ACE DURAFLO SYSTEMS, LLC

EXHIBIT B

FINANCIAL STATEMENTS

DEPARTMENT OF CORPORATIONS
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Financial Statements and
Independent Auditors' Report

ACE DURAFLO®
THE REPIPING ALTERNATIVE

As of and for the Years Ended December 31, 2005 and 2004

ACE DURAFLO SYSTEMS, LLC

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December 31, 2005 and 2004

HASKELL & WHITE LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members and Management
ACE Duraflo Systems, LLC

We have audited the accompanying balance sheets of ACE Duraflo Systems, LLC (the "Company") as of December 31, 2005 and 2004, and the related statements of operations and members' equity, 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 ACE Duraflo Systems, LLC as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Haskell & White LLP

HASKELL & WHITE LLP

March 2, 2006
Irvine, California

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ACE DURAFLO SYSTEMS, LLC

Balance Sheets

December 31, 2005 and 2004

	2005	2004
ASSETS		
Current assets:		
Cash (Note 2)	**$ 261,375**	$ 388,792
Cash - restricted (Note 3)	**90,771**	98,477
Accounts receivable, net of allowance for doubtful accounts of $35,000 and $15,000, in 2005 and 2004, respectively	**141,966**	84,474
Accounts receivable - related parties	**32,852**	12,873
Inventory	**135,905**	140,250
Net investments in sales-type equipment leases - related party	**33,150**	85,623
Total current assets	**696,019**	810,489
Fixed assets:		
Office furniture and equipment	**68,281**	68,281
Computer hardware and software	**25,718**	25,718
Equipment	**68,700**	-
Vehicles	**115,740**	98,240
Total	**278,439**	192,239
Less accumulated depreciation	**(192,141)**	(98,332)
Fixed assets - net	**86,298**	93,907
Other assets:		
Deposits and other assets	**37,745**	23,942
Net investment in sales-type equipment leases - related party (less current portion)	**4,410**	112,531
Total other assets	**42,155**	136,473
Total assets	**$ 824,472**	$ 1,040,869

See accompanying notes to financial statements.

ACE DURAFLO SYSTEMS, LLC

Balance Sheets (continued)

December 31, 2005 and 2004

LIABILITIES AND MEMBERS' EQUITY

	2005	2004
Current liabilities		
Accounts payable	**$ 43,422**	$ 15,286
Accounts payable - related parties	**22,544**	7,709
Accrued expenses	**212,614**	187,078
Current portion of long-term debt (Note 6)	**83,129**	208,995
Note payable - member (Note 5)	**-**	415,050
Total current liabilities	**361,709**	834,118
Long-term liabilities:		
Long-term debt, less current portion (Note 6)	**91,576**	149,694
Note payable - member (Note 5)	**195,000**	-
Total long-term liabilities	**286,576**	149,694
Commitments and contingencies (Notes 3, 8, 9, 10 12 and 14)		
Members' equity	**176,187**	57,057
Total liabilities and members' equity	**$ 824,472**	$ 1,040,869

See accompanying notes to financial statements.

ACE DURAFLO SYSTEMS, LLC

Statements of Operations and Members' Equity (Deficit)

For the Years Ended December 31, 2005 and 2004

	2005	2004
REVENUES		
Products sales	$ 1,245,898	$ 1,038,818
Licensing income	174,300	74,700
Royalty income	764,159	789,360
Other	41,307	38,013
Total revenues	2,225,664	1,940,891
EXPENSES		
Cost of products sold	1,079,092	901,174
Salaries and fringe benefits	589,881	431,926
Consulting	64,953	67,199
License fees	180,000	150,000
Advertising	137,205	80,421
Other general and administrative	405,516	320,016
Rent	204,324	188,654
Miscellaneous	-	3,508
Total expenses	2,660,971	2,142,898
Loss from operations	(435,307)	(202,007)
Other (expense) income:		
Interest income	8,398	29,804
Interest expense	(52,156)	(74,140)
Other	-	5,325
Other (expense) - net	(43,758)	(39,011)
Net loss	(479,065)	(241,018)
Members' equity, beginning of year	57,057	25,975
Capital contributed by members (Note 7)	598,195	272,100
Members' equity, end of year	$ 176,187	$ 57,057

See accompanying notes to financial statements.

ACE DURAFLO SYSTEMS, LLC

Statements of Cash Flows

For the Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities		
Net loss	$ **(479,065)**	$ (241,018)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation	**47,206**	34,323
Non-cash interest expense	**12,000**	12,500
Gain on sale of fixed assets	**-**	(5,117)
Change in assets and liabilities:		
Cash - restricted	**7,706**	(43,678)
Accounts receivable	**(57,492)**	79,424
Accounts receivable - related parties	**(19,979)**	39,259
Inventory	**4,345**	264,944
Deposits and other assets	**(13,802)**	836
Accounts payable	**28,136**	(102,098)
Accounts payable - related parties	**14,835**	(11,246)
Accrued expenses	**25,536**	(15,104)
Net cash (used in) provided by operating activities	**(430,574)**	13,025
Cash flows from investing activities		
Net proceeds from investment in sales-type equipment leases - related party	**120,997**	79,111
Purchases of fixed assets	**-**	(2,215)
Proceeds from sale of fixed assets	**-**	28,655
Net cash provided by investing activities	**120,997**	105,551
Cash flows from financing activities		
Principal payments on long-term debt	**(195,985)**	(322,418)
Cash contributions by members	**378,145**	-
Net cash provided by (used in) financing activities	**182,160**	(322,418)

ACE DURAFLO SYSTEMS, LLC

Statements of Cash Flows (continued)

