadian Subsidiary secured an initial EPEI loan commitment in the amount of 400,000 Canadian dollars (C\$). In July 1998, the Canadian Subsidiary received an additional EPEI loan commitment in the amount of C\$300,000. In August 2003, the Canadian Subsidiary secured a third EPEI loan in the amount of C\$300,000 but did not borrow any funds under this loan until 2004. The Canadian Subsidiary has used the proceeds of the third loan to expand a fish hatchery and purchase related equipment necessary to operate the hatchery.

Each term loan is collateralized by a demand note executed by the Canadian Subsidiary. In addition, the loans collectively provide additional collateralization including fixed or floating liens on substantially all of the Company’s assets, including land, building and fixtures, accounts receivable and inventory, as well as an assignment of fire insurance.

Atlantic Canada Opportunities Agency

The Atlantic Canada Opportunities Agency (“ACOA”) is a Canadian government agency which provides funding to support the development of businesses and to promote employment in the Atlantic region of Canada. The Company has used the proceeds from these loans to expand a fish hatchery and purchase related equipment necessary to operate the hatchery.

Technology Partnership Canada

Technology Partnership Canada (“TPC”) is a Canadian government agency which provides funding to promote economic growth and create jobs in Canada. In November 1999, TPC agreed to provide funding up to C\$2,964,900 to support the Canadian Subsidiary’s efforts to develop commercial applications of its transgenic growth enhanced fin-fish technology. Funding under the TPC funding agreement was completed in 2003. The balance owing to TPC includes \$2,553,965 which is currently presented as being repayable after 2011. This amount is repayable to TPC in the form of royalties on revenues generated from the sale of transgenic-based growth enhanced fin-fish commercial products. Such amounts will be repayable earlier if such product sales commence prior to 2011. In addition, the Company will have no further repayment obligations after June 30, 2014 even if the total amount of \$2,553,965 has not been repaid as of such date.

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT)

The Company is presently authorized to issue up to 140 million shares of stock, of which 40 million is authorized as preferred stock and 100 million as common stock.

Convertible Preferred Stock

In 2004, the Company raised \$1,793,834 in gross proceeds from the issuance of 2,293,672 shares of Series D Convertible Preferred Stock ("Series D Preferred Stock"). In connection with the issuances, the Company issued warrants to the investors for the purchase of 3,090,139 shares of common stock at an exercise price of \$0.78 per share. The warrants expire seven years from date of issuance. The net proceeds were allocated to the warrants and the Series D Preferred Stock based on their relative fair values, and a beneficial conversion feature of \$697,427 was recognized. The amount of the beneficial conversion feature has been immediately accreted and recognized as a deemed dividend as the preferred stock is not subject to redemption and is immediately convertible into common stock.

In February 2004, The North American Nutrition and Agribusiness Fund ("NANAF") agreed to convert an 8% Promissory Note dated May 25, 2001 into shares of Series C-1 Preferred Stock ("Series C Stock"). The entire principal amount of \$300,000 plus accrued interest totaling \$64,000 was converted into 465,426 shares of Series C Stock, following which NANAF held a total of 3,022,698 shares of Series C Stock. NANAF was the sole holder of the Series C Stock and was not required to convert the Series C Stock into Common Stock unless the Company completed an IPO at a per share price of at least \$4.00 per share. In addition, NANAF held certain rights of first refusal regarding the issuance of new securities by the Company as well as rights of co-sale. In January 2006, the parties entered into an Exchange Agreement under which NANAF agreed to convert its Secured Note (Note 11) and Series C Stock if the Company completed an IPO on AIM that generated gross proceeds of at least \$10 million. NANAF also agreed to relinquish its rights of first refusal and co-sale. In return, the Company agreed to issue 125,000 shares of Common Stock to NANAF. The Company determined that the value of the consideration given to NANAF equaled the value of the consideration received from NANAF, and accordingly, no income or expense was recognized in connection with the Exchange Agreement. In March 2006, the Series C Stock was converted into 3,022,698 shares of common stock in connection with the IPO.

Shares outstanding as of December 31, 2005 were 1,933,337 for Series A, 3,079,431 for Series B, 3,022,698 for Series C, and 5,274,141 for Series D. In connection with the completion of its IPO, the Company issued 13,309,607 shares of common stock as a result of the conversion on a one for one basis of 13,309,607 shares of the Preferred Stock then outstanding.

