

**RSM! Richter**

**Kree Tech International Corporation**

**Interim Consolidated Financial Statements  
Second Quarter Ended October 31, 2005  
(Unaudited)**

# Kree Tech International Corporation

## Consolidated Balance Sheet (Unaudited)

	As at October 31, 2005	As at April 30, 2005
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 619,303	\$ 834,419
Accounts receivable	727,914	829,265
Inventories	696,170	728,031
Prepaid expenses	55,653	98,258
Income taxes receivable	69,184	73,974
Future income taxes	40,662	43,477
	2,208,886	2,607,424
<b>Property, Plant and Equipment</b>	<b>1,240,553</b>	<b>978,269</b>
<b>Deferred Development costs</b>	<b>149,609</b>	<b>162,917</b>
<b>Future Income Taxes</b>	<b>204,314</b>	<b>186,115</b>
	\$ 3,803,362	\$ 3,934,725
<b>Liabilities</b>		
<b>Current</b>		
Bank loan	302,000	302,000
Accounts payable and accrued liabilities	467,314	505,356
Income taxes payable	28,487	19,310
Current portion of long-term debt	110,959	174,710
Current portion of obligations under a capital lease	32,256	34,489
	941,016	1,035,865
<b>Long-Term Debt</b>	<b>243,383</b>	<b>276,302</b>
<b>Obligations Under a Capital Lease</b>	<b>76,303</b>	<b>98,552</b>
<b>Future Income Taxes</b>	<b>137,741</b>	<b>193,482</b>
	1,398,443	1,604,201
<b>Shareholders' Equity</b>		
<b>Share Capital (note 5)</b>	<b>2,536,431</b>	<b>2,290,425</b>
<b>Other Capital (note 6)</b>	<b>183,674</b>	<b>299,680</b>
<b>Deficit</b>	<b>(315,186)</b>	<b>(259,581)</b>
	2,404,919	2,330,524
	\$ 3,803,362	\$ 3,934,725

See accompanying notes

### Approved on Behalf of the Board:

(SIGNED) GUY GIRARD \_\_\_\_\_ Director

(SIGNED) CHARLES GELBER \_\_\_\_\_ Director

# Kree Tech International Corporation

## Consolidated Statement of Loss and Deficit (Unaudited)

	For the second quarter ended October 31,		For the Six Month Period ended October 31,	
	2005	2004	2005	2004
<b>Net Sales</b>	<b>\$ 1,239,900</b>	<b>\$ 1,007,958</b>	<b>\$ 2,636,435</b>	<b>\$ 2,497,932</b>
<b>Cost of Sales</b>	<b>808,384</b>	<b>774,048</b>	<b>1,823,579</b>	<b>1,799,561</b>
<b>Gross Margin</b>	<b>431,516</b>	<b>233,910</b>	<b>812,856</b>	<b>698,371</b>
<b>Expenses</b>				
Selling	119,224	122,601	273,382	265,656
Administrative	331,126	245,070	597,784	445,516
Financing	9,102	16,345	20,462	25,610
Foreign exchange (gain) loss	8,127	2,638	19,172	(8,065)
	<b>467,579</b>	<b>386,654</b>	<b>910,800</b>	<b>728,717</b>
<b>Loss Before Income Taxes</b>	<b>(36,063)</b>	<b>(152,744)</b>	<b>(97,944)</b>	<b>(30,346)</b>
Income tax expense (recovery)				
Current	1,465	(52,553)	28,785	(33,049)
Future	(25,937)	8,511	(71,124)	7,760
	<b>(24,472)</b>	<b>(44,042)</b>	<b>(42,339)</b>	<b>(25,289)</b>
<b>Net Loss for the Period</b>	<b>(11,591)</b>	<b>(108,702)</b>	<b>(55,605)</b>	<b>(5,057)</b>
<b>Deficit - Beginning of Period</b>	<b>(303,595)</b>	<b>(126,915)</b>	<b>(259,581)</b>	<b>(230,560)</b>
<b>Deficit - End of Period</b>	<b>\$ (315,186)</b>	<b>\$ (235,617)</b>	<b>\$ (315,186)</b>	<b>\$ (235,617)</b>
<b>Basic Loss Per Share</b>	<b>(0.0005)</b>	<b>(0.0146)</b>	<b>(0.0026)</b>	<b>(0.0007)</b>
<b>Diluted Loss Per Share</b>	<b>(0.0005)</b>	<b>(0.0146)</b>	<b>(0.0026)</b>	<b>(0.0007)</b>
<b>Basic Weighted Average Number of Shares Outstanding During the Period</b>	<b>21,623,892</b>	<b>7,454,546</b>	<b>21,464,924</b>	<b>7,454,546</b>
<b>Potentially Dilutive Weighted Average Number of Shares Outstanding during the Period</b>	<b>21,623,892</b>	<b>7,454,546</b>	<b>21,464,924</b>	<b>7,454,546</b>

