

**EXHIBIT A TO THE
AUSSIE PET MOBILE, INC.
OFFERING CIRCULAR**

FINANCIAL STATEMENTS

Aussie Pet Mobile, Inc.

Audited Financial Statements

Three Years Ended December 31, 2005

John P. Semmens CPA, A Professional Corporation
2449 South El Camino Real
San Clemente, CA 92672

(949) 496-8800

John P. Semmens CPA A Professional Corporation

2449 South El Camino Real
San Clemente, CA 92672

March 8, 2006

Board of Directors and Stockholders

Aussie Pet Mobile, Inc.
Dana Point, CA

I have audited the accompanying balance sheet of Aussie Pet Mobile, Inc. as of December 31, 2005, and the related statements of income and expense and the statement of cash flows for the period then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with generally accepted auditing standards accepted in the United States of America. Those standards require I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aussie Pet Mobile, Inc. as of December 31, 2005, and the results of operations and cash flows for the period then ended in conformity with generally accepted accounting principles.



John P. Semmens CPA

Aussie Pet Mobile, Inc.

Consolidated Balance Sheet

ASSETS

	2005	2004	2003
Current assets			
Cash in banks	\$ 499,566	\$ 541,263	\$ 1,025,978
Accounts receivable	909,376	616,223	-
Inventory	292,180	142,854	171,302
Areas held for resale (ST)	196,228	217,704	-
Due from APM Marketing Fund (ST)	120,000	90,000	90,000
Notes receivable (ST)	15,665	-	48,804
Officer's advance	-	13,106	-
Refundable income tax	-	-	218,406
Other current assets	157,929	123,294	42,020
	<u>2,190,944</u>	<u>1,744,444</u>	<u>1,596,510</u>
Total current assets	2,190,944	1,744,444	1,596,510
Equipment & leasehold improvements			
Equipment	596,309	360,391	72,996
Leasehold improvements	179,371	158,261	70,544
Accumulated depreciation	(221,917)	(98,442)	(30,525)
	<u>553,763</u>	<u>420,210</u>	<u>113,015</u>
Net equipment & leasehold improvements	553,763	420,210	113,015
Other assets			
International franchise rights	2,643,748	2,498,124	2,526,019
Areas held for resale (LT)	847,772	870,815	-
Areas used in operations	586,086	677,725	-
Accounts receivable (LT)	225,000	-	-
Notes receivable (LT)	219,335	-	-
Intellectual property	92,127	-	-
Due from APM Marketing Fund	83,919	160,629	173,714
Franchise development cost, net of amortization \$43,244, \$36,080, and \$28,916	64,218	71,381	78,546
Prepaid contingency	-	-	40,134
Deferred income tax	-	-	3,524
Other	112,507	161,899	11,604
	<u>4,874,712</u>	<u>4,440,573</u>	<u>2,833,541</u>
Total other assets	4,874,712	4,440,573	2,833,541
Total assets	<u>\$ 7,619,419</u>	<u>\$ 6,605,227</u>	<u>\$ 4,543,066</u>

See accompanying notes and accountant's audit report.

Aussie Pet Mobile, Inc.

Consolidated Balance Sheet

LIABILITIES & EQUITY

	2005	2004	2003
Current liabilities			
Accounts payable	\$ 411,074	\$ 331,513	\$ 167,147
Designated equipment contingency (ST)	563,754	306,000	-
Officer's notes payable (ST)	464,167	240,000	240,000
Notes payable (ST)	369,607	406,590	84,824
Deferred income tax (ST)	266,151	18,126	170,214
Accrued expenses	169,582	50,125	218,835
Deferred gain on sale of asset (ST)	6,250	6,250	-
Advance payments	-	112,500	-
Line of credit	-	70,362	-
	2,250,585	1,541,466	881,020
Total current liabilities			
Long-term liabilities			
Notes payable (LT)	598,761	418,031	579,426
Officer's notes payable (LT)	480,000	1,140,000	960,000
Deferred income tax (LT)	457,318	395,519	-
Designated equipment contingency (LT)	387,159	602,000	208,634
Other long-term liabilities	181,899	94,485	-
	2,105,137	2,650,035	1,748,060
Total long-term liabilities			
Total liabilities	4,355,722	4,191,501	2,629,080
Stockholder's equity			
Common stock - authorized 10,000,000 shares at no par value; issued and outstanding 2,350,000, 2,350,000 and 2,300,000 shares respectively.	585,000	500,000	500,000
Convertible preferred series A - authorized and outstanding 785,000, 575,000, and 575,000 shares respectively.	1,365,400	1,000,000	1,000,000
Retained earnings	913,728	413,985	584,109
Dividends	(91,665)	(71,860)	-
Net income (loss)	491,234	571,601	(170,123)
	3,263,697	2,413,726	1,913,986
Total stockholder's equity			
Total liabilities & equity	\$ 7,619,419	\$ 6,605,227	\$ 4,543,066

