GENESIS FINANCIAL, INC.

Financial Statements (Unaudited)

As of December 31 2007 and 2006

Genesis Financial, Inc.

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GENESIS FINANCIAL, INC.

MANAGEMENTS' REPORT ON FINANCIAL STATEMENTS

The accompanying (unaudited) balance sheets of Genesis Financial, Inc. as of December 31, 2007 and 2006, the related statements of income for the years ended December 31, 2007 and 2006 the statement of cash flows for the year ended December 31, 2007 were prepared by Management of the Company.

In the opinion of Management of the Company, all adjustments necessary to a fair statement of results for the periods presented have been made.

Management has elected to include Footnotes with these unaudited financial statements.

Management
Genesis Financial, Inc.
January 16, 2008

Genesis Financial, Inc.

Balance Sheet - Prepared By Management

	Year Ended December 31, 2007	Year Ended December 31, 2006
Assets		
CURRENT ASSETS:		
Cash	231,119	1,211,872
Inventories, lower of cost or market:		
Contracts and mortgages	5,796,803	5,237,360
Real estate held for resale	1,954,410	2,191,516
Federal income tax	148,236	
Total current assets	8,130,568	8,640,748
DEPOSITS	2,680	2,660
SECURITIES AVAILABLE FOR SALE	399,592	339,267
	8,532,840	8,982,675
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Line of credit, affiliated company	2,000,000	3,299,938
Line of credit, bank	1,150,000	1,000,000
Federal income tax		94,889
Other current liabilities	755,792	453,165
Total current liabilities	3,905,792	4,847,992
DEFERRED INCOME	208,214	169,639
STOCKHOLDERS' EQUITY		
Common stock - 100,000,000 shares, $0.001 par value, authorized;		
7,082,748 and 6,534,540 issued and outstanding, respec	7,095	6,535
Preferred stock - 10,000,000 shares, $1.00 par value, authorized;		
1,000,000 Series A shares issued and outstanding	0	0
Additional paid-in capital	4,235,649	3,960,295
Retained earnings (deficit)	176,090	(1,786)
Total stockholders' equity	4,418,834	3,965,044

Genesis Financial, Inc.

Statement of Income - Prepared By Management

	Year Ended December 31, 2007	Year Ended December 31, 2006
REVENUE:		
Contract sales revenues, net	895,349	853,310
Wetland credit sales		45,470
Gain on sale securities	134,224	
Interest and other operating income	1,255,540	786,260
	2,285,113	1,685,040
EXPENSES:		
Compensation and related expenses	401,434	374,793
Interest expense, related party	158,694	181,562
Interest expense, other	207,421	102,005
Office occupancy	76,254	38,693
Other operating expenses	96,655	164,302
Uncollectible accounts	1,158,894	292,267
	2,099,352	1,153,622
NET OPERATING INCOME	185,761	531,418
FEDERAL INCOME TAX	7,885	125,348
NET INCOME	177,876	406,070
BASIC INCOME PER SHARE	0	0
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	7,082,748	6,534,540

See accompanying notes to financial statements.

Genesis Financial, Inc.

Statement of Cash Flows - Prepared By Management

Increase (Decrease) in Cash	Year Ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	177,876
Adjustments to reconcile net loss to net cash	
used in operating activities:	
Decrease (Increase) in inventory and loans	(322,337)
Decrease (Increase) income tax	(243,125)
Decrease (Increase) in investments	(60,325)
Increase (Decrease) in deferred income	38,575
Decrease (Increase) in deposits	(20)
Increase (decrease) in other current liabilities	302,627
Total adjustments	(284,605)
Net cash provided by operating activities	(106,729)
CASH FLOWS FROM FINANCING ACTIVITIES	
Redemptions of stock	(164,907)
Sale of common stock	440,821
Increase (Decrease) from line of credit with affiliate, net	(1,299,938)
Increase (Decrease) from line of credit from bank, net	150,000
Net cash provided by financing activities	(874,024)
NET INCREASE (DECREASE) IN CASH	(980,753)
CASH, BEGINNING OF PERIOD	1,211,872
CASH, END OF PERIOD	231,119
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:	
CASH PAYMENTS OF INTEREST	374,080

See accompanying notes to financial statements.