For the Years Ended December 31, 2005 and 2004

	2005	2004
Net decrease in cash	(127,417)	(203,842)
Cash, beginning of year	388,792	592,634
Cash, end of year	$ 261,375	$ 388,792

Supplemental disclosure of cash flow information:

	2005	2004
Cash paid during the period for interest	$ 50,270	$ 106,877
Cash paid during the period for income taxes	$ 6,800	$ 6,800

Supplemental disclosure of noncash financing and investing activities:

	2005	2004
Net investments in sales-type equipment leases exchanged for fixed assets, net of accumulated depreciation of $46,603	$ 39,597	$ -
Notes payable - member converted to members' equity	$ 220,050	$ 272,100

ACE DURAFLO SYSTEMS, LLC

Notes to Financial Statements
December 31, 2005

1. Summary of Significant Accounting Policies and Industry Information

Industry information

ACE Duraflo Systems, LLC (the "Company"), located in Placentia, California, offers licenses under the name ACE Duraflo that allow licensees to use a proprietary process to clean and recondition pipelines of various compositions (the "System"). The sale of licenses is regulated by the Federal Trade Commission and various state and provincial regulations in the United States and in Canada.

The Company's revenues are derived from the sale of franchises, royalty fee income, and supply and equipment sales to franchisees. The Company markets its franchises throughout the United States. At December 31, 2005, the Company has six licensees that are operated by affiliates of the Company, and 17 other licensees.

The Company was organized as a Limited Liability Company in the State of Nevada on August 24, 1999, and will continue until June 30, 2029, unless dissolved prior to that date in accordance with its Operating Agreement.

Basis of Presentation

The accompanying financial statements have been prepared on a going concern basis of accounting. The Company has continued to incur net losses of $479,065 and $241,018 for the years ended December 31, 2005 and 2004, respectively. The Company has $176,187 and $57,057 of members' equity as of December 31, 2005 and 2004, respectively. The Company's ability to continue as a going concern is dependent on its ability to meet its financing obligations and improve its profitability and cash flows from operations.

During 2005, the Company converted a portion of a note payable in the amount of $220,050 into members' equity in order to improve its financial position (see Note 7). The Company has a $195,000 note payable due to a member at December 31, 2005, which is due on December 31, 2007. However, since the note payable is to a member, the member and the Company have orally agreed to flexibility in the repayment terms. Management also expects the Company to improve results of operations during the year ending December 31, 2006, through increased sales of licenses revenue, corresponding product sales, increased royalty income, and reduced overhead and administrative expenses.

Management believes that these actions and available resources will mitigate the conditions discussed.

1. Summary of Significant Accounting Policies and Industry Information (continued)

Revenue Recognition

When an individual license is sold, the Company agrees to provide certain products and services to the licensee, including an initial training program, selection of equipment, and a starter kit for sales promotion. The Company recognizes licensing income as revenue when substantially all initial services required by the license agreement are performed, which is generally upon completion of training. Continuing royalty income is recognized as earned. Product revenue is recognized when shipped.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

The Company does not require collateral from customers in the ordinary course of business. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. Management considered an allowance for doubtful accounts of $35,000 and $15,000 necessary as of December 31, 2005 and 2004, respectively.

Inventory

Inventory is stated at the lower of cost, using the first-in, first-out (FIFO) method or the specific identification method, or market. Inventory at December 31, 2005 and 2004, respectively, consisted mostly of equipment inventory.

1. Summary of Significant Accounting Policies and Industry Information (continued)

Fixed Assets

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from three to seven years.

Stock-Based Compensation for Employees and Non-Employees

The Company accounts for its employee member option plans using the intrinsic value method. When stock options are granted to employees with exercise prices less than the fair value of the underlying common stock at the date of grant, the difference is recognized as deferred compensation expense, which is amortized over the vesting period of the options.

The Company accounts for stock options issued to non-employees using the minimum value method under the provisions of Statement No. 123, Accounting for Stock Based Compensation. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 4.20%; dividend yield of 0.00%; and volatility of 0%; life of option 4 years. The Black-Scholes model, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely-tradable, fully-transferable options without vesting restrictions, which significantly differ from the Company's stock option plans. These models also require highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated fair value on the grant date.

Advertising Costs

Advertising costs are expensed as incurred. The Company incurred $137,205 and $80,421 of such costs during the years ended December 31, 2005 and 2004, respectively.

Income Taxes

The financial statements do not include a provision for income taxes. The Company's earnings and losses are passed through to the members and are reported on their respective tax returns. The Company files the appropriate limited liability company income tax returns on a calendar year basis. The minimum gross receipts tax for the Company is $6,000 for each of the years ended December 31, 2005 and 2004, respectively, and is included in general and administrative expenses.

ACE DURAFLO SYSTEMS, LLC

Notes to Financial Statements (continued)
December 31, 2005

1. Summary of Significant Accounting Policies and Industry Information (continued)

New Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No.123 (Revised), Shared-Based Payment. This standard revises SFAS No. 123, APB Opinion No. 25 and related accounting interpretations and eliminates the use of the intrinsic value method for employee stock-based compensation. SFAS No. 123 (R) requires compensation costs related to share based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for award. Currently, the Company uses the intrinsic value method of APB Opinion No. 25 to value share-based options granted to employees and board members. This standard requires the expensing of all share-based compensation including options, using the fair value based method. The effective date of this standard for the Company will be January 1, 2006. Management has assessed the impact of this new standard and has deemed that it will not have a material impact on the Company's financial statements.

Reclassifications

Certain reclassifications were made to the 2004 financial statements to conform to the 2005 presentation.

