

AUDITOR'S REPORT



Certified Public Accountants

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Canadian Rockport Homes Int'l, Inc.
Vancouver, British Columbia

We have audited the accompanying consolidated balance sheets of Canadian Rockport Homes Int'l, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Canadian Rockport Homes Int'l, Inc. as of December 31, 2007 and 2006, and the results of its operations, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses and is currently in default on a significant portion of its debt. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A handwritten signature in black ink, appearing to read "Farber Hass Hurley LLP".

Camarillo, California
January 30, 2009

FINANCIAL STATEMENTS (AUDITED)

FINANCIALS FOR THE FISCAL PERIOD ENDING DECEMBER 31, 2007

CANADIAN ROCKPORT HOMES INT'L, INC.

This exhibit includes the Notes to the Financial Statements. Note that in this Exhibit, there is some duplication of information already presented elsewhere in this document.

CANADIAN ROCKPORT HOMES INT'L, INC. CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

| | <u>December 31, 2007</u> | <u>December 31, 2006</u> |
|------------------------------------|------------------------------|------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 359,925 | \$ 258,265 |
| Inventories | 1,991,002 | 1,535,513 |
| Property, plant and equipment, net | 400,000 | 3,436,928 |
| Prepaid expenses and other assets | 67,882 | 19,058 |
| Deferred financing costs | 209,408 | - |
| Intangible assets - patents | <u>7,158</u> | <u>7,778</u> |
| Total assets | <u>\$ 3,035,375</u> | <u>\$ 5,257,542</u> |

CANADIAN ROCKPORT HOMES INT'L, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

| | <u>December 31,</u> <u>2007</u> | <u>December 31,</u> <u>2006</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------------------------|
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 396,653 | \$ 252,864 |
| Accrued compensation | 1,068,508 | 982,450 |
| Deferred revenue | 106,451 | - |
| Notes payable - officer | 621,834 | 34,494 |
| Notes payable - shareholders | 800,274 | 712,245 |
| Notes payable - other | - | 15,612 |
| Convertible debentures | 39,977 | 205,000 |
| | <u>3,033,697</u> | <u>2,202,665</u> |
| Total liabilities | | |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Common Stock, \$.001 par value; authorized 100,000,000 shares; issued and outstanding 18,151,703 and 17,162,649 shares as of December 31, 2007 and 2006, respectively | 18,151 | 17,162 |
| Additional paid-in capital | 21,720,691 | 16,918,370 |
| Accumulated deficit | (22,278,809) | (14,053,133) |
| Accumulated other comprehensive income | 541,645 | 172,478 |
| | <u>1,678</u> | <u>3,054,877</u> |
| Total stockholders' equity | | |
| Total liabilities and stockholders' equity | <u>\$ 3,035,375</u> | <u>\$ 5,257,542</u> |

CANADIAN ROCKPORT HOMES INT'L, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------------------|-----------------------|-----------------------|
| Revenue | \$ 324,331 | \$ - |
| Operating Costs and Expenses | | |
| Construction and land costs | (2,166,094) | (44,654) |
| General and administrative expenses | (2,639,196) | (2,078,589) |
| Research and development | - | (433,209) |
| Long-lived asset impairment charge | <u>(3,594,004)</u> | <u>-</u> |
| Loss from operations | <u>(8,074,963)</u> | <u>(2,556,452)</u> |
| Other Income (Expenses) | | |
| Gain on forgiveness of debt | 15,612 | 91,484 |
| Gain on settlement of lawsuit | - | 57,372 |
| Interest income | 6,061 | 5,734 |
| Interest expense | <u>(172,386)</u> | <u>(78,379)</u> |
| Total other income (expenses) | <u>(150,713)</u> | <u>76,211</u> |
| Net Loss | <u>\$ (8,225,676)</u> | <u>\$ (2,480,241)</u> |
| Basic and Diluted Loss Per Share | <u>\$ (0.46)</u> | <u>\$ (0.15)</u> |
| Weighted-Average Common Shares Outstanding | <u>17,774,660</u> | <u>16,829,471</u> |