See accompanying notes and accountant's audit report.

Aussie Pet Mobile, Inc.
Consolidated Statement of Income and Expense

	2005	2004	2003
Revenues	\$ 6,719,887	\$ 4,908,934	\$ 3,414,375
Cost of sales	<u>2,941,712</u>	<u>2,894,361</u>	<u>1,274,440</u>
Gross profit on sales	3,778,175	2,014,573	2,139,935
Selling, general, & administrative expenses	<u>2,803,041</u>	<u>2,296,519</u>	<u>1,737,685</u>
Operating income (loss)	975,134	(281,946)	402,250
Other income			
Interest income	28,204	46,632	26,586
Gain from disposition of assets	17,513	4,695	-
Insurance reimbursements	-	478	-
Total	<u>45,717</u>	<u>51,805</u>	<u>26,586</u>
Other expense			
Contract renegotiation cost	85,000	-	-
Interest	79,116	58,305	-
Loss on reduction of operations	30,000	-	-
Loss on disposition of assets	7,015	-	-
Investment-related expenses	-	-	617,139
Total	<u>201,131</u>	<u>58,305</u>	<u>617,139</u>
Net income (loss) before cumulative effect of change in accounting principle	819,720	(288,446)	(188,303)
Cumulative effect of change in accounting principle	<u>-</u>	<u>1,148,446</u>	<u>-</u>
Total	<u>-</u>	<u>1,148,446</u>	<u>-</u>
Net income before taxes	819,720	860,000	(188,303)
Taxes on income			
Current federal income tax	-	-	-
Deferred federal income tax	253,187	212,590	(15,498)
Current state income tax	536	18,126	800
Deferred state income tax	<u>74,763</u>	<u>57,683</u>	<u>(3,482)</u>
Total taxes on income	<u>328,486</u>	<u>288,399</u>	<u>(18,180)</u>
Net income (loss)	<u>\$ 491,234</u>	<u>\$ 571,601</u>	<u>\$ (170,123)</u>
Weighted average common shares outstanding	<u>2,350,000</u>	<u>2,343,425</u>	<u>379,973</u>
Earnings (loss) per common share	<u>\$ 0.21</u>	<u>\$ 0.24</u>	<u>\$ (0.45)</u>

See accompanying notes and accountant's audit report.

Aussie Pet Mobile, Inc.