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT) (con't)

Common Stock

The holders of the common shares are entitled to one vote for each share held at all meetings of stockholders. Dividends and distribution of assets of the Company in the event of liquidation are subject to the preferential rights of any outstanding preferred shares. At December 31, 2006, the Company has reserved 7,689,947 shares of common stock for the exercise of options and warrants.

Recent Issuances

In 2005, the Company issued 2,892,855 shares of common stock in connection with the conversion of Secured Convertible Promissory Notes then outstanding, totaling \$2,158,453 in principal amount and \$153,993 of accrued interest. The principal and accrued interest was converted at a price of \$0.78 per share of common stock.

In 2005, the Company received proceeds of \$122,374 in connection with the exercise of warrants to purchase 156,472 shares of common stock.

In 2005, the Company received proceeds of \$6,500 in connection with the exercise of options to purchase 80,000 shares of common stock.

In 2005, the Company issued 5,535,059 shares of common stock in connection with the cashless exercise of warrants to purchase 11,070,115 shares of common stock.

In 2005, the Company issued 205,000 shares of common stock in connection with the cashless exercise of options to purchase 410,000 shares of common stock.

In 2006, the Company received proceeds of \$769,249 in connection with the exercise of warrants to purchase 983,593 shares of common stock.

In 2006, the Company received proceeds of \$13,355 in connection with the exercise of options to purchase 195,545 shares of common stock.

On March 20, 2006, the Company completed its IPO on the AIM Market of the LSE. In connection with the IPO, the Company sold 12,692,710 shares of common stock at a price of \$2.56 (1.48 GBP) which generated gross proceeds of \$32,504,055 (18,785,214 GBP). Cash expenses incurred in connection with the IPO totaled \$4,413,649, resulting in net proceeds to the Company of \$28,090,406.

In 2006, the Company issued 6,196 shares of common stock as part of the compensation package for the Chairman of the Board of Directors. The Company recorded a charge of \$15,882 in connection with the issuance.

Aqua Bounty Technologies, Inc.

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT) (con't)

In 2006, the Company issued 366,732 shares of common stock in connection with the conversion of Secured Notes then outstanding, totaling \$250,000 in principal amount and \$36,814 of accrued interest. The principal and accrued interest was converted into common stock at a conversion price of \$0.78.

In 2006, the Company issued 806,316 shares of common stock in connection with the conversion of Secured Convertible Promissory Notes then outstanding, totaling \$1,041,029. The principal amount was converted into common stock at a conversion price that was equal to 50% of the price that common shares were sold for in the IPO.

In 2006, the Company issued 13,309,607 shares of common stock in connection with the conversion of all shares of Preferred Stock then outstanding on a one for one basis.

Warrants

The following table summarizes information about the number of warrants outstanding:

	Number of Warrants	Weighted-Average Exercise Price
Outstanding at December 31, 2004	11,024,252	\$0.78
Issued	3,049,428	0.77
Exercised	(11,226,587)	0.78
Cancelled / Expired	(29,181)	0.99
Outstanding at December 31, 2005	2,817,912	\$0.76
Issued	507,708	2.56
Exercised	(983,593)	0.78
Outstanding at December 31, 2006	2,342,027	\$1.15

At December 31, 2006, warrants outstanding and information regarding their exercise price and expiration were as follows:

Warrants Outstanding	Weighted Average Exercise Price Per Share	Expiration Date
115,000	\$0.78	2009
349,659	\$0.78	2010
1,040,940	\$1.65	2011
836,428	\$0.72	2012
<u>2,342,027</u>	<u>\$1.15</u>	

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT) (con't)

Recent Issuances

In 2005, the Company issued a total of 2,889,854 warrants in connection with the issuance of certain notes payable to shareholders (Note 11). The Company also issued 159,574 warrants in connection with a financial advisory agreement, of which 89,248 were exercisable at \$0.20 and 70,326 were exercisable at \$0.78. The Company recorded a non-cash charge of \$40,789 in connection with the issuance of the 89,248 warrants issued.

In 2005, 11,070,115 warrants were exercised on a one-for-two cashless basis resulting in the issuance of 5,535,059 shares of common stock.

In 2005, the Company received proceeds of \$122,374 in connection with the exercise of warrants to purchase 156,472 shares of common stock.

