

AUDITOR'S REPORT



PORTER & HUNT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

March 18, 2009

To the Board of Directors of
Canadian Rockport Homes Int'l, Inc.

We are not independent with respect to Canadian Rockport Homes Int'l Inc. The accompanying balance sheets as of September 30, 2008 and December 31, 2007, the related statements of operations, comprehensive income (loss) and cash flows for the nine months ended September 30, 2008 and 2007, and the related statement of stockholders' equity (deficit) for the nine months ended September 30, 2008, were not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on them.

A handwritten signature in cursive script that reads "Porter & Hunt, LLP". The signature is written in dark ink and is positioned above the typed name of the firm.

/s/ PORTER & HUNT, LLP
Laguna Hills, California

FINANCIAL STATEMENTS (UNAUDITED)

FINANCIALS FOR THE PERIOD ENDING SEPTEMBER 30, 2008

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. UNAUDITED CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2008 AND DECEMBER 31, 2007

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Assets		
Cash and cash equivalents	\$ 55,690	\$ 359,925
Inventories	2,036,530	1,991,002
Property, plant and equipment, net	420,000	400,000
Prepaid expenses and other assets	316,346	67,882
Deferred financing costs	106,865	209,408
Intangible assets - patents	<u>6,627</u>	<u>7,158</u>
Total assets	\$ <u>2,942,058</u>	\$ <u>3,035,375</u>

CANADIAN ROCKPORT HOMES INT'L, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2008 AND DECEMBER 31, 2007

	<u>September 30,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Liabilities and Stockholders' Equity (Deficit)		
Liabilities		
Accounts payable and accrued liabilities	\$ 359,354	\$ 396,653
Accrued compensation	1,070,428	1,068,508
Deferred revenue	112,484	106,451
Notes payable - officer	723,893	621,834
Notes payable - shareholders	682,222	800,274
Convertible debentures	<u>43,655</u>	<u>39,977</u>
Total liabilities	<u>2,992,036</u>	<u>3,033,697</u>
Commitments and Contingencies		
Stockholders' Equity (Deficit)		
Common Stock, \$.001 par value; authorized 100,000,000 shares; issued and outstanding 18,609,248 and 18,151,703 shares as of September 30, 2008 and December 31, 2007, respectively	18,609	18,151
Additional paid-in capital	24,241,846	21,720,691
Accumulated deficit	(24,841,032)	(22,278,809)
Accumulated other comprehensive income	<u>530,599</u>	<u>541,645</u>
Total stockholders' equity (deficit)	<u>(49,978)</u>	<u>1,678</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 2,942,058</u>	<u>\$ 3,035,375</u>

CANADIAN ROCKPORT HOMES INT'L, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	For the Nine Months Ended	
	September 30, 2008	September 30, 2007
Revenue	\$ 1,282,057	\$ 73,283
Operating Costs and Expenses		
Construction and land costs	(1,482,618)	(788,406)
General and administrative expenses	<u>(2,086,568)</u>	<u>(2,002,158)</u>
Loss from operations	<u>(2,287,129)</u>	<u>(2,717,281)</u>
Other Income (Expenses)		
Gain on forgiveness of debt	-	15,612
Interest income	258	5,487
Interest expense	<u>(275,352)</u>	<u>(72,896)</u>
Total other income (expenses)	<u>(275,094)</u>	<u>(51,797)</u>
Net Loss	\$ <u><u>(2,562,223)</u></u>	\$ <u><u>(2,769,078)</u></u>
Basic and Diluted Loss Per Share	\$ <u><u>(0.14)</u></u>	\$ <u><u>(0.16)</u></u>
Weighted-Average Common Shares Outstanding	<u>18,397,537</u>	<u>17,675,532</u>

CANADIAN ROCKPORT HOMES INT'L, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	For the Nine Months Ended	
	September 30, 2008	September 30, 2007
Net Loss	\$ (2,562,223)	\$ (2,769,078)
Other Comprehensive Income (Loss)		
Foreign currency translation adjustment	<u>(11,046)</u>	<u>250,418</u>
Net comprehensive loss	\$ <u>(2,573,269)</u>	\$ <u>(2,518,660)</u>