Consolidated Statement of Cash Flows

	2005	2004	2003
Cash flows from operating activity			
Net Income (Loss)	\$ 491,234	\$ 571,601	\$ (170,123)
Items not requiring the outlay of working capital:			
Depreciation and amortization	128,095	231,345	17,087
Stock based payments	85,000	-	-
Change in accounting policy	-	(1,284,278)	-
Adjustments to reconcile net income to net cash provided by operating activities:			
Accounts receivable	(518,150)	(222,418)	(48,806)
Inventory	(149,326)	28,448	9,698
Deferred income tax	327,950	228,829	(18,979)
Marketing fund	46,710	13,085	(64,500)
Refundable income tax	-	218,406	(218,406)
Officer's advance	-	(13,106)	-
Other current assets	(33,258)	6,002	10,978
Accounts payable	79,559	164,367	93,383
Accrued expenses	119,457	(150,188)	207,770
Designated equipment contingency	42,913	354,366	(384,022)
Accrued income taxes	(18,126)	-	-
Advanced payments	(112,500)	112,500	-
Other current liabilities	(4,250)	28,477	-
Net cash provided (used) in operating activities	485,308	287,436	(565,920)
Cash flows used for investing activities			
Company owned areas	91,639	(567,725)	-
Areas held for resale	44,519	(230,666)	-
Officer's note receivable	-	-	(324,835)
Intellectual property	(92,127)	-	-
International franchise rights	(145,624)	38,970	(26,019)
Notes receivable	(221,894)	-	-
Equipment & leasehold improvements	(254,487)	(372,719)	(61,475)
Other long-term assets	48,016	(50,744)	-
Net cash provided (used) in investing activities	(529,958)	(1,182,884)	(412,329)
Cash flows from financing activities			
Additions of notes payable	930,649	253,755	509,250
Payments on notes payable	(786,901)	(93,384)	(194,328)
Officer's note payable	(435,833)	180,000	-
Line of credit	(70,362)	70,362	-
Issuance of stock	365,400	-	1,000,000
Net cash provided (used) in financing activities	2,953	410,733	1,314,922
Cash increase, (decrease) for the period	(41,697)	(484,715)	336,673
Cash, beginning of year	541,263	1,025,978	689,305
Cash, end of year	\$ 499,566	\$ 541,263	\$ 1,025,978

See accompanying notes and accountant's audit report.

Aussie Pet Mobile, Inc.

Notes to Consolidated Financial Statements

Year Ended December 31, 2005

1. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose. Aussie Pet Mobile, Inc., a California corporation (the "Company"), is an international franchisor and operator of mobile pet grooming businesses. The Company was formed in the United States to sell a franchise concept that was originally successfully marketed in Australia. The Company is not affiliated with the Australian entity. The Company spent the first year organizing and was granted permission by the State of California on December 21, 1999 to sell franchises in California.

Consolidated Statements. The consolidated financial statements include the accounts of Aussie Pet Mobile, Inc. and its wholly-owned subsidiary Aussie Pet Mobile International, Inc., collectively referred to as the Company. Intercompany transactions and balances have been eliminated.

Fiscal Year. The Company's fiscal year ends on December 31. Unless otherwise stated, references to years in this report relate to fiscal year.

Use of 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 revenues and expenses during the period reported. The more significant areas requiring the use of management estimates relate to the possible outcomes of outstanding litigation, accruals for income tax liabilities as well as deferred tax accounts, useful lives for depreciation and amortization expense, valuation of tangible and intangible assets and the measurement of undelivered designated equipment liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Company considers cash on hand, deposits in banks and all highly liquid debt instruments with a maturity of three months or less at date of acquisition to be cash and cash equivalents. The Company maintains more than \$100,000 in one bank. The Federal Deposit Insurance Corporation ("FDIC") insures such balances up to \$100,000. Neither the FDIC nor any other government agency insures such funds in excess of \$100,000. At December 31, 2005 the Company had \$399,566 on deposit in excess of the \$100,000 limit.

Allowance for Receivables. Due to overall customer credit quality, historical write-off experience and specific account analysis that projects the ultimate collectibility of the outstanding balances, no allowance for receivables was determined to be applicable by management.

Advertising. The cost of advertising is capitalized and amortized over its expected period of future benefit, when applicable. Generally, advertising costs are not deferred beyond the calendar year-end.

Inventory Valuation. Inventories, primarily consisting of raw materials and capitalized direct and indirect overhead costs used in van conversions and trailer production, finished new trailers and repurchased trailers available for resale, are valued at the lower of cost or market.

Property, Plant & Equipment. Property, plant and equipment, comprising computers, furniture, operating equipment including trailers and vehicles, are carried at cost. Depreciation is computed using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The useful lives of equipment and machinery range from five to seven years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the current period. The cost of

Aussie Pet Mobile, Inc.

Notes to Consolidated Financial Statements

(Continued)

maintenance and repairs is charged against income as incurred and significant renewals and betterments are capitalized.

Franchise Development Costs. From inception in February 1999 through December 21, 1999 the Company was in the development stage of obtaining permission from the state of California to sell franchises. The Company had no sales during the fiscal year and therefore elected to capitalize its development costs and amortize them over a fifteen year period commencing on December 21, 1999.

