EXHIBIT B TO

TO THE FRANCHISE OFFERING CIRCULAR

FINANCIAL STATEMENTS

1st PROPANE FRANCHISING, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2006 AND 2005

CONTENTS

CROCE & COMPANY
Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
1st Propane Franchising, Inc. and Subsidary

We have audited the accompanying consolidated balance sheets of the **1st Propane Franchising, Inc.** (a California Corporation) **and Subsidary** (1st Propane of Amador, Inc. a California Corporation) as of June 30, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **1st Propane Franchising, Inc. and Subsidiary** as of June 30, 2006 and 2005, 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.

Croce & Company

CROCE & COMPANY
Accountancy Corporation
Stockton, California
July 28, 2006

CONSOLIDATED BALANCE SHEETS

1st PROPANE FRANCHISING, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

June 30,

ASSETS

	2006	2005
Current assets		
Cash and cash equivalents	$ 30,744	$ 68,700
Accounts receivable	160,820	199,125
Other receivables, related party	15,285	11,395
Inventory	14,745	-
Prepaid expenses	8,718	4,093
Total current assets	230,312	283,313
Property and equipment, less accumulated depreciation of $69,105 and $24,320, respectively	222,394	41,723
Intangible assets, less accumulated amortization of $3,375 and $1,667, respectively	21,206	8,333
Goodwill	231,881	-
Other assets		
Minority interest in subsidiary	5,115	-
Note receivable, related party	38,906	38,906
Total other assets	44,021	38,906
Total assets	$ 749,814	$ 372,275

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

	2006	2005
Current liabilities		
Notes payable	$ 209,964	$ 209,964
Current maturities of long-term debt	30,677	-
Current maturities of obligations under capital leases	17,948	-
Deferred revenue	43,339	-
Accounts payable	90,944	16,863
Accrued expense	118,994	84,025
Marketing fund accrual	136,534	88,398
Total current liabilities	648,400	399,250
Noncurrent liabilities		
Obligations under capital leases	84,493	-
Long-term debt	131,908	-
Total noncurrent liabilities	216,401	-
Total liabilities	864,801	399,250
Shareholders' equity (deficit)		
Common stock, no par value		
Authorized – 500,000 shares		
Issued and outstanding – 335,287 shares	260,374	260,374
Retained earnings (deficit)	(375,361)	(287,349)
	(114,987)	(26,975)
Total liabilities and shareholders' equity (deficit)	$ 749,814	$ 372,275

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

1st PROPANE FRANCHISING, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended June 30,

	2006	2005
Income		
Franchise start-up fees	$ -	$ 60,000
Franchise royalty and service fees	308,427	404,952
Propane sales	374,612	-
Installation charges	12,024	-
Tank rental fees	17,899	-
	712,962	464,952
Cost of sales	235,890	-
Gross profit	477,072	464,952
Expenses		
Salaries	295,621	199,397
Rent	79,002	33,063
Commissions	998	10,000
Supplies and materials	29,083	16,679
Advertising and marketing	12,794	9,009
Payroll taxes	26,550	15,743
Depreciation and amortization	53,319	4,083
Franchise legal services	17,320	22,683
Utilities	17,926	11,171
Consulting	25,300	-
Professional services	35,448	18,466
Employee benefits	24,405	15,789
Travel and entertainment	5,283	7,432
Bad debt expense	38,565	63,588
Small equipment and repairs	10,510	8,561
Insurance	26,335	6,493
Safety and education	4,872	3,120
Tax and licenses	3,438	1,966
Truck & automobile expenses	36,952	1,923
Dues and subscriptions	3,733	3,000
Computers and software	2,308	9,099
Miscellaneous expenses	2,389	312
Reimbursed marketing funds	(9,751)	(25,839)
	742,400	435,738
(Loss) income from operations	(265,328)	29,214

(Continued)

1st PROPANE FRANCHISING, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)

Years ended June 30,

	2006	2005
Other income (expense)		
Miscellaneous income	2,340	6,153
Minority interest in subsidiary's loss	25,114	-
Interest income	3,891	3,891
Interest expense	(57,005)	(34,813)
Loss on asset disposal	-	(993)
Other penalties	-	(312)
	(25,660)	(26,074)
Net (loss) income before income taxes and extraordinary item	(290,988)	3,140
Extraordinary gain (Note L)	204,576	-
Net (loss) income before income taxes	(86,412)	3,140
Income tax expense	1,600	1,926
Net (loss) income	$ (88,012)	$ 1,214