CANADIAN ROCKPORT HOMES INT'L, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|-----------------------------------------|-----------------------|-----------------------|
| Net Loss | \$ (8,225,676) | \$ (2,480,241) |
| Other Comprehensive Income | | |
| Foreign currency translation adjustment | <u>369,167</u> | <u>(692)</u> |
| Net comprehensive loss | <u>\$ (7,856,509)</u> | <u>\$ (2,480,933)</u> |

CANADIAN ROCKPORT HOMES INT'L, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | <u>Common Stock</u> | | <u>Additional Paid-in Capital</u> | <u>Accumulated Deficit</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Total</u> |
|--------------------------------------------------------------------------------------------------|---------------------|------------------|-------------------------------------------|--------------------------------|-----------------------------------------------------------|-----------------|
| | <u>Shares</u> | <u>Amount</u> | | | | |
| Balance - December 31, 2005 | 16,293,195 | \$ 16,293 | \$ 12,467,092 | \$ (11,572,892) | \$ 173,170 | \$ 1,083,563 |
| Shares issued for cash through private placement offerings | 822,938 | 823 | 4,122,292 | - | - | 4,123,115 |
| Costs incurred in offerings | - | - | (416,759) | - | - | (416,759) |
| Shares issued for services rendered in connection with the Company's private placement offerings | 46,516 | 46 | 232,534 | - | - | 232,580 |
| Compensation recognized on stock options | - | - | 513,211 | - | - | 513,211 |
| Net loss | - | - | - | (2,480,241) | - | (2,480,241) |
| Foreign currency translation | - | - | - | - | (692) | (592) |
| Balance - December 31, 2006 | 17,162,649 | 17,162 | 16,918,370 | (14,053,133) | 172,478 | 3,054,877 |
| Shares issued for cash through private placement offerings | 850,394 | 851 | 4,249,404 | - | - | 4,250,255 |
| Costs incurred in offerings | - | - | (371,459) | - | - | (371,459) |
| Shares issued for services rendered in connection with the Company's private placement offerings | 40,354 | 40 | 201,730 | - | - | 201,770 |
| Shares issued for debt financing costs | 52,306 | 52 | 261,478 | - | - | 261,530 |
| Shares issued for conversions of debentures | 46,000 | 46 | 229,954 | - | - | 230,000 |
| Compensation recognized on stock options | - | - | 231,214 | - | - | 231,214 |
| Net loss | - | - | - | (8,225,676) | - | (8,225,576) |
| Foreign currency translation | - | - | - | - | 369,167 | 369,167 |
| Balance - December 31, 2007 | <u>18,151,703</u> | <u>\$ 18,151</u> | <u>\$ 21,720,691</u> | <u>\$ (22,278,809)</u> | <u>\$ 541,645</u> | <u>\$ 1,578</u> |

CANADIAN ROCKPORT HOMES INT'L, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|-----------------------------------------------------------------------------|--------------------|--------------------|
| Cash Flows from Operating Activities | | |
| Net loss | \$ (8,225,676) | \$ (2,480,241) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Compensation expense recognized on stock options | 231,214 | 513,211 |
| Gain on forgiveness of debt | (15,612) | (91,484) |
| Gain on settlement of lawsuit | - | (57,372) |
| Gain on disposition of assets | - | (59) |
| Depreciation and amortization | 347,106 | 127,287 |
| Inventory impairment charges | 1,734,207 | 44,654 |
| Long-lived asset impairment charge | 3,594,004 | - |
| Changes in operating assets and liabilities | | |
| Prepaid expenses and other assets | (40,672) | (17,658) |
| Inventories | (2,017,303) | (1,022,177) |
| Accounts payable and accrued liabilities | 97,790 | (48,425) |
| Accrued compensation | 71,741 | 3,845 |
| Accrued interest | 114,047 | 54,652 |
| Deferred revenue | 106,451 | - |
| Net cash used in operating activities | <u>(4,002,703)</u> | <u>(2,973,767)</u> |
| Cash Flows from Investing Activities | | |
| Net proceeds on disposition of equipment | - | 2,496 |
| Acquisition of equipment and other property | (634,653) | (342,556) |
| Construction of Chilean plant and related improvements | (112,422) | (699,087) |
| Net cash used in investing activities | <u>(747,075)</u> | <u>(1,039,147)</u> |
| Cash Flows from Financing Activities | | |
| Gross proceeds from private offerings | 4,250,255 | 4,123,115 |
| Costs incurred in stock offerings | (141,678) | (94,776) |
| Proceeds from issuance of convertible debentures | 60,000 | 205,000 |
| Proceeds from related party loans | 781,001 | 79,893 |
| Repayments on related party loans | (217,302) | (186,053) |
| Principal reduction on obligations under capital leases | - | (5,073) |
| Net cash provided by financing activities | <u>4,732,276</u> | <u>4,122,106</u> |
| Effect of exchange rates on cash | <u>119,162</u> | <u>67,683</u> |
| Net increase in cash and cash equivalents | 101,660 | 176,875 |
| Beginning balance - cash and cash equivalents | <u>258,265</u> | <u>81,390</u> |
| Ending balance - cash and cash equivalents | <u>\$ 359,925</u> | <u>\$ 258,265</u> |