In 2006, upon the completion of its IPO, the Company issued 507,708 warrants to one of the placement agents associated with the IPO (Note 9).

In 2006, the Company received proceeds of \$769,249 in connection with the exercise of warrants to purchase 983,593 shares of common stock.

Stock Options

Unless otherwise indicated, options issued to employees, members of the Board of Directors, and non-employees are fully vested upon issuance and are exercisable for a term of seven years from the date of issuance.

In 1998, the Company established a stock option plan ("the Plan"). The Plan provides for the issuance of incentive stock options to employees of the Company and nonqualified stock options and awards of restricted and direct stock purchases to directors, officers, employees and consultants of the Company.

The following table summarizes stock-based compensation costs recognized in the Company's consolidated statement of operations for the year ended December 31, 2006 and 2005:

	2006	2005
Research and development	\$987,546	\$630,000
General and administrative	1,450,304	1,673,431
Total	\$2,437,850	\$2,370,463

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT) (con't)

As a result of adopting SFAS 123(R) on January 1, 2006, the Company's net loss for 2006 was \$65,645 higher than if it had continued to account for stock-based compensation under APB 25. Both basic and diluted earnings per share would not change for 2006 if the Company had continued to account for stock-based compensation under APB 25. No tax benefit has been recognized related to stock-based compensation expense since the Company has incurred operating losses.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS 123(R) to stock-based employee compensation in prior year:

	2005
Net loss attributable to common shareholders, as reported	\$(7,497,568)
Add: Stock based employee compensation expense recognized	2,303,263
Deduct: Total stock-based employee compensation expense determined under fair value methods for all awards	(2,587,863)
<u>Pro-forma net loss attributable to common shareholders</u>	<u>\$(7,782,168)</u>
Basic and diluted net loss attributable to common shareholders per share, as reported	\$(0.60)
Pro-forma basic and diluted net loss attributable to common shareholders per share	\$(0.62)

The fair market values of stock options granted to employees, Board of Directors and non-employees during 2006 and 2005 were measured on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2006	2005
Expected volatility	50%	80%
Risk free interest rate	4.7%	4.00 – 4.06%
Expected dividend yield	0%	0%
Expected lives (in years)	3.5 - 4.0	5 - 7

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT) (con't)

The risk free interest rate is estimated using U.S. Treasury bond interest rates for a period that is commensurate with the expected term of the awards. The expected dividend yield is zero because the Company has never paid a dividend and does not expect to do so for the foreseeable future. The expected life was based on a number of factors including vesting provisions, exercise price relative to market price, and expected volatility. The Company believes that all groups of employees demonstrate similar exercise and post-vesting termination behavior, and therefore, does not stratify employees into multiple groups. The expected volatility was estimated using a combination of the Company's historical price volatility since its IPO and the average historical volatility of comparable public companies with an expected term consistent with that of the Company.

As part of the requirements of SFAS 123(R), the Company is required to estimate potential forfeitures of stock grants and adjust compensation cost accordingly. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ over from such estimates. Changes in estimated forfeitures will be recognized through a cumulative adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

Employee & Board of Directors Options:

The Company's option activity under the Plan is summarized as follows:

	Number of Options	Weighted-Average Exercise Price
Outstanding at December 31, 2004	875,268	\$0.42
Issued	3,895,000	0.21
Exercised	(490,000)	0.26
Expired	(10,268)	0.20
Outstanding at December 31, 2005	4,270,000	\$0.25
Issued	975,546	0.26
Exercised	(195,545)	0.07
Expired	(105,000)	0.43
Outstanding at December 31, 2006	4,945,001	\$0.25
Exercisable at December 31, 2006	4,759,001	\$0.21

Aqua Bounty Technologies, Inc.

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT) (con't)

The following table summarizes information about options outstanding and exercisable at December 31, 2006:

Weighted-Average Price of Outstanding	Number of Options Outstanding	Weighted-Average Remaining Estimated Life (in years)	Number of Options Exercisable	Weighted-Average Price of Outstanding And Exercisable
\$0.01	714,001	3.1	714,001	\$0.01
\$0.20	3,915,000	5.3	3,825,000	\$0.20
\$1.00	220,000	1.7	220,000	\$1.00
\$2.50	96,000	3.8	-	\$2.50
	<u>4,945,001</u>		<u>4,759,001</u>	<u>\$0.21</u>

The weighted average fair value of employee and Board of Directors stock options granted in 2006 was \$2.38 (2005 - \$0.59). The total intrinsic value of options exercised in 2006 was \$379,084 (2005 - \$264,700).