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

1st PROPANE FRANCHISING, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

Two years ended June 30, 2006

	Common stock		Retained earnings	
	Shares	Amount	(deficit)	Total
Balance, July 1, 2004	335,287	$ 260,374	$ (288,563)	$ (28,189)
Net income	-	-	1,214	1,214
Balance, June 30, 2005	335,287	260,374	(287,349)	(26,975)
Net loss	-	-	(88,012)	(88,012)
Balance, June 30, 2006	335,287	$ 260,374	$ (375,361)	$ (114,987)

The accompanying notes are an integral part of this financial statement.

1st PROPANE FRANCHISING, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2006	2005
Cash flows from operating activities		
Net (loss) income	$ (88,012)	$ 1,214
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities		
Depreciation and amortization	53,319	4,083
Minority interest in subsidiary's loss	(25,115)	-
Loss on asset disposal	-	993
Extraordinary gain	(204,576)	-
Decrease (increase) in accounts receivable and other receivable	60,281	(25,287)
Increase in other receivables, related party	(3,890)	(3,891)
Increase in prepaid expenses	(1,059)	(19)
Increase in inventory	(6,530)	-
Increase in accounts payable	18,899	8,166
Increase in accrued expenses	34,042	41,893
Increase in marketing fund accrual	48,136	26,073
Increase in deferred revenue	43,339	-
Net cash (used in) provided by operating activities	(71,166)	53,225
Cash flows from investing activities		
Payments for purchase of subsidiary	(99,697)	-
Payments for purchases of assets	(21,478)	(33,426)
Net cash used in investing activities	(121,175)	(33,426)
Cash flows from financing activities		
Borrowings on note payable	178,744	-
Payment on note payable	(16,158)	-
Payments on capital leases payable	(8,201)	(2,459)
Net cash provided by (used in) financing activities	154,385	(2,459)
Net (decrease) increase in cash and cash equivalents	(37,956)	17,340
Cash and cash equivalents at beginning of year	68,700	51,360
Cash and cash equivalents at end of year	$ 30,744	$ 68,700
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 26,773	$ 30,922
Income taxes	-	1,926
Equipment acquired under capital lease	110,641	-

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

NOTE A – SUMMARY OF ACCOUNTING POLICIES

Organization

1st Propane Franchising, Inc. (the Company) a California stock corporation, was incorporated on October 2, 1997 and issued its initial shares of stock on November 1, 1997. Effective July 1, 1999, the Company filed an election to be treated as an S corporation under Section 1362 of the Internal Revenue Code. Effective January 1, 2002, the Company terminated the subchapter S election. The Company is a franchisor of propane distributorships, providing management and technical services to the franchisees. The Company is based in Rancho Murieta, California. The Company offers its franchises throughout the United States. The Company commenced operations on November 1, 1997 and sold its first franchise on February 26, 1998. The Company grants credit on sales to its customers who conduct business primarily in the propane industry.

On July 18, 2005, the Company purchased 83.334% of the outstanding stock of 1st Propane of Amador, Inc., a franchisee. 1st Propane of Amador, Inc. markets and distributes propane to customers in Amador County, California (and surrounding areas).

Principles of consolidation

The consolidated financial statements include the accounts of 1st Propane Franchising, Inc. and its 83.334% owned subsidiary, 1st Propane of Amador, Inc. The financial activity from 1st Propane of Amador, Inc. has been consolidated within the individual line item presentation of the financial statement with the amount attributable to the other shareholders accounted for as a minority interest. All material intercompany transactions and accounts have been eliminated.

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting, which generally recognizes revenues as income when earned and expenses as deductions when incurred.

Pursuant to SFAS No. 45, "Franchise Fee Revenue," franchise fee revenue is recognized when all material conditions of the sale have been substantially performed. For purposes of franchise start-up fees, revenue is recognized when the Company has provided all training, guidance, and manuals as provided by the franchise agreement. This generally occurs when the franchisee commences operations. For franchise royalty fees, revenue is recognized as earned pursuant to the terms of the franchise agreement.