Areas Held for Resale, Areas Used in Operations, and Other Intangibles. Effective fiscal 2004, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition.

Acquisitions. From time to time, the company acquires franchisee businesses or the assets thereof. Acquisitions have been accounted for using the purchase method. Accordingly, to the extent that the Company elects to continue those business operations, the results thereof have been included in the Company's consolidated financial statements since their dates of acquisition. Furthermore, assets and liabilities of these businesses were recorded in the financial statements at their estimated fair values as of the acquisition dates. Assets acquired generally comprise: (1) tangible assets such as trailers and vehicles; and (2) intangible assets, namely areas held for resale and areas used in operations, depending on the intended use at the time of acquisition.

Areas Held for Resale. Areas held for resale resulting from acquisitions are valued at the amount paid (including notes payable) in excess of the net amount assigned to identifiable tangible assets. Areas held for resale have an indefinite life and are reviewed at least annually for impairment or whenever events or circumstances, such as in the case of a fractional franchise sale within that area, indicate the carrying amount of the asset may be impaired in accordance with SFAS No. 142.

Areas Used in Operations. Areas used in operations resulting from acquisitions are valued at the amount paid (including notes payable) in excess of the net amount assigned to identifiable tangible assets. Areas used in operations have an indefinite life and are reviewed at least annually for impairment or whenever events or circumstances indicate the carrying amount of the asset may be impaired in accordance with SFAS No. 142.

Other Intangible Assets. Other intangible assets consist in part of trademarks and trade names established by the Company. The Company has evaluated and determined that trademarks and trade names have indefinite lives and, in accordance with SFAS No. 142, are not subject to amortization. Trademarks and trade names are reviewed at least annually for impairment or whenever events or circumstances indicate the carrying amount of the assets may be impaired.

Other intangible assets also include international franchise rights, which were acquired in the 2003 purchase of 100 percent of the stock in Aussie Pet Mobile International, Inc (hereafter "APMI"). The purchase conveyed 80 percent of the international franchise rights. The 20 percent remaining balance of the international franchise rights were purchased from Boo Doo Noo Doo Pty Ltd, ATF The McMurray Family Trust, simultaneously with the purchase of APMI stock. The terms of that agreement provide for payments equal to a percentage of sales derived from the international franchise rights for six years commencing with the first sale, which occurred on September 28, 2004. The applicable percentages for the six full years commencing on September 28 of each year are 20%, 18%, 16%, 14%, 12% and 10%. Amounts paid under this agreement are capitalized as additional amounts

Aussie Pet Mobile, Inc.

Notes to Consolidated Financial Statements

(Continued)

paid for the international franchise rights, an indefinite-lived asset that is subject to impairment associated with the sale of international master franchises as they occur from time to time.

Prepaid Franchise Development Costs. During 2004 and 2005, the Company was in the development stage with respect to various foreign countries in which it is pursuing sales of international master franchises. Development costs not associated with sales during the current period will be charged against sales when the master franchises are sold.

The Company performs its annual test of impairment as of December 31. The Company completed its impairment test of areas held for resale, trademarks and indefinite-lived other intangible assets in fiscal 2005. Certain areas held for resale were determined to be impaired by an amount based on a ratable measurement of the "sub-areas" sold relative to total available saleable "sub-areas". The impaired amounts were recorded as cost of sales.

Revenue Recognition. A summary of the revenue recognition policies for each business segment of the Company is as follows:

- National and International Franchise Sales revenue is derived from: (1) franchise fees from the opening of new mobile pet grooming franchise businesses; (2) sales of designated equipment in conjunction therewith; and (3) royalties charged to franchisees based on sales. Franchise fees and designated equipment sales are recognized immediately upon securing a fully executed franchise agreement, as are the offsetting estimated cost of future designated equipment commitments.
- Mobile Grooming Operations revenue is derived from the performance of grooming services. Revenue is recognized at the time of service.
- Groom Shop and National Training Operations revenue is derived from the performance of grooming services. Revenue is recognized at the time of service.