CANADIAN ROCKPORT HOMES INT'L, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	<u>Shares</u>	<u>Amount</u>				
Balance - December 31, 2007	18,151,703	\$ 18,151	\$ 21,720,691	\$ (22,278,809)	\$ 541,645	\$ 1,678
Shares issued for cash through private placement offerings	405,982	406	2,028,994	-	-	2,029,400
Costs incurred in offerings			(103,240)	-	-	(103,240)
Shares issued for services rendered in connection with the Company's private placement offerings	2,451	2	12,253	-	-	12,255
Shares issued for other services	4,000	4	19,996	-	-	20,000
Shares issued for conversions of notes	45,112	46	225,514	-	-	225,560
Compensation recognized on stock options	-	-	337,638	-	-	337,638
Net loss	-	-	-	(2,562,223)	-	(2,562,223)
Foreign currency translation	-	-	-	-	(11,046)	(11,046)
Balance - September 30, 2008	<u>18,609,248</u>	<u>\$ 18,609</u>	<u>\$ 24,241,846</u>	<u>\$ (24,841,032)</u>	<u>\$ 530,599</u>	<u>\$ (49,978)</u>

CANADIAN ROCKPORT HOMES INT'L, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

	For the Nine Months Ended	
	September 30, 2008	September 30, 2007
Cash Flows from Operating Activities		
Net loss	\$ (2,562,223)	\$ (2,769,078)
Adjustments to reconcile net loss to net cash used in operating activities		
Compensation expense recognized on stock options	337,638	170,618
Gain on forgiveness of debt	-	(15,612)
Interest on debt instruments	215,762	47,978
Depreciation and amortization	513	255,369
Inventory impairment charges	-	732,528
Changes in operating assets and liabilities		
Prepaid expenses and other assets	(249,280)	(101,620)
Inventories	(45,527)	(1,451,298)
Accounts payable and accrued liabilities	(6,683)	3,485
Accrued compensation	9,545	47,306
Deferred revenue	6,033	75,113
Net cash used in operating activities	(2,294,222)	(3,005,211)
Cash Flows from Investing Activities		
Acquisition of equipment and other property	-	(625,102)
Construction of Chilean plant and related improvements	-	(103,006)
Net cash used in investing activities	-	(728,108)
Cash Flows from Financing Activities		
Gross proceeds from private offerings	2,029,400	3,522,612
Costs incurred in stock offerings	(114,613)	(147,300)
Proceeds from issuance of convertible debentures	-	60,000
Proceeds from related party loans	305,946	781,001
Repayments on related party loans	(165,500)	(81,302)
Net cash provided by financing activities	2,055,233	4,135,011
Effect of exchange rates on cash	(65,246)	35,216
Net increase (decrease) in cash and cash equivalents	(304,235)	436,908
Beginning balance - cash and cash equivalents	359,925	258,265
Ending balance - cash and cash equivalents	\$ 55,690	\$ 695,173

CANADIAN ROCKPORT HOMES INT'L, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Supplemental Information:

Non-Cash Investing and Financing Activities

Nine Months Ended September 30, 2008

During the nine months ended September 30, 2008, the Company issued 2,451 shares of its common stock for services rendered in connection with its private offerings. The services were valued at \$12,255. An additional 4,000 shares valued at \$20,000 were issued for software development services.

During the nine months ended September 30, 2008, notes totaling \$225,560 were converted into 45,112 shares of the Company's common stock at a conversion rate of \$5 per share.

Nine Months Ended September 30, 2007

During the nine months ended September 30, 2007, the Company issued 88,554 shares of its common stock for services rendered in connection with its private offerings. The services were valued at \$442,770. An additional 52,306 shares were issued for services related to financing procured from the Company's President valued at \$261,530.

During the nine months ended September 30, 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.

Cash Paid For:

	For the Nine Months Ended	
	September 30, 2008	September 30, 2007
Interest	\$ 59,590	\$ 24,918
Income Taxes	\$ -	\$ -

CANADIAN ROCKPORT HOMES INT'L, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

Note 1 –Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited 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 unaudited 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 unaudited 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 unaudited 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 four 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 the fourth quarter of 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 \$3,019 and \$69,090 for the nine months ended September 30, 2008 and 2007, 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 6,291,772 shares potentially issuable under outstanding options, warrants and convertible debt instruments as of September 30, 2008.

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 has adopted SFAS No. 162 and does not anticipate that it will have a material impact on its results of operations, financial position, or cash flows.