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

The accompanying financial statements are those of Genesis Financial, Inc., incorporated in Washington State on January 24, 2002 (the "Company"). The Company selected December 31 as its fiscal year end.

The Company is primarily engaged in the business of purchasing and selling real estate receivable contracts, initiating new real estate loans and periodically providing bridge capital funding. These receivables contracts consist of real estate contracts and mortgage notes collateralized by primarily first position liens on residential and commercial real estate. The receivables collateralized by real estate are typically non-conventional either because they are originated as a result of seller financing, or the underlying property is non-conventional.

The Company invests in receivable contracts using equity funds and funds generated from external borrowing including a line of credit facility from an affiliated shareholder.

Summary of Significant Accounting Policies:

Use of 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 amounts of revenue and expenses during the reporting period. Significant estimates used herein include those relating to management's estimate of market value of contracts and real estate held in inventory. It is reasonably possible that actual results could differ from those and other estimates used in preparing these financial statements and such differences could be material.

Cash – Cash consists of demand deposits, including interest-bearing accounts, held in a local bank.

Inventory of Contracts – Real estate contracts and mortgage notes held in inventory for resale are carried at the lower of cost (outstanding principal adjusted for net discounts and capitalized acquisition costs) or market value, determined on an aggregate basis by major type of receivable. Gains or losses on sales are recognized utilizing the aggregation method for financial reporting and income tax purposes at the time of sale. Interest on these receivables is included in interest income during the period held for sale.

Inventory of real estate held for sale – Inventory of real estate held for sale is carried at the lower of cost or estimated market value.

Securities available for sale – Securities held for sale are recorded at cost.

Office furniture and equipment – Office furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of seven years for furniture and five years for equipment.

Deferred income – Deferred income are the fees received from the placement of loans and is amortized on a monthly basis over the life of the loan for the portion of the loan that is owned and carried in inventory by the Company.

Revenue recognition - The Company generates revenues from interest income on contracts held for resale, from profits on sales of receivables contracts held in inventory, and fees generated in the acquisition of loans. Sales of receivables are recognized when each sales transaction closes.

Mark to market adjustments – The Company evaluates the estimated market value of its contracts and real estate held in inventory at the end of the period and adjusts the values to reflect decreases in market value below cost.

Customer advances – From time-to-time, customers deposit funds with the company for general purposes pending a real estate receivable contract purchase or loan closing. The Company records these customer advances as a liability when received and the amounts are offset against the contract or loan delivered to the customer when the purchase is closed. The closings generally occur within a relatively short time after receipt of the advance from the customer.

Income tax – Deferred taxes are provided, when material, on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. There were no material temporary differences for the periods presented. Deferred tax assets, subject to a valuation allowance, are recognized for future benefits of net operating losses being carried forward.

Earnings per share – Basic earnings per common share has been computed on the basis of the weighted-average number of common shares outstanding during the period presented. Diluted earnings per common share is computed on the basis of the number of shares that are currently outstanding plus the number of shares that would be issued pursuant to outstanding warrants, stock options and common stock issuable on conversion of preferred stock.

NOTE 2 — RELATED-PARTY TRANSACTIONS:

From time to time, affiliates participate with the Company in purchasing contracts that would otherwise be too large for the Company to purchase on its own. These joint-venture purchases are negotiated on a case-by-case basis depending on the circumstances of each individual contract. From time to time, the Company may also sell contracts or portions of contracts from inventory or broker transactions directly to affiliates of the Company. Contracts or portions of contracts sold to affiliates are sold on the same basis and price as are offered to unrelated buyers of contracts.

NOTE 3 — INVENTORY OF CONTRACTS RECEIVABLE:

At December 31, 2007 and 2006, the Company held inventories of contracts, loans, and real estate with an aggregate cost of $7,751,213 and $7,428,876 respectively. Included in the inventories are several contracts that are delinquent in the normal course of business. The delinquencies may result in foreclosure of the underlying real estate, which then might either be liquidated or developed by the Company.

Management has recognized losses of $1,158,894 for the year ended December 31, 2007 and $292,267 for the year ended December 31, 2006 by marking the inventories to estimated market values.