2. Cash

The Company's cash in its bank deposit accounts from time to time exceeds federally insured limits. As of December 31, 2005 the Company's cash balances exceed the insured limits. The Company has not experienced losses in these accounts and believes they are not exposed to any significant credit risk.

3. National Advertising Fund

The Company administers a national advertising fund for the benefit of its licensees. All amounts collected by this fund from licensees are restricted for use in advertising and promotional efforts of the Company. At December 31, 2005 and 2004, cash - restricted and accrued expenses included $90,771 and $98,477, respectively, held by the fund that was contributed by affiliates and licensees of the Company.

4. Net Investment in Sales-Type Equipment Leases - Related Party

The Company entered into capital leases during 2001 as the lessor for certain equipment with a related party. These leases have been accounted for as sales-type capital leases. The net investment in sales-type equipment leases - related party totaling $37,560 and $198,154 at December 31, 2005 and 2004, respectively, has been recorded in the accompanying financial statements at the present value of the future minimum lease payments to be received, discounted at interest rates ranging between 4.1% and 14.0%.

The future minimum annual payments to be received for the years subsequent to December 31, 2005, are as follows:

2006	$	34,044
2007		4,440
2008		-
2009		-
Total minimum lease payments to be received		38,484
Less unearned income		924
Net investment in sales-type equipment leases - related party		37,560
Less current portion		33,150
Long-term portion of net investment in sales-type equipment leases - related party	$	4,410

5. Notes Payable - Member

During 2003, the Company originated an unsecured note payable to a member with an original principal amount of $1,000,000. During 2005, 2004 and 2003, the Company converted $220,050, $272,100 and $312,850, respectively of principal of this note into members' equity (Note 7) resulting in a balance of this note of $195,000 and $415,050, at December 31, 2005 and 2004, respectively. The note bears interest of 7.5% annually and in 2005, the note was amended to be due on December 31, 2007 from previously being due on demand.

6. Long-Term Debt

The Company entered into several installment notes payable with a financing company to purchase certain equipment inventory. These notes are secured by the equipment inventory, bear interest at rates ranging from 5.26% to 9.38%, require monthly payments of principal and interest ranging from $645 to $1,280, plus interest and mature from June 2005 through September 2008. The balance of these installment notes payable as of December 31, 2005 and 2004, was $147,734 and $323,227, respectively. The Company is required to remit the loan balance on equipment inventory items to the financing company immediately upon receipt of the accounts receivable from the sale of the inventory.

6. Long-Term Debt (continued)

During January 2002, the Company entered into a note payable agreement with an unrelated third party for $100,000. The note is unsecured, bears interest at 10%, requires quarterly interest payments, and matures the earlier of December 31, 2005, or 30 days following the satisfaction of certain preferences to the Company's members (Note 7). During 2005, this note was fully paid and has zero principal balance due as of December 31, 2005. In connection with the issuance of this debt, the Company issued to the note holder a warrant for the purchase of the greater of 4,000 membership units of the Company, or an amount equal to one percent of the then outstanding membership units of the Company. The exercise price was $1 per unit and expired December 31, 2005. The allocation of value to the warrants was approximately $49,500 using relative fair values. The amount had been recorded as discount from the face value of the debt with an equal increase to members' equity. The discount was amortized over the period from the date of issuance to the final payment date of the note. Accretion of the discounts totaled $12,500 and $12,500 for the years ended December 31, 2005 and 2004, respectively. The Company has zero and $12,500 unamortized warrant value as of December 31, 2005 and 2004, respectively.

During March 2002, the Company entered into three installment notes payable with a finance company to purchase three vehicles. These agreements are secured by the vehicles, bear interest at rates ranging from 8.57% to 9.31 %, require monthly payments of principal and interest ranging from $623 to $777, and mature February 2007. The aggregate balance of these three installment notes payable as of December 31, 2005 and 2004, was $26,971 and $47,962, respectively.

The annual maturities of long-term debt for each of the five years subsequent to December 31, 2005, and in the aggregate, are as follows:

2006	$	82,663
2007		36,553
2008		34,454
2009		21,035
Total	$	174,705

7. Members' Equity

On December 30, 2005 the Company amended and restated it Operating Agreement in conjunction with a membership unit offering (see Note 15). As of December 31, 2005, there were 256,909 Class A units and 268,000 Class B units issued and outstanding. Concurrently, with the commencement of the Offering, the majority member purchased its pro rata share of the Offering of 170,913 Class A Units for a total consideration of $598,195

7. Members' Equity (continued)

comprised of $378,145 in cash and a non-cash capital combination of $220,050 in conversion of a portion of a $1,000,000 note payable (Note 5) to a majority member into members' equity.

During 2004, the Company issued 30,000 Class A units in exchanged for a non-cash capital contribution of $272,100 which was the result of converting principal portions of a $1,000,000 note payable (Note 5) to a majority member into members' equity.

As of December 31, 2005 and 2004, the Company had total Class A and Class B units authorized of 1,000,000 and 400,000 units, respectively, and a total of 524,909 and 353,996 total units were issued and outstanding as of December 31, 2005 and 2004, respectively. The 85,996 Class A units sold prior to December 30, 2005 are entitled to a 10% preferred return while all other Class A units entitled to a 12% preferred return. As of December 31, 2005 and 2004, no preferred return distributions have been declared or paid.

8. Warrants and Options

Warrants

In conjunction with the issuance of the $100,000 note payable issued in 2002 (Note 6), the Company issued detachable warrants to purchase 4,000 member units at $1.00 per unit. The warrants expired on December 31, 2005. Approximately $49,500 of value was allocated to these warrants issued in conjunction with the aforementioned note payable based upon relative fair values which is accreted over the term of the warrant. Accretion of $12,500 and $12,500 was recorded for the years ended December 31, 2005 and 2004, respectively.