See accompanying notes

# Kree Tech International Corporation

## Consolidated Statement of Cash Flows (Unaudited)

	For the second quarter ended October 31,		For the Six Month Period ended October 31,	
	2005	2004	2005	2004
<b>Funds Provided (Used) -</b>				
<b>Operating Activities</b>				
Net loss for the period	\$ (11,591)	\$ (108,702)	\$ (55,605)	\$ (5,057)
Adjustments for				
Amortization of property, plant and equipment	23,615	24,623	45,667	48,842
Amortization of deferred development costs	6,654	6,654	13,308	13,308
Write-off of deferred development costs	-	-	-	1,792
Unrealized foreign exchange gain on long-term debt and obligations under a capital lease	(11,553)	(30,191)	(20,338)	(41,693)
Future income taxes	(25,937)	8,511	(71,124)	7,760
	(18,812)	(99,105)	(88,092)	24,952
Changes in non-cash working capital components (note 4)	125,921	217,426	151,742	56,890
	107,109	118,321	63,650	81,842
<b>Investing Activities</b>				
Purchase of property, plant and equipment	(131,221)	(8,406)	(307,951)	(39,643)
Increase in deferred costs	-	(48,998)	-	(54,998)
	(131,221)	(57,404)	(307,951)	(94,641)
<b>Financing Activities</b>				
Net changes in bank loan	(20,000)	46,000	-	150,000
Repayments of long-term debt	(44,444)	(31,022)	(84,446)	(74,115)
Repayments of obligations under a capital lease	(8,074)	(8,172)	(16,369)	(16,657)
Share issuance	130,000	-	130,000	-
	57,482	6,806	29,185	59,228
<b>Net Change in Cash During the Period</b>	<b>33,370</b>	<b>67,723</b>	<b>(215,116)</b>	<b>46,429</b>
<b>Cash Beginning of Period</b>	<b>585,933</b>	<b>86,585</b>	<b>834,419</b>	<b>107,879</b>
<b>Cash End of Period</b>	<b>\$ 619,303</b>	<b>\$ 154,308</b>	<b>\$ 619,303</b>	<b>\$ 154,308</b>

See accompanying notes

### Supplemental Disclosures

Interest paid	\$ 13,264	\$ 11,424	\$ 26,631	\$ 31,270
Income taxes paid	-	(7,050)	15,825	8,451

# Kree Tech International Corporation

## Notes to Interim Consolidated Financial Statements October 31, 2005 (Unaudited)

### 1. Statute and Nature of Activities

The Corporation, incorporated under the *Canada Business Corporation Act*, develops and manufactures medical adhesive tape which it sells to the medical industry across Canada and the United States.

### 2. Significant Accounting Policy

The preparation of the unaudited consolidated financial statements conforms with Canadian generally accepted accounting principles and with the audited consolidated financial statements for the year ended April 30, 2005, except for the following. For a detailed description of the accounting policies used by the Corporation, refer to the annual report for the year ended April 30, 2005. These interim consolidated financial statements do not include all disclosure requirements of Canadian generally accepted accounting principles applicable to the annual consolidated financial statements.

### 3. Statement of Loss

The statement of loss includes the following items:

	For the second quarter ended October 31,		For the Six Month Period ended October 31,	
	2005	2004	2005	2004
<b>Cost of Sales</b>				
Research and development expenses	\$ (284)	\$ 7,033	\$ 5,401	\$ 14,088
Amortization of machinery and equipment	13,224	13,496	26,277	27,570
Amortization of deferred development costs	6,654	6,654	13,308	13,308
<b>Administrative Expenses</b>				
Amortization of property, plant and equipment other than machinery and equipment	10,391	11,127	19,390	21,272
<b>Financing Expenses</b>				
Interest on long-term debt	6,296	4,473	13,019	16,320
Interest on bank loan	6,862	6,951	13,505	14,950

# Kree Tech International Corporation

## Notes to Interim Consolidated Financial Statements October 31, 2005 (Unaudited)

### 4. Changes in Non-Cash Working Capital Components

	For the second quarter ended October 31,		For the Six Month Period ended October 31,	
	2005	2004	2005	2004
Accounts receivable	\$ 222,653	\$ 270,388	\$ 101,351	\$ 66,875
Inventories	15,459	120,828	31,861	53,255
Prepaid expenses	11,487	10,997	42,605	17,559
Accounts payable and accrued liabilities	(125,994)	(139,058)	(38,042)	(943)
Income taxes	2,316	(45,729)	13,967	(79,856)
	\$ 125,921	\$ 217,426	\$ 151,742	\$ 56,890

### 5. Shareholders' Equity

	Number	Amount
On September 9, 2005, 650,000 stock options were exercised for a total cash proceeds to the Corporation of \$130,000. The fair value of these options was \$116,006. This amount was added to the proceeds and recorded as share capital		
Issued -		
Class "A" shares		
Balance as at April 30, 2005	21,305,957	\$ 2,290,425
Exercise of stock option	650,000	246,006
	21,955,957	\$ 2,536,431

# Kree Tech International Corporation

## Notes to Interim Consolidated Financial Statements October 31, 2005 (Unaudited)

### 6. Stock Options

During the six months ended October 31, 2005, 435,000 stock options have expired. The fair value of these options was estimated at \$67,976 according to the Black-Scholes option pricing model.

In addition, 650,000 stock options with a fair value of \$116,006 were exercised.

	Number	Carrying amount
Outstanding and exercisable as at April 30, 2005	1,646,310	\$ 299,680
Exercised	(650,000)	(116,006)
Expired	(435,000)	-
Outstanding and exercisable as at October 31, 2005	561,310	\$ 183,674

### 7. Subsequent Event

Between January 2005 and November 22, 2005, the Corporation has acquired machinery and equipment for its Florida plant for an amount of US\$334,187 (CA\$393,372). Subsequently, the Corporation has entered into a sale and leaseback transaction concerning this machinery and equipment. By virtue of this agreement, the Corporation will sell this asset for a total amount of US\$500,000 (CA\$ 588,550), and sign a 60 months lease. This facility bears interest at a rate of 7.55%, is secured by machinery and equipment, and is repayable in monthly payments of US\$9,981 (CA\$11,749) capital and interest.