SGD HOLDINGS, LTD.
FINANCIAL STATEMENTS
FOR THE PERIODS ENDED
JUNE 30, 2012
&
DECEMBER 31, 2011

-Financial Principal's Letter Regarding Financial Statements

-June 30, 2012, Quarterly Financial Statements and Accompanying Notes

CERTIFICATION

The financial information contained in this report is unaudited and is based upon present knowledge and belief. This information is believed to be correct and does not contain untrue statement of material fact and is in accordance with generally accepted accounting principles, consistently applied.

These financial statements and the notes hereto, fairly present in all material respects the financial condition, results of operations and cash flows for the six months and three months ended June 30, 2012, and in conformity with generally accepted accounting principles in the United States, consistently applied.

The Issuer has duly caused this report to be signed and certified on its behalf by the undersigned, duly authorized, on this 31st Day of August, 2012.

/s/ Harry Johansing

____

Harry Johansing
President and Principal
Financial Officer

CROUCH & ASSOCIATES
1453 SOUTH MAJOR STREET
SALT LAKE CITY, UTAH 84115

Mr. Harry Johansing
President
SGD Holdings, Ltd.
1860 Eastman Ave.
Ventura, CA 93003

Dear Mr. Johansing,

I have compiled the accompanying consolidated balance sheet of SGD Holdings, LTD., (the "Company"), and its wholly-owned subsidiaries as of June 30, 2012, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for three months and six months then ended in accordance with Statements of Standards for Accounting and Review Services issue by the American Institute of Certified Public Accounts.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and accordingly, do not express an opinion or any other form of assurance on them.

These financial statements have been prepared in accordance with Unites States generally accepted accounting principles.

I have participated in the decision making process regarding certain financial transactions and am therefore not independent.

/s/ Brent Crouch

Brent Crouch
August 30, 2012
Salt Lake City, Utah

SGD Holdings, Ltd.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2012 (unaudited)	December 31, 2011 (unaudited)
ASSETS:		
Current Assets:		
Cash	$ 22,502	$ 6,408
Inventory (Note C)	100,040	101,012
Accounts receivable	2,136	5,476
Total Current Assets	124,678	112,896
Plant, Property and Equipment (net)	21,524	27,049
Intangible assets (net)	2,192,615	2,222,245
Total Assets	$ 2,338,817	$ 2,362,190
LIABLIITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable and accrued expenses	$ 115,467	$ 143,995
Note Payable - related party (Note D)	317,622	447,622
Note Payable, short-term (Note F)	325,000	489,000
Total Current Liabilities	758,089	1,080,617
Notes Payable, long-term (Note F)	279,500	85,000
Contingencies and commitments		
Total Liabilities	$ 1,037,589	$ 1,165,617
STOCKHOLDERS' DEFICIT		
Preferred stock, $.001 par value; 50,000 shares authorized 0 shares issued and outstanding,		
Common stock, $.0001 par value; 250,000,000 shares authorized; 118,019,106 and 86,523,044 issued and outstanding at June 30, 2012 and December 31, 2011	11,803	8,653
Additional paid-in Capital	3,337,760	3,140,910
Retained deficit	(2,048,335)	(1,952,990)
Total Stockholders' Deficit	1,301,228	1,196,573
Total Liabilities and Stockholders' Deficit	$ 2,338,817	$ 2,362,190

(The notes are an integral part of this financial statement.)

SGD Holdings, Ltd.

CONSOLIDATED STATEMENT OF LOSS

(unaudited)

	Three Months Ended		Six Months Ended	
	June, 30, 2012	June, 30, 2011	June 30, 2012	June 30, 2011
Revenues	$ 46,817	$ 39,329	$ 59,749	$ 69,075
Cost of Goods Sold	32,251	61,279	42,114	77,189
Gross profit	14,566	(21,950)	17,635	(8,114)
Operating expenses:				
Selling, general and administrative expenses	82,715	161,398	140,317	230,569
Depreciation and amortization	17,578	17,578	35,156	35,156
Total operating expenses	100,293	178,976	175,473	265,725
Other income and expenses:				
Interest expense	11,554	21,496	31,837	38,461
Loss before tax and extraordinary items	(97,281)	(222,422)	(189,675)	(312,300)
Gain on forgiveness of debt	94,330		94,330	
Income tax expenses	-	-	-	-
Net loss	$ (2,951)	$ (222,422)	$ (95,345)	$ (312,300)
Net loss per common share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average common shares outstanding	102,271,075	87,523,731	97,021,731	87,689,711

(The notes are an integral part of this financial statement.)