NOTE A – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

Cash and cash equivalents

The Company considers cash and cash equivalents to be all highly liquid debt instruments purchased with an original maturity of three months or less.

Accounts receivable

The Company uses the allowance method to account for uncollectible accounts receivable. Accounts receivable are presented net of allowance for doubtful accounts of $19,162 and $19,162 at June 30, 2006 and 2005, respectively.

Property and equipment

Property and equipment are stated at cost and depreciated over estimated useful lives on a straight-line method basis. Repairs and maintenance and small equipment purchases are expensed as incurred. Expenditures that significantly increase asset value or extend useful lives are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations. Estimated useful lives in years are as follows:

Computers and software	3-5 years
Leasehold improvements	2-10 years
Leased equipment	5-7 years
Office equipment	6-10 years
Vehicles and equipment	5-7 years

Inventory

Inventory is stated at lower of cost (first-in, first-out basis) or market (net realizable value).

(Continued)

NOTE A – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Intangible assets/goodwill

The corporate trademark is stated at cost and amortized over its estimated 40-year useful life on a straight-line basis. Amortization expense for the years ended June 30, 2006 and 2005 were $250.

Goodwill recorded from the purchase of 1st Propane of Amador, Inc., represents the excess of the cost of the assets purchased over the fair value of the net assets at the date of acquisition. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company will test goodwill annually for impairment. An impairment loss of $6,826 was recognized for the year ended June 30, 2006.

Income taxes

Effective, January 1, 2002, the Company elected to be taxed as a C corporation. Income taxes are provided based on earnings reported in the financial statements. The federal tax rates vary depending on the corporation's income and the California tax rate is 8.84%. Deferred income taxes are calculated under the requirements of SFAS No. 109. Deferred income taxes are provided on timing differences between financial statement and taxable income.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2006	2005
Computers and software	$ 51,808	$ 51,808
Leasehold improvements	27,087	-
Leased equipment	115,930	3,081
Equipment	85,520	-
Office equipment	11,154	11,154
	291,499	66,043
Less accumulated depreciation	(69,105)	(24,320)
	$ 222,394	$ 41,723

Depreciation expense for the years ended June 30, 2006 and 2005 was $53,069 and $3,833, respectively.

NOTE C – BUSINESS COMBINATION

In July 2005, the Company completed the purchase of 1st Propane of Amador, Inc., a privately held retailer of propane, by acquiring 83.334% of the outstanding capital stock of 1st Propane of Amador, Inc. for a total purchase price of $100,000. 1st Propane of Amador, Inc.'s results of operations have been included in the consolidated financial statements since the date of acquisition.

The aggregate purchase price of $100,000 consisted of the purchase of common stock.

The following table presents the allocation of the acquisition cost to the assets acquired and liabilities assumed based on their fair values:

Cash and cash equivalents	$ 303
Accounts receivable	21,976
Inventories	8,215
Property and equipment	93,337
Other current assets	3,566
Intangible assets	14,581
Goodwill	238,708
Total assets acquired	380,686
Current liabilities	260,686
Minority interest	20,000
Total liabilities assumed	280,686
Net assets acquired	$ 100,000

The goodwill was assigned to customer list and market segments in the amount $238,708. None of the goodwill is expected to be deductible for tax purposes.

NOTE D – DEFERRED REVENUE

The Company recognizes revenues as earned. Amount billed in advance of the period in which service is rendered are included as a liability under "Deferred revenue".

NOTE E – CAPITAL LEASES

The Company leases equipment related to the sale and distribution of propane under capital leases expiring over the next five years. The following is an analysis of the leased property as of June 30, 2006.

Bulk propane storage tank	$ 52,000
Domestic propane tanks	25,849
Delivery truck	35,000
Total equipment under capital leases	112,849
Less accumulated depreciation	16,611
	$ 96,238

The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of net minimum lease payments as of June 30, 2006.