CANADIAN ROCKPORT HOMES INT'L, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Supplemental Information:

Non-Cash Investing and Financing Activities

2007

During 2007, the Company issued 40,354 shares of its common stock for services rendered in connection with its private offerings. The services were valued at \$201,770. An additional 52,306 shares valued at \$261,530 were issued for debt financing financing costs.

During 2007, convertible debentures totaling \$230,000 were converted into 46,000 shares of the Company's common stock at a conversion rate of \$5 per share.

2006

During 2006, the Company issued 46,516 shares of its common stock for services rendered in connection with its private offerings. The services were valued at \$232,580.

Cash Paid For:

| | <u>2007</u> | <u>2006</u> |
|--------------|-------------|-------------|
| Interest | \$ 58,339 | \$ 23,727 |
| Income Taxes | \$ - | \$ - |

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

CANADIAN ROCKPORT HOMES INT'L, INC.
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 1 –Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which contemplate continuation of Canadian Rockport Homes Int’l, Inc. (the “Company”) as a going concern. However, the Company has incurred significant operating losses, has generated minimal revenues, and is currently in default on a significant portion of its debt. Also, the Company has yet to demonstrate the ability to conduct operations profitably. These matters raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Realization of a major portion of the assets in the accompanying consolidated balance sheet is dependent upon the Company’s ability to meet its financing requirements and to ultimately achieve profitable operations. Management’s plans include raising funds through private placements and issuing debt. Management believes that these sources of funds and current liquid assets will allow the Company to continue as a going concern. However, no assurances can be made that current or anticipated sources of funds will enable the Company to finance future periods' operations.

Business Activities and Related Risks

The Company manufactures and constructs low cost concrete modular housing for the retail market. The Company previously reported as a development stage enterprise (as defined by Statement of Financial Accounting Standards (“SFAS”) No. 7, *Accounting and Reporting by Development Stage Enterprises*) from its inception through September 30, 2007. In the quarter ended December 31, 2007, the Company commenced sales of its modular housing to the retail market. Accordingly, the Company is no longer considered a development stage enterprise.

On February 14, 2007 the Company incorporated Inmobiliaria Jardines Del Valle Limitada (“IJVL”) as a new wholly-owned subsidiary. IJVL is a Chilean entity which was established for the purpose of managing the Company’s future planned home sales. In 2008, IJVL’s name was changed to Inmobiliaria Canadian Rockport Limitada.

Substantially all of the Company’s assets are located in Chile.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and transactions of the Company and its wholly-owned subsidiaries, Canadian Rockport Homes Ltd., Canadian Rockport Trading Limitada, and IJVL. Intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U. S GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company is required to estimate the fair value of all financial instruments included on its balance sheet. The Company considers the carrying value of such amounts in the financial statements to approximate their fair value.

Cash and Cash Equivalents

Liquid investments or investments with original maturities of three months or less are classified as cash equivalents.

Concentration of Credit Risk

The Company maintains all of its cash deposits at three banks. Substantially all cash balances in these banks are uninsured.