SGD HOLDINGS, LTD.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT

From July 1, 2009 to June 30, 2012

(unaudited)

	Preferred stock		Common Stock		Additional	Deferred	
					Paid-in	Consulting	Retained
	Shares	Amount	Shares	Amount	Capital	Contract	Deficit
Balance at July 1, 2009	-	$ -	58,750,176	$ 5,875	$ 4,082,639	$ (1,575,000)	$ (571,231)
Consulting services						262,500	
Net loss for the six months ended December 31, 2009							(451,715)
Balance at December 31, 2009	-	$ -	58,950,176	$ 5,895	$ 4,082,639	$ (1,312,500)	$ (1,022,946)
Stock issued for services			5,808,333	581	115,586		
Conversion of note for common stock			7,000,000	700	6,300		
Stock issued for cash in a private placement			4,097,868	410	199,485		
Stock issued in good faith for the purchase of subsidiary			13,000,000	1,300			
Rescind consulting contract					(1,312,500)	1,312,500	
Net loss for the year ended December 31, 2010							(211,950)
Balance at December 31, 2010	-	$ -	88,856,377	$ 8,886	$ 3,091,510	-	$ (1,234,896)
Stock issued for services			2,000,000	200	39,800		
Conversion of note for common stock			11,000,000	1,100	9,900		
Rescission of common stock upon termination of contracts			(15,333,333)	(1,533)	(300)		
Net loss for the year ended December 31, 2011							(718,094)
Balance December 31, 2011	-	$ -	86,523,044	$ 8,653	$ 3,140,910		$ (1,952,990)
Conversion of note-payable related party for common stock			31,496,062	3,150	196,850		
Net loss for the 6 months ended June 30, 2012							(95,345)
Balance June 30, 2012	-	$ -	118,019,106	11,803	3,337,760	-	(2,048,335)

(The notes are an integral part of this financial statement.)

SGD Holdings, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Month Ended June 30, 2012	June 30, 2011
Cash flows from operating activities:		
Net Income (Loss)	$ (95,345)	$ (312,300)
Adjustment to reconcile net loss to cash used in operations:		
Stock issued to pay expenses (company and affiliates)		40,000
Depreciation	35,156	35,156
Relief of debt income	(94,330)	
Change in operation accounts:		
Accounts payable and accrued expenses	65,801	68,580
Notes payable - related party	70,000	60,000
Inventory	972	56,894
Accounts and Interest receivable	3,340	16,620
	(14,406)	(35,050)
Cash flows from investing activities:		
Purchase of assets		(500)
	-	(500)
Cash flows from financing activities:		
Proceeds from the sale of common stock		
Proceeds (payments) from loans - affiliates		
Proceeds from loans (net)	30,500	42,500
Payments on loans		
	30,500	42,500
Increase (decrease) in cash	16,094	6,950
Cash - Beginning of the year	6,408	25,082
Cash - End of the period	$ 22,502	$ 32,032

(The notes are an integral part of this financial statement.)

NOTE A – SUMMARY OF ACCOUNTING POLICIES

General

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results from operations for the three months and six months ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year-ended December 31, 2012.

A summary of the significant accounting policies applied in the preparation of the accompanying financial statement follows.

The consolidated financial statements include a company which is effectively controlled directly by the Parent Company, where control is defined as the power to govern the financial operation policies. This control is generally evidenced when the Company directly or indirectly owns more than 50% of the voting rights of the Company's share capital. Significant intercompany transactions have been eliminated in consolidation.

Inventory is valued at the lower of cost or market as of the respective balance sheet dates.

Business and Basis of Presentation

SGD Holdings, Ltd. was formed as a Delaware corporation on May 22, 1996 as Transun International Airways, Inc. Since the inception of the Company there have been two subsequent name changes to its current name, SGD Holdings, Ltd.

SGD Holdings was a development stage company with plans to establish itself as an air transport company providing nonscheduled air service or charter flights and then changed its business plan to a Holding company whereby acquired and operated several subsidiaries in the wholesale jewelry business, specifically in retail gold and silver.

The Company filed for Chapter 11 Reorganization under the United States Bankruptcy Code in the District of Delaware, Case No., 05-10182. The Company continued to manage its properties as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court until June 2, 2005 when a Chapter 11 Trustee was appointed. In February of 2005, a motion was filed to transfer venue of the case from Delaware to the Northern District of Texas, Fort Worth Division. A new case number no. 05-42392-rfn-11) was assigned on March 4, 2005. All claims or liabilities of the company were settled with the creditors with a Motion for a Final Decree was filed on April 8, 2010.