The following table summarizes non-vested stock option activity during 2006:

	Number of Options	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2004	-	\$0.00
Issued	3,895,000	0.63
Vested	(3,700,000)	0.63
Expired	-	0.00
Non-vested at December 31, 2005	195,000	\$0.63
Issued	975,546	2.35
Vested	(984,546)	2.29
Expired	-	0.00
Non-vested at December 31, 2006	<u>186,000</u>	<u>\$0.87</u>

At December 31, 2006, the balance of unearned stock-based compensation to be expensed in future periods related to unvested share-based awards is \$77,213. The period over which the unearned stock-based compensation is expected to be earned is approximately one year.

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT) (con't)

Recent Issuances

During 2006 and 2005, the Company granted options to purchase 975,546 and 3,895,000 shares of common stock, respectively, to certain executive officers and directors. A total of 879,546 and 3,895,000 of the options granted in 2006 and 2005 respectively have an exercise price less than the fair value of the Company's common stock on the date of issuance and accordingly, The Company recognized non-cash stock-based compensation charges of \$2,323,767 and \$2,303,431 in connection with those grants in 2006 and 2005.

In 2006, the Company received proceeds of \$13,355 in connection with the exercise of options to purchase 195,545 shares of common stock. In 2005, a total of 410,000 options were exercised on a one-for-two cashless basis resulting in the issuance of 205,000 shares of common stock. The Company received proceeds in 2005 of \$6,500 in connection with the exercise of options to purchase 80,000 shares of common stock.

In March 2006, commensurate with the completion of its IPO, the Company entered into an agreement with its Chief Executive Officer and its Chief Scientific Officer. Under the terms of the agreement, each officer agreed to exchange their options to purchase 1,800 shares of its U.S. Subsidiary at an exercise price of \$0.20 per share for options to purchase 387,273 shares of the Company at an exercise price of \$0.01 per share. In addition, the Company issued 75,000 options at an exercise price of \$0.01 pursuant to an employment agreement. The Company recorded non-cash stock-based compensation charges of \$1,975,092 related to the issuance to its Chief Executive Officer and its Chief Scientific Officer and \$191,250 related to the issuance under the employment agreement.

In 2006, prior to the completion of its IPO, the Company granted 30,000 options at an exercise price of \$0.20 and recorded a non-cash stock-based compensation charge of \$18,600 related to the issuance. In June 2006, the Company issued 96,000 options at an exercise price of \$2.50 under the terms of its service agreement with non-executive directors. The Company recognized a non-cash stock-based compensation charge of \$ 52,800 in 2006 for these options which vest over a one year period

Notes to Consolidated Financial Statements

December 31, 2006

13. STOCKHOLDERS' EQUITY (DEFICIT) (con't)

Non-Employee Options:

The Company's option activity is summarized as follows:

	Number of Options	Weighted-Average Exercise Price
Outstanding at December 31, 2004	112,919	\$0.37
Granted	120,000	0.20
Outstanding at December 31, 2005	232,919	\$0.28
Granted	170,000	0.20
Outstanding at December 31, 2006	402,919	\$0.25
Exercisable at December 31, 2006	402,919	\$0.25

The following table summarizes information about options outstanding and exercisable at December 31, 2006:

Weighted- Average Price of Outstanding	Number of Options Outstanding	Weighted-Average Remaining Estimated Life (in years)	Number of Options Exercisable	Weighted-Average Price of Outstanding And Exercisable
\$0.20	370,000	4.2	370,000	\$0.20
\$0.78	32,919	2.9	32,919	\$0.78
	402,919		402,919	\$0.25

The weighted average fair value of non-employee stock options granted in 2006 was \$0.56 (2005 - \$0.58). The total intrinsic values of options exercised in 2006 and 2005 were nil. Proceeds received on the exercise of stock options in 2006 and 2005 were nil.

Recent Issuances

Prior to the completion of its IPO, an officer of the Company provided services as a consultant. Under the terms of the agreement with the Company, the officer was granted 170,000 options in 2006 exercisable at \$0.20. In 2005, the Company granted 120,000 options at an exercise price of \$0.20 under the same agreement. The Company recorded non-cash charges of \$98,200 (2005 - \$67,200).