Year ending June 30,	
2007	$ 30,451
2008	30,451
2009	30,451
2010	30,451
2011	14,534
Total minimum lease payments	136,338
Less amount representing interest	33,897
Present value of net minimum lease payments	$ 102,441
Current capital lease obligations	$ 17,948
Noncurrent capital lease obligations	84,493
	$ 102,441

NOTE F – LONG-TERM DEBT

Long-term debt consists of the following:

	2006	2005
Larry and Roberta Morgan, interest at 8%, payable in monthly installments of $2,224 including interest, unsecured, due November 30, 2010.	$ 92,467	$ -
Ford Credit, interest at 9.04%, payable in monthly installments of $1,327 including interest, secured by equipment, due September 27, 2010.	55,850	-
Ford Credit, interest at 7.74%, payable in monthly installments of $304 including interest, secured by equipment due January 31, 2011.	14,268	-
	162,585	-
Less current maturities	30,677	-
	$ 131,908	$ -

Maturities of long-term debt are as follows:

Year ending June 30,	
2007	$ 30,677
2008	34,021
2009	37,799
2010	42,006
2011	18,082
	$ 162,585

NOTE G – FRANCHISE REVENUE

The Company is a franchisor of propane distributorships. Pursuant to franchise agreements, the Company is obligated to provide management services including marketing, accounting, manuals, training, service marks, business systems, and proprietary software.

(Continued)

NOTE G – FRANCHISE REVENUE (CONTINUED)

In exchange for such services, franchisees are required to submit at the time of signing a franchise agreement an initial franchise start-up fee of $30,000, which may be waived at the discretion of the Company. In addition, franchisees established before October 2000 are required to submit a monthly royalty payment of 5% of gross receipts with a minimum of $600, and a monthly marketing contribution of 1% gross receipts with a minimum of $200. Franchisees established after October 2000 are required to submit a monthly royalty payment of 6% of gross receipts with a minimum of $600, and a monthly marketing contribution of 1% gross receipts with a minimum of $200. All amounts payable to or received by the Company are non-refundable.

During the year ended June 30, 2006, the Company terminated two franchises. The Company has a total of nine franchises at June 30, 2006.

- 1st Propane of Snowflake, Snowflake, AZ
- 1st Propane of Amador County, Ione, CA
- 1st Propane of Whatcom County, Blaine, WA
- 1st Propane of South Jersey, Salem, NJ (2 territories operating from one office) SW New Jersey and SE New Jersey
- 1st Propane of the Flathead, Kalispell, MT
- 1st Propane – High Desert, Phelan, CA
- 1st Propane – North Texas, Decatur, TX
- 1st Propane – Twin Ports, Poplar, WI

The Company earns revenues from one non-franchised propane company.

NOTE H – INCOME TAXES

Income tax expense consists of the following:

	2006	2005
Current:		
Federal	$ -	$ -
State	1,600	800
	1,600	800
Deferred:		
Federal	-	1,126
State	-	-
	-	1,126
	$ 1,600	$ 1,926

(Continued)

NOTE H – INCOME TAXES (CONTINUED)

The net deferred tax liability in the accompanying balance sheets includes the following components:

	2006	2005
Deferred tax liabilities	$ -	$ -
Deferred tax assets	**80,000**	63,241
Deferred tax asset valuation allowance	**(80,000)**	(63,241)
Net deferred tax asset	**$ -**	$ -

The Company's effective income tax rate is lower than what would be expected if the federal statutory rate was applied to (loss) income before income taxes primarily because of certain expenses deductible for financial reporting purposes that are not deductible for tax purposes which include accrued vacation and state income taxes. Also, the effect of net operating losses must be considered.

Deferred income taxes arise primarily from timing differences between the financial and income tax reporting of state income taxes, compensation expense, depreciation and amortization and net operating loss carryforwards. Because deferred tax assets for net operating loss carryforwards are more likely than not to be unrealized, a deferred tax asset valuation allowance of $80,000 and $63,241 for the fiscal years ended June 30, 2006 and 2005 respectively, has been recognized. The change in the allowance from the prior year is an increase of $16,759. As time passes, management will be able to better assess the amount of tax benefit it will realize from using the carryforwards. The Company has federal net operating loss carryforwards of approximately $400,000 that expire in 2018 through 2021. Additionally, the Company has state net operating loss carryforwards of approximately $375,000 that expire in 2013 through 2021.