A summary of the status of the Company's warrants as of December 31, 2005 and 2004 and changes during the years then ended is presented below (shares in thousands):

Warrants	Number of Average Underlying Exercise Units	Weighted Average Exercise Price
Outstanding at January 1, 2004	4,000	$ 1.00
Granted	-	$ -
Cancelled	-	$ -
Exercised	-	$ -
Outstanding at December 31, 2004	4,000	$ 1.00

8. Warrants and Options (continued)

Warrants

Warrants	Number of Average Underlying Exercise Units	Weighted Average Exercise Price
Granted	-	$ -
Cancelled	(4,000)	$ -
Exercised	-	$ -
Outstanding at December 31, 2005	-	$ -
Warrants exercisable at December 31, 2005	-	

Options

On September 30, 2003, the Company granted options to purchase 14,000 units of members equity to individuals who are owners of an entity which is a licensee of the Company. The exercise price of the option is $25 per unit or $350,000 in aggregate. The options were fully vested upon grant and expire in September 2006.

On July 5, 2005, the Company granted options to purchase 4,000 units of members equity to an employee. The exercise price of the option is $25 per unit or $100,000 in aggregate. The options vested immediately and expires on September 30, 2006.

A summary of the status of the Company's equity unit option plan as of December 31, 2005 and 2004 and changes during the years then ended is presented below:

Options	Number of Underlying Units	Weighted Average Exercise Price
Outstanding at January 1, 2004	-	$ -
Granted	14,000	$ 25.00
Cancelled	-	$ -
Expired	-	$ -
Exercised	-	$ -
Outstanding at December 31, 2004	14,000	$ 25.00

8. Warrants and Options (continued)

Options (continued)

Options	Number of Underlying Units	Weighted Average Exercise Price
Granted	4,000	$ 25.00
Cancelled	-	$ -
Expired	-	$ -
Exercised	-	$ -
Outstanding at December 31, 2005	18,000	$ 25.00
Options exercisable at December 31, 2005	18,000	

9. Licensing

The Company executes license agreements that set the terms of its arrangement with each licensee. During 2005 and 2004, the Company executed seven and three licenses, respectively, each of whose licenses were required to pay a $24,900 non-refundable fee. All twenty-three license agreements in effect, as of December 31, 2005, require continuing royalty fees based on the greater of stated minimums or a percentage of sales. Licensees are also required to purchase certain equipment directly from the Company to be used in their licensed operations. The licenses granted are non-exclusive and have a duration of ten years. Subject to the Company's approval and payment of a renewal fee, a licensee may generally renew its agreement upon expiration for an additional five years.

10. Office and Warehouse Leases

During February 2002, the Company entered into five-year noncancelable lease agreements for office and warehouse space. These agreements require total monthly lease payments that increase over the lives of the leases ranging from $6,419 to $14,839. Total rent expense for the year ended December 31, 2005 and 2004, was $192,097 and $172,701, respectively.

The minimum annual rentals for these leases for the years subsequent to December 31, 2005, and in the aggregate, are as follows:

2006	$ 176,568
2007	44,517
Total	$ 221,085

11. Related Party Transactions

Approximately 10% and 17% of total revenues for the years ended December 31, 2005 and 2004, respectively, was from two related parties. At December 31, 2005 and 2004, accounts receivable from these two related parties totaled $32,852 and $39,379, respectively.

Approximately $69,500 and $67,000 of consulting expenses for the years ended December 31, 2005 and 2004, respectively, was paid to members and related parties for management and administrative services provided to the Company.

Beginning on January 1, 2002, the Company pays license fees monthly under the terms of a license agreement with its majority member. The monthly license fees are based on sales of business licenses, subject to monthly minimums, and give the Company the exclusive right in North America to use the majority member's trade secrets, service performance system and trademarks in conjunction with the Company's development, operations, promotion, and licensing and relicensing of businesses using the service performance system. Total license fees paid and expensed during the years ended December 31, 2005 and 2004 were $180,000 and $150,000. This license agreement also requires the Company to pay the licensor a wholesale markup of 20% on the price paid for epoxy by the Company. The total wholesale markup paid to the licensor during 2005 and 2004 was $73,350 and $55,724, respectively.

The Company purchased 100% of its epoxy in each year from a single supplier that is a related party (Note 13).

12. Profit Sharing Plan

Effective January 1, 2002, the Company established the ACE Duraflo Systems 401(k) Plan (the "Plan") for all eligible employees. All employees that have attained the age of 21 years and have completed six months of service are eligible to participate in the Plan. Employees can elect to defer up to the maximum allowed by law of their compensation for the Plan year. The Company provides matching and profit sharing contributions based upon a discretionary formula. Plan participants become fully vested after a period of six years of service. For the years ended December 31, 2005 and 2004, the Company's expense under the Plan was approximately $2,189 and $3,255, respectively.

13. Supplier Concentration

The Company purchased 100% of its epoxy from a single related party supplier during the years ended December 31, 2005 and 2004, respectively.

13. Supplier Concentration (continued)

The Company purchased 83% of all other products from four different vendors during the years ended December 31, 2005 and 2004.

14. Contingent Liabilities

The Company is involved, from time to time, in various litigation matters that arise in the course of business.

15. Subsequent Event

In connection with an Private Placement Memorandum dated December 30, 2005 on which the Company continues to solicit funds, the Company has created Class A Units (the "Class A Units") and Class B Units (the "Class B Units") and is offering for sale up to 200,000 Class A Units at $3.50 per Class A Unit ($700,000) only to its existing members pro rata based on their current relative ownership (the "Offering") of which 170,913 were sold by December 31, 2005.