Notes to Consolidated Financial Statements

December 31, 2006

14. INCOME TAXES

As of December 31, 2006, the Company has net domestic operating loss carryforwards of approximately \$18,300,000 to offset future federal taxable income and federal research and development tax credit carryforwards of approximately \$ 15,000 to offset future federal taxable income, which expires at various times through the year 2026. The future utilization of the net operating loss and tax credit carryforwards, however, may be subject to limitations based on the change in stock ownership rules of Internal Revenue Code Sections 382 and 383. The Company also has foreign net operating loss carryforwards in the amount of approximately \$7,038,716 and foreign investment tax credits of approximately \$2,223,347 at December 31, 2006, which expire through 2013 and 2016, respectively. Since the Company has incurred only losses from inception and there is uncertainty related to the ultimate use of the loss carryforwards and tax credits, a valuation allowance has been recognized to offset the Company's deferred tax assets.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2006	2005
Deferred tax assets:		
Net operating loss carryforwards	\$ 9,633,322	\$ 8,180,146
Federal research and development tax credit carryforwards	2,419,752	2,729,368
Fixed assets	136,859	45,070
Accounts receivable and other	147,849	147,629
Stock options	1,946,472	977,685
Accrued royalties	24,000	20,000
Accrued vacation	23,545	-
Capital loss carryforward	58,481	-
Intangible assets	10,930	-
Total deferred tax assets	\$ 14,401,210	\$ 12,099,898
Valuation allowance	(14,382,688)	(12,065,920)
Net deferred tax assets	\$ 18,522	\$ 33,978
Deferred tax liabilities:		
Intangible assets	-	(15,456)
Other accruals	(18,522)	(18,522)
Net deferred taxes	\$ -	\$ -

The valuation allowance increased by \$2,316,768 during 2006, due primarily to the change in net domestic operating loss carryforwards.

Notes to Consolidated Financial Statements

December 31, 2006

15. COMMITMENTS AND CONTINGENCIES

The Company recognizes and discloses commitments when it enters into executed contractual obligations with other parties. The Company accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Purchase Commitments

In January, 2007 the Company entered into a non-cancelable purchase commitment for certain inventory materials. Under the terms of this agreement, the Company is required to purchase \$2.3 million of material in each of 2007 and 2008. The Company is dependent on the supplier of this material as it does not presently have any other sources from which it can obtain the material. The Company's ability to service its customers would be impaired if it was unable to secure the material from this supplier. This material is a principal component of the product which represented 34% and 59% of the Company's sales for the years ended December 31, 2006 and 2005 respectively.

Lease Commitments

The Company leases office space and laboratory space under non-cancelable operating leases. Future minimum commitments under its operating leases for the next three years and thereafter are as follows:

Twelve months ended	
December 31	Amount
2007	\$188,355
2008	186,855
2009	186,855
	<u>\$562,065</u>

Total rent expense under non-cancelable operating leases was \$138,737 (2005 - \$118,912).

License Agreements

The Company has entered into license agreements with HSC Research and Development, L.P. and Genesis Group, Inc. and Research Corporation Technologies, Inc.

The license agreement with HSC Research and Development, L.P. and Genesis Group, Inc. relates to the Company's transgenic fish program. Under this agreement, the Company is required to make an annual royalty payment of \$25,000, and revenue-based royalty payments equal to five percent of any gross revenues generated from products that utilize the technology covered under the license agreement. No revenue-based royalty payments have been made to date.

Notes to Consolidated Financial Statements

December 31, 2006

15. COMMITMENTS AND CONTINGENCIES (con't)

The license agreement with Research Corporation Technologies, Inc. relates to the use of certain technology. Under this agreement, the Company is required to make an annual royalty payment of \$10,000, and revenue-based royalty payments equal to two to five percent of net sales of medical or industrial products generated from the utilization of the technology covered under the license agreement. No revenue-based royalty payments have been made to date.

Royalty Obligations

The Company is obligated to pay royalties to TPC in an amount equal to 5.2% of gross sales generated from the sale of any growth enhanced transgenic-based fin-fish commercial products in an amount equal to 5.2% of gross sales. Such royalties are payable until the earlier of (i) June 30, 2014 or (ii) until cumulative royalties of C\$5.75 million have been paid. No royalty payments have been made to date.