NOTE I – RELATED PARTY TRANSACTIONS

The following summarizes the related party balances and transactions as of and for the years ended June 30, 2006 and 2005.

	Related Party	2006	2005
Balance sheet			
Other receivables	Various	$ **15,285**	$ 11,395
Note receivable	Thacher Financial Group, Inc.	**38,906**	38,906
Accounts payable	William W. Thacher	**-**	1,810
Income statement			
Interest income	Thacher Financial Group, Inc.	**3,891**	3,891

NOTE J – COMMITMENTS AND CONTINGENCIES

Operating leases

The Company currently leases office space and equipment under month to month operating leases. Rent expense under these agreements for the years ended June 30, 2006 and 2005 was $79,002 and $33,063, respectively.

The Company is, from time to time, involved in lawsuits arising in the ordinary course of its business that, in the opinion of management, will not have a material effect on the Company's results of operations.

NOTE K – SHAREHOLDERS' DEFICIT/STOCK OPTIONS

Common stock

The Company is authorized to issue up to 500,000 shares of common stock.

Stock options

Effective January 7, 1999, 1st Propane Franchising, Inc. granted stock options to a key employee. The Company has elected to account for the stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Pursuant to Accounting Principles Board Opinion No. 25, no compensation expense has been recognized for the stock options.

If the Company had elected to adopt SFAS No. 123 by recognizing the fair value of the stock based compensation, the Company would have recognized no additional compensation expense as the estimated present value of the option exercise price was in excess of the estimated current value of the stock.

	Number of options outstanding	Option price per share	Extended option price	Weighted average exercise price
Balance, June 30, 2004	50,000	N/A	$ 125,000	$ 2.50
Granted	-		-	
Exercised	-		-	
Retired	-		-	
Balance, June 30, 2005	50,000	N/A	125,000	$ 2.50
Granted	-		-	
Exercised	-		-	
Retired	-		-	
Balance, June 30, 2006	50,000	N/A	$ 125,000	$ 2.50

NOTE L – EXTRAORDINARY GAIN

Subsequent to the acquisition of 1st Propane of Amador, Inc., the Company negotiated a reduction the amounts owed on certain notes payable and capital lease obligations. In addition, accrued interest and accrued late payment fees were forgiven. The total adjustment, which includes principal, interest and late fee forgiveness was $204,576.

NOTE L – SUBSEQUENT EVENT

Subsequent to the balance sheet date, the Company reached a mediated settlement with the Hanson parties (Hanson) relative to the amounts owed by the Company to Hanson. The total amount owed by the Company to Hanson at June 30, 2006 (included on the balance sheet in notes payable and accrued expense) was $301,029. The agreement provides that the total amount due be reduced to $225,000. In addition the Company made a $100,000 payment against the $225,000 balance due, concurrent with the settlement. The remaining balance is payable over 24 months commencing October 1, 2006 with interest at 10% calculated from August 14, 2006.

1st PROPANE FRANCHISING, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2005 AND 2004

CONTENTS

CROCE & COMPANY
Accountancy Corporation

INDEPENDENT AUDITORS' REPORT

Board of Directors
1st Propane Franchising, Inc.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **1st Propane Franchising, Inc.** as of June 30, 2005 and 2004, 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.

Croce & Company

CROCE & COMPANY
Accountancy Corporation
Stockton, California
July 26, 2005

BALANCE SHEETS

1st PROPANE FRANCHISING, INC.

BALANCE SHEETS

June 30,

ASSETS

	2005	2004
Current assets		
Cash and cash equivalents	$ 68,700	$ 51,360
Accounts receivable	199,125	173,838
Other receivables, related party	11,395	7,504
Prepaid expenses	4,093	4,074
Total current assets	283,313	236,776
Property and equipment, less accumulated depreciation of $24,320 and $25,382, respectively	41,723	13,123
Trademark, less accumulated amortization of $1,667 and $1,417, respectively	8,333	8,583
Other assets		
Note receivable, related party	38,906	38,906
	$ 372,275	$ 297,388

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

		2005		2004
Current liabilities				
Current maturities of long-term notes payable	$	209,964	$	209,964
Current maturities of obligations under capital leases		-		2,257
Accounts payable		16,863		8,697
Accrued expense		84,025		42,132
Marketing fund accrual		88,398		62,325
Total current liabilities		399,250		325,375
Noncurrent liabilities				
Obligations under capital leases, less current maturities		-		202
Total liabilities		399,250		325,577
Shareholders' equity (deficit)				
Common stock, no par value				
Authorized – 500,000 shares				
Issued and outstanding – 335,287 shares		260,374		260,374
Retained earnings (deficit)		(287,349)		(288,563)
		(26,975)		(28,189)
Total liabilities and shareholders' equity (deficit)	$	372,275	$	297,388

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

1st PROPANE FRANCHISING, INC.