While there can be no assurance on the sale of the units, if the maximum amount of Class A Units is issued and sold 285,996 Class A Units (comprising 52% of the total percentage interests of the Company) and 268,000 Class B Units (comprising 48% of the total percentage interests of the Company) will be issued and outstanding. Each existing member of the Company will be able to purchase an allocation of Class A Units that will, together with the Class A Units and Class B Units (if any) that such member owns prior to such purchase, equal such members' current relative percentage ownership of the Company. If an existing member does not purchase his, her or its full allocation of Class A Units, such member's relative ownership of the Company will be diluted to the extent that other existing members purchase such member's unpurchased allocation of Class A Units. Accordingly, if an existing member does not purchase any of his, her or its allocation of Class A Units, and the maximum amount of 200,000 Class A Units is issued and sold, such member's relative ownership of the Company after giving effect to the offering will be reduced to approximately 64% of such member's current relative ownership of the Company and the relative ownership of such purchaser(s) of such unpurchased allocation of Class A Units will be increased proportionately. Management expects that the Company's majority member will purchase most of all of the unpurchased allocations of Class A Units that are not purchased by other members that fully participate in the Offering; however, each member wishing to purchase a portion of the unpurchased allocations of Class A Units may purchase such members' pro rata share of the unpurchased allocations.

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As of and for the Years Ended December 31, 2004 and 2003

ACE DURAFLO SYSTEMS, LLC

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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.

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Haskell & White LLP
HASKELL & WHITE LLP

March 9, 2005
Irvine, California

The Leading Edge Alliance member

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ACE DURAFLO SYSTEMS, LLC

Balance Sheets

December 31, 2004 and 2003

	2004	2003
ASSETS		
Current Assets:		
Cash	$ 388,792	$ 592,634
Cash - restricted	98,477	54,799
Accounts receivable, net of allowance for doubtful accounts of $15,000 and $84,622, in 2004 and 2003, respectively	84,474	163,898
Accounts receivable - related parties	12,873	52,132
Inventory	140,250	405,194
Net investments in sales-type equipment leases - related parties	85,623	79,111
Total current assets	810,489	1,347,768
Fixed assets:		
Office furniture and equipment	68,281	93,914
Computer hardware and software	25,718	26,525
Vehicles	98,240	98,240
Total	192,239	218,679
Less accumulated depreciation	(98,332)	(69,126)
Fixed assets - net	93,907	149,553
Other assets		
Deposits and other assets	23,942	24,778
Net investment in sales-type equipment leases - related party (less current portion)	112,531	198,154
Total other assets	136,473	222,932
Total assets	$ 1,040,869	$ 1,720,253

See accompanying notes to financial statements.

ACE DURAFLO SYSTEMS, LLC

Balance Sheets (continued)

December 31, 2004 and 2003

LIABILITIES AND MEMBERS' EQUITY

	2004	2003
Current liabilities		
Accounts payable	$ **15,286**	$ 117,384
Accounts payable - related parties	**7,709**	18,955
Accrued expenses	**187,078**	202,182
Notes payable - member (Note 5)	**415,050**	687,150
Current portion of long-term debt (Note 6)	**208,995**	333,658
Total current liabilities	**834,118**	1,359,329
Long-term liabilities:		
Long-term debt, less current portion (Note 6)	**149,694**	334,949
Commitments and contingencies (Notes 1, 3 10 and 14)		
Members' equity	**57,057**	25,975
Total liabilities and members' equity	**$ 1,040,869**	$ 1,720,253

See accompanying notes to financial statements.

ACE DURAFLO SYSTEMS, LLC

Statements of Operations and Members' Equity (Deficit)

For the Years Ended December 31, 2004 and 2003

	2004	2003
REVENUES		
Products sales	$ 1,038,818	$ 1,556,401
Licensing income	74,700	174,300
Royalty income	789,360	738,800
Other	38,013	34,478
Total revenues	1,940,891	2,503,979
EXPENSES		
Cost of products sold	901,174	1,446,937
Salaries and fringe benefits	431,926	436,602
Consulting	67,199	122,203
License fees	150,000	120,000
Advertising	80,421	78,379
Other general and administrative	508,670	654,564
Miscellaneous	3,508	3,664
Total expenses	2,142,898	2,862,349
Loss from operations	(202,007)	(358,370)
Other (expense) income:		
Interest income	29,804	19,287
Interest expense	(74,140)	(92,845)
Other	5,325	-
Other (expense) - net	(39,011)	(73,558)
Net loss	(241,018)	(431,928)
Members' (deficit), beginning of year	25,975	(15,447)
Valuation of warrant and options (Note 8)	-	110,500
Capital contributed by members (Note 7)	272,100	362,850
Members' equity, end of year	$ 57,057	$ 25,975

See accompanying notes to financial statements.