On July 1, 2010, the Company acquired Eco Paper, a California corporation, for the issuance of Thirty-eight Million Five Hundred Thousand (38,500,000) shares of common stock. The transaction was valued at $1,942,283, at the time of the acquisition.

NOTE A – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Business and Basis of Presentation-(Continued)

The Company operates as a holding company with its wholly-owned subsidiary; Eco Paper, Inc. Eco Paper has created proprietary techniques for producing paper by utilizing products that are considered waste by-products from natural fibers, such as banana and coffee trees. This process eliminates the need to cut down or destroy trees all round the world in order to produce paper products of all types.

During this 2nd quarter, the Company has identified and is in discussions with several potential new commercial businesses that are in different business sectors which utilize large quantities of paper products for their daily operations whether it is for copy paper, envelopes, napkins, business cards and special events to begin establishing accounts with these various businesses.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Income Taxes

The Company has adopted Financial Accounting Standard No. 109 (SFAS 109) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

Net Loss Per Common Share

The Company computes earnings per share under Financial Accounting Standard No. 128, "Earnings Per Share" (SFAS 128). Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the year. Dilutive common stock equivalents consist of shares issuable upon conversion of convertible preferred shares. During the six months ended June 30, 2012, and year-ended December 31, 2011, common stock equivalents are not considered in the calculation of the weighted average number of common shares outstanding because they would be anti-dilutive, thereby decreasing the net loss per common share.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

NOTE A – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue for product sales is recognized at the time the product is shipped to or picked up by the customer.

Advertising

The Company follows the policy of charging the costs of advertising to expenses as incurred. For the periods ended June 30, 2012, and December 31, 2011, advertising costs were not material to the statement of income.

Liquidity

As shown in the accompanying financial statements, the Company has incurred a net loss of ($95,345), and ($312,300) during the six months ended June 30, 2012, and June 30, 2011, respectively. As of June 30, 2012, the Company had working capital deficit of ($849,911) In order for the Company to sustain operations, additional working capital must be raised by increases in revenue realizing profitable margins, by the sale of equity securities or by loans from its affiliates.

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and related party receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit.

Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock- Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the periods ended June 30, 2012, and December 31, 2011, respectively.

Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130), establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from

NOTE A – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income-(Continued)

investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company adopted SFAS 130 during the periods ended June 30, 2012, and December 31, 2011, and has no items of comprehensive income to report.

Segment Information

Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131) establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The information disclosed herein, materially represents all of the financial information related to the Company's principal operating segment.

New Accounting Pronouncements

SFAS No. 168. In June of 2009, the Financial Accounting Standards Board, ("FASB"), issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-replacement of SFAS No. 162. No. 168 established the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. No.168 explicitly recognizes rule and interpretive releases of the Securities and Exchange Commission (SEC) under federal securities laws issued for fiscal years and interim periods ending after September 15, 2009. The Company has adopted SFAS No. 168 and there was no impact on the Company's consolidated financial statements or results of operations.

FAS No. 165. In May of 2009, the Financial Accounting Standards Board, ("FASB), issued SFAS No. 165, Subsequent Events No. 165 establishes general standards of accounting for, and requires disclosures of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009, and should be applied prospectively. The Company has adopted SFAS 165 and there was no impact on the Company's consolidated financial statements or results of operations.

NOTE B – ACQUISITION

On January 1, 2008, the Company entered into a purchase agreement, ("the Agreement"), with Harry Johansing to acquire a 100% interest in Eco Paper, Inc., and issued 38,500,000 shares of common stock, par value, $0.0001, per share. The value of the transaction at the time was $1,942,283.

NOTE C - INVENTORY

Inventory consists of unsold merchandise purchased from retailers for re-sale on internet outlets. Inventory is valued at the lower of cost or market.

NOTE D – NOTES PAYABLE RELATED PARTY

At June 30, 2012, and December 31, 2011, the Company had amounts payable to officers and directors in the amount of $317,622 and $447,622. The notes are payable on demand and are non-interest bearing and is convertible into common stock, at the option of the note holder.

NOTE E – RELATED PARTY TRANSACTIONS

The Company has an agreement to purchase paper products from Costa Rica Natural Paper from time to time. Costa Rica Natural Paper that is controlled by an officer of the Company. The Company has purchased $ 0.00 of products from Costa Rica Natural Paper during this quarter.