16. RELATED PARTY TRANSACTIONS

Shareholders

The Company's notes payable to shareholders are described in Note 11.

Officers & Employees

At December 31, 2006 the Company is owed \$15,229 (2005 - \$35,278) from an officer of the Company. The December 31, 2006 balance has no formal terms of repayment and is non-interest bearing. \$20,000 of the amount due at December 31, 2005, which incurred interest at 4%, was repaid in 2006.

In March 2005, the Company borrowed \$10,000 from an employee of the Company. The loan was non-interest bearing. The amount was repaid in the current year.

Notes to Consolidated Financial Statements

December 31, 2006

16. RELATED PARTY TRANSACTIONS (con't)

In October 2004, the Company borrowed \$28,000 from an officer of the Company. Interest at an annual rate of 8% totaled \$577 (2005 - \$2,240). The principal amount plus accrued interest was repaid in the current year.

Related Companies

In 2000, the Company entered into a shared services agreement with A/F Protein, Inc., a related entity. A/F Protein, Inc. and the Company have certain members of the Board of Directors as well as certain shareholders in common. In 2006, pursuant to the agreement, shared services income was \$31,329 (2005 - \$25,808) which is offset to the applicable expense in general and administrative expenses in the consolidated statements of operations. As at December 31, 2006 the amount due from A/F Protein Inc. in relation to the shared service charges was \$37,225 (2005 - \$8,130).

In 2005, the Company borrowed \$80,000 from A/F Protein, Inc. The loan was non-interest bearing and was repaid during 2005. At December 31, 2006 the Company owed a balance of \$2,668 (2005 - \$1,369) to A/F Protein, Inc. related to Canadian government tax credit payments. There are no formal terms of repayment and the amount is non-interest bearing.

17. SEGMENT INFORMATION

Geographic information

The following table displays revenue from product sales and long-lived assets by geographic area:

	Revenue ¹		Long-Lived Assets ²	
	2006	2005	2006	2005
US and Puerto Rico	\$ 2,688	\$ 40,367	\$ 459,447	\$ 298,212
Canada	4,874	-	1,397,948	1,425,532
Mexico	147,563	724,649	-	-
Ecuador	63,857	-	-	-
Chile	2,370	10,154	-	-
Other	4,417	2,184	-	-
	\$225,769	\$777,354	\$1,857,395	\$1,723,744

¹ Revenue consists of product sales and is attributed to countries based on the location of the customer.

² Consists of property and equipment, intangible and other assets, net of accumulated depreciation and amortization. Property and equipment are attributed to countries based on their physical location and intangible and other assets are attributed to countries based on ownership rights.

Board of Directors

Richard Clothier
Chairman of the Board

Elliot Entis
Chief Executive Officer

Lou Barnett

Richard Huber

William Marcus

Eric Steiner, M.D.

Dave Stevens, DVM, Ph.D

Management

Elliot Entis
President and Chief Executive Officer

Thomas Royal
Chief Operating Officer

Kurt Klimpel, Ph.D.
Chief Scientific Officer

Joseph Hernon, CPA
Chief Financial Officer

Ronald Stotish, Ph.D.
Vice President, Regulatory Affairs

Henry Clifford
Vice President of Sales & Marketing

Transfer Agent and Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham, Kent
United Kingdom
BR3 4TU

Inquiries regarding transfer requirements, lost certificates and changes in address should be directed to the registrar above

Independent Auditors

Ernst and Young, LLP
139 Water Street, 7th Floor
St. John's, Newfoundland
Canada, A1C 1B2

Legal Counsel

Jones Day
21 Tudor Street
London, United Kingdom
EC4Y 0DJ

Nominated Advisor (NOMAD)

Nomura Code Securities, Limited
1 Carey Lane
London, United Kingdom
EC2V 8AE

Market for Securities

The Company's common stock trades on the AIM exchange of the London Stock Market under the symbol, ABTX.

AQUA BOUNTY Technologies™

Life^(science) support for aquaculture

San Diego

Microbiology labs
Pharma development
Diagnostic kits and
feed additives

Newfoundland

Microbiology and molecular
breeding labs
Marine wet labs
New species development

Boston

Corporate headquarters
Regulatory interface
Financial management

Prince Edward Island

Production hatchery
Broodstock genetics
GLP certified facility

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