Inventories

Inventories are stated at the lower of cost or fair value. In addition to land acquisition, land development, and home construction costs, costs also include overhead. Because the Company's inventories are considered a long-lived asset under U. S. GAAP, the Company is required, under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, to regularly review the carrying value of each parcel or community and write down the value of those parcels or communities for which it believes the values are not recoverable.

Property, Plant and Equipment

Plant and equipment are recorded at cost and are depreciated over their estimated useful lives, which range from 3 to 15 years, using the straight-line method.

The Company, as required by SFAS No. 144, regularly evaluates the recoverability of long-lived assets. If there is an indication that the carrying value of a long-lived asset may not be recoverable and the estimated future cash flows (undiscounted and without interest charges) from the use of the asset are less than the carrying value, a write-down (impairment charge) is recorded to reduce the related asset to its estimated fair value. In 2007, the Company recorded an impairment charge amounting to \$3,594,004 on its long-lived assets (See Note 4).

Foreign Currency Translation

Results of operations for the Company were translated to U. S. dollars using the average exchange rates during the period. Assets and liabilities were translated using the exchange rates in effect at the balance sheet date. Resulting translation adjustments were recorded in stockholders' equity as Accumulated Other Comprehensive Income.

Revenue Recognition

Revenues from sales of homes and related costs are recognized in accordance with the provisions of SFAS No. 66, *Accounting for Sales of Real Estate*, when sales are closed and title passes to the buyer. Sales are closed when all of the following conditions are met: a sale is consummated, a significant down payment is received, the earnings process is complete and the collection of any remaining receivable is reasonably assured.

Research and Development

All costs associated with building prototypes of homes, including model homes, are considered research and development and are charged to expense as incurred.

Issuances Involving Non-cash Consideration

All issuances of the Company's stock for non-cash consideration have been assigned a dollar amount equaling either the market value of the shares issued or the value of consideration received, whichever is more readily determinable.

Stock-Based Compensation

The Company accounts for stock option grants in accordance with SFAS No. 123(R), *Share-Based Payment*, which requires that companies measure and recognize compensation expense in the financial statements at an amount equal to the fair value of share-based payments granted under compensation arrangements.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were \$70,540 and \$59,306 for 2007 and 2006, respectively.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates applicable to the periods in which the differences are expected to reverse. In accordance with SFAS No. 109, the Company assesses, on a quarterly basis, the realizability of its deferred tax assets. A valuation allowance must be established when, based upon available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding plus an assumed increase in common shares outstanding for potentially dilutive securities, which consist of options and warrants to acquire common shares and convertible debentures. Potentially dilutive shares are excluded from the computation in loss periods, as their effect would be anti-dilutive. Basic and diluted loss per share is the same for all periods presented because the impact of potentially dilutive securities is anti-dilutive. There were 5,179,487 shares potentially issuable under outstanding options, warrants and convertible debt instruments as of December 31, 2007.

Note 2 – Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115*. This statement permits entities to choose to measure certain financial assets and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the potential impact of the adoption of SFAS No. 159; however, it is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No.162 will become effective 60 days following Securities and Exchange Commission (“SEC”) approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The Company does not anticipate the adoption of SFAS No. 162 will have a material impact on its results of operations, financial position, or cash flows.

Note 3 – Inventories

Inventories consisted of the following at December 31, 2007 and 2006:

| | December 31, | |
|--------------------------------------------|---------------------|---------------------|
| | 2007 | 2006 |
| Homes, lots and improvements in production | \$ 1,200,432 | \$ 295,330 |
| Land under development | 790,570 | 1,240,183 |
| | <u>\$ 1,991,002</u> | <u>\$ 1,535,513</u> |

Based on the results of its evaluations for impairment under SFAS No. 144, the Company recognized impairment charges related to inventories of approximately \$1,734,000 and \$45,000 in 2007 and 2006, respectively. The impairment charges are included in construction and land costs in the Company’s consolidated statements of operations.