ACE DURAFLO SYSTEMS, LLC

Statements of Cash Flows

For the Years Ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Net loss	$ (241,018)	$ (431,928)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation	34,323	38,331
Non-cash consulting option expense	-	61,500
Non-cash interest expense	12,500	24,500
Gain on sale of fixed assets	(5,117)	-
Change in assets and liabilities:		
Cash - restricted	(43,678)	(52,574)
Accounts receivable	79,424	(144,932)
Accounts receivable - related parties	39,259	62,097
Interest receivable	-	3,456
Inventory	264,944	278,730
Deposits and other assets	836	2,225
Accounts payable	(102,098)	94,459
Accounts payable - related parties	(11,246)	(21,450)
Accrued expenses	(15,104)	178,102
Net cash provided by operating activities	13,025	92,516
Cash flows from investing activities		
Net proceeds from notes receivable - related parties	-	6,459
Net proceeds from investment in sales-type equipment leases - related party	79,111	(34,858)
Purchases of fixed assets	(2,215)	(677)
Proceeds from sale of fixed assets	28,655	-
Net cash provided by (used in) investing activities	105,551	(29,076)
Cash flows from financing activities		
Notes payable - members	-	(55,529)
Principal payments on long-term debt	(322,418)	(135,950)
Cash contributions by members	-	15,243
Net cash used in financing activities	(322,418)	(176,236)

See accompanying notes to financial statements.

ACE DURAFLO SYSTEMS, LLC

Statements of Cash Flows (continued)

For the Years Ended December 31, 2004 and 2003

	2004	2003
Net decrease in cash	(203,842)	(112,796)
Cash, beginning of year	592,634	705,430
Cash, end of year	$ 388,792	$ 592,634
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 106,877	$ 62,782
Cash paid during the period for income taxes	$ 6,800	$ 6,800
Supplemental disclosure of noncash financing and investing activities:		
Inventory acquired with long-term debt	$ -	$ 26,225
Notes payable - members converted to members' equity	$ 272,100	$ 347,607

See accompanying notes to financial statements.

ACE DURAFLO SYSTEMS, LLC

Notes to Financial Statements
December 31, 2004

1. Summary of Significant Accounting Policies and Industry Information

Industry information

ACE DuraFlo Systems, LLC (the "Company"), located in Placentia, California, offers licenses under the name ACE DuraFlo that allow licensees to use a proprietary process to clean and recondition pipelines of various compositions (the "System"). The sale of licenses is regulated by the Federal Trade Commission and various state and provincial regulations in the United States and in Canada.

The Company's revenues are derived from the sale of franchises, royalty fee income, and supply and equipment sales to franchisees. The Company markets its franchises throughout the United States. At December 31, 2004, the Company has six licensees that are operated by affiliates of the Company, and 20 other licensees.

The Company was organized as a Limited Liability Company in the State of Nevada on August 24, 1999, and will continue until June 30, 2029, unless dissolved prior to that date in accordance with its Operating Agreement.

Basis of Presentation

The accompanying financial statements have been prepared on a going concern basis of accounting. The Company has incurred net loss of $241,018 for the year ended December 31, 2004 and has a working capital deficit as of December 31, 2004. The Company's ability to continue as a going concern is dependent on its ability to meet its financing obligations and improve its profitability and cash flows from operations.

During 2004, the Company converted a portion in the amount of 272,100 of a note payable to members' equity in order to improve its financial position (see Note 7). The Company has an aggregate $415,050 in notes payable to a member at December 31, 2004, which is due on demand. However, since the note payable is to a member, the member and the Company have orally agreed to flexibility in the repayment terms. Management also expects the Company to improve results of operations during the year ending December 31, 2005, through increased sales of licenses revenue, corresponding product sales, increased royalty income, and continued reduced overhead and administrative expenses.

Management believes that these actions and available resources will mitigate the conditions discussed.

ACE DURAFLO SYSTEMS, LLC

Notes to Financial Statements (continued)
December 31, 2004

1. Summary of Significant Accounting Policies and Industry Information (continued)

Revenue Recognition

When an individual license is sold, the Company agrees to provide certain products and services to the licensee, including an initial training program, selection of equipment, and a starter kit for sales promotion. The Company recognizes licensing income as revenue when substantially all initial services required by the license agreement are performed, which is generally upon completion of training. Continuing royalty income is recognized as earned. Product revenue is recognized when shipped.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

The Company does not require collateral from customers in the ordinary course of business. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. Management considered an allowance for doubtful accounts of $15,000 and $84,622 necessary as of December 31, 2004 and 2003, respectively.

Inventory

Inventory is stated at the lower of cost, using the first-in, first-out (FIFO) method or the specific identification method, or market. Inventory at December 31, 2004 and 2003, respectively, consisted mostly of equipment inventory.

1. Summary of Significant Accounting Policies and Industry Information (continued)

Fixed Assets

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from three to seven years.

Stock-Based Compensation for Employees and Non-Employees

The Company accounts for its employee member option plans using the intrinsic value method. When stock options are granted to employees with exercise prices less than the fair value of the underlying common stock at the date of grant, the difference is recognized as deferred compensation expense, which is amortized over the vesting period of the options.

The Company accounts for stock options issued to non-employees using the minimum value method under the provisions of Statement No. 123, Accounting for Stock Based Compensation. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 4.20%; dividend yield of 0.00%; and volatility of 0%; life of option 4 years. The Black-Scholes model, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely-tradable, fully-transferable options without vesting restrictions, which significantly differ from the Company's stock option plans. These models also require highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated fair value on the grant date.

Advertising Costs

Advertising costs are expensed as incurred. The Company incurred $80,421 and $78,379 of such costs during the years ended December 31, 2004 and 2003, respectively.

Income Taxes

The financial statements do not include a provision for income taxes. The Company's earnings and losses are passed through to the members and are reported on their respective tax returns. The Company files the appropriate limited liability company income tax returns on a calendar year basis. The minimum gross receipts tax for the Company is $6,000 for each of the years ended December 31, 2004 and 2003, respectively, and is included in general and administrative expenses.