On December 31, 2005, the Company had an outstanding loan in the amount of $60,000 to Daybreak Oil & Gas, Inc., which was convertible into restricted common stock of Daybreak Oil & Gas, Inc. at $.25 per share. The Company requested the note be converted into 240,000 common shares February 9, 2006. At December 31, 2005 the Company had 36,000 common shares of Daybreak Oil & Gas, Inc. in securities held for sale. Following the conversion the Company had a total of 276,000 shares of Daybreak Oil & Gas, Inc. In the first quarter of calendar year 2006, the Company loaned Daybreak Oil & Gas, Inc. an additional $100,000. The loan was converted into 133,334 restricted shares common shares of Daybreak Oil & Gas, Inc. The Company sold 158,700 shares of Daybreak Oil & Gas, Inc. common stock in the quarter ended March 31, 2007 resulting in a capital gain of $134,224.

NOTE 4 ----SECURITIES HELD FOR SALE

At September 30, 2007 the Company had a portfolio of investments with quoted market values as follow:

	Shares	Cost	Quoted Market
Daybreak Oil & Gas, Inc.	250,634	$132,092	$ 75,190
Powercold Corporation	347,008	125,000	121,452
Command Center, Inc.	110,000	130,000	185,900
Gold Crest Corporation	41,667	12,500	11,667
TOTAL		$399,592	$ 394,209

The common shares in the portfolio are restricted stock and must be sold under rule 144 or 144k and therefore the quoted market values are subject to change and any profits or losses will not be recognized until the securities are sold; which, is a minimum of one year from date of acquisition.

NOTE 5 — LINE OF CREDIT:

The Company established a $2,500,000 Line of Credit Agreement in January 2008 with the Coghlan Family Corporation, Inc. (CFC). The interest rate on the line is prime plus one percent per annum with a commitment fee of ½% or $12,500. The credit line expires January 1, 2010. The loan was subsequently subordinated against an additional bank line of credit for $1,000,000 with a floating line of credit. Coghlan Family Corporation is an affiliated company controlled by a director and principal shareholder of the Company.

NOTE 6 — CAPITAL STOCK:

Preferred Stock:

Shares of the Company's authorized but unissued preferred stock are entitled preference over common shares in distribution of assets upon the Company's liquidation or dissolution. In 2004, the Company issued 1,000,000 shares of Series A Preferred Stock bearing a stated value of $1.00 per share and a cumulative preferred dividend rate of 4% per annum. The Series A Preferred shares were convertible to common stock at a conversion rate of $1.00 per share or 1,000,000 shares in the aggregate. The Series A Preferred shares were purchased by John R. Coghlan, a principal shareholder and director of the Company. The shares were converted into common stock in the quarter ended June 30, 2006.

Stock Option Plan:

On April 10, 2002, the Board of Directors approved the Genesis Financial, Inc. Stock Option Plan (the Plan), and the Plan was subsequently approved by the Shareholders of the Company on May 2, 2002. The plan allows for issuance of Incentive Stock Options ("ISO's") and Non-statutory Stock Options. The maximum number of shares that may be subject to option and sold under the Plan is 1,300,000 post-split shares.

At December 31, 2006, the Company had issued and outstanding options for sale of 788,000 shares of the Company's common stock. The total options included Incentive Stock Options (ISO's) for sale of 676,000 shares to employees of the Company and Non-statutory Stock Options (NSO's) for sale of 112,000 shares to service providers to the Company. One hundred percent of the ISO's and NSO's are currently vested. The ISO's and NSO's are exercisable at $.60 per share. If not exercised prior to April 14, 2007, the options expire. The ISO's also expire 30 days after the recipient ceases to be an employee for the Company, or one year after the employee's death.

The NSO's expire 30 days after the recipient ceases to be a service provider for the Company, or one year after the service provider's death. The issuance of these options did not result in a compensation element, as there are no specified services required and the value of the underlying stock was less than the estimated fair value of the options' exercise proceeds at the grant date.

In accounting for the ISO's, the Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Under APB Opinion No. 25, because the exercise price of our outstanding stock options is not less than the market price of the underlying stock on the date of grant, no compensation cost is recognized. The Company has adopted the pro forma disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." If the Company had elected to recognize compensation expense based on the fair value of the options granted at the grant date as prescribed by SFAS No. 123, the Company's net loss and loss per share amounts for the period presented would not have differed from that presented. Assumptions used in the fair value estimate included a risk-free interest rate of 3.1%, an expected option life of five years, and a -0-% dividend rate.