STATEMENTS OF OPERATIONS

Years ended June 30,

		2005		2004
Income				
Franchise start-up fees	$	60,000	$	-
Franchise royalty and service fees		404,952		421,220
		464,952		421,220
Expenses				
Salaries		199,397		162,530
Rent		33,063		24,376
Commissions		10,000		-
Supplies and materials		16,679		13,552
Advertising and marketing		9,009		2,032
Payroll taxes		15,743		10,379
Depreciation and amortization		4,083		3,972
Franchise legal services		22,683		7,307
Utilities		11,171		9,975
Professional services		18,466		21,692
Employee benefits		15,789		15,341
Travel and entertainment		7,432		8,912
Bad debt expense		63,588		14,576
Small equipment and repairs		8,561		5,172
Insurance		6,493		6,012
Safety and education		3,120		1,652
Tax and licenses		1,966		11,554
Automobile expenses		1,923		928
Dues and subscriptions		3,000		2,963
Computers and software		9,099		-
Miscellaneous expenses		312		3,317
Reimbursed marketing funds		(25,839)		(18,693)
		435,738		307,549
Income (loss) from operations		(29,214)		113,671
Other income (expense)				
Miscellaneous income		6,153		8,855
Interest income		3,891		3,891
Interest expense		(34,813)		(30,661)
Loss on asset disposal		(993)		(9,284)
Other penalties		(312)		(4,598)
		(26,074)		(31,797)
Net income before income taxes		3,140		81,874
Income tax expense		1,926		800
Net income	$	1,214	$	81,074

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

1st PROPANE FRANCHISING, INC.

STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

Two years ended June 30, 2005

	Common stock		Retained earnings (deficit)	Total
	Shares	Amount		
Balance, July 1, 2004	335,287	$ 260,374	$ (369,637)	$ (109,263)
Net income	-	-	81,074	81,074
Balance, June 30, 2004	335,287	260,374	(288,563)	(28,189)
Net income	-	-	1,214	1,214
Balance, June 30, 2005	335,287	$ 260,374	$ (287,349)	$ (26,975)

The accompanying notes are an integral part of this financial statement.

1st PROPANE FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2005	2004
Cash flows from operating activities		
Net income	$ 1,214	$ 81,074
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,083	3,972
Loss on asset disposal	993	9,284
Increase in accounts receivable and other receivable	(25,287)	(34,743)
Increase in other receivables, related party	(3,891)	(3,890)
Increase in prepaid expenses	(19)	(1,969)
Increase in accounts payable	8,166	4,322
Increase (decrease) in accrued expenses	41,893	(12,821)
Increase in marketing fund accrual	26,073	30,743
Net cash provided by operating activities	53,225	75,972
Cash flows from investing activities		
Payments for purchases of assets	(33,426)	(3,084)
Net cash used in investing activities	(33,426)	(3,084)
Cash flows from financing activities		
Borrowings of note payable	-	8,340
Payment on note payable	-	(41,538)
Payments on capital leases payable	(2,459)	(3,155)
Net cash used in financing activities	(2,459)	(36,353)
Net increase in cash and cash equivalents	17,340	36,535
Cash and cash equivalents at beginning of year	51,360	14,825
Cash and cash equivalents at end of year	$ 68,700	$ 51,360
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	$ 30,922	$ 30,661
Income taxes	1,926	800

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

1st PROPANE FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

NOTE A – SUMMARY OF ACCOUNTING POLICIES

Organization

1st Propane Franchising, Inc. (the Company) a California stock corporation, was incorporated on October 2, 1997 and issued its initial shares of stock on November 1, 1997. Effective July 1, 1999, the Company filed an election to be treated as an S corporation under Section 1362 of the Internal Revenue Code. Effective January 1, 2002, the Company terminated the subchapter S election. The Company is a franchisor of propane distributorships, providing management and technical services to the franchisees. The Company is based in Rancho Murieta, California. The Company offers its franchises throughout the United States. The Company commenced operations on November 1, 1997 and sold its first franchise on February 26, 1998. The Company grants credit on sales to its customers who conduct business primarily in the propane industry.