In accordance with Statement of Financial Accounting Standards No. 131, business segment reporting applies to public business enterprises and the Company, therefore, reflects the results of its operations in the aggregate.

Franchise Sales Costs. All costs, both direct and indirect, incurred with respect to each sale of a franchise and associated designated equipment are expensed in the period incurred in conformity with FASB 45.

Income Taxes. The Company uses the asset and liability method to account for income taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between tax bases and financial reporting bases for assets and liabilities. The Company records its deferred tax items based on the estimated ultimate value of the tax basis. The Company's tax estimates are adjusted when required to reflect changes based on factors such as changes in tax laws, results of tax authority reviews and statutory limitations. In the event that actual results differ from these estimates, the Company will reflect those changes in the period that the difference is identified.

Fair Value of Financial Instruments. Cash, accounts receivable, accounts payable, accrued liabilities and debt are reflected in the financial statements at carrying amounts which approximate fair value.

Aussie Pet Mobile, Inc.

Notes to Consolidated Financial Statements

(Continued)

Stock Based Compensation. The Company accounts for employee stock options in accordance with Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees.” Under APB Opinion No. 25, the Company recognizes no compensation expense related to employee stock options, as no options are granted below the market price on the grant date. SFAS No. 123, “Accounting for Stock-Based Compensation,” requires the recognition of compensation expense based on the fair value of options on the grant date, but allows companies to continue applying APB Opinion No. 25 if certain pro forma disclosures are made assuming hypothetical fair value method application

2. INVESTMENT IN AUSSIE PET MOBILE INTERNATIONAL, INC. / RELATED PARTY TRANSACTION

Aussie Pet Mobile, Inc. purchased the stock in Aussie Pet Mobile International, Inc. (hereafter “APMI”) for \$2,500,000 from The Moses/McIntosh Family Trust. This transaction was valued by comparable sales in both the United States and Australia and was agreed to by the then preferred shareholders via their due diligence. The terms of the sale include a \$1,000,000 down payment and the issuance of a promissory note of \$1,500,000 with monthly payments of \$20,000 until fully paid.

3. DESIGNATED EQUIPMENT CONTINGENCY

Sales of designated equipment, comprising primarily of van conversions and occasionally of fully equipped grooming trailers and associated grooming equipment (collectively “PetMobiles”) are considered final upon execution of a franchise sales agreement. Correspondingly, a liability arises equal to the estimated cost of PetMobiles to be delivered in the future. These liabilities are recorded as of the date of sale. Historically, some franchisees prove unable to take delivery of their subsequent PetMobiles. Accordingly, an allowance is maintained to account for the value of PetMobiles expected to not be delivered. The valuation of the undelivered PetMobile liabilities, as well as the inventory asset, is net of costs reimbursed for installation work subcontracted to us by the van dealer. As of fiscal 2005 yearend, undelivered PetMobile liabilities are as follows:

	Short-term	Long-term	Total
Gross contingency	\$ 1,236,960	\$ 635,203	\$ 1,872,163
Less: Anticipated subcontracting reimbursements	485,460	83,700	569,160
Less: Allowance for anticipated liability terminations	<u>187,746</u>	<u>164,344</u>	<u>352,090</u>
Net contingency	<u>\$ 563,754</u>	<u>\$ 387,159</u>	<u>\$ 950,913</u>

Aussie Pet Mobile, Inc.
Notes to Consolidated Financial Statements
(Continued)

4. OPERATING LEASE COMMITMENTS

The Company conducts all of its operations from leased facilities and leases certain equipment such as computers and operating vehicles and equipment under operating leases. Generally, these leases have initial terms of three to five years.

At December 31, 2005, future minimum annual rental commitments (gross and including options to extend) under non-cancelable operating leases, are as follows:

<u>Period Ending December 31,</u>	
2006	\$ 287,715
2007	276,272
2008	192,736
2009	144,677
2010	<u>148,704</u>
	<u>\$ 1,050,104</u>

The rent expense for the period ended December 31, 2005 was \$308,940.

Rest of page intentionally left blank.