As of December 31, 2007 there were 512,000 shares of common stock were available for future grants under the Plan. Through December 31, 2007 all of the outstanding options had been exercised or had expired

NOTE 7 – INCOME TAX:

The Company had a $128,059 tax-basis net operating loss carryover at December 31, 2005; which was used to offset taxable income for year ended December 31, 2006. In addition, the Company has a $137,500 capital loss carryover to calendar year 2007 which was used to offset capital gain income in the year ending December 31, 2007.

NOTE 8 — OPERATING LEASES:

In January 2006, the Company entered into a new operating lease of its office premises. Following are the commitments under the leases for the fiscal years ending December 31 of each year:

2008	38,557
2009	39,025
2010	3,256

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, Accrued Receivables, Contracts and Mortgages, Accrued Expenses, and Line of Credit – *the carrying amounts approximate fair value because of the short maturity or holding period of these instruments.*

NOTE 10 – DIVIDEND DISTRIBUTION BY AN AFFILIATE:

On November 28, 2003, Temporary Financial Services, Inc. distributed 737,280 pre-split shares of previously issued Genesis common stock to its shareholders in a dividend distribution. As a result of this transaction, which was registered with the United States Securities & Exchange Commission, Genesis became a publicly traded company. The Company's securities have been quoted on the Pink Sheets under the symbol GFNL. At December 31, the Company decided to drop its pink sheet listing.

NOTE 11 – FUNDS HELD IN RESERVE:

In the normal course of business Genesis purchases real estate receivable contracts for its own account and brokers transactions for others. To facilitate the closing of brokered transactions, Genesis often receives and holds buyers funds pending disbursement to a closing agent. Genesis has no interest in these funds and deposits them in a separate bank account designated the Genesis Financial, Inc. Reserve Account. In certain instances Genesis also collects prepaid interest on loan advances, which are deposited in the reserve Account. At December 31, 2007 and, 2006, Genesis was holding $52,750 and $210,165, respectively, for the benefit of others in the Genesis Financial, Inc. reserve Account. These amounts are included in the financial statements as cash and other current liabilities.

NOTE 12 – UNREALIZED DEFERRED INCOME:

In the normal course of business, Genesis will sometimes purchase contracts at discounts from face value. The discounts are recognized as income over the life of the contract. The Company amortizes placement fees over the monthly life of the loans.

Genesis also originates loans and resells the loans at lower interest rates than the loan coupon rate. As a result, the Company retains a spread on the value of the contracts. If the contracts are paid off early Genesis does not realize any further discount spread. The aggregate value of the retained discounts at December 31, 2007 and 2006 amounted to $ 493,959 and $801,122 respectively.

In May 2006 Genesis Financial, Inc. negotiated a settlement on loans made on property in Idaho that had been jointly developed into a wetlands mitigation bank with the original borrower and a subsequent joint venture partner. The loan had gone into default and Genesis Financial, Inc. was in the process of foreclosure when settlement was negotiated. Under the settlement Genesis is to receive 52.5% of $3,000 ($1,575 per credit) upon the sale of each credit. The mitigation bank has been approved for 1,376 credits with a possible increase to 2,500 credits. Sale of the mitigation credits would result in pre-tax income of between $2,167,200 and $3,937,500 over the life of the mitigation bank should all of the credits be developed and sold. At December 31, 2006 Genesis had received payment on the sale of 33.55 credits.

NOTE 13 – GENESIS HOLDINGS, INC.

In April 2004 Genesis Financial, Inc. entered into a management and servicing agreement to manage the funds of Genesis Holdings, Inc., a Washington corporation. Genesis Financial, Inc. receives a fee equal to one and one-half percent of the assets managed; which are the assets owned by Genesis Holdings, Inc. Genesis Financial, Inc. does own any of the outstanding stock of Genesis Holdings, Inc. At December 31, 2007 and 2006 Genesis Holdings, Inc. had assets of $3,717,135 and $ 3,565,009 respectively. Genesis Financial, Inc. received fees totaling $ 53,466 and $ 35,275for the years ended December 31, 2007 and 2006 respectively.