ACE DURAFLO SYSTEMS, LLC

Notes to Financial Statements (continued)
December 31, 2004

1. Summary of Significant Accounting Policies and Industry Information (continued)

New Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No.123 (Revised), Shared-Based Payment. This standard revises SFAS No. 123, APB Opinion No. 25 and related accounting interpretations and eliminates the use of the intrinsic value method for employee stock-based compensation. SFAS No. 123 (R) requires compensation costs related to share based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for award. Currently, the Company uses the intrinsic value method of APB Opinion No. 25 to value share-based options granted to employees and board members. This standard requires the expensing of all share-based compensation including options, using the fair value based method. The effective date of this standard for the Company will be January 1, 2006. Management is currently assessing the impact that this new standard will have on the Company's financial statements.

2. Cash

The Company's cash in its bank deposit accounts from time to time exceeds federally insured limits. As of December 31, 2004 the Company's cash balances exceed the insured limits. The Company has not experienced losses in these accounts and believes they are not exposed to any significant credit risk.

3. National Advertising Fund

The Company administers a national advertising fund for the benefit of its licensees. All amounts collected by this fund from licensees are restricted for use in advertising and promotional efforts of the Company. At December 31, 2004 and 2003, cash - restricted and accrued expenses included $98,477 and $54,799, respectively, held by the fund that was contributed by affiliates and licensees of the Company.

4. Net Investment in Sales-Type Equipment Leases - Related Party

The Company entered into capital leases during 2001 as the lessor for certain equipment with a related party. These leases have been accounted for as sales-type capital leases. The net investment in sales-type equipment leases - related party totaling $198,154 and $277,263 at December 31, 2004 and 2003, respectively, has been recorded in the accompanying financial statements at the present value of the future minimum lease payments to be received, discounted at interest rates ranging between 4.1 % and 14.0%.

4. Net Investment in Sales-Type Equipment Leases - Related Party (continued)

The future minimum annual payments to be received for the years subsequent to December 31, 2004, are as follows:

2005	$ 100,750
2006	72,398
2007	33,724
2008	20,509
Total minimum lease payments to be received	227,381
Less unearned income	(29,227)
Net investment in sales-type equipment leases - related party	198,154
Less current portion	85,623
Long-term portion of net investment in sales-type equipment leases - related party	$ 112,531

5. Notes Payable - Member

Notes payable to member at December 31, 2003, consisted of an unsecured note to a member with an original principal amount of $1,000,000 as of December 31, 2003. During 2003, the Company converted $312,850 of principal of this note into members' equity (Note 7) resulting in a balance of this note is $687,150 at December 31, 2003. During 2004, the Company also converted $272,100 of principal of this note into members' equity (Note 7). The resulting balance of this note is $415,050 at December 31, 2004. The note bears interest of 7.5% annually and is payable on demand.

6. Long-Term Debt

The Company entered into several installment notes payable with a financing company to purchase certain equipment inventory. These notes are secured by the equipment inventory, bear interest at rates ranging from 5.26% to 9.38%, require monthly payments of principal and interest ranging from $645 to $1,280, plus interest and mature from June 2005 through September 2008. The balance of these installment notes payable as of December 31, 2004 and 2003, was $358,689 and $503,230, respectively. The Company is required to remit the loan balance on equipment inventory items to the financing company immediately upon receipt of the accounts receivable from the sale of the inventory.

6. Long-Term Debt (continued)

During January 2002, the Company entered into a note payable agreement with an unrelated third party for $100,000. The note is unsecured, bears interest at 10%, requires quarterly interest payments, and matures the earlier of December 31, 2005, or 30 days following the satisfaction of certain preferences to the Company's members (Note 7). This note, with a balance of $100,000 on December 31, 2003, has been classified entirely as long-term debt in the accompanying balance sheet as of December 31, 2003 and is short-term as of December 31, 2004. In connection with the issuance of this debt, the Company issued to the note holder a warrant for the purchase of the greater of 4,000 membership units of the Company, or an amount equal to one percent of the then outstanding membership units of the Company. This warrant may be exercised for $1 per unit, and expires the earlier of thirty days following the redemption of the note, or December 31, 2005. The allocation of value to the warrants was approximately $49,500 using relative fair values. The amounts have been recorded as discounts from the face value of the debt with an equal increase to members' equity. The discounts are being amortized over the period from the date of issuance to the maturity date of the note. Accretion of the discounts totaled $12,500 and $24,500 for the year ended December 31, 2004 and 2003, respectively. The Company will continue to amortize a non-cash interest charge related to the unamortized warrant value in the amounts of $12,500 and $25,000 as of December 31, 2004 and 2003, respectively.

During March 2002, the Company entered into three installment notes payable with a finance company to purchase three vehicles. These agreements are secured by the vehicles, bear interest at rates ranging from 8.57% to 9.31 %, require monthly payments of principal and interest ranging from $623 to $777, and mature February 2007. The aggregate balance of these three installment notes payable as of December 31, 2004 and 2003, was $47,962 and $67,169, respectively.

The annual maturities of long-term debt for each of the five years subsequent to December 31, 2004, and in the aggregate, are as follows:

2005	$ 208,995
2006	84,668
2007	39,383
2008	25,643
Total	$ 358,689

7. Members' Equity

During 2004 and 2003, the Company issued 30,000 and 12,514, respectively, units of members' equity for a non-cash capital contribution of $272,100 and $312,850, respectively. These transactions were the result of converting principal portions of a $1,000,000 note payable (Note 5) to a member into members' equity.

During 2003, the Company issued 2000 units of members equity for capital contribution of $50,000. This transaction was the result of converting a $34,757 note payable to a member into members' equity, plus additional cash contributions by the note holder in the amount of $15,243.