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 September 30, 2008 and December 31, 2007:

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Homes, lots and improvements in production	\$ 1,162,491	\$ 1,200,432
Land under development	874,039	790,570
	<u>\$ 2,036,530</u>	<u>\$ 1,991,002</u>

Based on the results of its evaluations for impairment under SFAS No. 144, the Company recognized impairment charges related to inventories of approximately \$0 and \$733,000 in the nine month periods ended September 30, 2008 and 2007, 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 September 30, 2008 and December 31, 2007 is as follows:

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Land	\$ 400,000	\$ 400,000
Plant	--	--
Trucks and automobiles	--	--
Furniture and equipment	20,000	--
	<u>420,000</u>	<u>400,000</u>
Less accumulated depreciation	<u>--</u>	<u>--</u>
Plant and equipment, net	<u>\$ 420,000</u>	<u>\$ 400,000</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 the fourth quarter of 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 September 30, 2008 the total balance of this loan payable is \$587,796. The related unamortized deferred financing costs at September 30, 2008 total \$106,865. This loan matures in August 2009, is payable in monthly installments of interest only, and bears interest at 14% per annum.

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. Effective March 30, 2008, the note was converted into 29,980 shares of the Company's common stock. Prior to the conversion, the balance of this obligation on March 30, 2008 was \$136,274. In December 2005, the above two shareholders advanced \$25,000 each to the Company, with interest at an annual rate of 14%. 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. Prior to the conversion, the total balance of these obligations at March 30, 2008, including accrued interest, was \$67,273.

During the nine months ended September 30, 2008, Company's President advanced the Company \$305,946. During this same period the Company repaid its President \$165,500 on these advances. The Company's intent is to pay interest on these obligations at a rate sufficient to cover the lender's borrowing costs.

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 September 30, 2008 of \$671,176 includes \$135,944 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 September 30, 2008, the Company has accrued \$20,232 in profit sharing payments to this shareholder, due to its sale of 18 houses through the balance sheet date.

In July 2007, the Company received a loan from a related party totaling \$9,505. The Company's intent is to pay interest on this obligation at a rate sufficient to cover the lender's borrowing costs or 12.0%. The outstanding balance including accrued interest at September 30, 2008 was \$11,046.

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.

There were no issuances or conversions of debentures during the nine months ended September 30, 2008. Convertible debentures outstanding at September 30, 2008, including accrued interest, totaled \$43,655.

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:

<u>Year</u>	<u>Number of \$7 Warrants Issued</u>	<u>Number of \$10 Warrants Issued</u>
2005 and prior	1,132,571	--
2006	835,454	34,000
2007	--	943,054
2008	--	457,545
	<u>1,968,025</u>	<u>1,434,599</u>

Note 9 - Stock Options

During the nine months ended September 30, 2008, the Company granted certain employees options to acquire 670,000 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 \$853,000. The total option expense amortized in the nine months ended September 30, 2008 amounted to approximately \$338,000. Also in the nine months ended September 30, 2008, options to acquire 15,000 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, 2007	2,225,417	\$2.91
Granted	670,000	\$5.00
Forfeited	<u>(15,000)</u>	<u>\$(5.00)</u>
Outstanding – September 30, 2008 (price range of \$2.00 to \$5.00)	<u>2,880,417</u>	<u>\$3.39</u>

Average fair value

Average fair value for options granted in the nine months ended September 30, 2008 (exercise price \$5.00 per share)

\$1.27

The assumptions used in determining the fair value of options granted during the nine months ended September 30, 2008 are as follows:

Weighted average risk-free interest rate	2.13%
Weighted average expected life	3.55 years
Expected volatility	30%

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 nine months ended September 30, 2008 and 2007 due to reported losses. As of September 30, 2008 the Company had a net operating loss carryforward for Chilean tax purposes of approximately \$5,100,000. This carryforward has no expiration date. The Canadian net operating loss carryforwards amount to approximately \$7,000,000. These net operating loss carryforwards expire in various years through 2028. 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 September 30, 2008 is as follows:

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

The valuation allowance increased \$300,000 during the nine months ended September 30, 2008.

Note 11 – Commitments and ContingenciesLeases

Total rent expense for the nine months ended September 30, 2008 and 2007 amounted to \$11,548 and \$31,813, 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) during the nine months ended September 30, 2008 and 2007 amounted to \$1,390 and \$16,996, 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 September 30, 2008 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**Financing Activities**

For the period from October 1, 2008 through March 18, 2009, the Company issued 28,053 shares of its common stock through a private offering in exchange for \$140,625, and issued 4,000 shares of its common stock for services valued at \$20,000.

In January 2009, the Company granted employee options to acquire 635,000 shares 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.

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 March 18, 2009 was approximately \$509,000. 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 March 18, 2009 was approximately \$81,000.

In February 2009 the Company's President loaned the Company \$52,000. The Company's intent is to pay interest on this obligation at a rate sufficient to cover the lender's borrowing costs, or 1.4%.

Convertible debentures and accrued interest amounting to \$43,655 were due in November 2008 through February 2009. These debentures have not been repaid as of March 18, 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. This election is expected to take place in April 2009.