Aussie Pet Mobile, Inc.
Notes to Consolidated Financial Statements
(Continued)

5. NOTES PAYABLE

	2005	2004	2003
Note to APM Perimeter, payable within 18 months	-	-	\$ 89,250
Note to APM Ridgefield, payable within one year	-	-	25,000
Note to APM Mid-Atlantic, payable within one year	-	\$ 126,063	130,000
Note to APM Lake Forest, payable within one year	-	46,875	-
Note to APM Perimeter, payable within one year	-	34,708	-
Note to APM Morristown, payable within one year	-	62,500	-
Note to APM Irvine, payable within 48 months	\$ 46,000	58,000	-
Note to APM Laguna Niguel, payable within 48 months	117,500	147,500	-
Note to APM Mission Viejo, payable within 48 months	94,000	116,000	-
Note to APM Malibu, payable within one year	75,000	75,000	-
Note to APM Rancho Bernardo, payable within 60 months	42,000	-	-
Note to APM Ramona, payable within 24 months	45,000	-	-
Note to APM San Ramon, payable within 36 months	90,000	-	-
Note to Los Angeles Areas MF, payable within one year	22,500	-	-
Note to Chris Stoufflet, payable within one year	24,642	-	-
Note to Boo Doo Noo Doo Pty Ltd, payable within 18 months	120,000	38,000	-
Notes to Citicorp Vendor Finance, payable within 60 months	12,896	-	-
Notes to DaimlerChrysler, payable within 72 months	165,505	-	-
Notes to Ford Credit, payable within 52 months	92,492	119,974	-
Notes to Officers, payable within 12 months	485,000	420,000	420,000
Note to Officer, payable within 36 months	480,000	960,000	1,200,000
Total	<u>\$ 1,912,535</u>	<u>\$ 2,204,620</u>	<u>\$ 1,864,250</u>
Less: Current portion	<u>(833,774)</u>	<u>(646,589)</u>	<u>(324,824)</u>
Long-term debt	<u>\$ 1,078,761</u>	<u>\$ 1,558,031</u>	<u>\$ 1,539,426</u>

Maturities of debt are as follows:

<u>Year Ending December 31,</u>	
2006	\$ 833,774
2007	454,106
2008	220,742
2009	108,382
Thereafter	295,531
	<u>\$ 1,912,535</u>

Aussie Pet Mobile, Inc.

Notes to Consolidated Financial Statements

(Continued)

6. CONTINGENCIES

The Company carries insurance policies on insurable risks at levels which it believes to be appropriate, including auto, general, garage, garage-keepers and workers' compensation liability. The Company has certain liabilities with respect to existing or potential claims, lawsuits, and other proceedings. The Company accrues for these liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated.

In the ordinary course of conducting its business activities, the Company occasionally becomes involved in judicial, administrative and regulatory proceedings involving both private parties and governmental authorities. These proceedings include general and commercial liability actions and audits. The Company does not expect any of these proceedings to have a material adverse effect on its consolidated financial statements.

Master Franchise Purchase Price Contingency. The Company purchased various previously sold master franchise protected areas. These master franchise protected areas will be broken down into franchise protected areas and sold. A portion of the proceeds from such sales will be used to pay the purchase price at a set percentage of these sales. The contingent liabilities for purchases of these protected areas at December 31, 2005 are as follows:

	2005	2004	2003
Los Angeles Areas, payable 15% of sales proceeds	\$ 260,082	\$ 306,582	\$ 374,866
Arizona, New Mexico, Part of Nevada, payable 20% of sales proceeds			73,000
Georgia, payable 20% of sale proceeds	52,000	52,000	52,000
San Diego, payable 16.66% of sale proceeds	71,332	71,332	71,332
Central California, payable 16.66% of sale proceeds	<u>33,344</u>	<u>33,344</u>	<u>33,344</u>
Total Contingencies	<u><u>\$ 416,758</u></u>	<u><u>\$ 463,258</u></u>	<u><u>\$ 604,542</u></u>

These commitments will be recognized when the protected areas are sold.