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting, which generally recognizes revenues as income when earned and expenses as deductions when incurred.

Pursuant to SFAS No. 45, "Franchise Fee Revenue," franchise fee revenue is recognized when all material conditions of the sale have been substantially performed. For purposes of franchise start-up fees, revenue is recognized when the Company has provided all training, guidance, and manuals as provided by the franchise agreement. This generally occurs when the franchisee commences operations. For franchise royalty fees, revenue is recognized as earned pursuant to the terms of the franchise agreement.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

Cash and cash equivalents

The Company considers cash and cash equivalents to be all highly liquid debt instruments purchased with an original maturity of three months or less.

(Continued)

NOTE A – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Property and equipment are stated at cost and depreciated over estimated useful lives on a straight-line method basis. Repairs and maintenance and small equipment purchases are expensed as incurred. Expenditures that significantly increase asset value or extend useful lives are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations. Estimated useful lives in years are as follows:

Computers and software	3-5 years
Leasehold improvements	2-10 years
Leased equipment	5 years
Office equipment	6-10 years

Trademark

The corporate trademark is stated at cost and amortized over its estimated 40-year useful life on a straight-line basis. Amortization expense for the years ended June 30, 2005 and 2004 were $250.

Income taxes

Effective, January 1, 2002, the Company elected to be taxed as a C corporation. Income taxes are provided based on earnings reported in the financial statements. The federal tax rates vary depending on the corporation's income and the California tax rate is 8.84%. Deferred income taxes are calculated under the requirements of SFAS No. 109. Deferred income taxes are provided on timing differences between financial statement and taxable income.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2005	2004
Computers and software	$ 31,808	$ 16,856
Leasehold improvements	-	2,371
Leased equipment	3,081	9,406
Office equipment	11,154	9,872
	66,043	38,505
Less accumulated depreciation	(24,320)	(25,382)
	$ 41,723	$ 13,123

Depreciation expense for the year ended June 30, 2005 and 2004 were $3,833 and $3,722, respectively.

NOTE C – CAPITAL LEASES

Capital leases consist of the following:

	2005	2004
GE Capital Colonial Pacific, 11%, $205 per month including interest, secured by equipment, due July 15, 2005.	$ -	2,459
	-	2,459
Less current maturities	-	2,257
	$ -	$ 202

NOTE D – FRANCHISE REVENUE

The Company is a franchisor of propane distributorships. Pursuant to franchise agreements, the Company is obligated to provide management services including marketing, accounting, manuals, training, service marks, business systems, and proprietary software.

(Continued)

NOTE D – FRANCHISE REVENUE (CONTINUED)

In exchange for such services, franchisees are required to submit at the time of signing a franchise agreement an initial franchise start-up fee of $30,000, which may be waived at the discretion of the Company. In addition, franchisees established before October 2000 are required to submit a monthly royalty payment of 5% of gross receipts with a minimum of $600, and a monthly marketing contribution of 1% gross receipts with a minimum of $200. Franchisees established after October 2000 are required to submit a monthly royalty payment of 6% of gross receipts with a minimum of $600, and a monthly marketing contribution of 1% gross receipts with a minimum of $200. All amounts payable to or received by the Company are non-refundable.

During the year ended June 30, 2005, the Company terminated two franchises and added two new franchises. The Company has a total of eleven franchises at June 30, 2005.

1st Propane of Snowflake, Snowflake, AZ
1st Propane of Amador County, Ione, CA
1st Propane of Whatcom County, Blaine, WA
1st Propane – Twin Ports, Poplar, WI
1st Propane of South Jersey, Salem, NJ (2 territories operating from one office) SW New Jersey and SE New Jersey
1st Propane of the Flathead, Kalispell, MT
1st Propane – Missouri Ozarks, Nixa, MO
1st Propane – High Desert, Phelan, CA
1st Propane – North Texas, Decatur, TX
1st Propane – Lake of the Ozarks, Sunrise Beach, MO

In addition, the Company earns revenues from one non-franchised propane company.