Note 4 –Property, Plant and Equipment

A summary as of December 31, 2007 and 2006 is as follows:

| | December 31, | |
|-------------------------------|---------------------|---------------------|
| | 2007 | 2006 |
| Land | \$ 400,000 | \$ 400,000 |
| Plant | -- | 2,512,472 |
| Trucks and automobiles | -- | 187,514 |
| Furniture and equipment | -- | 726,338 |
| | <u>400,000</u> | <u>3,826,324</u> |
| Less accumulated depreciation | | <u>(389,396)</u> |
| Plant and equipment, net | <u>\$ 400,000</u> | <u>\$ 3,436,928</u> |

The Company has a current operating loss associated with the use of its plant and equipment in its Valle Grande housing development in Chile and has projected additional losses throughout the remainder of the project. In accordance with SFAS No. 144, the Company has recorded a non-cash impairment charge of \$3,594,004 in 2007.

Note 5 - Accrued Compensation

The Company has entered into employment, consulting, and other related contracts with its management and other personnel. The terms of the contracts are from one to three years. Due to the Company's cash flow requirements, the parties to these contracts have agreed to defer payment of portions of their compensation under these agreements.

Note 6 - Payable to Related Parties

On July 26, 2007, the Company's President entered into a loan agreement with a shareholder, in which the President borrowed \$587,552 from the shareholder. Financing costs to procure this loan totaled \$261,530, which were paid through the issuance of 52,306 shares of the Company's common stock to the shareholder and a financing company. This loan is secured by property owned by the President, and is guaranteed by the Company. Concurrent with this transaction, the Company's President loaned \$587,552 to the Company. At December 31, 2007, the total balance of this loan payable is \$621,834. The related unamortized deferred financing costs at December 31, 2007 total \$209,408. This loan matures in August 2009, is payable in monthly installments of interest only, and bears interest at 14% per annum. At its inception, the loan agreement required six months of interest payments to be impounded, and a total of \$7,255 of impounded interest at December 31, 2007 is included in other assets.

In 2002, two shareholders advanced approximately \$65,000 to the Company evidenced by two promissory notes that accrued interest at an annual rate of 10%. In 2006, these notes were restructured into a single promissory note, resulting in a gain of approximately \$75,000. The restructured note is due on demand and accrues interest at 10% per annum. The balance of this obligation on December 31, 2007 was \$102,246. Effective March 30, 2008, the note was converted into 29,980 shares of the Company's common stock. In December 2005, the above two shareholders advanced \$25,000 each to the Company, with interest at an annual rate of 14%. The total balance of these obligations at December 31, 2007, including accrued interest, was \$65,155. These loans are due on demand. Effective March 30, 2008, the shareholders converted their notes into 15,132 shares of the Company's common stock.

During the year ended December 31, 2007, the Company repaid its President \$33,358 on advances made previously to the Company at 0% interest. On June 25, 2007, the Company's President loaned the Company \$136,000, which was repaid in October 2007.

In connection with the purchase of the land to be utilized in the Company's Valle Grande Housing Project, the Company borrowed \$515,000 from a shareholder. Interest is assessed at 7.0% per annum. The loan balance as of December 31, 2007 of \$622,096 includes \$102,600 of accrued interest. The loan was originally scheduled to be repaid over the period from July 2006 to June 2007, in 11 equal monthly payments of principal and interest of \$47,681, and a 12th and final payment of \$41,767. None of the required payments have been made and, accordingly, the loan is currently in default.

Under the terms of the above loan, as modified in January 2006, the shareholder received (a) an approximate 23% interest in a General Security Agreement that encompasses the Company's plant located in Lampa, Chile, (b) the Chilean land, (c) three modular display homes located on the land, and (d) building material and equipment used in the building of the houses on the subject land. In order for the Company to sell individual lots to homebuyers free of any encumbrances, the shareholder has agreed to release his security interest in phases of 40 lot increments. In consideration for the loan, the Company has agreed to pay the shareholder a profit sharing interest equal to approximately \$1,124 per house on the first 229 houses that the Company sells. Profit sharing payments will be made in 11 installments; the first 10 in 20-house increments of approximately \$22,489, and then a final payment (for the last 29 houses) of approximately \$32,610. The shareholder has a right to receive his profit sharing payments in cash or in shares of the Company's common stock at a conversion price of \$5.00 per share. As of December 31, 2007, the Company has accrued \$4,496 in profit sharing payments to this shareholder, due to its sale of four houses in 2007.