Territory Repurchase Contingency. The Company has agreements to repurchase territories should such territories be sold by the Company. Payments, made from sales proceeds, are treated as costs of sale at the time of sale when the liability becomes fixed and determinable. The contingent liabilities by respective areas at December 31, 2005 are as follows:

	2005
Randolph, NJ	\$ 83,333
Bloomington, MN	67,500
Villanova, PA	26,250
Shorewood, MN	169,750
Savannah, GA	<u>30,000</u>
Total Contingencies	<u><u>\$ 376,833</u></u>

Aussie Pet Mobile, Inc.

Notes to Consolidated Financial Statements

(Continued)

7. LINE OF CREDIT

The company has a \$100,000 line of credit with Bank of America of which \$0 was used as of December 31, 2005.

8. DEFERRED INCOME TAXES

The Company accounts for income taxes under SFAS 109, "Accounting for Income Taxes." This statement uses an asset and liability approach for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income taxes are provided to reflect the differences between the ultimate tax bases of assets and liabilities and their reported amounts in the financial statements. As of December 31, 2005, amounts for deferred tax assets and liabilities are as follows:

	2005	2004	2003
<i>Current</i>			
Federal deferred tax liabilities	\$ (202,473)	\$ -	\$ (129,576)
State deferred tax liabilities	(59,412)	-	(40,638)
Net current assets (liabilities)	<u>\$ (261,885)</u>	<u>\$ -</u>	<u>\$ (170,214)</u>
<i>Non-Current</i>			
Federal deferred tax assets (liabilities)	\$ (328,843)	\$ (338,603)	\$ 3,231
State deferred tax liabilities	(110,612)	(56,916)	293
Net non-current assets (liabilities)	<u>\$ (439,455)</u>	<u>\$ (395,519)</u>	<u>\$ 3,524</u>

The current years state and federal income taxes are the minimum tax of \$800 plus the effect of shipped vs. unshipped PetMobiles and depreciation on a different method for book and tax purposes. These income taxes, other than the \$800 minimum tax, are deferred and not currently payable.

9. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) savings plan, which provides for employees to contribute from 1%-10% of their base salary to the plan on a tax deferred basis up to the Internal Revenue Service limitations. The Company did not make matching contributions to the plan during fiscal 2005.

Aussie Pet Mobile, Inc.

Notes to Consolidated Financial Statements

(Continued)

10. STOCK OPTION PLAN

On May 14, 2004 the Board of Directors adopted the Aussie Pet Mobile Inc. 2004 Stock Option Plan ("Plan"), which reserved 319,444 shares of the Corporation's authorized but un-issued common stock and provides incentive stock options for employees, including employee officer's and directors and non-statutory stock options for consultants and non-employee directors of the Corporation. The minimum exercise price of an incentive stock option was established at the fair market value of \$1.71 per share. The exercise price of an option granted to an employee who owns more than 10% of the total combined voting power of all classes of outstanding stock must be at 110% of the fair market value of each share on the grant date. The minimum exercise price of the non-statutory stock option will be 100 % of the fair market value. Stock options granted as of December 31, 2005 were as follows:

<u>Shares Granted</u>	<u>Exercise Price</u>	<u>Grant Date</u>	<u>Vesting</u>
90,000	\$1.71	Various	22 %

Each option granted vests at 25% per year on the grant date anniversary. The vesting options accelerate if the Corporation sells substantially all its assets or if after a merger the Corporation's shareholders own less than 50% of the surviving company's stock.

No options were exercised during the year; therefore, no expenses were recorded against income during the year.

11. RELATED PARTY TRANSACTIONS

The Company leases its corporate offices from the majority stockholder at the monthly rental rate (including estimated CAM charges) of \$11,132, increasing by 3.1% on each October 1st anniversary in 2006 through 2009. The lease expires September 30, 2010, but the Company has one option to extend through September 30, 2015. The terms of this lease are deemed by management to be in accordance with market rates and reasonable for the Company and its shareholders.

The Company pays sales commissions to a minority stockholder, director and our Executive Vice President of Franchise Sales in his capacity as a consultant/employee of an unrelated company doing business as Oak Leaf Enterprises, Inc., a Nevada corporation. A monthly retainer plus sales commissions based on a specific schedule are deemed by management to be fair and reasonable.