NOTE E – INCOME TAXES

Income tax expense consists of the following:

	2005	2004
Current:		
Federal	$ -	$ -
State	800	800
	800	800
Deferred:		
Federal	1,126	-
State	-	-
	1,126	-
	$ 1,926	$ 800

(Continued)

NOTE E – INCOME TAXES (CONTINUED)

The net deferred tax liability in the accompanying balance sheets include the following components:

	2005	2004
Deferred tax liabilities	$ -	$ -
Deferred tax assets	63,241	42,096
Deferred tax asset valuation allowance	(63,241)	(42,096)
Net deferred tax asset	$ -	$ -

The Company's effective income tax rate is lower than what would be expected if the federal statutory rate was applied to income (loss) before income taxes primarily because of certain expenses deductible for financial reporting purposes that are not deductible for tax purposes which include accrued vacation and state income taxes. Also, the effect of net operating losses must be considered.

Deferred income taxes arise primarily from timing differences between the financial and income tax reporting of state income taxes, compensation expense, depreciation and amortization and net operating loss carryforwards. Because deferred tax assets for net operating loss carryforwards are more likely than not to be unrealized, a deferred tax asset valuation allowance of $63,241 and $42,096 for the fiscal years ended June 30, 2005 and 2004 respectively, has been recognized. The change in the allowance from the prior year is an increase of $21,145. As time passes, management will be able to better assess the amount of tax benefit it will realize from using the carryforwards. The Company has federal net operating loss carryforwards of $243,661 that expire in 2018. Additionally, the Company has state net operating loss carryforwards of $269,812 that expire in 2013.

NOTE F – RELATED PARTY TRANSACTIONS

The following summarizes the related party balances and transactions as of and for the years ended June 30, 2005 and 2004.

	Related Party	2005	2004
Balance sheet			
Other receivables	Various	$ 11,395	$ 7,504
Note receivable	Thacher Financial Group, Inc.	38,906	38,906
Accounts payable	William W. Thacher	1,810	1,104
Income statement			
Interest income	Thacher Financial Group, Inc.	3,891	-

NOTE G – COMMITMENTS AND CONTINGENCIES

Operating leases

The Company currently leases office space and equipment under long-term operating leases with various expiration dates through February 2007. Rent expense under these agreements for the years ended June 30, 2005 and 2004 was $33,063 and $24,376, respectively.

Future minimum lease payments required under the operating lease are as follows:

Year ending June 30,	
2006	$ 11,416
2007	944
	$ 12,360

The Company is, from time to time, involved in lawsuits arising in the ordinary course of its business that, in the opinion of management, will not have a material effect on the Company's results of operations.

NOTE H – SHAREHOLDERS' DEFICIT

Common stock

The Company is authorized to issue up to 500,000 shares of common stock.

Stock options

Effective January 7, 1999, 1st Propane Franchising, Inc. granted stock options to a key employee. The Company has elected to account for the stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Pursuant to Accounting Principles Board Opinion No. 25, no compensation expense has been recognized for the stock options.

If the Company had elected to adopt SFAS No. 123 by recognizing the fair value of the stock based compensation, the Company would have recognized no additional compensation expense as the estimated present value of the option exercise price was in excess of the estimated current value of the stock.

	Number of options outstanding	Option price per share	Extended option price	Weighted average exercise price
Balance, June 30, 2003	50,000		$ 125,000	$ 2.50
Granted	-		-	
Exercised	-		-	
Retired	-		-	
Balance, June 30, 2004	50,000		125,000	$ 2.50
Granted	-		-	
Exercised	-		-	
Retired	-		-	
Balance, June 30, 2005	50,000		$ 125,000	$ 2.50

NOTE I – SUBSEQUENT EVENT

Subsequent to June 30, 2005, the Company entered into an agreement to acquire an ownership interest in the operations of 1st Propane of Amador County. 1st Propane of Amador County is a franchise of the Company.