In July 2007, the Company received loans from two related parties totaling \$57,449, of which \$47,944 was repaid in August 2007. The Company's intent is to pay interest on these obligations at a rate sufficient to cover the lenders' borrowing costs or 12.0%. The outstanding balance including accrued interest at December 31, 2007 was \$10,777.

Note 7 – Convertible Debentures

In November 2006, the Company issued convertible debentures in exchange for \$205,000. The debentures bear interest at 14.0% per annum, and mature in November 2008 (see Note 12). The debentures are secured by a General Security Agreement (“GSA”) which includes all of the assets of the Company as of May 31, 2006.

During 2007, the Company issued convertible debentures in exchange for \$60,000. During this same period, convertible debentures totaling \$230,000 were converted into 46,000 shares of the Company's common stock at a conversion rate of \$5.00 per share. Convertible debentures outstanding at December 31, 2007, including accrued interest, totaled \$39,977.

Note 8 - Warrants

In connection with private offerings, the Company has issued warrants to purchase shares of the Company's common stock at a price of either \$10.00 or \$7.00 per share. The warrants expire two years after the first date the Company's stock is publicly traded. A summary of all warrants issued is as follows:

| Year | Number of \$7 Warrants Issued | Number of \$10 Warrants Issued |
|----------------|-------------------------------------|--------------------------------------|
| 2005 and prior | 1,132,571 | -- |
| 2006 | 835,454 | 34,000 |
| 2007 | -- | 943,054 |
| | 1,968,025 | 977,054 |

Note 9 - Stock Options

In 2007, the Company granted certain employees options to acquire 134,417 shares of its common stock at \$5 per share. The options are exercisable eight months after the Company begins trading its shares publicly and must be exercised within two years once vested. The Company used the Black-Scholes option pricing model to value the total cost of these options at approximately \$201,000. The total option expense amortized in 2007 amounted to approximately \$231,000. Also in 2007, options to acquire 10,000 shares of the Company's common stock were cancelled.

The following is a summary of the outstanding options (none of which are exercisable):

| | <u>Number of Shares</u> | <u>Weighted Average Exercise Price</u> |
|-------------------------------------------------------------------|-----------------------------|----------------------------------------------------|
| Outstanding - December 31, 2005 | 2,350,000 | \$2.26 |
| Granted | 351,000 | \$5.00 |
| Forfeited | (600,000) | \$(2.00) |
| Outstanding - December 31, 2006 | <u>2,101,000</u> | <u>\$2.79</u> |
| Granted | 134,417 | \$5.00 |
| Forfeited | <u>(10,000)</u> | <u>\$(5.00)</u> |
| Outstanding - December 31, 2007 (price range of \$2.00 to \$5.00) | <u>2,225,417</u> | <u>\$2.91</u> |

Average fair value

| | |
|-------------------------------------------------------------------------------------|---------------|
| Average fair value for options granted in 2006 (Exercise price \$5.00 per share) | <u>\$1.45</u> |
| Average fair value for options granted in 2007 (Exercise price \$5.00 per share) | <u>\$1.50</u> |

The assumptions used in determining the fair value of options granted are as follows:

| | Year Ended December 31, | |
|------------------------------------------|--------------------------------|-------------|
| | 2007 | 2006 |
| Weighted average risk-free interest rate | 4.82% | 4.79% |
| Weighted average expected life | 3.7 years | 3.5 years |
| Expected volatility | 30% | 30% |
| Expected dividends | 0 | 0 |