As of December 31, 2004 and 2003, the Company had authorized 400,000 units, and a total of 354,000 and 324,000 units were issued and outstanding as of December 31, 2004 and 2003, respectively. All of these outstanding units carry certain preferences, including the right to receive a 10% cumulative distribution on the investment made less cash returned in excess of the distribution until such time as the cumulative distributions, as well as an amount of money equal to the amount so invested is returned to the investor. As of December 31, 2004 and 2003, no such distributions have been declared or paid.

8. Warrants and Options

Warrants

In conjunction with the issuance of the $100,000 note payable issued in 2002 (Note 6), the Company issued detachable warrants to purchase 4,000 member units at $1.00 per unit. The warrants are exercisable at any time and expire on December 31, 2005. Approximately $49,500 of value was allocated to these warrants issued in conjunction with the aforementioned note payable based upon relative fair values which is accreted over the term of the warrant. Accretion of $12,500 and $24,500 was recorded for the years ended December 31, 2004 and 2003, respectively.

A summary of the status of the Company's warrants as of December 31, 2004 and 2003 and changes during the years then ended is presented below (shares in thousands):

Warrants	Number of Average Underlying Exercise Units	Weighted Average Exercise Price
Outstanding at January 1, 2003	4,000	$ 1.00
Granted	-	$ -
Cancelled	-	$ -
Exercised	-	$ -
Outstanding at December 31, 2003	4,000	$ 1.00

8. Warrants and Options (continued)

Warrants	Number of Average Underlying Exercise Units	Weighted Average Exercise Price
Granted	-	$ -
Cancelled	-	$ -
Exercised	-	$ -
Outstanding at December 31, 2004	4,000	$ 1.00
Warrants exercisable at December 31, 2004	4,000	

Options

On September 30, 2003, the Company granted options to purchase 14,000 units of members equity to individuals who are owners of an entity which is a licensee of the Company. The exercise price of the option is $25 per unit or $350,000 in aggregate. The options were fully vested upon grant and expire in September 2006.

A summary of the status of the Company's equity unit option plan as of December 31, 2004 and 2003 and changes during the years then ended is presented below:

Options	Number of Underlying Units	Weighted Average Exercise Price
Outstanding at January 1, 2003	-	$ -
Granted	14,000	$ 25.00
Cancelled	-	$ -
Expired	-	$ -
Exercised	-	$ -
Outstanding at December 31, 2003	14,000	$ 25.00
Granted	-	$ -
Cancelled	-	$ -
Expired	-	$ -
Exercised	-	$ -
Outstanding at December 31, 2004	14,000	$ 25.00
Options exercisable at December 31, 2004	14,000	

9. Licensing

The Company executes license agreements that set the terms of its arrangement with each licensee. During 2004 and 2003, the Company executed three and seven licenses, respectively, each of whose licenses were required to pay a $24,900 non-refundable fee. All twelve license agreements in effect, as of December 31, 2004, require continuing royalty fees based on the greater of stated minimums or a percentage of sales. Licensees are also required to purchase certain equipment directly from the Company to be used in their licensed operations. The licenses granted are non-exclusive and have a duration of ten years. Subject to the Company's approval and payment of a renewal fee, a licensee may generally renew its agreement upon expiration for an additional five years.

10. Office and Warehouse Leases

During February 2002, the Company entered into five-year noncancelable lease agreements for office and warehouse space. These agreements require total monthly lease payments that increase over the lives of the leases ranging from $6,419 to $14,839. Total rent expense for the year ended December 31, 2004 and 2003, was $172,701 and $215,814, respectively.

The minimum annual rentals for these leases for the years subsequent to December 31, 2004, and in the aggregate, are as follows:

2005	$ 186,165
2006	192,172
2007	60,120
Total	$ 438,457

11. Related Party Transactions

Approximately 17% and 29.5% of total revenues for the years ended December 31, 2004 and 2003, respectively, was from two related parties. At December 31, 2004 and 2003, accounts receivable from these two related parties totaled $39,379 and $491,155, respectively.

Approximately $67,000 and $215,000 of consulting expenses for the years ended December 31, 2004 and 2003, respectively, was paid to members and related parties for management and administrative services provided to the Company.

11. Related Party Transactions (continued)

Beginning on January 1, 2002, the Company pays license fees monthly under the terms of a license agreement with its majority member. The monthly license fees are based on sales of business licenses, subject to monthly minimums, and give the Company the exclusive right in North America to use the majority member's trade secrets, service performance system and trademarks in conjunction with the Company's development, operations, promotion, and licensing and relicensing of businesses using the service performance system. Total license fees paid and expensed during the years ended December 31, 2004 and 2003 were $150,000 and $120,000. This license agreement also requires the Company to pay the licensor a wholesale markup of 20% on the price paid for epoxy by the Company. The total wholesale markup paid to the licensor during 2004 and 2003 was $55,724 and $40,365, respectively. The Company purchased 100% of its epoxy in each year from a single supplier that is a related party.

12. Profit Sharing Plan

Effective January 1, 2002, the Company established the ACE DuraFlo Systems 401(k) Plan (the "Plan") for all eligible employees. All employees that have attained the age of 21 years and have completed six months of service are eligible to participate in the Plan. Employees can elect to defer up to the maximum allowed by law of their compensation for the Plan year. The Company provides matching and profit sharing contributions based upon a discretionary formula. Plan participants become fully vested after a period of six years of service. For the years ended December 31, 2004 and 2003, the Company's expense under the Plan was approximately $3,255 and $2,571, respectively.

13. Supplier Concentration

The Company purchased 100% of its epoxy from a single related party supplier during the years ended December 31, 2004 and 2003, respectively.

14. Contingent Liabilities

The Company is involved, from time to time, in various litigation matters that arise in the course of business.