The Company issued 31,496,062 shares of restricted stock to an officer of the Company for a partial reduction of notes payable in the amount of $200,000.00, during the quarter.

NOTE F – NOTES PAYABLE

The Company entered into a Note with an accredited investor on October 30, 2007 and in the amount of $250,000. The note is due on September 30, 2010 with an interest rate of 6%, per annum with interest payments to begin on December 1, 2012.

The Company entered into a Convertible Note with an accredited investor on June 8, 2008 and in the amount of $25,000. The note was purchased by an accredited investor from the original note holder in the amount of $25,000.00. The new note holder cancelled all of the accrued interests, extended the maturity date to June 8, 2015, with an interest rate of 8% that is due on the maturity date of the note. The note principle balance at June 30, 2012, is $21,000.

The Company entered into a Note with an accredited investor on June 15, 2009 and in the amount of $75,000. The note was due on June 15, 2012 with an interest rate of 8% and can be converted into common stock upon the note holder's option. The Company and the accredited investor are in discussions for an extension of the maturity date.

The Company entered into a Note with an accredited investor on October 1, 2009 and in the amount of $35,000. The note was purchased by an accredited investor from the original note holder. The new note holder cancelled all of the accrued interests, extended the maturity date to October 1, 2015, with an interest rate of 8% that is due on the maturity date of the note. The note principle balance at June 30, 2012 is $35,000.

The Company entered into a Note with an accredited investor on March 9, 2010 and in the amount of $25,000. The note is due on March 9, 2012 with an interest rate of 20%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to March 9, 2015 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of March 9, 2010.

NOTE F – NOTES PAYABLE-(CONTINUED)

The Company entered into a Note with an accredited investor on May 18, 2010 and in the amount of $50,000. The note is due on May 18, 2012 with an interest rate of 20%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to May 18, 2015 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of May 18, 2010.

The Company entered into a Note with an accredited investor on June 15, 2010 and in the amount of $25,000. The note is due on June 15, 2012 with an interest rate of 20%. Interest is due at the time of maturity of the note. The investor has converted $7,000 of the note to common stock leaving a principle balance of $18,000 as of this reporting period. As of June 30, 2012, the maturity date has been extended to June 15, 2015 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of June 15, 2010.

The Company entered into a Note with an accredited investor on July 15, 2010 and in the amount of $15,000. The note is due on July 15, 2012 with an interest rate of 20%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to July 15, 2015 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of July 15, 2010.

The Company entered into a Note with an accredited investor on February 17, 2011 and in the amount of $10,000. The note is due on February 17, 2013 with an interest rate of 20%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to February 17, 2016 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of February 17, 2011.

The Company entered into a Note with an accredited investor on March 14, 2011 and in the amount of $7,500. The note is due on March 14, 2013 with an interest rate of 18%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to March 14, 2016 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of March 14, 2011.

The Company entered into a Note with an accredited investor on April 26, 2011 and in the amount of $5,000. The note is due on April 26, 2013 with an interest rate of 18%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to April 26, 2016 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of April 26, 2011.

The Company entered into a Note with an accredited investor on June 2, 2011 and in the amount of $20,000. The note is due on June 2, 2013 with an interest rate of 18%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to June 2, 2016 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of June 2, 2011.

The Company entered into a Note with an accredited investor on July 11, 2011 and in the amount of $5,000. The note is due on July 11, 2013 with an interest rate of 18%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to July 11, 2016 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of July 11, 2011.

The Company entered into a Note with an accredited investor on September 7, 2011 and in the amount of $20,000. The note is due on September 7, 2013 with an interest rate of 15%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to September 7, 2016 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of September 7, 2011.

NOTE F – NOTES PAYABLE-(CONTINUED)

The Company entered into a Note with an accredited investor on September 15, 2011 and in the amount of $10,000. The note is due on September 15, 2013 with an interest rate of 18%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to September 15, 2016 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of September 15, 2011.

The Company entered into a Note with an accredited investor on October 18, 2011 and in the amount of $7,500. The note is due on October 18, 2013 with an interest rate of 15%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to October 18, 2016 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of October 18, 2011.

The Company entered into a Note with an accredited investor on February 6, 2012 and in the amount of $8,000. The note is due on February 6, 2014 with an interest rate of 15%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to February 6, 2017 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of February 6, 2012.

The Company entered into a Note with an accredited investor on February 27, 2012 and in the amount of $7,500. The note is due on February 27, 2014 with an interest rate of 15%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to February 27, 2017 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of February 27, 2012.