Note 10 – Income Taxes

The Company is required to file income tax returns in several jurisdictions, the most significant of which are Chile and Canada. No current tax provision was recorded for the years ended December 31, 2007 and 2006 due to reported losses. As of December 31, 2007 the Company had a net operating loss carryforward for Chilean tax purposes of approximately \$3,900,000. This carryforward has no expiration date. The Canadian net operating loss carryforwards amount to approximately \$6,800,000. These net operating loss carryforwards expire in various years through 2027. Deferred tax assets are comprised primarily of net operating loss carryforwards and cumulative impairment charges not yet deducted for tax purposes. A valuation allowance equal to the deferred tax assets recognized has been recorded, as management has not determined that it is more likely than not that the deferred tax asset will be realized. A summary of the deferred tax assets at December 31, 2007 is as follows:

| | |
|----------------------------------|--------------------|
| Net Operating Loss Carryforwards | \$ 2,700,000 |
| Cumulative Impairment Charges | <u>900,000</u> |
| Total Deferred Tax Assets | 3,600,000 |
| Less Valuation Allowance | <u>(3,600,000)</u> |
| Net Deferred Tax Assets | <u>\$ -0-</u> |

The valuation allowance increased \$1,500,000 from the prior year.

Note 11 – Commitments and Contingencies

Leases

Total rent expense for 2007 and 2006 amounted to \$37,272 and \$52,617, respectively.

Beginning in 2006, the Company, in order to conserve resources, relocated certain administrative personnel into office space owned by its President in Vancouver, B.C. In lieu of a stated monthly rent, the Company pays the cost of utilities and certain other costs. Payments for utilities and costs (categorized as rent expense) in 2007 and 2006 amounted to \$20,779 and \$7,450, respectively.

Other Taxes

The Company incurs value-added taxes on purchases of materials and must remit similar taxes on sales of its homes in Chile. The Company is allowed to carry forward the cumulative net amount of value-added taxes paid and to offset taxes which would otherwise be due on home sales until the carryforward has been fully utilized. The net credit available to offset future taxes owed at December 31, 2007 amounts to approximately \$800,000. In addition, a Special Credit is available which can be applied against employee taxes due and other taxes. This Special Credit is computed monthly based on home sales. Any Special Credit remaining at the end of the calendar year end is refunded to the Company in the following year.

Note 12 – Subsequent Events (Unaudited)

Financing Activities

For the period from January 1, 2008 through January 30, 2009, the Company issued 438,528 shares of its common stock through a private offering in exchange for \$2,192,640, and issued 10,451 shares of its common stock for services valued at \$52,255.

In February 2008 and January 2009, the Company granted employee options to acquire 670,000 and 635,000 shares, respectively, of its common stock at \$5.00 per share. The options are exercisable eight months after the Company begins trading its shares publicly and must be exercised within two years once vested.

Effective March 30, 2008 two shareholders converted their notes (with balances amounting to \$167,401 at December 31, 2007) into a total of 45,112 shares of the Company's common stock.

The Company's President advanced funds to the Company in June 2008 to alleviate cash flow needs. The advances were recorded as two separate loans. The combined balance of these loans as of January 30, 2009 was approximately \$80,000. The Company's intent is to pay interest on these obligations at a rate sufficient to cover the lender's borrowing costs. Two shareholders advanced funds to the Company from October through December 2008. These loans bear interest at 14% per annum and are convertible into shares of the Company's stock at a rate of \$5.00 per share. The loans are due on demand; however, no demand may be made before April 30, 2009. The total amount owed on these shareholder loans as of January 30, 2009 was approximately \$500,000. A shareholder advanced funds to the Company in January 2009. This loan bears interest at 20% per annum. The loan is payable upon demand, however, no demand may be made before April 30, 2009. The total amount owed on this shareholder loan as of January 30, 2009 was \$79,000.

Convertible debentures and accrued interest amounting to \$28,884 were due in November 2008. These debentures have not been repaid as of January 30, 2009 and are in default.

Settlement Agreement

In May 2008, the British Columbia Securities Commission ("BCSC") alleged that, from May 2002 to September 2005, the Company and two directors (one of whom is no longer a director) violated certain securities laws in connection with the distribution of securities to investors. The BCSC is the provincial government agency responsible for regulating trading in securities within the Province of British Columbia. In January 2009, the Company, the two directors, and the BCSC entered into a Settlement Agreement (the "Agreement") which will result in the payment of no monetary damages by the Company. The Company has agreed to provide a copy of the Agreement to its shareholders and to conduct an election to determine whether a majority of shareholders are in favor of the Company's current chief executive officer continuing to act as a director and officer of the Company.