The Company entered into a Note with an accredited investor on March 21, 2012 and in the amount of $5,000. The note is due on March 21, 2014 with an interest rate of 15%. Interest is due at the time of maturity of the note. As of June 30, 2012, the maturity date has been extended to March 21, 2017 and the interest rate has been adjusted to reflect a rate of 8% that is retroactive to the original effective date of March 21, 2012.

The Company entered into a Note with an accredited investor on June 26, 2012 and in the amount of $10,000. The note is due on June 26, 2017 with an interest rate of 8%. Interest is due at the time of maturity of the note.

NOTE G – SHAREHOLDERS' DEFICIT

Preferred Stock:

The Company is authorized to issue 50,000 shares of a designated Preferred Series of stock with a par value of $0.01, per share. As of June 30, 2012 and December 31, 2011, the Company has issued No of Preferred Series.

Issuances of preferred series during the quarter ended June 30, 2012:

The Company has no issuances of preferred series of stock during the quarter.

NOTE G – SHAREHOLDERS' DEFICIT-(CONTINUED)

Common Stock:

The Company is authorized to issue 250,000,000 shares of common stock with a par value of $.0001, per share. As of June 30, 2012, and December 31, 2011, the Company has issued and has outstanding 118,019,106 and 86,523,044 respectively shares of common stock.

Issuances of common stock during the quarter ended June 30, 2012:

The Company issued 31,496,062 shares of common stock to an officer of the Company for a reduction of notes payable in the amount of $200,000, during the quarter.

Issuances of common stock during the calendar year, 2012:

The issued 31,496,062 shares of common stock to an officer of the Company for a reduction of notes payable in the amount of $200,000, during this calendar year, 2012.

Issuances of common stock during the calendar year, 2011:

The Company issued in November of 2011, 7,000,000 shares of common stock at $0.001, per share, for a partial conversion of notes payable.

The Company issued in August of 2011, 2,208,333 shares of restricted common stock at $0.001, per share, to a consultant for services rendered.

The Company issued in March of 2011, 2,000,000 shares of restricted common stock at $0.001, per share, to a consultant for services rendered.

The Company issued in January of 2011, 4,000,000 shares of common stock at $0.001, per share, for a partial conversion of a note payable.

NOTE H–COMMITMENTS AND CONTINGENCIES

The Company entered into a Lease Agreement ("Lease") with Hammer-Hewson ("Landlord") on October 1, 2011, for the premises located at 1860 Eastman Ave., Ventura, CA, 93003. The premise governed by the lease is a free-standing retail space consisting of approximately 2,900 square feet. The Lease term is for two (2) years, with an Option for an additional two (2) year period, and at the following monthly rate:

Base Years:
1860 Eastman Ave., from October 1, 2011 through October 1, 2013, is $1,014.

Rent expenses totaled $5,252 and $4,602, respectively during the 3 months ended June 30, 2012, and June 30, 2011.

Minimum future lease payments for the remainder of this calendar year 2012, is $6,084.

The Lease was guaranteed by Harry Johansing.

NOTE I-LEGAL

Since the filing of the Company's year-end statement for the period ended December 31, 2011, and its quarterly statement for the period ended June 30, 2012, no material changes have occurred to the legal proceedings reported therein.

NOTE J - INCOME TAXES

The Company has adopted Financial Accounting Standard No. 109 which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

At June 30, 2012, the Company has available for federal income tax purposes a net operating loss carry-forward of approximately $2,000,000 beginning to expire in the year 2024, which may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the profit status of the Company, the tax benefits will not be recognized until income is realized. Due to any significant changes in the Company's ownership, the future use of its existing net operating losses may be limited.

Components of deferred tax assets as of June 30, 2012 are as follows:

Non Current:	
Net operating loss carry forward	$ 2,000,000
Valuation allowance	-2,000,000

Net deferred tax asset	$ --
	======

NOTE K-GOING CONCERN

The accompanying consolidated statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements during the three (3) months ended June 30, 2012, the Company incurred losses from operations of ($2,951) and has not obtained profitable operation under its current operating plan. This may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon advances from its parent and affiliates, and the sale of additional investment stock, and management's ability to develop profitable operations. Management anticipates the Company will attain profitable status and improve its liquidity through the continued developing, marketing, and selling of its products, and additional equity investments in the Company. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern. In order to improve the Company's liquidity, the Company is actively pursuing additional equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing. If operations and cash flows continue to improve through these efforts, management believes that the Company can continue to operate and achieve profitability. However, no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems.