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EYI INDUSTRIES INC.  
Form 10KSB  
April 03, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

Annual Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the fiscal year ended December 31, 2005

Transition Report Under Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 000-29803

EYI INDUSTRIES, INC.

-----  
(Name of small business issuer in its charter)

NEVADA

88-

-----  
(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer I

7865 Edmonds Street  
Burnaby, B.C. CANADA

V

-----  
(Address of principal executive offices)

(Zip

(604) 759-5031

-----  
Issuer's telephone number

Securities registered under Section 12(b) of the Exchange Act: NONE.

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Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, \$0.001 PAR VALUE PER SHARE.  
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Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or

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information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. |  |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |  | No |X|

Revenues for the fiscal year ended December 31, 2005 were : \$4,980,408.

The aggregate value of the voting stock held by non-affiliates of the registrant computed on the basis of the average of the bid and ask price of the registrant's common stock on December 31, 2005 was \$3,306,591.15.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As March 31, 2006, the Issuer had 260,273,921 Shares of Common Stock outstanding.

Documents incorporated by reference: NONE

Transitional Small Business Disclosure Format (Check one): Yes |  | No |X|

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PART I

Certain statements contained in this Annual Report on Form 10-KSB constitute "forward-looking statements". These statements, identified by words such as "plan", "anticipate", "believe", "estimate", "should," "expect" and similar expressions, include our expectations and objectives regarding our future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the caption "Management's Discussion and Analysis or Plan of Operation" and elsewhere in this Form 10-KSB. We advise you to carefully review the reports and documents we file from time to time with the Securities and Exchange Commission ("SEC"), particularly our quarterly reports on Form 10-QSB and our current reports on Form 8-K.

As used in this Annual Report, the terms "we", "us", "our", "EYI" and "our company" mean EYI Industries, Inc., and its subsidiaries, unless otherwise indicated. All dollar amounts in this Annual Report are expressed in U.S. dollars unless otherwise indicated.

ITEM 1. DESCRIPTION OF BUSINESS.

OVERVIEW

We are in the business of selling, marketing, and distributing a product line consisting of approximately 27 nutritional products in three categories, dietary supplements, personal care products and water filtration systems. Our most successful product is Calorad, a liquid collagen-based dietary supplement presently available in the market. These products are marketed through a network marketing program in which IBAs (Independent Business Associates) purchase products for resale to retail customers as well as for their own personal use. We have a list of over 380,000 IBAs, of which approximately 8,500 we consider "active". An "active" IBA is one who purchased our products within the preceding 12 months. Over 1,200 of these IBAs are considered "very active". A "very active" IBA is one who is on our automatic Auto-ship Program and is current with their annual administration fee.

The IBAs in our network are encouraged to recruit interested people to become new distributors of our products. New IBAs are placed beneath the recruiting IBA in the "network" and are referred to as being in that IBA's "down-line" organization. Our marketing plan is designed to provide incentives for IBAs to build, maintain and motivate an organization of recruited distributors in their down-line organization to maximize their earning potential. IBAs generate income by purchasing our products at wholesale prices and reselling them at retail prices. IBAs also earn commissions on product purchases generated by their down-line organization.

On an ongoing basis we review our product line for duplication and sales trends and make adjustments accordingly. As of December 31, 2005, our product line consisted of: (i) 18 dietary supplement products; (ii) 7 personal care products consisting primarily of cosmetic and skin care products; and (iii) 2 water filtration system products. Our products are primarily manufactured by Nutri-Diem, Inc., a related party, and sold by us under a license and distribution agreement with Nutri-Diem Inc. Certain of our own products are manufactured for us by third party manufacturers pursuant to formulations developed for us. Our products are sold to our IBAs located in the United

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States, Canada and Asia.

We believe that our network marketing system is suited to marketing dietary supplements, personal care products and water filtration products because sales of such products are strengthened by ongoing personal contact between IBAs and their customers. Our network marketing system appeals to a broad cross-section of people, particularly those looking to supplement family income or who are seeking part-time work. IBAs are given the opportunity, through our sponsored events and training sessions, to network with other distributors, develop selling skills and establish personal goals. We supplement monetary incentives with other forms of recognition in order to motivate IBAs.

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### Recent Corporate Developments

Other than as reported in our Form 10-KSB for the year ended fiscal, 2004, we experienced the following significant developments through the date of this filing and during fiscal 2005

- o On March 14, 2006 we entered into an agreement with Porter Public Relations, Inc. ("Porter") pursuant to which Porter will provide us with certain public relations services to promote the launch of the Code Blue water filtration system and the Longevity Series consisting of Calorad(R), Prosoteine(R) and Calorad(R) Cream. In consideration of which we agreed to pay Porter a fee of \$5,000 per month for up to 40 hours per month. The agreement is based on a month to month term.
- o On January 27, 2006 we entered into a Consulting Agreement with Mr. Lou Prescott, for a period of six (6) months and US\$5,000 per month to provide EYI with assistance in developing Mr. Prescott's business to business marketing model for EYI. Pursuant to the terms of the agreement we also agreed to purchase Mr. Prescott's gold lead system and during the term of the agreement, to provide Mr. Prescott with 100% of the leads generated by the system.
- o On January 19, 2006, we entered into an agreement with Global Consulting Group Inc. ("Global") on a month to month basis. Global provides investor relations services and creates investor awareness for a fee of \$15,000.00 USD per month.
- o On December 21, 2005 we entered into a Settlement Agreement and Mutual Release with Business Centers, LLC and Halo Distribution, LLC in settlement of the legal action commenced against EYI by Business Centers, LLC On June, 2005. See "Item 3. - Legal Proceedings", below.
- o On December 6, 2005 we incorporated a wholly owned subsidiary, Essentially Yours Industries (International) Inc. ("EYI INTL") to facilitate our expansion throughout other Southeast Asian countries.
- o On December 2, 2005, we held our 2005 Annual General Meeting ("AGM") in Las Vegas, Nevada. At the AGM the stockholders voted to increase the number of our authorized shares of common stock from 300,000,000 to 1,000,000,000 and appointed Mr. Dori O'Neill and Mr. Jay Sargeant as Directors.
- o On September 23, 2005, EYI and Essentially yours Industries (Hong Kong) Limited ("EYI HK"), our wholly owned subsidiary, entered into

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an agency agreement (the "Agency Agreement") with Guangzhou Zhongdian Enterprises (Group) Co. Ltd. ("GZE") and China Electronics Import and Export South China Corporation ("CEIEC"). Pursuant to the terms of the Agency Agreement, EYI HK granted to CEIEC and its wholly owned subsidiary GZE, the exclusive right to distribute EYI's Code Blue(TM) water filtration systems (the "Water Filtration Systems") in China for a period of two years subject to, among other things, the following conditions: (i) CEIEC purchasing a minimum of 4,000,000 Water Filtration Systems in each year commencing in 2006; (ii) EYI HK issuing an exclusive agency certificate to CEIEC confirming the grant of agency rights; (iii) EYI HK guaranteeing the safety of its products to be sold on the Chinese market and that the packaging specifications will meet the product safety standard and packaging standards as required in China; (iv) CEIEC committing to the purchase (the "Purchase Plan"): of the amount of Water Filtration Systems outlined in the following purchase plan; (v) If, in any year CEIEC purchases fewer than 4,000,000 Water Filtration Systems in the Purchase Plan it will cease to have the exclusive agency rights to the Water Filtration Systems but continue to be non-exclusive agents of EYI HK; (vi) If, in any year CEIEC purchases fewer than one-half of the Water Filtration Systems in the Purchase Plan, EYI HK may at its option adjust the price of the Water Filtration Systems supplied to CEIEC under the Purchase Plan; and (vii) CEIEC agree to obtain all required regulatory approvals in China relating to the marketing and distribution of the Water Filtration Systems. Pursuant to the terms of the Agency Agreement, CEIEC reserves the right, upon reasonable notice to EYI HK, to increase, or decrease the number of Water Filtration System units that it purchases under the Purchase Plan, based on its evaluation of market demand in China, and agreed to commence purchases under the Purchase Plan in October 2005, and place subsequent purchase orders on a quarterly basis. The parties agreed that CEIEC may upon reasonable notice to EYI HK, assign its interest in the Agency Agreement to its nominee company, but remains a party to the agreement notwithstanding any such assignment. As of March 30, 2006, the Company has not received any purchase orders from CEIEC. Due to delays by MARTI not providing adequate Code Blue pitcher/filter samples, the product was unable to meet the deadline for the December product review. Code Blue pitcher/filters are now slated to be included in the March 2006 quarterly Chinese government product review.

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- o EYI HK entered into a Logistics Management Agreement dated September 1, 2005 with All In One Global Logistics Ltd. to provide international freight, warehousing and distribution services in Hong Kong for a period of two years.
- o On September 1, 2005, EYI entered into an agreement for legal services with M. Ali Lakhani Personal Law Corporation (the "Contractor") to provide EYI and its subsidiaries with certain legal services in exchange for a monthly fee of US \$8,000 and a one time issuance of 500,000 restricted shares of our common stock to the Contractor or its nominee, pursuant to Regulation S of the Securities Act of 1933. The contract is on a month-to-month basis.
- o On August 28, 2005 we incorporated a wholly subsidiary, EYI HK. The EYI HK office consists of the entire 15th floor in a centrally located building at No. 1 Minden Avenue, Tsim Sha Tsui, Kowloon. The office is intended to be used to service distributors and provide a

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product pick up depot for Code Blue(TM) water filtration systems, Calorad(R), Prosoteine(R) Agrisept-L(R), Definition(R) cream and drops and the newest EYI product, Calorad Cream. The new office will also play a role in supporting the sales, distribution and logistics of the CEIEC agency agreement. In connection with opening our new office in Hong Kong, on September 28, 2005 EYI HK entered into a Lease with Dombas Estates Limited for the lease of office space located at Nos. 1-3, 15th Floor of No. 1 Minden Avenue, Tsim Sha Tsui, Kowloon. The lease is for a two year term at a monthly rent of approximately \$3,500 USD (HK\$22,920).

- o On September 12, 2005, we retired \$5,000 of the Taib Bank, E.C. debenture plus \$14,245 in interest by converting 375,146 common shares.
- o On August 16, 2005, we retired \$170,000 of the Taib Bank, E.C. debenture plus \$10,830 in interest by converting 4,487,096 common shares.
- o On August 15, 2005, we retired \$75,000 of the Taib Bank, E.C. debenture by converting 2,027,027 common shares.
- o On August 1, 2005, we entered into a promissory note with Cornell Capital Partners, LP ("Cornell") for the principal sum of One Million (U.S.) dollars (\$1,000,000) and payable by one initial payment of One Hundred Thousand Dollars (\$100,000); eleven equal weekly installments of Seventy Five Thousand Dollars (\$75,000); and one additional installment of One Hundred Five Thousand Eight Hundred Eighty Seven Dollars and Sixty Seven Cents (\$105,887.67) commencing September 3, 2005. Interest on this note is twelve percent (12%) per annum. The promissory note was fully retired on December 16, 2005.
- o On August 3, 2005, the Company retired the Cornell \$250,000 debenture signed on June 22, 2004, plus a 20% premium of \$50,000 by using the cash proceeds of the promissory note signed on August 1, 2005.
- o On July 28, 2005, we entered into an Investor Relations Agreement (the "IRAgreement") with Agora Investor Relations Corp ("AGORA"). Pursuant to the terms of the agreement AGORA agreed to provide us with certain services including marketing, branding and investor communication services, in consideration of which we agreed to: (i) pay AGORA a fee of \$2,500 per month commencing August 1, 2005 (which fee has been paid); and (ii) issue to AGORA warrants to be registered by us to purchase 350,000 shares of our common stock exercisable at price of \$0.06 per share and vesting over a twelve month period. The agreement is for an initial term of August 1, 2005 to July 31, 2006 and is renewable at EYI's option for an additional term of 12 months under the same terms and conditions. On October 5, 2005 we amended the IR Agreement with Agora. The IR Agreement was amended to provide for the issuance of 250,000 restricted shares of our common stock in place of the warrants to be received by Agora initially under the IR Agreement. The shares were issued pursuant to Regulation 5 of the Securities Act of 1933 and Canadian National Instrument 45-106 on the basis that Agora is an accredited investor.
- o On May 27, 2005 we filed a registration statement on SB-2 (Registration No. 333-125344) registering the resale of up to 97,264,558 shares of our common stock to be sold by certain of our stockholders, including up to an aggregate of 85,000,000 shares of

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our common stock pursuant to our Standby Equity Distribution Agreement with Cornell Capital Partners, L.P. The registration statement was subsequently declared effective by the SEC on July 29, 2005.

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- o On May 13, 2005 we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP ("Cornell") pursuant to which we entered into the following agreements: a Registration Rights Agreement, an Escrow Agreement, and a Placement Agent Agreement. Pursuant to the terms of the new Standby Equity Distribution Agreement, we may, at our discretion, periodically issue and sell shares of our common stock for a total purchase price of \$10 million. If we request advances under the Standby Equity Distribution Agreement, Cornell will purchase shares of our common stock for 98% of the lowest volume weighted average price on the Over-the Counter Bulletin Board or other principal market on which our common stock is traded for the 5 days immediately following the advance notice date. Cornell will retain 5% of each advance under the new Standby Equity Distribution Agreement. We may not request advances in excess of a total of \$10 million. Pursuant to the terms of our Registration Rights Agreement and the standby Equity Agreement with Cornell, we agreed to register and qualify, among other things, the additional shares due to Cornell under the Standby Equity Distribution Agreement under a registration statement filed with the SEC. We signed a Termination Agreement on May 13, 2005, for the purpose of terminating our Standby Equity Distribution Agreement, Registration Rights Agreement and Escrow Agreement previously entered into with Cornell on June 22, 2004. During the year ended December 31, 2005, the Company issued 40,874,047 common shares to Cornell in exchange for \$1,700,000.
- o On May 11, 2005 we entered into a Reseller Agreement with MARTI for a term of five (5) years, pursuant to which MARTI appointed EYII as the exclusive distributor of certain specially formulated MARTI products on a consignment basis and provided EYII with 1000 units of inventory for sale to its customers, proceeds of which are subject to fee payments to MARTI as set out in the schedules accompanying the agreement.
- o On April 29, 2005 Essentially Yours Industries, Inc., our wholly owned subsidiary ("EYII") signed a letter of intent with Metals & Arsenic Removal Technology, Inc. ("MARTI") for the purpose of marketing certain of MARTI's products provided to EYII on a consignment basis and assigning marketing rights to certain of MARTI's product lines to EYII, subject to EYII's entry into a definitive agreement with MARTI by November 1, 2005. Subsequently, on May 11, 2005 EYII entered into Reseller Agreement with MARTI for a term of five (5) years, pursuant to which MARTI appointed EYII as the exclusive distributor of certain specially formulated MARTI products on a consignment basis and provided EYII with 1000 units of inventory for sale to its customers, proceeds of which are subject to fee payments to MARTI as set out in the schedules accompanying the agreement.
- o On April 25, 2005 we filed a letter with the Securities and Exchange Commission requesting the withdrawal of our registration statement on Form SB-2, originally filed on September 17, 2004. We intend to file a new registration statement on Form-SB-2 registering the resale of 97,264,558 shares of our common stock held or to be sold

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by certain of our stockholders, including Cornell, which intends to sell up to an aggregate of 85,000,000 shares of our common stock pursuant to our Standby Equity Distribution Agreement with Cornell.

- o On April 22, 2005 EYII entered into a Fulfillment Services Agreement with Source 1 Fulfillment ("Source One") to warehouse and ship our products. Pursuant to the terms of the agreement, Source One agreed to provide certain storage and fulfillment services to EYII at the rates set out in the schedules to the agreement. Source One also agreed to pay a referral commission of 10% of all handling fees for any client EYII brings to Source One. The agreement is for a term of one year and automatically renews each year unless terminated by either party in accordance with the terms of the agreement. Subsequently, in May, 2005, we ceased warehousing and distributing our products through Halo Distribution LLC ("Halo"), our wholly owned subsidiary. We presently intend to continue warehousing and shipping our products through Source one.

### CORPORATE ORGANIZATION

We were incorporated under the laws of the State of Nevada on June 27, 1996, under the name of "Inter N. Corporation". From 1999 to 2002, our business plan was to create a product line of miniaturized microchip technology for insertion into inanimate objects or injection under the skin of animals. We again changed the focus of our business, to oil and gas opportunities in 2002. From 1999 to 2003 we were a non-operating company with limited assets and were not able to raise sufficient funds to fund our business operations. On December 31, 2003, we completed a share exchange (the "Exchange") with certain of the shareholders (the "EYI Shareholders") of Essentially Yours Industries, Inc. a Nevada Corporation ("EYI Nevada"), under a Share Exchange Agreement, dated November 4, 2003, (the "Exchange Agreement").

Under the terms of the Exchange Agreement, we issued 117,991,875 shares of our common stock, representing approximately 79.9% of our then-outstanding common stock, to the EYI shareholders in exchange for 15,372,733 shares of EYI Nevada common stock held by them. As a result, we underwent a change of control. Following completion of the Exchange, the EYI shareholders controlled approximately 79.9% of our outstanding common stock and we owned approximately 97.9% of EYI Nevada's issued and outstanding capital stock. As a result of the transaction, we acquired the business of EYI Nevada and EYI Nevada became our majority-owned subsidiary. Concurrent with the acquisition, we changed our name to "EYI Industries, Inc.", our officers and directors resigned, and nominees of the EYI Shareholders were elected as successors.

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### Subsidiaries and Affiliates

We presently have eight subsidiaries through which we conduct our operations, described as follows:

- o Essentially Yours Industries, Inc., a Nevada Corporation (Majority Owned). EYI Nevada was organized on June 20, 2002 upon the completion of a merger between Burrard Capital Corp., a Nevada Corporation, and Essentially Yours Industries, Inc., a Nevada Corporation. The resulting merged entity continued under the name Essentially Yours Industries, Inc. EYI Nevada is our majority owned subsidiary which presently conducts our US business operations.
- o 642706 B.C. Ltd., dba EYI Management, located in Burnaby, British Columbia (Wholly Owned), provides accounting, customer service,



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marketing and financial advisory services to us. 642706 B.C. Ltd. is our wholly owned subsidiary and has experience in marketing health and wellness products and experience in financial reporting for the United States and Canada.

- o Essentially Yours Industries (International) Limited, located in Hong Kong, (Wholly Owned), subsidiary of EYI Industries Inc. incorporated on December 6, 2005.
- o Essentially Yours Industries (Hong Kong) Limited, located in Hong Kong, (Wholly Owned), subsidiary of EYI Industries Inc. incorporated on August, 22, 2005.
- o Essentially Yours Industries (Canada), Inc. (Wholly Owned), a Canadian Federal Corporation, was incorporated in September 2002 and is located in Burnaby, British Columbia, and handles Canadian sales, Canadian sales taxes and Canadian reporting.
- o World Wide Buyers' Club Inc., a Nevada Corporation (51% Owned). World Wide Buyers' Club Inc. was organized by a joint venture agreement effective May 6, 2004.
- o RGM International, Inc., a Kentucky Corporation (Wholly Owned). RGM was incorporated in July 1997. RGM is a dormant investment company which holds 1% of Halo.
- o Halo Distribution LLC, 7109 Global Drive, Louisville, Kentucky. Halo was organized on January 15, 1999 in the state of Kentucky. Halo is owned 99% by Essentially Yours Industries, Inc. and 1% by RGM International, Inc. Halo was the distribution center for the Company's product, in addition to other products, until April 30, 2005, at which time the Company made the decision to discontinue its operations.

The following are our affiliates who are controlled by certain of our directors and shareholders, as described below:

- o Nutri-Diem, Inc., 470, Boul. Sir Wilfrid-Laurier bureau 103 Mont-St-Hilaire, Quebec, Canada. Nutri-Diem, Inc. is the manufacturing facility in Quebec that supplies approximately 87% of our products. EYI Nevada negotiated with Nutri-Diem Inc. an exclusive Distribution and Licensing Agreement where by EYI Nevada will sell the products of Nutri-Diem Inc., such as Calorad and Agrisept-L, in the United States and Canada, and elsewhere in the world, subject to suitable arrangements. Michel Grise, President of Nutri-Diem, Inc. is one of our shareholders and a director of one of our subsidiaries.
- o Essentially Yours Industries Corp., located in Burnaby, B.C., provides services to EYI Nevada under a management agreement. These services consist of the following: computer and management information systems and support. Payments due under the management agreement are at cost of services plus a mark-up of approximately 5%. Essentially Yours Industries Corp. is controlled by certain of our shareholders including Jay Sargeant, our President and Chief Executive Officer.

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We believe the source of our success is primarily attributed to our IBA support programs coupled with our IBA compensation programs. We provide our IBAs with quality products and competitive commission programs, along with training and motivational events and services. We believe that we have established a strong operating platform to support IBAs and facilitate future growth. The key components of this platform include the following:

- o quality dietary supplements, water filtration systems and personal care products that appeal to consumers demands for products that contribute to a healthy lifestyle;
- o a compensation program that permits IBAs to earn income from profits on the resale of products and residual income from product purchases within an IBAs' down-line organization, as well as to participate in various non- cash awards;
- o a communications program that seeks to effectively and efficiently communicate with IBAs by utilizing new technologies and marketing techniques, as well as motivational events and training seminars;
- o a continual expansion and improvement of our product line and marketing plan;
- o an in-house marketing department; and
- o employment of computer technology to provide timely and accurate product order processing, weekly commission payment processing and detailed IBA earnings statements.

### Growth Strategy

New Product Introduction. In May 2005, we entered into a 5 year exclusive Reseller Agreement with Metals & Arsenic Removal Technology, Inc ("MARTI"). The Reseller Agreement offers EYI exclusive network marketing rights to a reformulated version of the MARTI products. The MARTI units are a portable water filtration product that has been tested in an EPA accredited laboratory and tests concluded that the filtration unit effectively treats and removes arsenic from water supplies. In June 2005, we initiated our pre-launch program for the MARTI products, now named Code Blue(TM). Shipments of this product began in August 2005.

In October 2005 we launched a new product, Calorad Cream, as part of our Longevity Series. Calorad Cream is a topical serum which is applied to the skin. During 2006, we intend to continue to improve and add to our existing product line. The initial shipment of Code Blue Filters did not meet EYI product specifications and we commenced replacing the filters in January 2006. Any filters relating to this transaction disclosed in the press release on January 11, 2006 have been replaced.

During 2006, we plan to begin a promotion tour campaign ("North American Tour", "Tour") to promote both products and our network business. The North American Tour will promote the launch of the Code Blue filtration system in North American. We have targeted cities to host these events where we believe there is a greater interest in the program, interest in the product and a concentration of our active IBAs. We plan to create and host on-going promotional and training events in these cities.

International Sales. In June 2005, we secured the consulting services of Ms. Eliza Fung who will primarily assist in the entry and development of EYI into the Asian market. In August 2005 we incorporated a new company, Essentially

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Yours Industries (Hong Kong) Limited and in September 2005 we opened an office in Hong Kong. The office is intended to be used to service distributors and provide a product pick up depot for Code Blue(TM), Calorad(R), Prosoteine(R), Agrisept-L(R) and Definition(R) drops and cream, and the newest EYI product, Calorad Cream. The new office will also play a role in supporting the sales, distribution and logistics of the CEIEC agency agreement.

In January 2006, we relocated our Executive Vice President and COO, Dori O'Neill to Hong Kong for six months. Mr. O'Neill is expected to play a key role in our Asian market initiative. His initial focus will be to introduce and train our global binary program to new Asian IBAs. In addition, Mr. O'Neill will also focus on researching and reviewing other locations and markets for expansion.

Network Support. We intend to expand the marketing of our products by internet direct and the distribution network. We also intend to support the growth and expansion of the Sales Communication department. Their success is measured on the number of inactive IBAs who, through the efforts of the Sales Communication department, become current with their membership fees and purchase our products. As the revenues generated by this department grow, we intend to add additional staff.

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Autoship Program. We intend to promote our Autoship Program by offering one or more of the following initial incentives, purchase discounts, and long-term commitment rewards. We believe that our automated ordering system supports on-going sales.

### Industry Overview

Over the past several years, widely publicized reports and medical research findings have suggested a correlation between the consumption of dietary supplements and the reduced incidence of certain diseases. Thousands of such reports and research findings can be found on the International Bibliographic Information on Dietary Supplements (IBIDS) database produced by the Office of Dietary Supplements. In 1995, US Congress established the Office of Dietary Supplements, a division of the National Institutes of Health, to conduct and coordinate research into the role of dietary supplements in maintaining health and preventing disease. In addition, Congress has established the Office of Alternative Medicine within the National Institutes of Health to foster research into alternative medical treatments, which may include natural remedies.

### Products

Our product line consists of products in the categories of dietary supplements, water filtrations systems and personal care products. We currently market approximately 27 products. For the year ended December 31, 2005, Calorad sales represented over 87% of our net sales and is expected to provide a large portion of our net sales in the foreseeable future.

### Dietary Supplements

We offer 18 products in the dietary supplement category which contain herbs, vitamins, minerals and other natural ingredients. As stated above, the dietary supplement product Calorad is expected to provide a large portion of our net sales in the foreseeable future. The following products represent the majority of our product sales in the dietary supplement category:

- o Agrisept-L(R): Agrisept-L is a dietary supplement of citrus extracts used as a germicide.

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- o Calorad(R): Calorad is a liquid collagen-based dietary supplement. Calorad is available in three formulas: beef, fish, and AM.
- o Definition(R) (drops): Definition is a natural herbal product designed to feed and nurture the female breast. This product is available in both cream and drop formulations.
- o Iso-Greens(R): Iso-Greens is a nutrient-rich green food supplement. The vegetables in Iso-Greens combine to supply 39 of the vitamins, minerals and amino acids found in food, including Vitamin B-12.
- o Noni Plus(R): Noni fruit is an extract of organic noni and liquid trace minerals and it has been around for centuries, used by natives and ancient healers of many countries during the last several thousand years to treat many ailments. We have combined this fruit with our own Dead Sea ionic minerals.
- o Oxy-Up(R): Oxy-Up is a liquid stabilized oxygen supplement.
- o Prosoteine(R): Prosoteine is a plant based, natural, stimulant-free liquid protein supplement.
- o Triomin: Triomin is a liquid trace mineral dietary supplement.

### Personal Care Products

We offer 7 personal care products. The following product represents the majority of our product sales in the personal care category:

- o Calorad(R) (cream): Calorad cream is a topical serum with a base of nourishing collagen that lavishes and aids the skin during the natural aging process. The exclusive mixture of ingredients in Calorad cream stimulate, moisturize and nourish to bio-illuminate skin. The active ingredients in Calorad cream are extremely compatible with the biologic structure of the human skin. The formulation is a unique selection of the most recent biotechnology ingredients, working in perfect synergy, easily penetrating the cellular metabolism level of the skin.

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- o Definition(R) (cream): Definition is a safe, non-invasive, natural herbal product designed to feed and nurture the female breast. The perfectly selected ingredients work in harmony, helping the body to maintain the nutritional needs of the mammary glands. It works with the body's natural capabilities to maintain the shape and tone of youth in the female breast.

### Water Filtration Systems

- o Code Blue(TM) Water Filtration System: Code Blue is a pour through drinking water filtration system (containing a pitcher and filter) that removes Arsenic, Chlorine, Nitrates, Nitrites, Mercury and other contaminants from potable water.
- o Code Blue(TM) Filter is a filter that removes Arsenic, Chlorine, Nitrates, Nitrites, Mercury and other contaminants from potable water.

Promotional Materials. We will also derive revenues from the sale of various educational and promotional materials designed to aid our distributors in

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maintaining and building their businesses. Such materials include various sales aids, informational videotapes and cassette recordings, and product and marketing brochures. We produce many of our promotional materials in-house and have the capability to create just-in-time marketing pieces as needed and constantly update our marketing material.

**New Product Identification.** We expand our product line through the development of new products. New product ideas are derived from a number of sources, including trade publications, scientific and health journals, consultants, distributors and other third parties. Prior to introducing new products, we investigate product formulation as it relates to regulatory compliance and other issues.

We rely upon Nutri-Diem, Inc. and other manufacturers, independent researchers and vendor research departments for product development services. When a new product concept is identified or when an existing product must be reformulated, the new product concept or reformulation project is generally submitted to Nutri-Diem, Inc. or other manufacturers for technical development and implementation. Nutri-Diem owns all of the rights to the products that they produce. We do not incur any expense for the development of any products by Nutri-Diem. We continually review our existing products for potential enhancements to improve their effectiveness and marketability. While we consider our product formulations to be proprietary trade secrets, such formulations are not patented. Accordingly, there is no assurance that another company will not replicate one or more of our products.

**Product Procurement and Distribution Insurance.** More than 87% of our product line in the dietary supplement category is manufactured by Nutri-Diem, Inc., a related party, utilizing theirs and our product formulations, as well as product formulations it licenses to us. A majority of our product line in the personal care category is also manufactured by Nutri-Diem, Inc.

We have contracts with Nutri-Diem, Inc. that grant to us the exclusive license and right to market, sell and distribute in Canada and the United States and a non-exclusive right to market on the Internet certain products owned by Michel Grise Consultant, Inc., a Quebec corporation, which is controlled by Michel Grise. To maintain the license and distribution rights granted by those contracts, we are obligated to purchase from Nutri-Diem, Inc. during that period commencing on June 1, 2003, and continuing through and including May 31, 2004, products totaling \$1,530,000. Those contracts also specify that for the period from June 1, 2004 to May 31, 2005, we are required to purchase from Nutri-Diem, Inc. products totaling \$3,825,000. Additionally, those contracts specify that for each year commencing on June 1, and ending on May 31 thereafter during the term of that agreement we are required to purchase products totaling \$5,355,000. The provisions of those contracts specify that Nutri-Diem, Inc. will offer us the right to sell, market and distribute in those territories any new product developed by Nutri-Diem, Inc.

If we are not in default at the expiration of the initial five year period, those contracts will be automatically renewed for another five year period. In the event we fail to make the minimum purchase during any year, Nutri-Diem, Inc. has the option, to require us to pay Nutri-Diem, Inc. an amount equal to 15% of the difference between the minimum amount for the respective year and the amount of actual purchases during that year. Additionally, in the event that we do not purchase the minimum amount during any particular year and do not pay Nutri-Diem, Inc. that 15%, Nutri-Diem, Inc. at its sole discretion, may terminate the respective contract or cause the license granted in the contract to be non-exclusive.

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In the event the relationship with any of our manufacturers becomes impaired, we will be required to obtain alternative manufacturing sources for our products. In such event, there is no assurance that the manufacturing processes of our current manufacturers can be replicated by another manufacturer. We believe that we would be able to obtain alternative sources of our dietary supplement and personal care products. A significant delay or reduction in availability of products, however, could have a material adverse effect on our business, operating results and financial condition. We, as with other marketers of products that are intended to be ingested, face the inherent risk of exposure to product liability claims in the event that the use of our products results in injury. We maintain product liability insurance coverage with coverage limits of \$2,000,000 per occurrence and \$2,000,000 aggregate. Although we have not experienced any successful product liability claims, such claims could result in material losses.

All of the items in our product line include a customer satisfaction guarantee. Within 30 days of purchase, any retail customer or IBA who is not satisfied with our product for any reason may return it or any unused portion to the distributor from whom it was purchased or to us for a full refund or credit toward the purchase of another product. IBAs may obtain replacements from us for products returned to them by retail customers, if they return such products on a timely basis. Furthermore, in most jurisdictions, we maintain a buy-back program. Under this program, we will repurchase products sold to a distributor (subject to a 10% restocking charge), provided that the distributor resigns as a distributor and returns the product in marketable condition within one year of original purchase, or longer where required by applicable state law or regulations. We believe this buy-back program addresses a number of the regulatory compliance issues pertaining to network marketing systems. We expect that the cost of products returned to us will be less than 2% of gross sales. Below is a summary of return information based on our sales transactions that were paid by credit card for the year ended December 31, 2005:

| Month        | Deposit     | Sales       | Returns  | Chargebacks | Adj/ Di |
|--------------|-------------|-------------|----------|-------------|---------|
| January-05   | \$450,314   | \$454,121   | \$3,389  | \$321       | \$13,9  |
| February-05  | \$461,522   | \$468,356   | \$6,834  | \$187       | \$13,7  |
| March-05     | \$437,991   | \$441,628   | \$2,912  | \$602       | \$13,7  |
| April-05     | \$407,146   | \$410,358   | \$2,799  | \$283       | \$13,2  |
| May-05       | \$396,850   | \$398,839   | \$1,583  | \$0         | \$12,7  |
| June-05      | \$396,087   | \$399,330   | \$2,901  | \$615       | \$12,5  |
| July-05      | \$482,022   | \$484,192   | \$2,170  | \$0         | \$15,5  |
| August-05    | \$405,372   | \$407,915   | \$2,125  | \$0         | \$12,8  |
| September-05 | \$362,821   | \$371,611   | \$8,664  | \$120       | \$11,7  |
| October-05   | \$407,788   | \$410,394   | \$2,009  | \$567       | \$12,8  |
| November-05  | \$418,535   | \$425,971   | \$6,941  | \$142       | \$13,8  |
| December-05  | \$310,393   | \$318,161   | \$7,769  | \$3,529     | \$10,1  |
|              | \$4,936,840 | \$4,990,877 | \$50,096 | \$6,365     | \$157,0 |
|              |             | 100.00%     | -1.00%   | -0.13%      | -3.15   |

Our specific refund policies are as follows:

### Retail Customer Guarantee

- o A retail customer may return defective, unused product (at least 50%) to his/her IBA within thirty (30) days of purchase for exchange or full refund.

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- o A written statement must be obtained from the customer stating the reason for dissatisfaction.
- o The original retail receipt showing the date of purchase must accompany a written request for a return.
- o A copy of the Customer Refund Form must be completed in full and returned to EYI with the aforementioned documentation and product (when product is requested).
- o Upon receipt of the statement, retail receipt and the returned product, EYI will promptly replace any returned product to the IBA.
- o IBAs failure to comply with this guarantee policy may be reason for termination.

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- o On product purchases of more than a one (1) month supply, the thirty (30) day rule applies to the purchase (unless otherwise promised by IBA to his/her retail customer. In this instance, the IBA is responsible to uphold his/her retail guarantee to the customer not EYI).

### Refund To Independent Business Associates

If an IBA is not satisfied with a given EYI product, EYI will replace the product with a product of same or like value, less shipping and handling charges. If requested EYI will issue a credit for the purchase less shipping and handling. This credit must be used within thirty (30) days of being issued. The request for a replacement must occur within thirty (30) days of receipt of the product by the IBA and the product must be in re-sale condition upon return. IBAs must provide proof of purchase and cover the cost of the product return.

Note the following condition for refunds:

- o EYI does not issue any refunds for product(s) previously certified as sold under the 70% rule. (Please refer to point ten (10) in Independent Business Association Regulations in Policies & Procedures for details). As well, the refund will be less commission paid on the returned product.

### DISTRIBUTION AND MARKETING

Our product line is distributed from a third party warehouse in Bensalem, PA, our facility and warehouse in Burnaby, British Columbia, our 18 consignment centers located throughout USA and Canada, or from our office in Kowloon, Hong Kong.

We distribute our product line through our network marketing system where Independent Business Associates ("IBAs") purchase product at wholesale and through person-to-person contact, re-sell the product at retail prices. At December 31, 2005, we had approximately 8,500 "active" IBAs. To be considered "active" a distributor must have purchased our products within the preceding 12 months. Our IBAs are independent contractors who purchase products directly from us for resale to retail consumers. IBAs may elect to work on a full-time or part-time basis. We believe our network marketing system appeals to a broad cross-section of people, particularly those seeking to:

- o supplement family income,

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- o start a home business, or
- o pursue employment opportunities other than conventional, full-time employment.
- o A majority of our IBAs sell our products on a part-time basis.
- o We believe that our network marketing system is ideally suited to marketing our product line because sales of our products are strengthened by ongoing personal contact between retail consumers and IBAs, many of whom use our products themselves. Sales are made through direct personal sales presentations, as well as presentations made to groups. These sales methods are designed to encourage individuals to purchase our products by informing potential customers and IBAs of our product line and results of personal use, and the potential financial benefits of becoming a distributor. Our marketing efforts are typically focused on middle-income families and individuals.

Our network marketing program encourages individuals to develop their own down-line network marketing organizations. Each new IBA is either linked to:

- o the existing distributor that personally enrolled the new distributor into our network marketing program, or
- o the existing distributor in the enrolling distributor's down-line as specified by the enrolling distributor at the time of enrollment.

Growth of an IBAs' down-line organization is dependent on the recruiting and enrollment of additional IBAs by the distributor or the IBAs within such distributor's down-line organization. We currently do not keep records that would enable us to calculate IBA turnover frequency. We are currently working on a program that may enable us in the future to track IBA turnover.

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IBAs are encouraged to assume responsibility for training and motivation of other IBAs within their down-line organization and to conduct opportunity meetings as soon as they are appropriately trained. We strive to maintain a high level of motivation, morale, enthusiasm and integrity among the members of our network marketing organization. We believe this result is achieved through a combination of products, sales incentives, personal recognition of outstanding achievement, and quality promotional materials. Under our network marketing program, IBAs purchase sales aids from us and assume the costs of advertising and marketing our product line to their customers, as well as the direct cost of recruiting new IBAs. We believe that this form of sales organization is cost efficient, because our direct sales expenses are primarily limited to the payment of commissions, which are only incurred when products are sold.

We continually strive to improve our marketing strategies, including the compensation structure within our network marketing program and the variety and mix of products in our line, to attract and motivate IBAs. These efforts are designed to increase IBAs' monthly product sales and the recruiting of new IBAs.

Growth of our network marketing program is in part attributable to our incentive structure. IBAs earn profits by purchasing from our product line at wholesale prices and selling our product line to their customers at retail. Additionally, we have a commission structure which provides for payment of commissions on product purchases made by other IBAs in a distributor's down-line organization. IBAs derive this commission income mainly through their Business Volume, as



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described below.

Business Volume is assigned to most of our products and is used to calculate sales commission. The Business Volume, in most instances, is 50% of the wholesale cost of a product. Commissions are based on the total Business Volume which has been generated both personally and through the IBAs' down-line activity. Therefore, as a down-line grows, it is possible for greater commissions to be earned. None of our IBAs have derived \$1 million per year or greater for the years ended 2005, 2004, 2003 or 2002.

In order for an IBA to earn commissions, there are four requirements:

- o an IBA needs to create a Business Center by filling out our IBA Application and Agreement Form;
- o an IBA needs to qualify his Business Center with a 100 Business Volume order of our products;
- o an IBA needs to activate his Business Center by making two personal sales to two people who become qualified IBAs within one year of entry into the business; and
- o to be eligible for commission, an IBA needs to be current with their annual administration fee.

The average commission earned by our IBAs during the twelve month period starting on January 1, 2005 and ending on December 31, 2005 was approximately \$210.

To aid IBAs in easily meeting the monthly personal product purchase requirement to qualify for commission, we developed the "Auto-ship Program." Under the Auto-ship Program purchasing arrangement, each Business Center establishes a standing product order (20 Business Volume minimum) which is automatically charged to a credit card or deducted from a bank account each month prior to shipment of the ordered products. Additionally, Auto-ship allows IBAs to purchase certain products at reduced prices. As of December 31, 2005, we had over 1,200 IBAs participating in the Auto-ship Program.

Under our Consignment Center Program, we designate IBAs to operate consignment centers. Each Consignment Center functions as our product distribution center, carrying our products. As of December 31, 2005, we had 18 consignment centers. Consignment centers provide hubs of local product and business training. They sell to customers at the point of purchase, teach sales and marketing techniques, distribute literature about our products and business while lowering our shipping and data-entry costs.

We maintain a computerized system for processing distributor orders and calculating commission payments, which enables us to remit such payments promptly to IBAs. We believe that prompt and accurate remittance of commissions is vital to recruiting and maintaining IBAs, as well as increasing their motivation and loyalty to us. We calculate the commissions weekly and pay commissions biweekly.

We are committed to providing the best possible support to our IBAs. IBAs in our network marketing program are provided training guides and are given the opportunity to participate in our training programs. We sponsor weekly conference calls for our IBAs, which include testimonials from successful IBAs and satisfied customers, as well as current product and promotional information. We produce weekly newsletters which provide information on us, our products and

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network marketing system. The newsletter is designed to help recruit new IBAs by answering commonly asked questions and includes product information and business building information. The newsletter also provides a forum for us to give additional recognition to our IBAs for outstanding performance. In addition, we sponsor training sessions for our IBAs across the United States and Canada. At these training sessions IBAs are provided the opportunity to learn more about our product line and selling techniques so that they can build their businesses more rapidly.

We also maintain an Internet site, [www.eyicom.com](http://www.eyicom.com), which is an integral part of our product sales, customer retention, IBA recruitment and IBA development efforts. Approximately 7,300 of our IBAs are networked electronically, allowing them access to marketing information and sales leads. Further, we provide IBAs with a free e-commerce Internet "home page" to aid their marketing efforts.

### Government Regulation

In the United States (as well as in any foreign markets in which we may sell our products), we are subject to laws, regulations, administrative determinations, court decisions and similar constraints (as applicable, at the federal, state and local levels) (hereinafter "regulations"). These regulations include and pertain to, among others:

- o the formulation, manufacture, packaging, labeling, distribution, importation, sale and storage of our products,
- o our product claims and advertising (including direct claims and advertising as well as claims and advertising by distributors, for which we may be held responsible), and
- o our network marketing organization.

We believe we are currently in compliance with all regulations. In the past, we have met and passed inspections by the United States Food and Drug Administration ("FDA"). Our past FDA violations are as follows: on October 7, 2002, we had a Food and Drug label inspection. A notice to re-label on Calorad was submitted on October 9, 2002. A panel was added to our Calorad product to round the calories to be in compliance with the DSHEA Act of 1994. The "may proceed" release was issued on November 6, 2002. On February 2, 2004, a notice to redeliver from the Department of Treasury/United States Customs Service in Detroit, Michigan was issued requesting an inspection and import permit along with an original CFI certificate (Canadian Food Inspection Agency Certificate). On entry number #336-0214262-5. We met all requirements and the shipment was released on February 27, 2004. On August 16, 2005 a hold was designated on entry number #336-0524098-8. Samples were collected by the FDA and sent to a lab for analysis on August 18, 2005. This was a routine sampling that the FDA performs on products at any given time to ensure product contents match the product labels. Testing was completed and the product was released on September 8, 2005. On October 5, 2005 we received a hold from the FDA for two products, requesting label clarification on one product and clarification on website claims for another product. On November 21, 2005 the first product was released under direction to make a small label adjustment on the next product run. We intend to comply with this request. On November 15, 2005 the second product was released after review of marketing materials available on the internet.

### Products

The formulation, manufacture, packaging, storing, labeling, advertising, distribution and sale of our products are subject to regulation by federal agencies, including the Food and Drug Administration, the Federal Trade Commission, the Consumer Product Safety Commission, the United States Department of Agriculture, the Environmental Protection Agency, and the United States

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Postal Service. Our activities are also regulated by various agencies of the states, localities and foreign countries in which our products are or may be manufactured, distributed and sold. The Food and Drug Administration, in particular, regulates the formulation, manufacture and labeling of dietary supplements, cosmetics and skin care products, including some of our products. Food and Drug Administration regulations require us and our suppliers to meet relevant regulatory good manufacturing practices for the preparation, packaging and storage of these products. Good manufacturing practices for dietary supplements have yet to be promulgated, but are expected to be proposed. The Dietary Supplement Health and Education Act of 1994 revised the provisions of the Federal Food, Drug and Cosmetic Act concerning the composition and labeling of dietary supplements, which we believe is generally favorable to the dietary supplement industry. The Dietary Supplement Health and Education Act created a new statutory class of "dietary supplements." This new class includes vitamins, minerals, herbs, amino acids and other dietary substances for human use to supplement the diet. In general, a dietary supplement is a product (other than tobacco) that is intended to supplement the diet that bears or contains one or more of the following dietary ingredients: a vitamin, a mineral, a herb or other botanical, an amino acid, a dietary substance for use by man to supplement the diet by increasing the total daily intake, or a concentrate, metabolite, constituent, extract, or combinations of these ingredients; is intended for ingestion in pill, capsule, tablet, or liquid form; is not represented for use as a conventional food or as the sole item of a meal or diet; and is labeled as a "dietary supplement." However, the Dietary Supplement Health and Education Act ("DSHEA") grandfathered, with certain limitations, dietary ingredients that were on the market before October 15, 1994. A dietary supplement containing a new dietary ingredient and placed on the market on or after October 15, 1994 must have a history of use or other evidence establishing a basis for expected safety. Manufacturers of dietary supplements having a "structure-function" statement must have substantiation that the statement is truthful and not misleading.

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The majority of our sales come from products that are classified as dietary supplements under the Federal Food, Drug and Cosmetic Act. The labeling requirements for dietary supplements have been set forth in final regulations with respect to labels affixed to containers beginning after March 23, 1999. These regulations include how to declare nutrient content information, and the proper detail and format required for the "supplemental facts" box. We revise our product labels in compliance with these regulations. The costs of product re-labeling were immaterial. Many states have also recently become active in the regulation of dietary supplement products. These states may require modification of labeling or formulation of certain of our products sold in these states.

In January 2000, the FDA published a final rule that defines the types of statements that can be made concerning the effect of a dietary supplement on the structure or function of the body pursuant to the DSHEA. Under the DSHEA, dietary supplement labeling may bear "structure/function" claims, which are claims that the products affect the structure or function of the body, without prior FDA approval. They may not without prior FDA approval, bear a claim that they can prevent, treat, cure, mitigate or diagnose disease, otherwise known as a "drug claim". The final rule describes how the FDA will distinguish drug claims from structure/function claims. Dietary supplements, like conventional foods, are also permitted to make "health claims", which are claims that are exempt from regulation as "drug" claims pursuant to the amendments to the FDCA established by the NLEA in 1990. A "health claim" is a claim, ordinarily approved by the FDA regulation, on a food or dietary supplement product's labeling that "characterizes the relationship of any substance to a disease or health-related condition". To help assure that foods, dietary supplements and cosmetics comply with the provisions of the FDCA and FDA's regulations, the FDA

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has numerous enforcement tools, including the ability to issue warning letters, initiate product seizures and injunctions and pursue criminal penalties.

The manufacturer of dietary supplements is subject to existing FDA current good manufacturing practices, or "cGMP", regulations for food. In March 2003, the FDA proposed detailed cGMP regulations specifically for dietary supplements. The FDA is expected to publish final cGMP regulations for dietary supplements in the near future.

Personal care products are intended to be applied to the human body for cleansing, beautifying, promoting attractiveness, or altering the appearance without affecting the body's structure or functions. Included in this definition are products such as skin creams, lotions, perfumes, lipsticks, fingernail polishes, eye and facial make-up preparations, shampoos, permanent waves, hair colors, toothpastes, deodorants, and any material intended for use as a component of a cosmetic product. The Food & Drug Administration has a limited ability to regulate personal care products. The Food & Drug Administration can regulate personal care products after they are introduced into the market and can review personal care products and their ingredients after they are sold to the public.

As a marketer of products that are ingested by consumers, we are subject to the risk that one or more of the ingredients in our products may become the subject of adverse regulatory action.

A small portion of our products sold in Canada have separate labels or combination labels to satisfy Canadian compliance organizations, such as the Food Inspection Agency and Health Canada. Health Canada is moving towards stricter compliance guidelines for dietary supplement products through its recently created Office of Natural Health Products. New compliance guidelines through the Office of Natural Health Products may affect the formulation, manufacture, packaging, storing, labeling, advertising, distribution and sale of our products in Canada. We plan to comply with all regulations promulgated by Office of Natural Health Products. Due to the small percentage of sales in Canada, we do not hold separate Canadian labels for our complete product line.

In foreign markets, prior to commencing operations and prior to making or permitting sales of our products, we may be required to obtain an approval, license or certification from the country's ministry of health or comparable agency. Prior to entering a new market in which a formal approval, license or certificate is required, we will be required to work extensively with local authorities to obtain the requisite approvals. The approval process generally will require us to present each product and product ingredient to appropriate regulators and, in some instances, arrange for testing of products by local technicians for ingredient analysis. Such approvals may be conditioned on reformulation of our products or may be unavailable with respect to certain products or ingredients.

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### Product Claims and Advertising

The Federal Trade Commission and certain states regulate advertising, product claims, and other consumer matters, including advertising of our products. All advertising, promotional and solicitation materials used by distributors require our approval prior to use. The Federal Trade Commission has in the past several years instituted enforcement actions against several dietary supplement companies for false and misleading advertising of certain products. In addition, the Federal Trade Commission has increased its scrutiny of the use of testimonials. We have not been the target of Federal Trade Commission enforcement action. There is no assurance that:

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- o the Federal Trade Commission will not question our advertising or other operations in the future,
- o a state will not interpret product claims presumptively valid under federal law as illegal under that state's regulations, or
- o future Federal Trade Commission regulations or decisions will not restrict the permissible scope of such claims.

We are also subject to the risk of claims by distributors and their customers who may file actions on their own behalf, as a class or otherwise, and may file complaints with the Federal Trade Commission or state or local consumer affairs offices. These agencies may take action on their own initiative against us for alleged advertising or product claim violations or on a referral from distributors, consumers or others. Remedies sought in such actions may include consent decrees and the refund of amounts paid by the complaining distributor or consumer, refunds to an entire class of distributors or customers, or other damages, as well as changes in our method of doing business. A complaint based on the practice of one distributor, whether or not we authorized the practice, could result in an order affecting some or all distributors in a particular state. Also, an order in one state could influence courts or government agencies in other states considering similar matters. Proceedings resulting from these complaints may result in significant defense costs, settlement payments or judgments and could have a material adverse effect on us. The FTC has increased its scrutiny of the use of distributor testimonials. Although it is impossible for us to monitor all the product claims made by our independent distributors, we make efforts to monitor distributor testimonials and restrict inappropriate distributor claims. The FTC has been more aggressive in pursuing enforcement against dietary supplement products since the passage of DSHEA in 1994, and has brought numerous actions against dietary supplement companies, some resulting in several million dollar civil penalties and/or restitution as well as court-ordered injunctions.

### Compliance Efforts

We attempt to remain in full compliance with all applicable laws and regulations governing the manufacture, labeling, sale, distribution, and advertising of our dietary supplements. We retain special legal counsel for advice on both US Food and Drug Administration and US Federal Trade Commission legal issues.

### Network Marketing System

Our network marketing system is subject to a number of federal and state regulations administered by the Federal Trade Commission and various state agencies. These regulations are generally directed at ensuring that product sales are ultimately made to consumers (as opposed to other distributors) and that advancement within an organization be based on sales of the organization's products, rather than investment in the organization or other non-retail sales related criteria. For instance, in certain markets there are limits on the extent to which distributors may earn royalties on sales generated by distributors that were not directly sponsored by the distributor.

Our network marketing program and activities are subject to scrutiny by various state and federal governmental regulatory agencies to ensure compliance with various types of laws and regulations. These laws and regulations include securities, franchise investment, business opportunity and criminal laws prohibiting the use of "pyramid" or "endless chain" types of selling organizations. The compensation structure of such selling organizations is very complex, and compliance with all of the applicable laws is uncertain in light of evolving interpretation of existing laws and the enactment of new laws and regulations pertaining to this type of product distribution. We have an ongoing

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compliance program with assistance from legal counsel experienced in the laws and regulations pertaining to network sales organizations. We are not aware of any legal actions pending or threatened by any governmental authority against us regarding the legality of our network marketing operations.

We currently have IBAs in the United States, Canada and Southeast Asia. We review the requirements of various states, as well as seek legal advice regarding the structure and operation of our selling organization to ensure that it complies with all of the applicable laws and regulations pertaining to network sales organizations. On the basis of these efforts and the experience of our management, we believe that we are in compliance with all applicable federal and state regulatory requirements. We have not obtained any no-action letters or advance rulings from any federal or state security regulator or other governmental agency concerning the legality of our operations, nor are we relying on a formal opinion of counsel to such effect. We, accordingly, are subject to the risk that, in one or more of our markets, our marketing system could be found to not comply with applicable laws and regulations. Our failure to comply with these regulations could have a material adverse effect on us in a particular market or in general.

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We are subject to the risk of challenges to the legality of our network marketing organization, including claims by our distributors, both individually and as a class. Most likely these claims would be based on our network marketing program allegedly being operated as an illegal "pyramid scheme" in violation of federal securities laws, state unfair practice and fraud laws and the Racketeer Influenced and Corrupt Organizations Act.

We believe that our network marketing system is not classified as a pyramid scheme under the standards set forth in applicable law. In particular, in most jurisdictions, we maintain an inventory buy-back program to address the problem of "inventory loading." Pursuant to this program, we repurchase products sold to a distributor (subject to a 10% restocking charge) provided that the distributor returns the product in marketable condition within one year of original purchase, or longer where required by applicable state law or regulations.

Our literature provided to distributors describes our buy-back program. However, as is the case with other network marketing companies, the commissions paid by us to our distributors are based on product purchases, including purchases of products that are personally consumed by the down-line distributors. Basing commissions on sales of personally consumed products may be considered an inventory loading purchase. Furthermore, distributors' commissions are based on the wholesale prices received by us on product purchases or, in some cases, based upon the particular product purchased, on prices less than the wholesale prices.

To further address the problem of "inventory loading," our IBAs must sell at least 70% of their inventory before they can reorder.

In the event of challenges to the legality of our network marketing organization by distributors, we would be required to:

- o demonstrate that our network marketing policies are enforced, and
- o demonstrate that the network marketing program and distributors' compensation thereunder serve as safeguards to deter inventory loading and encourage retail sales to the ultimate consumers.

Competition

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We are subject to significant competition in recruiting IBAs from other network marketing organizations, including those that market products in the dietary supplement and personal care categories, as well as other types of products. There are more than 300 companies worldwide that utilize network marketing techniques, many of which are substantially larger, offer a greater variety of products, and have available considerably greater financial resources than us. Our ability to remain competitive depends, in significant part, on our success in recruiting and retaining IBAs through an attractive commission plan and other incentives. We believe that our commission plan and incentive programs provide our IBAs with significant income potential. However, there can be no assurance that our programs for recruitment and retention of IBAs will continue to be successful.

In addition, the business of marketing products in the dietary supplement and personal care categories is highly competitive. This market segment includes numerous manufacturers, other network marketing companies, catalog companies, distributors, marketers, retailers and physicians that actively compete in the sale of such products. We also compete with other providers of such products, especially retail outlets, based upon convenience of purchase and immediate availability of the purchased product. The market is highly sensitive to the introduction of new products or weight management plans (including various prescription drugs) that may rapidly capture a significant share of the market. As a result, our ability to remain competitive depends, in part, upon the successful introduction and addition of new products to our line.

Depending on the product category, our competition varies. Calorad competes directly with Colvera, a product with different ingredients but a similar concept. Additionally, Calorad competes indirectly with food plans such as Weight Watchers and meal replacement products such as Slim Fast. Our Noni Plus product competes with Tahitian International and others. Our other products have similar well funded and sophisticated competitors. Increased competitive activity from such companies could make it more difficult for us to increase or keep market share, since such companies have greater financial and other resources available to them and possess far more extensive manufacturing, distribution and marketing capabilities.

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Our network marketing competitors include small, privately held companies, as well as larger, publicly held companies with greater financial resources and greater product and market diversification and distribution. Our competitors include Reliv International, Mannatech Incorporated, Usana Health Services, Alticor Inc. (Amway Corp.), Avon Products Inc., Herbalife Ltd., Mary Kay Inc., Metaluca, Inc., Nature's Sunshine Products Inc., Nu Skin Enterprises Inc. as well as mass retail establishments.

### Employees

As at March 31, 2006 we had 41 employees and managers. Of this total, 3 are executive officers, 4 are in accounting, 1 is in investor relations, 14 are in operations, 3 are in sales and marketing, 4 are in sales communication, 4 are in information systems, 1 is in product development, 4 are in our warehouse and 3 are in administration. We consider our employee relations to be good. None of our employees or managers are members of a trade union and we have not experienced any business interruption as a result of any labor disputes.

### Research and Development Expenditures

We have not incurred any research or development expenditures during our last two fiscal years.

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### Intellectual Property

We use several trademarks and trade names in connection with our products and operations, as further described below. We rely on common law trademark rights to protect our unregistered trademarks. Common law trademark rights do not provide with the same level of protection as afforded by a United States federal registration of a trademark. Also, common law trademark rights are limited to the geographic area in which the trademark is actually used. In addition, our product formulations are not protected by patents and are not patentable. Therefore, there can be no assurance that another company will not replicate one or more of our products.

We have a License Agreement with Nutri-Diem that gives EYI the exclusive right to use the trademarks solely in connection with the sale, marketing and distribution of the products. Our agreement states that we have non-exclusive rights to use the trademarks on the Internet. The agreement is based on a five year term, with automatic renewal for another five year period. We also have license agreement which gives EYI the exclusive right to the trademarks for the purpose of sales and marketing activities. The agreement is based on a 50 year term with a yearly renewal each year thereafter.

On June 30, 2002, the following Nutri-Diem trademarks were licensed to EYI Nevada pursuant to the Marketing and Distribution Agreement in place between Nutri-Diem and EYI Nevada. The owner of the trademarks set out in the table below is Michel Grise Consultants Inc., an associated company of Nutri-Diem and is controlled by Michel Grise, one of the directors of EYI Nevada:

| Product         | Status               |
|-----------------|----------------------|
| Agrisept-L(R)   | Registered Trademark |
| Beaugest(R)     | Registered Trademark |
| Bellaffina(R)   | Registered Trademark |
| Calorad(R)      | Registered Trademark |
| Citrex(R)       | Registered Trademark |
| Citrio(R)       | Registered Trademark |
| Definition(R)   | Registered Trademark |
| Emulgent(R)     | Registered Trademark |
| Fem Fem(R)      | Registered Trademark |
| Golden Treat(R) | Registered Trademark |

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|               |                      |
|---------------|----------------------|
| Hom Hom(R)    | Registered Trademark |
| Invisible(R)  | Registered Trademark |
| Livocare(R)   | Registered Trademark |
| Melan Plus(R) | Registered Trademark |
| Neocell(R)    | Registered Trademark |



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|                |                      |
|----------------|----------------------|
| NRG(R)         | Registered Trademark |
| Parablast (R)  | Registered Trademark |
| Parattack (R)  | Registered Trademark |
| Prosoteine (R) | Registered Trademark |
| Prosoteine (R) | Registered Trademark |
| Sea Krit (R)   | Registered Trademark |

On June 30, 2002, EYI Nevada acquired a license from Essentially Yours Industries Corp., an affiliated company, to use the below trademarks and formulas for a term of 50 years, renewable at the option of EYI Nevada on a yearly basis thereafter at the same yearly rate of \$1.00 per year, from year to year:

| Copyright/Trademark                                  | Status of Application |
|--|-----------------------|
| Citri-plus(R)  | Registered Trademark  |
| EYI w/design(R)                                      | Registered Trademark  |
| Essential Marine(R)                                  | Registered Trademark  |
| Essentially Yours(R)                                 | Registered Trademark  |
| Essentially Yours Industries Corp. (with design) (R) | Registered Trademark  |
| Iso greens(R)  | Registered Trademark  |

The following additional products are licensed to EYI Nevada:

|   |                      |
|---|----------------------|
| Just Go Pro! (R)  | Registered Trademark |
| Oxy Up(TM)  | Registered Trademark |
| The Ultimate Performance Enhancer!(TM)                      | Registered Trademark |
| Code Blue DRINK ONLY THE WATER(TM)                          | Pending Trademark    |
| How do you take your water...with or without Arsenic?! (TM) | Pending Trademark    |

### ITEM 2. DESCRIPTION OF PROPERTY.

Our principal office is located at 7865 Edmonds Street, Burnaby, B.C., Canada, V3N 1B9. The rent from January 1, 2005 to December 31, 2005 was at a rate of CDN\$12,000.00 plus GST per month. January 1, 2005 to April 30, 2005 was a rent free period. The lease is for a period of seven years commencing January 1, 2005 and our monthly rent increases by CDN\$500 per month in January of each year.

We also have an office located at Units 1-2, 15th Floor, No. 1 Minden Avenue, Tsim Sha Tsui Kowloon. On September 28, 2005 EYI HK entered into a Lease with Dombas Estates Limited for the lease of the office space. The lease is for a two year term at a monthly rent of approximately \$3,500 USD (HK\$22,920).

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| Location      | Term of Lease                            | Square Feet | Monthly Lease Commitment  |
|---------------|--|-------------|---|
| Burnaby, B.C. | Seven years, commencing January 1, 2005  | 12,200      | CDN\$12,000 + GST per month from January to December 1, 2005 (January 1, 2005-Apr 2005 was a rent free period). |
| Hong Kong     | Two years, commencing September 28, 2005 | 1,200       | US \$3,500 (HK \$22,920) per month  |

ITEM 3. LEGAL PROCEEDINGS.

Other than as described below, we are not a party to any material legal proceedings and to our knowledge, no such proceedings are threatened or contemplated.

Other than as described below, we are not a party to any material legal proceedings and to our knowledge, no such proceedings are threatened or contemplated.

1. Oppression Action by Lavorato/Heyman

In 2002, an oppression action was commenced in the Supreme Court of British Columbia by the plaintiffs Brian Lavorato, Geraldine Heyman and their respective holding companies, alleging that Essentially Yours Industries Corp., our affiliate, had improperly vended assets into Essentially Yours Industries, Inc., our wholly owned subsidiary, as part of a corporate restructuring alleged to be oppressive to the plaintiffs. As of April 4, 2003, the lawsuit has been settled and was subsequently dismissed by the plaintiffs by consent, with the exception of claims asserted by the plaintiffs against Thomas K. Viccars, a former in-house counsel of Essentially Yours Industries, Corp., who may potentially assert a third party claim against Essentially Yours Industries, Inc.

2. Action By Suhl, Harris and Babich

In 2003 a consolidated action was brought by the plaintiffs Wolf Suhl, Christine Harris and Edward Babich in the Supreme Court of British Columbia pursuant to an order pronounced in the New Westminster Registry under Action No. S061589 on May 7, 2003, which allowed the plaintiffs to proceed with an action against Essentially Yours Industries, Inc. The plaintiffs allege that Essentially Yours Industries, Inc. holds certain of its products or revenues derived therefrom as trust property for the benefit of the plaintiffs.

The claim is for an aggregate of 4.9% of the wholesale volume of sales generated by Essentially Yours Industries, Inc. from the alleged trust property, and for damages and costs. A consolidated statement of defense has been filed by Essentially Yours Industries, Inc., and interrogatories have been responded to. Management believes this claim to be without merit and intends to vigorously defend against this claim.

3. Agreement with Source, Inc.

In February 2006, the Supreme Court of British Columbia made an order that EYI and Mr. Jay Sargeant be added to the lawsuit, and the Writ of Summons and Statement of Claim be amended to add the following claims: (a) against EYI, damages for unjust enrichment and breach of trust for any amount found to be owing by Essentially You Industries, Inc plus interest and costs; and (b) against Jay Sargeant, damages for unjust enrichment and breach of trust for any

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amount found to be owing by Essentially Yours Industries, Inc or Barry La Rose, plus interest and costs. The Plaintiffs' total claim is approximately \$478,000. This matter is set for trial commencing September 11, 2006. The parties are presently negotiating to settle claims.

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4. Lease Agreement with Business Centers, LLC

In February 1999 our subsidiary, Halo Distribution, LLC entered into a Lease Agreement with Business Centers, LLC (the "Landlord"). This Lease Agreement was extended for a period of three years on January 5, 2004. We received a letter dated August 2, 2005 notifying us of a default by Halo under the lease agreement and notice that the landlord intends to commence legal proceedings against Halo and EYI for the sum of \$150,000 for defaulted lease payments. We received a statement of claim from the landlord in November, 2005 naming Halo and us as defendants and requesting payment of the defaulted lease payments. On December 21, 2005 we entered into a written Settlement Agreement and Release with Halo Distribution, LLC and Business Centers, LLC agreeing to the terms and conditions of the settlement set forth in the agreement. Pursuant to the terms of the settlement agreement we agreed to transfer property with a value of \$46,875 to the Landlord in exchange for a release of all claims against EYI or its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On December 2, 2005, we held our 2005 AGM in Las Vegas, Nevada. At the AGM the following resolutions were adopted:

| Resolution  | For         | Against   | W |
|---|-------------|-----------|---|
| Increase in authorized shares of Common Stock from 300,000,000 shares of common stock to 1,000,000,000 shares of common stock | 178,204,878 | 3,232,381 | 3 |
| Election of Dori O'Neill as Director  | 180,906,193 | -         | 5 |
| Election of Dori O'Neill as Director  | 180,911,893 | -         | 5 |

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET INFORMATION

Our shares are currently trading on the Over-The-Counter Bulletin Board (the "OTCBB") under the symbol EYII on January 30, 2004 following completion of the

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Exchange Agreement among our company, certain of our shareholders and Safe ID Corporation, see "Item 1. Description of Business" above. The shares of Safe ID Corporation traded on the OTC BB under the symbol "MYID" from January 17, 2001 to January 30, 2005. The following table contains the reported high and low bid prices for the common stock as reported on the OTC BB for the periods indicated:

| YEAR 2004                        | High Bid | Low Bid |
|----------------------------------|----------|---------|
| Quarter Ended March 31, 2004     | \$0.30   | \$0.19  |
| Quarter Ended June 30, 2004      | \$0.32   | \$0.18  |
| Quarter Ended September 30, 2004 | \$0.30   | \$0.11  |
| Quarter Ended December 31, 2004  | \$0.14   | \$0.05  |

| YEAR 2005                        | High Bid | Low Bid |
|----------------------------------|----------|---------|
| Quarter Ended March 31, 2005     | \$0.19   | \$0.03  |
| Quarter Ended June 30, 2005      | \$0.06   | \$0.02  |
| Quarter Ended September 30, 2005 | \$0.19   | \$0.03  |
| Quarter Ended December 31, 2005  | \$0.12   | \$0.02  |

The source of the high and low bid information is the OTC BB. The market quotations provided reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

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### HOLDERS OF COMMON STOCK

As of March 31, 2006, we had 159 registered stockholders holding 260,273,921 shares of our common stock.

### DIVIDENDS

Since our inception, we have not declared nor paid any cash dividends on our capital stock and we do not anticipate paying any cash dividends in the foreseeable future. Our current policy is to retain any earnings in order to finance the expansion of our operations. Our Board of Directors will determine future declaration and payment of dividends, if any, in light of the then-current conditions they deem relevant and in accordance with applicable corporate law.

### RECENT SALES OF UNREGISTERED SECURITIES

We have not completed any sales of securities without registration pursuant to the Securities Act of 1933 during the fiscal year ended December 31, 2005 that have not been reported on our Quarterly Reports on Form 10-QSB during the year.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

#### Overview

We are in the business of selling, marketing, and distributing a product line consisting of approximately 27 nutritional products in three categories, dietary supplements, personal care products and drinking water filtration systems.

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Currently, our product line consists of: (i) 18 dietary supplement products; (ii) 7 personal care products consisting primarily of cosmetic and skin care products; and (iii) 2 drinking water filtration products that make up the Code Blue(TM) which removes contaminants from potable water. Our products are primarily manufactured by Nutri-Diem, Inc. a related party, and sold by us under a license and distribution agreement with Nutri-Diem, Inc. Certain of our own products are manufactured for us by third party manufacturers pursuant to formulations developed for us. Our products are sold in the United States, Canada and Asia. Our products are marketed through a network marketing program in which independent business associates purchase products for resale to retail customers as well as for their own personal use. We have a list of over 380,000 independent business associates, of which approximately 8,500 we consider "active". An "active" independent business associate is one who purchased our products within the preceding 12 months.

Our independent auditors have added an explanatory paragraph to their audit issued in connection with the financial statements for the period ended December 31, 2005, relative to our ability to continue as a going concern. We have negative working capital of approximately \$1,965,000 and an accumulated deficit incurred through December 31, 2005 of \$10,911,779, which raises substantial doubt about our ability to continue as a going concern. Our ability to obtain additional funding will determine our ability to continue as a going concern. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have a history of losses. We have incurred an operating loss since inception and had an accumulated deficit of \$10,911,779 as of December 31, 2005. For the year ended December 31, 2005 we incurred a net loss of \$3,826,574. For the year ended December 31, 2004, we incurred a net loss of \$4,462,795. Consequently, we will in all likelihood, have to rely on external financing for all of our capital requirements. Future losses are likely to continue unless we successfully implement our business plan, which calls for us to secure both debt and equity financing.

Over the next twelve months we will be adding a web and newspaper based recruiting program, [www.earnaglobalincome.com](http://www.earnaglobalincome.com). Our sales communications department will handle the calls from the US based website. The goal is to educate and recruit new sales people to represent our product line in the US, Canada and South East Asia.

During the fourth quarter of 2005, we launched our new product, Calorad Cream and Code Blue water filtration systems. Over the next twelve months, we intend to launch the second phase of this campaign which includes an in-house-developed 6-week training program called "15/5" which is designed to teach our IBAs and their guests about Calorad Cream and Code Blue in a telephone conference forum. Additionally, we intend to distribute support materials.

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Also, over the next twelve months we intend to promote our Autoship Program by offering one or more of the following: initial incentives, purchase discounts, and long-term commitment rewards. We believe that our automated ordering system supports on-going sales.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our 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

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the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increase, these judgments become even more subjective and complex. We have identified certain accounting policies, described below, that are the most important to the portrayal of our current financial condition and results of operations.

### Accounting for Stock Options and Warrants Granted to Employees and Non-Employees

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), defines a fair value-based method of accounting for stock options and other equity instruments. We have adopted this method, which measures compensation costs based on the estimated fair value of the award and recognizes that cost over the service period.

### Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (hereinafter "SFAS No. 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

At December 31, 2005, EYI has not engaged in any transactions that would be considered derivative instruments or hedging activities.

### Earnings Per Share

EYI has adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Basic and diluted loss per share were the same, at the reporting dates, as inclusion of the common stock equivalents would be anti-dilutive.

### Foreign Currency Translation And Other Comprehensive Income

EYI has adopted Financial Accounting Standard No. 52. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Gains or losses are included in income for the year. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

As EYI's functional currency is the U.S. dollar, and all translation gains and losses are transactional, EYI has no assets with value recorded in Canadian dollar and there is no recognition of other comprehensive income in the

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financial statements.

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### Foreign Currency Valuation And Risk Exposure

While EYI's functional currency is the U.S. dollar and the majority of its operations are in the United States, EYI maintains its main operations office in Burnaby, British Columbia. The assets and liabilities relating to the Canadian operations are exposed to exchange rate fluctuations. Assets and liabilities of EYI's foreign operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at the average exchange rate during the period. The net effect of exchange difference arising from currency translation is disclosed as a separate component of stockholders' equity. Realized gains and losses from foreign currency transactions are reflected in the results of operations.

### Income Taxes

EYI accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This statement requires the recognition of deferred tax liabilities and assets for the future consequences of events that have been recognized in EYI consolidated financial statement or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of EYI assets and liabilities results in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such an asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

### Long-Lived Assets

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations, and requires that these long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. Accordingly, EYI reviews the carrying amount of long-lived assets for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of any impairment would include a comparison of estimated future cash flows anticipated to be generated during the remaining life of the assets to the net carrying value of the assets. For the year ended December 31, 2005, no impairments have been identified.

### Revenue Recognition

The Company is in the business of selling nutritional products in two categories: dietary supplements and personal care products. Sales of personal care products represent less than 5% of the overall revenue and therefore are not classified separately in the financial statements. The Company recognized revenue from product sales when the products are shipped and title passes to customer. Administrative fees charged to the Independent Business Associates are included in the gross sales and amounted \$128,967 and \$190,340 for the year ended December 31, 2005 and December 31, 2004 respectively.

### Segment Information

EYI adopted Statement of Financial Accounting Standards No. 131, "Disclosures

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about Segments of an Enterprise and Related Information," (hereafter "SFAS No. 131") which supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of EYI reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect EYI results of operations or financial position.

### Recent Accounting Pronouncements

New accounting pronouncements that have a current or future potential impact on our financial statements are as follows:

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In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets--an amendment of FASB Statement No. 140." This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a transfer of the servicer's financial assets that meets the requirements for sale accounting; a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities; or an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. The statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either the amortization or fair value method for subsequent measurement of each class of servicing assets and liabilities. The statement further permits, at its initial adoption, a one-time reclassification of available for sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available for sale securities under Statement 115, provided that the available for sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no impact on the Company's financial condition or results of operations.

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Standards No. 133 and 140" (hereinafter "SFAS No. 155"). This statement established the accounting for certain derivatives embedded in other instruments. It simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133 as well as eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity ("SPE") may hold under SFAS No. 140. This statement allows a public entity to irrevocably elect to initially and subsequently measure a hybrid instrument that would be required to be separated into a host contract and derivative in its



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entirety at fair value (with changes in fair value recognized in earnings) so long as that instrument is not designated as a hedging instrument pursuant to the statement. SFAS No. 140 previously prohibited a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no impact on the Company's financial condition or results of operations.

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," (hereinafter "SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. The Company does not expect SFAS No. 154 to have a material impact on its consolidated financial position, results of operations, or cash flows.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations." FIN 47 clarifies that the term "conditional asset retirement obligation," which as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The entity must record a liability for a "conditional" asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005.

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensation." This statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." The Company has previously adopted SFAS 123 and the fair value of accounting for stock options and other equity instruments. The Company has determined that there was no impact to its financial statements from the adoption of this new statement.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (hereinafter "FIN 46"). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the

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entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. The provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not have any entities that require disclosure or new consolidation as a result of adopting the provisions of FIN 46.

### RESULTS OF OPERATIONS

The following table summarizes operating results as a percentage of revenue, respectively, for the periods indicated:

#### Summary of Year End Results

|   | Year ended<br>December 31, 2005 | Year ended<br>December 31, 2004 |
|---|---------------------------------|---------------------------------|
|   |                                 |                                 |
| Revenue   | \$4,980,408                     | \$6,085,830                     |
| Cost of goods sold                                    | \$1,165,976                     | \$1,252,118                     |
|   |                                 |                                 |
| Gross profit before commissions expense               | \$3,814,432                     | \$4,833,713                     |
| Commission expense                                    | \$1,930,925                     | \$2,486,970                     |
|   |                                 |                                 |
| Gross profit after cost of goods sold and commissions | \$1,883,508                     | \$2,346,742                     |
| Operating expenses                                    | \$5,550,077                     | \$6,286,641                     |
|   |                                 |                                 |
| Operating loss  | -\$3,666,570                    | -\$3,939,899                    |

Year ended December 31, 2005 compared to Year ended December 31, 2004

#### Revenues

During the year ended December 31, 2005 we had total revenues of \$4,980,408 and gross profits of \$1,883,508 or 38% compared to revenues of \$6,085,831 and gross profits of \$2,346,743 or 39% during the period ended December 31, 2004. We experienced a total decline in revenue of \$1,105,422 or 18% primarily due to the following factors:

- o our inability to attract new IBAs and retain existing IBAs in our network.
- o our inability to fund marketing initiatives and programs that may promote growth within new markets and existing ones.
- o Lack of IBA participation in our autoshop program.

#### Revenue by Segments

The following table summarizes our four revenue segments as a percentage of total revenue, respectively, for the periods indicated:

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### Revenue by Segments

|                     | Year ended<br>December 31, 2005 | Year ended<br>December 31, 2004 |        |
|---------------------|---------------------------------|---------------------------------|--------|
|                     |                                 |                                 |        |
| Administration fees | \$128,967                       | \$190,340                       | -\$    |
| Binary Sales        | \$3,758,260                     | \$4,734,697                     | -\$9   |
| Direct sales        | \$779,028                       | \$885,314                       | -\$1   |
| Affiliate sales     | \$304,568                       | \$265,435                       | \$     |
| Sales Aids          | \$9,585                         | \$10,045                        |        |
|                     | \$4,980,408                     | \$6,085,830                     | -\$1,1 |

Details of the most significant changes from the year ended December 31, 2005 to the year ended December 31, 2004 are detailed below:

Binary sales - The binary sales segment represents \$3,758,260 or 75% of the total revenue earned during the year ended December 31, 2005, as compared to \$4,734,697 or 78% of the total revenues earned during the short period ended December 31, 2004. Management believes that our inability to properly fund our marketing initiatives hindered growth and retention in this segment. EYI pays out a maximum of 50% commission on binary sales.

Direct sales - The direct sales segment represents \$779,028 or 16% of the total revenue earned during the year ended December 31, 2005, as compared to \$885,314 or 15% of the total revenues earned during the year ended December 31, 2004. No commissions are paid out on direct sales.

Affiliate sales - The affiliate sales segment represents \$304,568 or 6% of the total revenue earned during the year ended December 31, 2005, as compared to \$265,435 or 4% of the total revenues earned during the year ended December 31, 2004. EYI pays approximately 31% commissions on direct sales.

### Expenses

#### Operating expenses:

The following table summarizes operating expenditures as a percentage of total operating expenses, respectively, for the periods indicated:

#### Operating expenses

|                             | Year ended<br>December 31, 2005 | Year ended<br>December 31, 2004 |   |
|-----------------------------|---------------------------------|---------------------------------|---|
|                             |                                 |                                 |   |
| Consulting fees             | \$1,250,278                     | \$1,438,362                     | - |
| Legal and professional fees | \$306,948                       | \$321,713                       | - |
| Customer service            | \$198,500                       | \$393,244                       | - |
| Finance and administration  | \$1,378,118                     | \$2,101,842                     | - |
| Sales and marketing         | \$15,741                        | \$154,638                       | - |
| Telecommunications          | \$946,331                       | \$492,847                       | - |
| Wages and benefits          | \$1,282,438                     | \$1,152,728                     | - |
| Warehouse expense           | \$171,724                       | \$231,268                       | - |
|                             |                                 |                                 |   |

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\$5,550,077

\$6,286,641

We incurred operating expenses in the amount of \$5,550,077 for the year ended December 31, 2005, compared to \$6,286,641 for the period ended December 31, 2004. The overall decline was 736,564 or 12%. The following explains the most significant changes during the periods presented:

Consulting fees - For the year ended December 31, 2005, consulting fees totaled \$1,250,278 and represented 23% of our total operating expenditures, as compared to \$1,438,362 or 23% of the total operating expenditures for the period ended December 31, 2004. The total decline of \$188,083 or 13% is attributed to a lesser amount of vested stock options issued to consultants during 2005.

Customer Service - For the year ended December 31, 2005, customer services fees totaled \$198,500 and represented 4% of our total operating expenditures, as compared to \$393,244 or 6% of the total operating expenditures for the period ended December 31, 2004. In April 2004, we acquired our customer service support department through a management agreement with EYI Corp. Also in April 2004, we hired our own employees to perform this function and therefore, the related expenses are included under Wages and Benefits.

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Finance and administration - For the year ended December 31, 2005, finance and administration expenditures totaled \$1,378,118 and represented 25% of our total operating expenditures, as compared to \$2,101,842 or 33% of the total operating expenditures for the period ended December 31, 2004. The results for 2004 were higher as a result of expensing of stock options and due to expensing \$390,000 in financing costs during the year ended December 31, 2004.

Telecommunications - For the year ended December 31, 2005, telecommunications totaled \$946,331 and represented 17% of our total operating expenditures, as compared to \$492,483 or 8% of the total operating expenditures for the period ended December 31, 2004. Telecommunications increased \$453,483 or 92% as we fully expensed the remaining balance of the Eyewonder communication component and application fees in the amount of \$466,666.

Wages and benefits - For the year ended December 31, 2005, wages and benefits totaled \$1,282,438 and represented 23% of our total operating expenditures, as compared to \$1,152,728 or 18% of the total operating expenditures for the period ended December 31, 2004. The increased wages and benefit expense is attributed to our increased staffing during 2005.

Warehouse expense - For the year ended December 31, 2005, warehouse expenses totaled \$171,724 and represented 3% of our total operating expenditures, as compared to \$231,268 or 4% of the total operating expenditures for the period ended December 31, 2004. The overall decrease of \$59,544 or 26% is attributed to the discontinuation of operations of Halo Distribution LLC.

LIQUIDITY AND FINANCIAL CONDITION

Working Capital

|                | As at<br>December 31, 2005 | As at<br>December 31, 2004 |       |
|----------------|----------------------------|----------------------------|-------|
|                | -----                      | -----                      | ----- |
| Current assets | \$382,057                  | 1,228,714                  | -\$8  |

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|                           |              |            |        |
|---------------------------|--------------|------------|--------|
| Current Liabilities       | 2,347,087    | 1,853,252  | \$4    |
| -----                     |              |            |        |
| Working Capital (deficit) | -\$1,965,030 | -\$624,538 | -\$1,3 |

We had cash and cash equivalents in the amount of \$25,639 as of December 31, 2005 compared to cash in the amount of \$0 as of December 31, 2004. We had a working capital deficit of \$1,965,030 as of December 31, 2005 compared to a working capital deficit of \$624,538 as of December 31, 2004.

Current Assets - We had a decrease of \$846,657 or 69% in our current assets since December 31, 2004. This decrease relates to fully expensing the prepaid Eyewonder communications component.

Current Liabilities - We had an increase of \$493,835 or 27% in our current liabilities since December 31, 2004. This increase is primarily attributed to the following: (i) increase in unpaid trade payables; and (ii) the increase in unpaid related party payable.

### Liabilities

|   | As at<br>December 31, 2005 | As at<br>December 31, 2004 |
|---|----------------------------|----------------------------|
| -----   |                            |                            |
| Bank indebtedness                                 | \$0                        | 72,456                     |
| Accounts payable and accrued liabilities          | \$1,929,049                | 1,141,001                  |
| Accounts payable - related parties                | \$328,038                  | 159,455                    |
| Interest payable, convertible debt                | \$0                        | 10,616                     |
| Convertible debt - related party, net of discount | \$0                        | 379,724                    |
| Notes payable - related party                     | \$90,000                   | 90,000                     |
| -----   |                            |                            |
|   | \$2,347,087                | \$1,853,252                |

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### Cash Provided By Financing Activities

We have continued to finance our business primarily through equity financing agreements, private placement sales of our common stock, short term loans, conversion of accrued liabilities into stock and through increases in our accrued liabilities and accounts payable. We have also received funding as a result of the exercise of stock options. Cash provided by financing activities for the year ended December 31, 2005 was \$1,394,044, compared to \$684,520 for the year ended December 31, 2004.

During the year ended December 31, 2005 we received \$1,000,000 from Cornell Capital pursuant to the August 1, 2006 promissory note. During the period of the period between September 23, 2005 and December 16, 2005, we issued 19,268,733 common shares to Cornell Capital pursuant to the repayment terms of the promissory note.

During the year ended December 31, 2005, we received \$700,000 from Cornell Capital in exchange for 22,789,582 common shares pursuant to the Standby Equity Distribution Agreement signed on May 13, 2005.

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### Financing Requirements

Our consolidated financial statements included with this Annual Report on Form 10-KSB have been prepared assuming that we will continue as a going concern. As shown in the accompanying financial statements, we had negative working capital of approximately \$1,965,000 and an accumulated deficit of approximately \$11,347,000 incurred through December 31, 2005.

Our current sources of working capital are sufficient to satisfy our anticipated current working capital needs. In the event we do not receive further financing from our arrangements with Cornell, we will be required to seek additional financing to fully implement our business plan. We may not be able to obtain additional working capital on acceptable terms, or at all. Accordingly, there is substantial doubt about our ability to continue as a going concern. We anticipate that any additional financing would be through the sales of our common or preferred stock or placement of convertible debt.

We presently do not have any arrangements in place for the sale of any of our securities and there is no assurance that we will be able to raise any additional capital that we require to continue operations. In the event that we are unable to raise additional financing on acceptable terms, then we may have to scale back our plan of operations and operating expenditures. We anticipate that we will continue to incur losses until such time as the revenues we are able to generate from sales and licensing of our products exceed our increased operating expenses. We base this expectation in part on the expectation that we will incur increased operating expenses in completing our stated plan of operations and there is no assurance that we will generate revenues that exceed these expenses.

### OFF-BALANCE SHEET ARRANGEMENTS

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### RISK FACTORS

#### We Have Historically Lost Money And Losses May Continue In The Future

We have a history of losses. We have incurred an operating loss since inception and had an accumulated deficit of \$11,347,215 as of December 31, 2005. Consequently, we will in all likelihood, have to rely on external financing for all of our capital requirements. Future losses are likely to continue unless we successfully implement our business plan, which calls for us to secure both debt and equity financing while pursuing acquisitions and/or joint ventures with companies in the nutritional supplement industry.

#### We Have Been Subject To A Going Concern Opinion From Our Independent Auditors

Our independent auditors have added an explanatory paragraph to their audit issued in connection with the financial statements for the period ended December 31, 2005, relative to our ability to continue as a going concern. We have negative working capital of approximately \$1,965,030 and an accumulated deficit incurred through December 31, 2005, which raises substantial doubt about our ability to continue as a going concern. Our ability to obtain additional funding will determine our ability to continue as a going concern. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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### If We Are Unable To Raise Additional Capital To Finance Operations, We Will Need To Curtail Or Cease Our Business Operations

We have relied on significant external financing to fund our operations. As of December 31, 2005, we had \$25,639 in cash and our total current assets were \$382,057. Our current liabilities were \$2,347,087 as of December 31, 2005. We will need to raise additional capital to fund our anticipated operating expenses and future expansion. Among other things, external financing may be required to cover our operating costs. Unless we obtain profitable operations, it is unlikely that we will be able to secure financing from external sources other than our Standby Equity Distribution Agreement with Cornell. In the event we do not obtain the necessary financing to fund our anticipated operating expenses, we will be forced to reduce our personnel and curtail other operating expenses. The sale of our common stock to raise capital may cause dilution to our existing shareholders. Our inability to obtain adequate financing will result in the need to curtail business operations. Any of these events would be materially harmful to our business and may result in a lower stock price. Our inability to obtain adequate financing will result in the need to curtail business operations and you could lose your entire investment.

### Our Common Stock May Be Affected By Limited Trading Volume And May Fluctuate Significantly

Our common stock is traded on the Over-the-Counter Bulletin Board. Our common stock is thinly traded compared to larger, more widely known companies in the nutritional supplement industry. Thinly traded common stock can be more volatile than common stock traded in an active public market. The lower our stock price, the more shares we will have to issue in connection with advances we may request under our Standby Equity Distribution Agreement. The high and low bid price of our common stock for the last two years was \$0.39 and \$0.02, respectively. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially.

### Our Common Stock Is Deemed To Be "Penny Stock," Which May Make It More Difficult For Investors To Sell Their Shares Due To Suitability Requirements

Our common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934. Penny stocks are stock:

- o With a price of less than \$5.00 per share;
- o That are not traded on a "recognized" national exchange;
- o Whose prices are not quoted on the Nasdaq automated quotation system (Nasdaq listed stock must still have a price of not less than \$5.00 per share); or
- o In issuers with net tangible assets less than \$2.0 million (if the issuer has been in continuous operation for at least three years) or \$5.0 million (if in continuous operation for less than three years), or with average revenues of less than \$6.0 million for the last three years.

Broker/dealers dealing in penny stocks are required to provide potential

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investors with a document disclosing the risks of penny stocks. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline.

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### The Issuance Of Preferred Stock May Entrench Management Or Discourage A Change Of Control

Our Articles of Incorporation authorize the issuance of up to 10,000,000 shares of preferred stock that would have designations rights, and preferences determined from time to time by our Board of Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividends, liquidation, conversion, voting, or other rights that could adversely affect the voting power or other rights of the holders of our common stock. In the event of issuance, the preferred stock could be used, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the company or, alternatively, granting the holders of preferred stock such rights as to entrench management. Current members of our management that are large stockholders may have peculiar interests that are different from other stockholders. Therefore, conflicting interests of certain members of management and our stockholders may lead to stockholders desiring to replace these individuals. In the event this occurs and the holders of our common stock desired to remove current management, it is possible that our Board of Directors could issue preferred stock and grant the holders thereof such rights and preferences so as to discourage or frustrate attempts by the common stockholders to remove current management. In doing so, management would be able to severely limit the rights of common stockholders to elect the Board of Directors. In addition, by issuing preferred stock, management could prevent other shareholders from receiving a premium price for their shares as part of a tender offer.

### We May Not Be Able To Compete Effectively Against Our Competitors, Which Could Force Us To Curtail Or Cease Business Operations

Many of our competitors have significantly greater name recognition, financial resources and larger distribution channels. In addition, our industry is characterized by low barriers to entry, which means we may face more competitors in the future. If we are not able to compete effectively against our competitors, we will be forced to curtail or cease our business operations. Our main competitors are Usana Health Sciences, Reliv International and Mannatech Incorporated based on product offerings and sales pay structure. Our market share in the nutrition supplement industry is very small at this time.

### We May Not Be Able To Identify And Successfully Consummate Any Future Acquisitions; Future Acquisitions May Disrupt Our Business And Deplete Our Financial Resources

We lack significant experience in identifying acquisition candidates in our industry and may not be able to identify future acquisition candidates. Further, even if we are able to identify potential acquisition candidates, we may have difficulty convincing such candidates to sell their businesses to us and consummating such acquisition transactions given our financial condition and operating history. Our failure to successfully consummate any acquisitions in the future may hinder our ability to grow our business, which could force us to curtail or cease our business operations.



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### Investors Should Not Rely On An Investment In Our Stock For The Payment Of Cash Dividends

We have not paid any cash dividends on our capital stock and we do not anticipate paying cash dividends in the future. Investors should not make an investment in our common stock if they require dividend income. Any return on an investment in our common stock will be as a result of any appreciation, if any, in our stock price.

### There Are No Conclusive Studies Regarding The Medical Benefits Of Nutritional Products

Many of the ingredients in our current products, and we anticipate in our future products, will be vitamins, minerals, herbs and other substances for which there is not a long history of human consumption. Although we believe all of our products to be safe when taken as directed by us, there is little experience with human consumption of certain of these product ingredients in concentrated form. In addition, we are highly dependent upon consumers' perception of the safety and quality of our products as well as similar products distributed by other companies, we could be adversely affected in the event any of our products or any similar products distributed by other companies should prove or be asserted to be harmful to consumers. In addition, because of our dependence upon consumer perceptions, adverse publicity associated with illness or other adverse effects resulting from consumers' failure to consume our products as we suggest or other misuse or abuse of our products or any similar products distributed by other companies could have a material adverse effect on the results of our operations and financial condition.

### Adverse Publicity With Respect To Nutritional Products May Force Us To Curtail Or Cease Our Business Operations

In the future, scientific research and/or publicity may not be favorable to the nutritional product market or any particular product, or may be inconsistent with any earlier favorable research or publicity. Future reports of research that are unfavorable to nutritional products could force us to curtail or cease our business operations. Because of our dependence upon consumer perceptions, adverse publicity associated with illness or other adverse effects resulting from the consumption of our products or any similar products distributed by other companies could have a material adverse effect on our operations. Such adverse publicity could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products as directed. In addition, we may not be able to counter the effects of negative publicity concerning the efficacy of our products. Any such occurrence could have a negative effect on our operations and force us to curtail or cease our business operations.

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### We Will Have to Develop New Products In Order To Keep Pace With Changing Consumer Demands Or We Could Be Forced to Cease Or Curtail Our Business Operations

The dietary supplement industry is highly competitive and characterized by changing consumer preferences and continuous introduction of new products. Our goal is to expand our portfolio of dietary supplement products through acquisition of existing companies and/or products serving niche segments of the industry. New products must be introduced in a timely and regular basis to maintain distributor and consumer interest and appeal to varying consumer preferences.

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We believe that any future success of our company will depend, in part, on our ability to anticipate changes in consumer preferences and acquire, manage, develop and introduce, in a timely manner, new products that adequately address such changes. If we are unable to develop and introduce new products or if our new products are not successful, our sales may be adversely affected as customers seek competitive products. In the past, we have engaged in very limited research and development with respect to the development of new products, as indicated by our lack of research and development expenses. Our lack of experience in developing and introducing new products combined with our limited financial resources may prevent us from successfully developing and introducing any new products in the future. Any reduction in purchases or consumption of our existing products could force us to curtail or cease our business operations.

If We Fail To Further Penetrate And Expand Our Business In Existing Markets, Then The Growth In Sales Of Our Products, Along With Our Operating Results, Could Be Negatively Impacted

The success of our business is contingent on our ability to continue to grow by further penetrating existing markets, both domestically and internationally. Our ability to further penetrate existing markets in which we compete is subject to numerous factors, many of which are out of our control. For example, government regulations in both our domestic and international markets can delay or prevent the introduction, or require the reformulation or withdrawal, of some of our products, which could negatively impact our business, financial condition and results of operations. Also, our ability to increase market penetration in certain countries may be limited by the number of persons in a given country inclined to pursue a network marketing business opportunity. Moreover, our growth will depend upon improved training and other activities that enhance distributor retention in our markets. As we continue to focus on expanding our existing international operations may increase, which could harm our financial conditional and operating results.

Failure To Expand Into, Or To Succeed In, New International Markets Will Limit Our Ability To Grow Sales Of Our Products

We believe that our ability to achieve future growth is dependent in part on our ability to continue our international expansion efforts. However, there can be no assurance that we could be able to enter new international markets on a timely basis, or that new markets would be profitable. We must overcome significant regulatory and legal barriers before we can begin marketing in any foreign market. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries.

We may be required to reformulate certain of our products before commencing sales in a given country. Once we have entered a market, we must adhere to the regulatory and legal requirements of that market. No assurance can be given that we would be able to successfully reformulate our products in any of our potential international markets to meet local regulatory requirements or attract local customers. The failure to do so could result in increased costs of producing products and adversely affect our financial condition. There can be no assurance that we would be able to obtain and retain necessary permits and approvals.

Also, it is difficult to assess the extent to which our products and sales techniques would be accepted or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those encountered elsewhere.

Additionally, in many markets, other network marketing companies already have significant market penetration, the effect of which could be to desensitize the

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local distributor population to a new opportunity, or to make it more difficult for us to recruit qualified distributors. There can be no assurance that, even if we were able to commence operations in new foreign countries, there would be a sufficiently large population of potential distributors inclined to participate in a network marketing system offered by us. We believe our future success could depend in part on our ability to seamlessly integrate our business methods, including our distributor compensation plan, across all markets in which our products are sold. There can be no assurance that we would be able to further develop and maintain a seamless compensation program.

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**We Are Dependent On Our IBAs For Our Product Marketing Efforts; The Loss of A Significant Number Of IBA's Or The Loss Of A Key IBA Could Adversely Affect our Sales**

Our success and growth depend upon our ability to attract, retain and motivate our network of IBAs who market our products. IBAs are independent contractors who purchase products directly from us for resale and their own use. IBAs typically offer and sell our products on a part-time basis and may engage in other business activities, possibly including the sale of products offered by our competitors. Typically, we have non-exclusive arrangements with our IBAs which may be canceled on short notice and contain no minimum purchase requirements. While we encourage IBAs to focus on the purchase and sale of our products, they may give higher priority to other products, reducing their efforts devoted to marketing our products. Also, our ability to attract and retain IBAs could be negatively affected by adverse publicity relating to us, our products or our operations. In addition, as a result of our network marketing program, the down-line organizations headed by a relatively small number of key IBAs are responsible for a significant percentage of total sales. The loss of a significant number of IBAs, including any key IBA, for any reason, could adversely affect our sales and operating results, and could impair our ability to attract new IBAs. The loss of any IBAs could potentially reduce our sales and force us to curtail or cease our business operations. There is no assurance that our network marketing program will continue to be successful or that we will be able to retain or expand our current network of IBAs. Also, if our IBAs do not accept recent changes to our commission plan, our business may be adversely affected.

**Since We Cannot Exert The Same Level Of Influence Or control Over Our IBAs As We Could If They Were Our Own Employees, Our IBAs Could Fail to Comply With Our Distributor Policies and Procedures, Which Could Result In Claims Against Us That Could Harm Our Financial Condition and Operating Results**

Our IBAs are independent contractors and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight as we would if our distributors were our own employees. As a result, there can be no assurance that our distributors will participate in our marketing strategies or plans, accept our introduction of new products or comply with our IBA Policies and Procedures.

**Government Regulation By The Food And Drug Administration And Other Federal And State Entities Of Our Products Can Impact Our Ability To Market Products**

The manufacturing, processing, formulation, packaging, labeling and advertising of nutritional products are subject to regulation by one or more federal agencies, including the Food and Drug Administration, the Federal Trade Commission, the Consumer Product Safety Commission, the United States Department of Agriculture, the United States Postal Service, the United States Environmental Protection Agency and the Occupational Safety and Health

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Administration. These activities are also regulated by various agencies of the states and localities, as well as of foreign countries, in which our products may be sold. We may incur significant costs in complying with these regulations. In the event we cannot comply with government regulations affecting our business and products, we may be forced to curtail or cease our business operations.

On March 7, 2003, the FDA proposed a new regulation to require current good manufacturing practices, or cGMPs, affecting the manufacturing, packing and holding of dietary supplements. The proposed regulation would establish standards to ensure that dietary supplements and dietary ingredients are not adulterated with contaminants or impurities and are labeled to accurately reflect the active ingredients and other ingredients in the products. It also includes proposed requirements for designing and constructing physical plants, establishing quality control procedures, and testing manufactured dietary ingredients and dietary supplements, as well as proposed requirements for maintaining records for handling consumer complaints related to current good manufacturing practices. The final rule resulting from this rulemaking process is currently undergoing review by the Office of Management and Budget. Publication of the final rule is expected in the next several weeks. Because of the long delay in issuing the final rule, there is considerable uncertainty as to the provisions of the final rule, and as to how large an impact the rule will have on the dietary supplement industry.

We market products that fall under two types of Food and Drug Administration regulations: dietary supplements and personal care products. In general, a dietary supplement:

- o is a product (other than tobacco) that is intended to supplement the diet that bears or contains one or more of the following dietary ingredients: a vitamin, a mineral, a herb or other botanical, an amino acid, a dietary substance for use by man to supplement the diet by increasing the total daily intake, or a concentrate, metabolite, constituent, extract, or combinations of these ingredients.
- o is intended for ingestion in pill, capsule, tablet, or liquid form.
- o is not represented for use as a conventional food or as the sole item of a meal or diet.
- o is labeled as a "dietary supplement."

Personal care products are intended to be applied to the human body for cleansing, beautifying, promoting attractiveness, or altering the appearance without affecting the body's structure or functions. Included in this definition are products such as skin creams, lotions, perfumes, lipsticks, fingernail polishes, eye and facial make-up preparations, shampoos, permanent waves, hair colors, toothpastes, deodorants, and any material intended for use as a component of a cosmetic product. The Food & Drug Administration has a limited ability to regulate personal care products.

Dietary supplements must follow labeling guidelines outlined by the FDA. Neither dietary supplements nor personal care products require FDA or other government approval or notification to market in the United States.

Under the Dietary Supplement Health and Education Act of 1994, companies that manufacture and distribute dietary supplements are limited in the statements that they are permitted to make about nutritional support on the product label

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without FDA approval. In addition, a manufacturer of a dietary supplement must have substantiation for any such statement made and must not claim to diagnose, mitigate, treat, cure or prevent a specific disease or class of disease. The product label must also contain a prominent disclaimer. These restrictions may restrict our flexibility in marketing our product.

We believe that all of our existing and proposed products are dietary supplements or personal care products that do not require governmental approvals to market in the United States. Our key products are classified as follows:

### Dietary Supplements

- o Calorad (R)
- o Agrisept-L (R)
- o Oxy-Up (R)
- o Triomin
- o Noni Plus (R)
- o Iso-Greens (R)
- o Definition (R) (drops)
- o Prosoteine (R)

### Personal Care Products

- o Definition (R) (cream)
- o Calorad (R) (cream)

### Water Filtration Products

- o Code Blue (TM)
- o Code Blue (TM) Filter

The processing, formulation, packaging, labeling and advertising of such products, however, are subject to regulation by one or more federal agencies, including the FDA, the Federal Trade Commission, the Consumer Products Safety Commission, the Department of Agriculture and the Environmental Protection Agency. Our activities are also subject to regulation by various agencies of the states and localities in which our products are sold. Among other things, such regulation puts a burden on our ability to bring products to market. Any changes in the current regulatory environment could impose requirements that would make bringing new products to market more expensive or restrict the ways we can market our products.

No governmental agency or other third party makes a determination as to whether our products qualify as dietary supplements, personal care products or neither. We make this determination based on the ingredients contained in the products and the claims we make for the products.

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### If The Federal Trade Commission Or Certain States Object To Our Product Claims And Advertising We May Be Forced To Give Refunds, Pay Damages, Stop Marketing Certain Products Or Change Our Business Methods

The Federal Trade Commission and certain states regulate advertising, product claims, and other consumer matters, including advertising of our products. In the past several years the Federal Trade Commission has instituted enforcement actions against several dietary supplement companies for false or deceptive advertising of certain products. We provide no assurance that:

- o the Federal Trade Commission will not question our past or future

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advertising or other operations; or

- o a state will not interpret product claims presumptively valid under federal law as illegal under that state's regulations.

Also, our IBAs and their customers may file actions on their own behalf, as a class or otherwise, and may file complaints with the Federal Trade Commission or state or local consumer affairs offices. These agencies may take action on their own initiative or on a referral from IBAs, consumers or others. If taken, such actions may result in:

- o entries of consent decrees;
- o refunds of amounts paid by the complaining IBA or consumer;
- o refunds to an entire class of IBAs or customers;
- o other damages; and
- o changes in our method of doing business.

A Complaint Based On The Activities Of One IBA, Whether Or Not Such Activities Were Authorized By Us, Could Result In An Order Affecting Some Or All IBAs In A Particular State, And An Order In One State Could Influence Courts Or Government Agencies In Other States

Our IBAs act as independent sales people and are not closely supervised by EYI or supervised by us at all. We have little or no control or knowledge of our IBAs' actual sales activities and therefore, we have little or no ability to ensure that our IBAs comply with regulations and rules regarding how they market and sell our products. It is possible that we may be held liable for the actions of our IBAs. Proceedings resulting from any complaints in connection with our IBAs' marketing and sales activities may result in significant defense costs, settlement payments or judgments and could force to curtail or cease our business operations.

If our network marketing program is shown to violate federal or state regulations, we may be unable to market our products. Our network marketing program is subject to a number of federal and state laws and regulations administered by the Federal Trade Commission and various state agencies. These laws and regulations include securities, franchise investment, business opportunity and criminal laws prohibiting the use of "pyramid" or "endless chain" types of selling organizations. These regulations are generally directed at ensuring that product sales are ultimately made to consumers (as opposed to other IBAs) and that advancement within the network marketing program is based on sales of products, rather than investment in the company or other non-retail sales related criteria.

The compensation structure of a network marketing organization is very complex. Compliance with all of the applicable regulations and laws is uncertain because of

- o the evolving interpretations of existing laws and regulations, and
- o the enactment of new laws and regulations pertaining in general to network marketing organizations and product distribution.

We have not obtained any no-action letters or advance rulings from any federal or state securities regulator or other governmental agency concerning the legality of our operations. Also, we are not relying on a formal opinion of counsel to such effect. Accordingly there is the risk that our network marketing system could be found to be in noncompliance with applicable laws and

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regulations, which could have a material adverse effect on us. Such a decision could require modification of our network marketing program, result in negative publicity, or have a negative effect on IBA morale and loyalty. In addition, our network marketing system will be subject to regulations in foreign markets administered by foreign agencies should we expand our network marketing organization into such markets.

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### The Legality Of Our Network Marketing Program Is Subject To Challenge By Our IBAs

We are subject to the risk of challenges to the legality of our network marketing organization by our IBAs, both individually and as a class. Generally, such challenges would be based on claims that our network marketing program was operated as an illegal "pyramid scheme" in violation of federal securities laws, state unfair practice and fraud laws and the Racketeer Influenced and Corrupt Organizations Act. An illegal pyramid scheme is generally a marketing scheme that promotes "inventory loading" and does not encourage retail sales of the products and services to ultimate consumers. Inventory loading occurs when distributors purchase large quantities of non-returnable inventory to obtain the full amount of compensation available under the network marketing program. In the event of challenges to the legality of our network marketing organization by our IBAs, there is no assurance that we will be able to demonstrate that

- o our network marketing policies were enforced and
- o the network marketing program and IBAs' compensation thereunder serve as safeguards to deter inventory loading and encourage retail sales to the ultimate consumers.

### Proceedings Resulting From Claims Could Result in Significant Defense Costs, Settlement Payments Or Judgments, And Could Have A Material Adverse Effect On Us

One of our previous competitors, Nutrition for Life International, Inc. a multi-level seller of personal care and nutritional supplements, announced in 1999 that it had settled class action litigation brought by distributors alleging fraud in connections with the operation of a pyramid scheme. Nutrition for Life International agreed to pay in excess of \$3,000,000 to settle claims brought on behalf of its distributors and certain purchasers of its stock.

We believe that our marketing program is significantly different from the program allegedly promoted by Nutrition for Life International and that our marketing program is not in violation of anti-pyramid laws or regulations. However, there can be no assurance that claims similar to the claims brought against Nutrition For Life International and other multi-level marketing organizations will not be made against us, or that we would prevail in the event any such claims were made. Furthermore, even if we were successful in defending against any such claims, the costs of conducting such a defense, both in dollars spent and in management time, could be material and adversely affect our operating results and financial condition. In addition, the negative publicity of such a suit could adversely affect our sales and ability to attract and retain IBAs.

### A Large Portion Of Our Sales Is Attributable To Calorad

A significant portion of our net sales is expected to be dependent upon our Calorad product. Calorad has traditionally represented more than 70% of our net sales and, although we hope to expand and diversify our product offerings, Calorad is expected to provide a large portion of our net sales in the

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foreseeable future. If Calorad loses market share or loses favor in the marketplace, our financial results will suffer.

### Our Products Are Subject To Obsolescence; Which Could Reduce Our Sales Significantly

The introduction by us or our competitors of new dietary supplement or personal care products offering increased functionality or enhanced results may render our existing products obsolete and unmarketable. Therefore, our ability to successfully introduce new products into the market on a timely basis and achieve acceptable levels of sales has and will continue to be a significant factor in our ability to grow and remain competitive and profitable. In addition, the nature and mix of our products are important factors in attracting and maintaining our network of IBAs, which consequently affects demand for our products. Although we seek to introduce additional products, the success of new products is subject to a number of conditions, including customer acceptance. There can be no assurance that our efforts to develop innovative new products will be successful or that customers will accept new products.

In addition, no assurance can be given that new products currently experiencing strong popularity will maintain their sales over time. In the event we are unable to successfully increase the product mix and maintain competitive product replacements or enhancements in a timely manner in response to the introduction of new products, competitive or otherwise, our sales and earnings will be materially and adversely affected.

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### We Have No Manufacturing Capabilities And We Are Dependent Upon Nutri-Diem, Inc. And Other Companies To Manufacture Our Products

We have no manufacturing facilities and have no present intention to manufacture any of our dietary supplement and personal care products or water filtration system. We are dependent upon relationships with independent manufacturers to fulfill our product needs. Nutri-Diem, Inc., a related party, manufactures and supplies more than 80% of our products. We have contracts with Nutri-Diem that require us to purchase set amounts of its manufactured products for at least the next five years and possibly the next ten years. It is possible that these contracts with Nutri-Diem, Inc. could become unfavorable, and we may not be able to use other manufacturers to provide us with these services if our terms with Nutri-Diem, Inc. become unfavorable. In addition, we must be able to obtain our dietary supplement and personal care products at a cost that permits us to charge a price acceptable to the customer, while also accommodating distribution costs and third party sales compensation. Competitors who do own their own manufacturing may have an advantage over us with respect to pricing, availability of product and in other areas through their control of the manufacturing process. In addition, because our agreement with Nutri-Diem, Inc. requires us to mandatory purchase minimums, we face that risk that we may receive purchase orders for sufficient amounts of product that will enable us to sell the quantities that we are required to purchase. In the event that this occurs, we will be forced to hold larger quantities of inventory, which could adversely affect our cash flow and our ability to pay our operating expenses. In addition, if we are forced to hold longer quantities of inventory, we face the risk that our inventory becomes obsolete with the passage of large amounts of time.

We may not be able to deliver various products to our customers if third party providers fail to provide necessary ingredients to us. We are dependent on various third parties for various ingredients for our products. Some of the third parties that provide ingredients to us have a limited operating history and are themselves dependent on reliable delivery of products from others. As a



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result, our ability to deliver various products to our users may be adversely affected by the failure of these third parties to provide reliable various ingredients for our products.

We Are Materially Dependent Upon Our Key Personnel And The Loss Of Such Key Personnel Could Result In Delays In The Implementation Of Our Business Plan Or Business Failure

We depend upon the continued involvement of Jay Sargeant, our President, Chief Executive Officer and Director, and Dori O'Neill, our Executive Vice President, Chief Operations Officer, Secretary, Treasurer and Director. As we are a developing company, the further implementation of our business plan is dependent on the entrepreneurial skills and direction of management. Mr. Sargeant and Mr. O'Neill who guide and direct our activity and vision. This direction requires an awareness of the market, the competition, current and future markets and technologies that would allow us to continue our operations. The loss or lack of availability of these individuals could materially adversely affect our business and operations. We do not carry "key person" life insurance for these officers and directors, and we would be adversely affected by the loss of these two key consultants.

We Face Substantial Competition In The Dietary Supplement, Personal Care Industry and Water Filtration Category Including Products That Compete Directly With Calorad

The dietary supplement and personal care industry is highly competitive. It is relatively easy for new companies to enter the industry due to the availability of numerous contract manufacturers, a ready availability of natural ingredients and a relatively relaxed regulatory environment. Numerous companies compete with us in the development, manufacture and marketing of supplements as their sole or principal business. Generally, these companies are well funded and sophisticated in their marketing approaches.

Depending On The Product Category, Our Competition Varies

Calorad competes directly with Colvera, a product with different ingredients but a similar concept. Additionally, Calorad competes indirectly with food plans such as Weight Watchers and meal replacement products such as Slim Fast. Our Noni Plus product competes with Morinda and others. Our other products have similar well-funded and sophisticated competitors. Increased competitive activity from such companies could make it more difficult for us to increase or keep market share, since such companies have greater financial and other resources available to them and possess far more extensive manufacturing, distribution and marketing capabilities.

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We May Be Subject To Products Liability Claims And May Not Have Adequate Insurance To Cover Such Claims. As With Other Retailers, Distributors And Manufacturers Of Products That Are Designed To Be Ingested, We Face An Inherent Risk Of Exposure To Product Liability Claims In The Event That The Use Of Our Products Results In Injury

We, like any other retailers and distributors of products that are designed to be ingested, face an inherent risk of exposure to product liability claims in the event that the use of our products results in injury. Such claims may include, among others, that our products contain contaminants or include inadequate instructions as to use or inadequate warnings concerning side effects and interactions with other substances. With respect to product liability claims, we have coverage of \$2,000,000 per occurrence and \$2,000,000 in the aggregate. Because our policies are purchased on a year-to-year basis, industry

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conditions or our own claims experience could make it difficult for us to secure the necessary insurance at a reasonable cost. In addition, we may not be able to secure insurance that will be adequate to cover liabilities. We generally do not obtain contractual indemnification from parties supplying raw materials or marketing our products. In any event, any such indemnification is limited by its terms and, as a practical matter, to the creditworthiness of the other party. In the event that we do not have adequate insurance or contractual indemnification, liabilities relating to defective products could require us to pay the injured parties' damages which are significant compared to our net worth or revenues.

### We May Be Adversely Affected By Unfavorable Publicity Relating To Our Product Or Similar Products Manufactured By Our Competitors

We believe that the dietary supplement products market is affected by national media attention regarding the consumption of these products. Future scientific research or publicity may be unfavorable to the dietary supplement products market generally or to any particular product and may be inconsistent with earlier favorable research or publicity. Adverse publicity associated with illness or other adverse effects resulting from the consumption of products distributed by other companies, which are similar to our products, could reduce consumer demand for our products and consequently our revenues. This may occur even if the publicity did not relate to our products. Adverse publicity directly concerning our products could be expected to have an immediate negative effect on the market for that product.

### Because We Have Few Proprietary Rights, Others Can Provide Products And Services Substantially Equivalent To Ours

We hold no patents. We believe that most of the technology used by us in the design and implementation of our products may be known and available to others. Consequently, others may be able to formulate products equivalent to ours. We rely on confidentiality agreements and trade secret laws to protect our confidential information. In addition, we restrict access to confidential information on a "need to know" basis. However, there can be no assurance that we will be able to maintain the confidentiality of our proprietary information. If our pending trademark or other proprietary rights are violated, or if a third party claims that we violate its trademark or other proprietary rights, we may be required to engage in litigation. Proprietary rights litigation tends to be costly and time consuming. Bringing or defending claims related to our proprietary rights may require us to redirect our human and monetary resources to address those claims.

### We Often Use Our Securities As Consideration In Contracts Related To Our Operations; Which Will Cause Existing Shareholders To Experience Dilution

We often issue our securities as consideration in contracts related to our operations. We issued our securities in these transactions primarily because historically we have had insufficient cash to fund our operations. Over the past two years, we have issued 6,226,190 shares of our common stock and 2,650,000 stock options for consideration other than cash. As a result of such issuances, existing shareholders of EYI have experienced a dilutive impact on their ownership of our company. We may be forced to issue additional securities of EYI in the future transactions in lieu for cash and shareholders would experience additional dilution.

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Board of Directors  
EYI Industries, Inc.  
Burnaby, British Columbia, Canada

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheet of EYI Industries, Inc. as of December 31, 2005 and December 31, 2004 and the related consolidated statements of operations, stockholders' deficit and cash flows for the periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EYI Industries, Inc. as of December 31, 2005, and December 31, 2004 and the results of its operations, stockholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has recorded significant losses from operations, has insufficient revenues to support operational cash flows and has a working capital deficit which together raise substantial doubt about its ability to continue as a going concern an accumulated deficit, and a negative

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working capital position. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Williams & Webster  
 Williams & Webster, P.S.  
 Certified Public Accountants  
 Spokane, Washington  
 March 31, 2006

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### EYI INDUSTRIES, INC. CONSOLIDATED BALANCE SHEETS

|   | December 31,<br>2005 | December 31,<br>2004 |
|---|----------------------|----------------------|
|   | -----                | -----                |
| <b>ASSETS</b>                                     |                      |                      |
| <b>CURRENT ASSETS</b>                             |                      |                      |
| Cash  | \$ 25,639            | \$ --                |
| Restricted cash                                   | --                   | 100,248              |
| Accounts receivable, net of allowance             | 48,783               | 36,061               |
| Related party receivables                         | --                   | --                   |
| Prepaid expenses                                  | 12,387               | 852,764              |
| Inventory   | 295,248              | 239,641              |
|   | -----                | -----                |
| <b>TOTAL CURRENT ASSETS</b>                       | <b>382,057</b>       | <b>1,228,714</b>     |
|   | -----                | -----                |
| <b>OTHER ASSETS</b>                               |                      |                      |
| Property, plant and equipment, net                | 49,671               | 32,596               |
| Deposits  | 67,603               | 2,236                |
|   | -----                | -----                |
| <b>TOTAL OTHER ASSETS</b>                         | <b>117,274</b>       | <b>34,832</b>        |
|   | -----                | -----                |
| <b>INTANGIBLE ASSETS</b>                          |                      |                      |
|   | 15,044               | 16,561               |
|   | -----                | -----                |
| <b>TOTAL ASSETS</b>                               | <b>\$ 514,375</b>    | <b>\$ 1,280,107</b>  |
|   | =====                | =====                |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>      |                      |                      |
| <b>CURRENT LIABILITIES</b>                        |                      |                      |
| Bank indebtedness                                 | \$ --                | \$ 72,456            |
| Accounts payable and accrued liabilities          | 1,929,049            | 1,141,001            |
| Accounts payable - related parties                | 328,038              | 159,455              |
| Interest payable, convertible debt                | --                   | 10,616               |
| Convertible debt - related party, net of discount | --                   | 379,724              |
| Customer deposits                                 | --                   | --                   |
| Notes payable - related party                     | 90,000               | 90,000               |
|   | -----                | -----                |
| <b>TOTAL CURRENT LIABILITIES</b>                  | <b>2,347,087</b>     | <b>1,853,252</b>     |
|   | -----                | -----                |

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|   |              |              |
|---|--------------|--------------|
| Net liabilities from discontinued operations  | 375,344      | 405,838      |
| MINORITY INTEREST IN SUBSIDIARY   | 262,057      | 346,819      |
|   | -----        | -----        |
| STOCKHOLDERS' DEFICIT   |              |              |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding  | --           | --           |
| Common stock, \$0.001 par value; 1,000,000,000 shares authorized, 217,600,875 and 162,753,292 shares issued and outstanding, respectively | 217,600      | 162,753      |
| Additional paid-in capital  | 6,155,518    | 3,048,606    |
| Stock options and warrants  | 2,698,984    | 2,563,043    |
| Subscription receivable   | (195,000)    | (15,000)     |
| Accumulated deficit   | (11,347,215) | (7,085,205)  |
|   | -----        | -----        |
| TOTAL STOCKHOLDERS' DEFICIT   | (2,470,113)  | (1,325,802)  |
|   | -----        | -----        |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT   | \$ 514,375   | \$ 1,280,107 |
|   | =====        | =====        |

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

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EYI INDUSTRIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Year Ended<br>December 31, 2005 | Year Ended<br>December 31, 2004 |
|--|---------------------------------|---------------------------------|
|  | -----                           | -----                           |
| REVENUE, net of returns and allowances                       | \$ 4,980,408                    | \$ 6,085,800                    |
| COST OF GOODS SOLD   | 1,165,976                       | 1,252,100                       |
|  | -----                           | -----                           |
| GROSS PROFIT BEFORE COMMISSION EXPENSE                       | 3,814,432                       | 4,833,700                       |
| COMMISSION EXPENSE   | 1,930,925                       | 2,486,900                       |
|  | -----                           | -----                           |
| GROSS PROFIT AFTER COST OF GOODS SOLD AND COMMISSION EXPENSE | 1,883,507                       | 2,346,800                       |
|  | -----                           | -----                           |
| OPERATING EXPENSES   |                                 |                                 |
| Consulting fees  | 1,250,278                       | 1,438,300                       |
| Legal and professional fees                                  | 306,948                         | 321,700                         |
| Customer service   | 198,500                         | 393,200                         |
| Finance and administration                                   | 1,378,118                       | 2,101,800                       |

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|  |                |             |
|--|----------------|-------------|
| Sales and marketing  | 15,741         | 154,6       |
| Telecommunications   | 946,331        | 492,8       |
| Wages and benefits   | 1,282,438      | 1,152,7     |
| Warehouse expense  | 171,724        | 231,2       |
|  | -----          | -----       |
| TOTAL OPERATING EXPENSES   | 5,550,077      | 6,286,6     |
|  | -----          | -----       |
| LOSS FROM OPERATIONS   | (3,666,570)    | (3,939,8    |
|  | -----          | -----       |
| OTHER INCOME (EXPENSES)  |                |             |
| Interest and other income  | 3,978          | 16,8        |
| Interest expense   | (179,717)      | (308,5      |
| Foreign currency gain (discount)   | (124,096)      | 20,3        |
|  | -----          | -----       |
| TOTAL OTHER INCOME (EXPENSES)  | (299,835)      | (271,3      |
|  | -----          | -----       |
| NET LOSS BEFORE TAXES  | (3,966,405)    | (4,211,2    |
| PROVISION FOR INCOME TAXES   | --             |             |
|  | -----          | -----       |
| NET LOSS BEFORE ALLOCATION TO MINORITY INTEREST  | (3,966,405)    | (4,211,2    |
| ALLOCATION OF LOSS TO MINORITY INTEREST  | 84,762         | 88,7        |
| LOSS FROM DISCONTINUED OPERATIONS  | (380,368)      | (340,3      |
|  | -----          | -----       |
| NET LOSS   | \$ (4,262,011) | \$ (4,462,7 |
|  | =====          | =====       |
| BASIC AND DILUTED  |                |             |
| NET LOSS PER COMMON SHARE  | \$ (0.02)      | \$ (0.      |
|  | =====          | =====       |
| WEIGHTED AVERAGE NUMBER OF<br>COMMON STOCK SHARES OUTSTANDING<br>FOR BASIC AND DILUTED CALCULATION | 200,846,048    | 157,060,3   |
|  | =====          | =====       |

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

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|  | Common Stock        |         | Additional<br>Paid-in<br>Capital |
|--|---------------------|---------|----------------------------------|
|  | Number of<br>Shares | Amount  |                                  |
| Balance, December 31, 2003   | 148,180,670         | 148,181 | 827,972                          |
| Common stock issued at\$0.20 including warrants less expenses of\$28,715                   | 1,466,455           | 1,466   | 146,930                          |
| Stock issued at\$0.165 per share for cashless exercise of options in form of foregone debt | 3,200,000           | 3,200   | 524,800                          |
| Stock issued for exercise of options at\$0.20 per share in lieu of payment of legal fees   | 300,000             | 300     | 59,700                           |
| Stock issued at\$0.165 per share for cash and promissory note for exercise of options      | 1,000,000           | 1,000   | 164,000                          |
| Common stock issued at\$0.21 including warrants  | 5,476,190           | 5,476   | 487,381                          |
| Common stock issued at\$0.21 including warrants less expenses of\$3,231                    | 566,833             | 567     | 36,369                           |
| Stock issued for exercise of options at\$0.22 per share in lieu of consulting fees         | 50,000              | 50      | 10,950                           |
| Stock issued for deferred offering costs   | 1,300,000           | 1,300   | 388,700                          |
| Adjustment to subsidiaries stock held by minority interest                                 | 176,534             | 177     | 33,126                           |
| Stock issued at\$0.28 per share for consulting   | 350,000             | 350     | 97,650                           |
| Vested stock options issued for consulting at an average price of\$0.18 per share          | --                  | --      | --                               |
| Vested stock options issued for consulting at an average price of\$0.18 per share          | --                  | --      | --                               |
| Stock issued at\$0.165 per share for cash and promissory note for exercise of options      | 36,360              | 36      | 7,236                            |
| Stock issued for exercise of options at\$0.08 per share in lieu of consulting fees         | 200,000             | 200     | 15,800                           |
| Stock issued for exercise of options at\$0.08 per share in lieu of consulting fees         | 250,000             | 250     | 19,750                           |
| Stock issued for exercise of options at\$0.11 per share by the CEO                         | 200,250             | 200     | 31,840                           |
| Cancellation of discount on common stock   | --                  | --      | (53,598)                         |
| Beneficial conversion of convertible debt  | --                  | --      | 250,000                          |
| Vested stock options issued for compensation   |                     |         |                                  |

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|   |             |            |             |
|---|-------------|------------|-------------|
| and consulting at an average price of\$0.12 per option  | --          | --         | --          |
| Cancelled stock options issued for compensation and consulting at an average price of\$0.19 per option  | --          | --         | --          |
| Net loss for period ended December 31, 2004   | --          | --         | --          |
| Balance, December 31, 2004  | 162,753,292 | \$ 162,753 | \$3,048,606 |
| Stock issued at\$0.06 per share for promissory note for exercise of options                             | 3,000,000   | 3,000      | 177,000     |
| Vested stock options issued for consulting at an average price of\$0.07 per share                       | --          | --         | --          |
| Vested stock options issued for employee management compensation at an average price of\$0.07 per share | --          | --         | --          |
| Stock issued to employee for financing guaranty & pledge valued at\$0.05 per share                      | 800,000     | 800        | 39,200      |
| Nazlin - options exercised  | 250,000     | 250        | 14,750      |
| Gladys Sargeant 506 Subscription Agreement  | 1,000,000   |            | 1000        |
| Vested stock options issued for consulting at an average price of\$0.03 per share                       | --          | --         | --          |
| Cancelled stock options issued for compensation and consulting at an average price of\$0.08 per option  | --          | --         | 425,300     |
| Cancelled stock options issued for compensation at\$0.20  | --          | --         | 2,400       |
| Stock issued to TAIB Bank to retire\$75,000 of the\$300,000 debenture                                   | 2,027,027   | 2,027      | 72,973      |
| Stock issued to TAIB Bank to retire\$170,000 of\$300,000 debenture plus interest\$10,830                | 4,487,096   | 4,487      | 176,343     |
| Stock issued to TAIB Bank to retire\$5,000 debenture plus interest of 14,245                            | 375,146     | 375        | 18870       |
| Stock issued to Agora as part of contract   | 250,000     | 250        | 12250       |
| Stock issued to Lakhani as part of contract   | 500,000     | 500        | 34500       |
| Stock issued for exercise of options at\$0.08 per share   | 100,000     | 100        | 7900        |
| Stock issued to Cornell to retire promissory note   | 22,789,581  | 22,789     | 1,008,099   |
| Vested stock options issued for consulting at an average price of\$0.20 per share                       | --          | --         | --          |
| Vested stock options Issued for employee and  | --          | --         | --          |



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management compensation at an average price of\$0.20 per share

|  |             |            |              |
|--|-------------|------------|--------------|
| Stock issued to Cornell in exchange for \$700,000 pursuant to SEDA                       | 19,268,733  | 19,269     | 680,731      |
| Cancelled stock options issued for compensation  | --          | --         | 10,500       |
| Vested stock options issued for compensation And consulting at an average price of\$0.20 | --          | --         | --           |
| Beneficial conversion of convertible debt  | --          | --         | 422,096      |
| Net loss for period ended December 31, 2005  | --          | --         | --           |
| Balance, December 31, 2005   | 217,600,875 | \$ 217,600 | \$ 6,155,518 |

|  | Option/<br>Warrants | Retained<br>Earnings | Total          |
|--|---------------------|----------------------|----------------|
| Balance, December 31, 2003   | \$128,385           | \$ (2,622,410)       | \$ (1,571,470) |
| Common stock issued at\$0.20 including warrants less expenses of\$28,715                   | 70,844              | --                   | 219,240        |
| Stock issued at\$0.165 per share for cashless exercise of options in form of foregone debt | --                  | --                   | 528,000        |
| Stock issued for exercise of options at\$0.20 per share in lieu of payment of legal fees   | --                  | --                   | 60,000         |
| Stock issued at\$0.165 per share for cash and promissory note for exercise of options      | --                  | --                   | 150,000        |
| Common stock issued at\$0.21 including warrants  | 657,143             | --                   | 1,150,000      |
| Common stock issued at\$0.21 including warrants less expenses of\$3,231                    | 78,869              | --                   | 115,805        |
| Stock issued for exercise of options at\$0.22 per share in lieu of consulting fees         | --                  | --                   | 11,000         |
| Stock issued for deferred offering costs   | --                  | --                   | 390,000        |
| Adjustment to subsidiaries stock held by minority interest                                 | --                  | --                   | 33,303         |
| Stock issued at\$0.28 per share for consulting   | --                  | --                   | 98,000         |
| Vested stock options issued for consulting at an average price of\$0.18 per share          | 128,250             | --                   | 128,250        |
| Vested stock options issued for consulting at an average price of\$0.18 per share          | 1,078,277           | --                   | 1,078,277      |
| Stock issued at\$0.165 per share for cash and  |                     |                      |                |

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|   |              |                |                |
|---|--------------|----------------|----------------|
| promissory note for exercise of options   | --           | --             | 7,272          |
| Stock issued for exercise of options at\$0.08 per share in lieu of consulting fees                      | --           | --             | 16,000         |
| Stock issued for exercise of options at\$0.08 per share in lieu of consulting fees                      | --           | --             | 20,000         |
| Stock issued for exercise of options at\$0.11 per share by the CEO                                      | (10,013)     | --             | 22,028         |
| Cancellation of discount on common stock  | --           | --             | --             |
| Beneficial conversion of convertible debt   | --           | --             | 250,000        |
| Vested stock options issued for compensation and consulting at an average price of\$0.12 per option     | 1,087,900    | --             | 1,087,900      |
| Cancelled stock options issued for compensation and consulting at an average price of\$0.19 per option  | (656,612)    | --             | (656,612)      |
| Net loss for period ended December 31, 2004   | --           | (4,462,795)    | (4,462,795)    |
| Balance, December 31, 2004  | \$ 2,563,044 | \$ (7,085,205) | \$ (1,325,802) |
| Stock issued at\$0.06 per share for promissory note for exercise of options                             | --           | --             | --             |
| Vested stock options issued for consulting at an average price of\$0.07 per share                       | 35,250       | --             | 35,250         |
| Vested stock options issued for employee management compensation at an average price of\$0.07 per share | 133,750      | --             | 133,750        |
| Stock issued to employee for financing guaranty & pledge valued at\$0.05 per share                      | --           | --             | 40,000         |
| Nazlin - options exercised  | --           | 10,000         | --             |
| Gladys Sargeant 506 Subscription Agreement  | 15,000       | --             | 20,000         |
| Vested stock options issued for consulting at an average price of\$0.03 per share                       | 62,250       | --             | 62,250         |
| Cancelled stock options issued for compensation and consulting at an average price of\$0.08 per option  | (425,300)    | --             | --             |
| Cancelled stock options issued for compensation at\$0.20  | (2,400)      | --             | --             |
| Stock issued to TAIB Bank to retire\$75,000 of the\$300,000 debenture                                   | --           | --             | 75,000         |
| Stock issued to TAIB Bank to retire\$170,000 of\$300,000 debenture plus interest\$10,830                | --           | --             | 180,830        |
| Stock issued to TAIB Bank to retire\$5,000  | --           | --             | --             |

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|   |              |                 |                |
|---|--------------|-----------------|----------------|
| debenture plus interest of 14,245   | --           | --              | 19,245         |
| Stock issued to Agora as part of contract   | --           | --              | 12,500         |
| Stock issued to Lakhani as part of contract   | --           | --              | 35,000         |
| Stock issued for exercise of options at\$0.08 per share   | --           | --              | 8,000          |
| Stock issued to Cornell to retire promissory note   | --           | --              | 1,030,888      |
| Vested stock options issued for consulting at an average price of\$0.20 per share                           | 33,500       | --              | 33,500         |
| Vested stock options Issued for employee and management compensation at an average price of\$0.20 per share | 27,840       | --              | 27,840         |
| Stock issued to Cornell in exchange for \$700,000 pursuant to SEDA  | --           | --              | 700,000        |
| Cancelled stock options issued for compensation   | (10,500)     | --              | --             |
| Vested stock options issued for compensation And consulting at an average price of\$0.20                    | 271,550      | --              | 271,550        |
| Beneficial conversion of convertible debt   | --           | --              | 422,096        |
| Net loss for period ended December 31, 2005   | --           | (4,262,010)     | (4,262,010)    |
| Balance, December 31, 2005  | \$ 2,698,984 | \$ (11,347,215) | \$ (2,470,113) |

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

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EYI INDUSTRIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended<br>December 31, 2005 | De    |
|---|---------------------------------|-------|
|   | -----                           | ----- |
| CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES                          |                                 |       |
| Net loss  | \$ (4,262,010)                  | \$    |
| Loss allocated to minority interest   | 84,762                          | --    |
|   | -----                           | ----- |
|   | (4,346,772)                     | --    |
|   | -----                           | ----- |
| Adjustments to reconcile net loss to net cash used by operating activities: |                                 |       |
| Depreciation and amortization   | 52,645                          |       |
| Stock and warrants issued for employee compensation and consulting          | 547,800                         |       |

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|   |             |
|---|-------------|
| Stock issued for deferred financing costs                               | --          |
| Stock issued for options exercised in lieu of debt                      | --          |
| Stock issued for options exercised in lieu of consulting and legal fees | 57,500      |
| Stock issued for interest on convertible debt                           | 44,570      |
| Stock issued for financing guaranty & pledge                            | 40,000      |
| Discount recognized on convertible debt                                 | 120,276     |
| Beneficial conversion of convertible debt                               | 422,096     |
| Decrease (increase) in:   |             |
| Related party receivables   | --          |
| Accounts receivable   | (12,722)    |
| Prepaid expenses  | 840,377     |
| Inventory   | (55,607)    |
| Deposits  | (65,367)    |
| Increase (decrease) in:   |             |
| Accounts payable and accrued liabilities                                | 788,048     |
| Accounts payable - related parties                                      | 168,583     |
| Interest payable, convertible debt                                      | (10,616)    |
| Customer deposits   | --          |
| Liabilities in excess of assets on discontinued operations              | (30,494)    |
| Net cash used by operating activities                                   | (1,428,183) |
| CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES                      |             |
| Decrease (increase) in restricted cash                                  | 100,248     |
| Decrease (increase) in property, plant, and equipment                   | (39,797)    |
| Purchase of trademarks  | (674)       |
| Net cash provided by investing activities                               | 59,778      |
| CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES                      |             |
| Net change in bank indebtedness   | (72,456)    |
| Issuance of stock, net of private placement costs & warrants            | 16,500      |
| Repayment of convertible debt   | (250,000)   |
| Proceeds from Cornell SEDA  | 700,000     |
| Proceeds from Cornell Prom Note   | 1,000,000   |
| Net proceeds from convertible debt                                      | --          |
| Net cash provided by financing activities                               | 1,394,044   |
| Net increase in cash and cash equivalents                               | 25,639      |
| CASH - Beginning of Year  | --          |

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|                      |    |        |    |
|----------------------|----|--------|----|
| CASH - End of Period | \$ | 25,639 | \$ |
|                      |    |        |    |

### SUPPLEMENTAL CASH FLOW DISCLOSURES:

|                       |    |         |    |
|-----------------------|----|---------|----|
| Interest expense paid | \$ | 179,717 | \$ |
| Income taxes paid     | \$ | --      | \$ |

### NON-CASH INVESTING AND FINANCING TRANSACTIONS:

|   |    |         |    |
|---|----|---------|----|
| Stock and warrants issued for employee compensation and consulting      | \$ | --      | \$ |
| Stock issued for options exercised in lieu of debt                      | \$ | --      | \$ |
| Stock issued for options exercised in lieu of consulting and legal fees | \$ | --      | \$ |
| Stock and warrants issued for prepaid expenses                          | \$ | --      | \$ |
| Stock issued for financing fees   | \$ | --      | \$ |
| Beneficial conversion of convertible debt                               |    | 422,096 | \$ |
| Stock options vested for consulting and compensation                    | \$ | 547,800 | \$ |
| Stock issued for options exercised in lieu of debt                      | \$ | 11,500  | \$ |
| Stock issued for options exercised in lieu of legal fees                | \$ | 10,000  | \$ |
| Stock issued for options exercised in lieu of consulting and legal fees | \$ | 57,500  | \$ |
| Stock issued to retire part of prom note                                | \$ | 175,000 | \$ |
| Stock issued for redemption of convertible debenture                    | \$ | 250,000 | \$ |
| Stock issued for interest on convertible debenture                      | \$ | 44,570  | \$ |
| Stock and warrants issued through 506 Private Placement                 | \$ | 20,000  | \$ |
| Stock issued for financing guaranty & pledge                            | \$ | 40,000  | \$ |
| Discount recognized on convertible debt                                 | \$ | 120,276 | \$ |

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

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - DESCRIPTION OF BUSINESS

Essentially Yours Industries, Inc. (hereinafter "EYI") was incorporated on June 21, 2002 in the State of Nevada. The main business activities of Essentially Yours Industries, Inc. were acquired through a merger with the former entity, Burrard Capital, Inc., and other entities concerning EYI's reorganization. On December 31, 2003, EYI entered into a share exchange agreement of its stock with Safe ID Corporation ("Safe ID"). This transaction was accounted for as a share exchange and recapitalization. As a result of this transaction, Safe ID has changed its name to EYI Industries, Inc. ("the Company") and is acting as the parent holding company for the operating subsidiaries.

The principal business of the Company is the marketing of health and wellness care products. The Company sells its products primarily through network marketing distributors, which in turn, sell the products to the end customers. The Company also sells product directly and through affiliates. The Company maintains its principal business office in Burnaby, British Columbia. Effective for the period ended December 31, 2003, the Company elected to change its year-end from June 30 to December 31.

The Company has six wholly owned subsidiaries. The first subsidiary is Halo Distribution LLC (hereinafter "Halo"), which was organized on January 15, 1999, in the State of Kentucky. Halo was the distribution center for the Company's

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product in addition to other products until April 30, 2005 at which time the Company made the decision to discontinue it's operations. The second subsidiary is RGM International Inc., which was incorporated on July 3, 1997, in the State of Nevada. RGM International Inc. is a dormant investment company, which owns one percent of Halo. The third subsidiary is Essentially Yours Industries (Canada) Inc. (hereinafter "EYI Canada"), which was organized on September 13, 2002, in the province of British Columbia, Canada. EYI Canada markets health and wellness care products for use in Canada. The fourth subsidiary is 642706 B.C. Ltd., doing business as EYI Management, which was organized on February 22, 2002, in the province of British Columbia, Canada. EYI Management provides accounting, customer service and marketing services to the consolidated entity. The fifth subsidiary is Essentially Yours Industries (Hong Kong) Limited ("EYI HK"). EYI HK was organized on August 23, 2005 in Hong Kong. EYI HK markets health and wellness care products for use in Hong Kong and China. The sixth subsidiary is Essentially Yours Industries (International) Limited ("EYI INTL"). EYI INTL was organized on December 6, 2005 to facilitate our expansion throughout other Southeast Asian countries.

In addition, the Company owns approximately 98% of Essentially Yours Industries, Inc. ("EYII"), incorporated on June 21, 2002 in the State of Nevada. EYII markets health and wellness care products for use in USA. The Company also owns 51% of World Wide Buyers' Club Inc. ("WWBC"), a Nevada corporation, which was organized by a joint venture agreement effective May 6, 2004.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

This summary of significant accounting policies of EYI Industries, Inc., is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

#### Accounting Method

The Company's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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#### Accounting Pronouncements - Recent

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets--an amendment of FASB Statement No. 140." This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a transfer of the servicer's financial assets that meets the requirements for sale accounting; a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities; or an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. The statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either the amortization or fair value method for subsequent measurement of each class of servicing assets and liabilities. The statement further permits, at its initial adoption, a one-time reclassification of available for sale securities to trading securities by entities with recognized servicing rights, without

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calling into question the treatment of other available for sale securities under Statement 115, provided that the available for sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no impact on the Company's financial condition or results of operations.

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Standards No. 133 and 140" (hereinafter "SFAS No. 155"). This statement established the accounting for certain derivatives embedded in other instruments. It simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133 as well as eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity ("SPE") may hold under SFAS No. 140. This statement allows a public entity to irrevocably elect to initially and subsequently measure a hybrid instrument that would be required to be separated into a host contract and derivative in its entirety at fair value (with changes in fair value recognized in earnings) so long as that instrument is not designated as a hedging instrument pursuant to the statement. SFAS No. 140 previously prohibited a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no impact on the Company's financial condition or results of operations.

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," (hereinafter "SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. The Company does not expect SFAS No. 154 to have a material impact on its consolidated financial position, results of operations, or cash flows.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations." FIN 47 clarifies that the term "conditional asset retirement obligation," which as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The entity must record a liability for a "conditional" asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153. This statement addresses the measurement

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of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Management believes the adoption of this statement will have no impact on the financial statements of the Company.

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In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 152, which amends FASB statement No. 66, "Accounting for Sales of Real Estate," to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, "Accounting for Real Estate Time-Sharing Transactions." This statement also amends FASB Statement No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Management believes the adoption of this statement will have no impact on the financial statements of the Company.

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensation" (hereinafter "SFAS No. 123R"). This statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. The Company has previously adopted SFAS No. 123 and the fair value of accounting for stock options and other equity instruments. The Company has determined that there was no impact to its financial statements from the adoption of this new statement.

In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, "Inventory Costs-- an amendment of ARB No. 43, Chapter 4". This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management



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does not believe the adoption of this statement will have any immediate material impact on the Company.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (hereinafter "SFAS No. 150"). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has determined that there was no impact from the adoption of this statement

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (hereinafter "FIN 46"). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. The provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not have any entities that require disclosure or new consolidation as a result of adopting the provisions of FIN 46.

### Accounts Receivable and Bad Debts

The Company estimates bad debts utilizing the allowance method, based upon past experience and current market conditions. The Company recorded an allowance to cover accounts receivable balances over 60 days of \$26,346 and \$16,321 for December 31, 2005 and December 31, 2004 respectively.

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### Advertising Expenses

Advertising expenses consist primarily of costs incurred in the design, development, and printing of Company literature and marketing materials. The Company expenses all advertising expenditures as incurred. The Company's advertising expenses were \$39,208 and \$118,937 for the year ended December 31, 2005 and December 31, 2004 respectively.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments and short-term debt instruments with original maturities of three months or less to be cash equivalents.

### Restricted Cash

Restricted cash includes deposits held in a reserve account in the amount of \$0 and \$100,248 at December 31, 2005 and December 31, 2004 respectively. Such deposits are required by the bank as protection against unfunded charge backs and returns of credit card transactions. Effective June 9, 2005, the bank deemed that this deposit is no longer necessary and released the funds to the Company.

### Compensated Absences

Employees of the Company are entitled to paid vacation, and sick days, depending

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on job classification, length of service, and other factors. The Company accrued vacation pay in the amounts of \$61,686 and \$60,186 at December 31, 2005 and December 31, 2004 respectively.

### Cost of Sales

Cost of sales consists of the purchase price of products sold, inbound and outbound shipping charges, packaging supplies and costs associated with service revenues and marketplace business.

### Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (hereinafter "SFAS No. 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

At December 31, 2005 and December 31, 2004 the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

### Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Basic and diluted loss per share were the same at the reporting dates, as inclusion of the common stock equivalents would be anti-dilutive.

### Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

### Fair Value of Financial Instruments

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The Company's financial instruments as defined by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," include cash, trade accounts receivable, and accounts payable and accrued expenses. All instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at December 31, 2005 and December 31, 2004.

### Foreign Currency Translation and Other Comprehensive Income

-----

The Company has adopted Financial Accounting Standard No. 52. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Gains or losses are included in income for the year. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

As the Company's functional currency is the U.S. dollar, and all translation gains and losses are transactional, the Company has no assets with values recorded in Canadian dollars or Hong Kong dollars and there is no recognition of other comprehensive income in the financial statements.

### Foreign Currency Valuation and Risk Exposure

-----

While the Company's functional currency is the U.S. dollar and the majority of its operations are in the United States, the Company maintains its main office in Burnaby, British Columbia. The Company also maintains an office in Kowloon, Hong Kong. The assets and liabilities relating to both the Canadian and Hong Kong operations are exposed to exchange rate fluctuations. Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at the average exchange rate during the period. Realized gains and losses from foreign currency transactions are reflected in the results of operations.

### Impaired Asset Policy

-----

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 121, "Accounting for Impairment of Long-lived Assets." In complying with this standard, the Company reviews its long-lived assets quarterly to determine if any events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by its assets to their respective carrying amounts.

The Company does not believe any adjustments are needed to the carrying value of its assets at December 31, 2005 or December 31, 2004.

### Income Taxes

-----

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (hereinafter "SFAS No. 109"). This statement requires the recognition of deferred tax liabilities and assets for the future consequences of events that have been recognized in the Company's consolidated financial statement or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company's assets and liabilities results in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such an asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that

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some portion or all of the deferred tax asset will not be realized. (See Note 10.)

### Inventories

The Company records inventories at the lower of cost or market on a first-in, first-out basis.

### Long-lived Assets

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This standard establishes a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations, and requires that these long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. Accordingly, the Company reviews the carrying amount of long-lived assets for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of any impairment would include a comparison of estimated future cash flows anticipated to be generated during the remaining life of the assets to the net carrying value of the assets. For the years ended December 31, 2005 and, December 31, 2004, no impairments have been identified

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### Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. (See Note 4.)

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant transactions and balances among the companies included in the consolidated financial statements have been eliminated.

### Revenue Recognition

The Company is in the business of selling nutritional products in two categories: dietary supplements and personal care products. Sales of personal care products represent less than 5% of the overall revenue and therefore are not classified separately in the financial statements. The Company recognized revenue from product sales when the products are shipped and title passes to customer. Administrative fees charged to the Independent Business Associates are included in the gross sales and amounted \$128,967 and \$190,340 for the year ended December 31, 2005 and December 31, 2004 respectively.

### Segment Information

The Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," (hereafter "SFAS No. 131") which supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect the

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Company's results of operations or financial position. (See Note 14.)

### Stock Options and Warrants Granted to Employees and Non-Employees

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), defines a fair value-based method of accounting for stock options and other equity instruments. The Company has adopted this method, which measures compensation costs based on the estimated fair value of the award and recognizes that cost over the service period.

### Going Concern

As shown in the accompanying financial statements, the Company had negative working capital of approximately \$1,965,000 and an accumulated deficit incurred through December 31, 2005. The Company also has limited cash resources and a history of recurring losses. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Management has established plans designed to increase the sales of the Company's products, and decrease debt. The Company plans on continuing to reduce expenses, and with small gains in any combination of network sales, direct sales, international sales, and warehouse sales, believe that they will eventually be able to reverse the present deficit. Management intends to seek additional capital from new equity securities offerings that will provide funds needed to increase liquidity, fund internal growth and fully implement its business plan. Management plans include negotiations to convert significant portions of existing debt into equity.

The timing and amount of capital requirements will depend on a number of factors, including demand for products and services and the availability of opportunities for international expansion through affiliations and other business relationships.

### NOTE 3 - ACCOUNTS RECEIVABLE AND CREDIT RISK

Accounts receivable at December 31, 2005 and December 31, 2004 consist primarily of amounts due from direct retail clients of EYI.

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### NOTE 4 - PROPERTY AND EQUIPMENT

Capital assets are recorded at cost. Depreciation is calculated using the straight line method over three to seven years. The following is a summary of property, equipment and accumulated depreciation at December 31, 2005 and December 31, 2004.

|                               | December 31, 2005 |                             |    | Cost    |
|-------------------------------|-------------------|-----------------------------|----|---------|
|                               | Cost              | Accumulated<br>Depreciation |    |         |
| Warehouse equipment           | \$ 0              | \$ 0                        | \$ | 223,927 |
| Furniture and fixtures        | 1,569             | 371                         |    | 18,698  |
| Computer Equipment & Software | 105,447           | 83,068                      |    | 115,392 |

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|  |           |    |        |         |
|--|-----------|----|--------|---------|
| Office equipment                         | 14,859    |    | 901    | 3,510   |
| Leasehold improvements                   | 13,544    |    | 1,409  | 32,523  |
|  | -----     |    | -----  | -----   |
| Total                                    | 135,420   | \$ | 85,749 | 394,050 |
|  |           |    | =====  |         |
| Less: accumulated depreciation           | 85,749    |    |        | 333,714 |
|  | -----     |    |        | -----   |
| Total property, plant and equipment, net | \$ 49,671 |    | \$     | 60,336  |
|  | =====     |    |        | =====   |

Depreciation expense for the periods ended December 31, 2005 and December 31, 2004 was \$52,645, and \$56,154 respectively.

### NOTE 5 - CONVERTIBLE LOANS PAYABLE

On June 22, 2004, the Company issued to Cornell Capital Partners, LP a 5% secured convertible debenture in the principal amount of \$250,000 with a term of two years, and interest at 5%. The debenture was convertible into the Company's common stock at a price per share equal to the lesser of (a) 120% of the closing bid price by the second anniversary date of issuance or (b) 100% of the lowest daily volume weighted average price for the 30 days immediately prior to conversion. On June 24, 2004, the Company received the \$250,000 loan less related expenses of approximately \$65,000 which was allocated as discount on debt. The convertible securities were guaranteed by the assets of the Company. Under the agreement, the Company was required to keep available common stock duly authorized for issuance in satisfaction of the convertible. The conversion amount will be the face amount of the convertible plus interest at the rate of 5% per annum from the closing date of June 24, 2004 to the conversion date. On August 3, 2005, the Company retired the debenture plus a 20% premium of \$50,000 by using the cash proceeds of a promissory note between the Company and Cornell Capital signed on August 2, 2005.

On September 24, 2004, the Company issued to Cornell Capital Partners, LP ("Cornell") a 5% secured convertible debenture in the principal amount of \$250,000 with a term of two years, and interest at 5%. The debenture is convertible into the Company's common stock at a price per share equal to the lesser of (a) 120% of the closing bid price by the second anniversary date of issuance or (b) 100% of the lowest daily volume weighted average price for the 30 days immediately prior to conversion. On September 27, 2004, the Company re-assigned \$245,000 of this debenture to Taib Bank, E.C. and reassigned \$5,000 of the debenture B to an individual. Under the debenture agreement, the Company's failure to issue unrestricted, freely tradable common stock to Cornell or Taib Bank or the individual upon conversion after the registration statement filed pursuant to this transaction has been declared effective would be considered an event of default, thereby entitling Cornell to accelerate full repayment of the convertible securities then outstanding. Under the agreement, the Company was required to maintain available common stock duly authorized for issuance in satisfaction of the convertible. One September 24, 2004 the Company received the \$250,000 loan less related expenses of approximately \$55,000. The convertible securities were guaranteed by the assets of the Company. Under the agreement, the Company was required to keep available common stock duly authorized for issuance in satisfaction of the convertible. The conversion amount was the face amount of the convertible plus interest at the rate of 5% per annum from the closing date of September, 2004 to the conversion date. On August 15, 2005, the Company retired \$75,000 of the Taib Bank, E.C. debenture by converting 2,027,027 common shares. On August 16, 2005, the Company retired \$170,000 of the Taib Bank, E.C. debenture plus \$10,830 in interest by converting 4,487,096 common shares. On September 12, 2005, the Company retired \$5,000 of the remaining debenture plus \$14,245 in interest by converting 375,146 common shares valued at \$0.0513.

The convertible debentures contained a beneficial conversion feature computed at its intrinsic value that was the difference between the conversion price and the fair value on the debenture issuance date of the common stock into which the debt was convertible, multiplied by the number of shares into which the debt was convertible at the commitment date. Since the beneficial conversion feature was to be settled by issuing equity, the amount attributed to the beneficial conversion feature, or \$250,000, was recorded as an interest expense and a component of stockholders' equity on the balance sheet date.

#### Standby Equity Distribution Agreement

In June, 2004, the Company entered into a standby equity distribution agreement with Cornell Capital Partners, LP ("Cornell"). Pursuant to this agreement, Cornell agreed to purchase up to \$10,000,000 of the Company's common stock through a placement agent over a two-year period after the effective registration of the shares. In addition, the Company issued 1,300,000 shares of its common stock to Cornell and the placement agent upon the inception of the standby equity distribution agreement. The \$390,000 value of these shares was recognized as a period expense due to the fact that the 1,300,000 shares have been deemed to be fully earned as of the date of the agreement.

During the year ended December 31, 2005, the Company issued 40,874,047 common shares to Cornell Capital in exchange for \$1,700,000. These transactions resulted in a beneficial conversion feature computed at its intrinsic value that was the difference between the conversion price and the fair value on the issuance date of the common stock. The amount attributed to the beneficial conversion feature, or \$422,096, was recorded as a financing expense and a component of stockholders' equity on the balance sheet.

#### NOTE 6 - INTANGIBLE ASSETS

Intangible assets consist of rights, title, and interest in and to the contracts with the Company's independent business associates as well as the rights and licenses to trademarks and formula for the Company's primary products. These rights and licenses were obtained from the Company's former parent pursuant to a transfer agreement, as well as from the Company's primary shareholder.

#### Trademarks and Formulas

Costs relating to the purchase of trademarks and formulas were capitalized and amortized using the straight-line method over ten years, representing the estimated life of the assets.

The following is a summary of the intangible assets at December 31, 2005 and December 31, 2004:

|                                | Cost      | Accumulated<br>Amortization | Net       |
|--------------------------------|-----------|-----------------------------|-----------|
|                                | -----     | -----                       | -----     |
| Balance, December 31, 2004     | \$ 21,601 | \$ (5,040)                  | \$ 16,561 |
| Activity in last twelve months | 674       | (2,193)                     | (1,519)   |
|                                | -----     | -----                       | -----     |
| Balance, December 31, 2005     | \$ 22,275 | \$ (7,233)                  | \$ 15,042 |
|                                | =====     | =====                       | =====     |

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### NOTE 7 - BANK INDEBTEDNESS

Bank indebtedness consists of checks written in excess of funds on deposit.

### NOTE 8 - CAPITAL STOCK

#### Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock with a par value of \$0.001. As of December 31, 2005 and December 31, the Company has not issued any preferred stock.

#### Common Stock

The Company is authorized to issue 1,000,000,000 shares of common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

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On February 10, 2005, we entered into a loan agreement with one of our employees, pursuant to which we loaned her \$180,000 for the purpose of exercising 3,000,000 incentive stock options issued to her under our stock compensation program. The loan is payable on demand and accrues interest at a rate of 4% per annum. The loan was secured by a promissory note dated effective February 10, 2005 and deemed to be a subscription receivable. On August 10, 2005 the promissory note was re-assigned to Winslow Drive in exchange for the 3,000,000 shares (See Note 10)

On February 14, 2005 the Company entered into a bonus share agreement with one of our employees and issued 800,000 shares of our common stock at a deemed price of \$0.05 per share. These shares were given in consideration for providing the guarantee and pledge necessary for the Cornell loan. (See Note 10) The shares are to be issued pursuant to Regulation S of the Securities Act.

On April 5, 2005, 250,000 options were exercised at \$0.04 per share at the aggregate exercise price of \$10,000. The options were paid in the form of forgone debt owed to the legal firm by the Company. The Company computed the number of options issued in this transaction based on the estimated fair market value of the Company's common stock on the date of issuance.

On June 9, 2005, the Company sold, under a private placement offering, 1,000,000 shares of common stock at \$0.02 per share for a total of \$8,500 in cash and \$11,500 in the form of forgone debt owed to a consultant and related party. In addition, 3,000,000 warrants were also granted in conjunction with this offering at a price of \$0.02. (See Note 9.)

On July 28, 2005, the Company issued 250,000 common shares to AGORA Investor Relations Corp pursuant the terms of it's agreement with the Company dated July 28, 2005.

On August 15, 2005, the Company issued 2,027,027 common shares to TAIB Bank to retire \$75,000 of the \$300,000 debenture.

On August 16, 2005, the Company issued 4,487,096 common shares to TAIB Bank to retire \$170,000 of the \$300,000 debenture plus interest of \$10,830.

On September 1, 2005, the Company issued 500,000 shares of restricted stock as an initial signing bonus to M.Ali Lakhani Personal Law Corporation pursuant to the terms of his contract with the Company dated September 1, 2005.



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On September 12, 2005, the Company issued 375,146 common shares to TAIB Bank to retire a \$5,000 debenture plus interest of \$14,245.

On September 26, 2005 an employee of the Company exercised 100,000 stock options at \$0.08 per share for an the aggregate exercise price of \$8,000.

During the quarter ended December 31, 2005, the Company issued 22,789,581 common shares to Cornell Capital to retire the Promissory Note dated August 1, 2005.

During the quarter ended December 31, 2005, the Company issued 19,268,733 common shares to Cornell Capital in exchange for \$700,000 pursuant to the terms of the Standby Equity Distribution Agreement.

### NOTE 9 - COMMON STOCK OPTIONS AND WARRANTS

Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (hereinafter "SFAS No. 123"), defines a fair value-based method of accounting for stock options and other equity instruments. The Company has adopted this method, which measures compensation costs based on the estimated fair value of the award and recognizes that cost over the service period.

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In accordance with SFAS No. 123, the fair value of stock options and warrants granted are estimated using the Black-Scholes Option Price Calculation. The following assumptions were made to value the stock options and warrants for the period ended December 31, 2005: estimated risk-free interest rate of 4%; no dividends to be paid; estimated volatility of 144%, and term of two years.

#### Warrants

During the quarter ended June 30, 2005, the Company sold 1,000,000 common shares through a private placement. In addition, the purchaser of the shares receive warrants to purchase three additional shares of common stock for each share purchased, exercisable at \$0.02 per share for a period of two years.

#### Stock Options

During the period ending December 31, 2004, the Company's board of directors approved the Stock Compensation Program to allow up to 25,000,000 shares of stock to be issued under the program. This plan enables the Company to grant stock options to directors, officers, employees and eligible consultants of the Company. There was no Company stock option plan in effect prior to 2004.

During the period ended December 31, 2005, the Company granted stock options to purchase a total of 7,390,000 shares of common stock to its employees, directors, and consultants. The options were granted from \$0.02 to \$0.10 per share. The Company recognized an expense to services and consulting of \$564,140 during the period ending December 31, 2005 for all vested options.

Following is a summary of the status of the stock options during the twelve months:

|                                  | Number of Shares<br>----- |    | Weighted Average<br>Exercise Price<br>----- |
|----------------------------------|---------------------------|----|---|
| Outstanding at December 31, 2004 | 19,747,390                | \$ | 0.14  |
| Granted                          | 7,390,000                 |    | 0.13  |
| Exercised                        | (3,350,000)               |    | 0.12  |

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|  |             |    |      |
|--|-------------|----|------|
| Forfeited                                      | (7,535,000) |    | 0.08 |
| Options outstanding at December 31, 2005       | 16,252,390  | \$ | 0.14 |
| Options exercisable at December 31, 2005       | 15,617,390  | \$ | 0.14 |
| Weighted average fair value of options granted |             | \$ | 0.13 |

Summarized information about stock options outstanding and exercisable at December 31, 2005 is as follows:

| Options Outstanding  |                  |                              |                         |
|----------------------|------------------|------------------------------|-------------------------|
| Exercise Price Range | Number of Shares | Weighted Ave. Remaining Life | Weighted Exercise Price |
| \$0.02 - \$0.26      | 16,252,390       | 2.23                         | \$                      |

  

| Options Exercisable  |                  |                              |                         |
|----------------------|------------------|------------------------------|-------------------------|
| Exercise Price Range | Number of Shares | Weighted Ave. Remaining Life | Weighted Exercise Price |
| \$0.03 - \$0.26      | 15,617,390       | 1.00                         | \$                      |

Summarized information about unvested granted stock options outstanding at December 31, 2005 is as follows:

| Unvested Granted Options Outstanding |                  |                              |
|--------------------------------------|------------------|------------------------------|
| Exercise Price Range                 | Number of Shares | Weighted Ave. Remaining Life |
| \$0.02 - \$0.20                      | 515,000          | 1.41                         |

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|                                |            |      |        |
|--------------------------------|------------|------|--------|
| Outstanding<br>and exercisable | 11,516,621 | 3.50 | \$0.21 |
|--------------------------------|------------|------|--------|

NOTE 10 - INCOME TAXES

The significant components of the deferred tax asset at December 31, 2005 and December 31, 2004 were as follows:

|  | December 31,<br>2005 | December 31,<br>2004 |
|--|----------------------|----------------------|
| Net operating loss carry forward       | \$ 11,628,000        | \$ 7,082,200         |
| Deferred tax asset:                    | \$ 3,954,000         | \$ 2,408,000         |
| Less valuation allowance for tax asset | -3,954,000           | -2,408,000           |
| Net deferred tax asset                 | \$ --                | \$ --                |

At December 31, 2005 and December 31, 2004, the Company has net operating loss carry forwards of approximately \$11,628,000 and \$7,082,200 respectively, which expire in the years 2023 through 2025. The change in the allowance account from December 31, 2004 to December 31, 2005 was \$1,546,000.

The Company's subsidiaries in Canada are required to file income tax returns in British Columbia, Canada. The losses from operations are allocated to both United States and Canadian operations.

Utilization of the net operating losses is contingent upon the company's filing of federal income tax returns, currently in arrears. See Note 6 regarding Company's liability for state income tax reporting.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Purchase Agreement

On June 30, 2002, the Company entered into a distribution and license agreement with a company in which one of the Company's directors has an ownership interest. The agreement gives the Company the exclusive right to market, sell and distribute certain products for a five-year renewable term. Management estimates that 87% of the Company's sales volume results from products supplied under this licensing agreement.

During the quarter ended March 31, 2004, the Company negotiated the lowering of the purchasing threshold, and pursuant to the agreement, the Company is required to purchase the following amounts of product during the term of the agreement:

|                                   |             |
|-----------------------------------|-------------|
| From June 1, 2004 to May 31, 2005 | \$3,964,000 |
|-----------------------------------|-------------|

For each year thereafter, during the term of this agreement, the Company is obligated to purchase a minimum amount of \$5,549,000 of product.

In the event that the Company is unable to meet the minimum purchase requirements of the licensing agreement or the terms requiring it to pay 15% of the difference between the minimum purchase amount referred to above and actual purchases for that year in which there is a shortfall, then the licensor has various remedies available to it including renegotiating the agreement, removing exclusivity rights, or terminating the agreement.

As of the date of these financial statements, the purchase requirements have not been made. The period for which the License could request payment per the

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penalty clause has expired for the year and therefore we have not made any accrual to the financial statements. As well we continue to purchase Nutri Diem products.

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### Lease Payments

The Company has operating lease commitments for its premises, office equipment and an automobile. The minimum annual lease commitments are as follows:

| Year ended December 31,<br>----- | Minimum Amount<br>----- |
|----------------------------------|-------------------------|
| 2006                             | \$218,469               |
| 2007                             | 163,285                 |
| 2009                             | 141,841                 |
| 2009                             | 147,013                 |
| 2010 and thereafter              | 309,544                 |

### Management Agreement

EYI Corp. has agreed to perform various services and administrative assistance to the Company on a month to month basis commencing April 1, 2004. The services and duties to be provided and performed by EYI Corp. for EYII shall be determined and agreed upon by the parties, from time to time, as required, provided however, it is understood and agreed that such services will primarily consist of assisting EYII in the sales and marketing business.

The remuneration to be paid by EYII to EYI Corp. for the aforementioned services shall be the cost of actual expenses plus a fee of five (5%) percent for services provided.

### Regulatory Risks and Claims

The Company's products are subject to regulation by a number of federal and state entities, as well as those of foreign countries in which the Company's products are sold. These regulatory entities may prohibit or restrict the sale, distribution, or advertising of the Company's products for legal, health or safety, related reasons. In addition to the potential risk of adverse regulatory actions, the Company is subject to the risk of potential product liability claims.

### Promissory Note

On August 1, 2005, the Company entered into a promissory note with Cornell Capital Partners, LP for the principal sum of one Million (U.S.) dollars (\$1,000,000) and payable in thirteen weekly installments beginning September 23, 2005 and ending on December 16, 2005. Interest on this note is twelve percent (12%) per annum. The Company agreed to repay this loan by issuing common stock pursuant to the terms of the Standby Equity Distribution Agreement (Note 5).

### Secured Promissory Note

On February 24, 2005 the Company received a loan of \$200,000 from Cornell secured by a secured promissory note. Under the terms of the secured promissory note, the loan is payable by April 24, 2005 and accrues interest at a rate of 12% per annum. In connection with the issuance of the secured note, the Company agreed to: (i) pay Cornell a fee of \$20,000; and (ii) pay Yorkville Advisors Management LLC a structuring fee in the amount of \$2,500. As a condition to Cornell's entry into the Secured Note on February 24, 2005, an employee of EYI, Janet Carpenter, entered into a guaranty agreement with Cornell and a pledge and escrow agreement with Cornell and David Gonzalez. Pursuant to the terms of the guaranty agreement and the pledge and escrow agreement, Ms. Carpenter agreed to: (i) personally guarantee the payment and performance obligations of EYI under the Secured Note; and (ii) pledge to Cornell 3,000,000 shares of EYI held by her

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to secure the obligations of EYI under the Secured Note. In consideration of Ms. Carpenter providing the guarantee and pledge, EYI entered into a bonus shares agreement dated February 14, 2005 with Ms. Carpenter, pursuant to which we agreed to issue to Ms. Carpenter 800,000 shares of our common stock at a deemed price of \$0.05 per share. The shares are to be issued to Ms. Carpenter pursuant to Regulation S of the Securities Act. (See Note 8.) On August 3, 2005, this promissory note was fully retired.

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### Standby Equity Distribution Agreement

On June 22, 2004, the Company entered into a two-year standby equity distribution agreement with Cornell Capital Partners LP ("Cornell"). Pursuant to this agreement, Cornell will purchase up to 10,000,000 shares of the Company's common stock through a placement agent. The Company issued 1,300,000 shares of its common stock to Cornell and the placement agent upon the inception of this agreement. The \$390,000 value of these shares was based on the fair market value of the shares on the date of the contract and is recognized as a period expense due to the fact that the 1,300,000 shares have been deemed to be fully earned as of the date of the agreement. (See Note 8.)

On May 13, 2005 the Company entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP ("Cornell") pursuant to which we entered into the following agreements: a Registration Rights Agreement, an Escrow Agreement, and a Placement Agent Agreement. Pursuant to the terms of the new Standby Equity Distribution Agreement, we may, at our discretion, periodically issue and sell shares of our common stock for a total purchase price of \$10 million. If we request advances under the Standby Equity Distribution Agreement, Cornell will purchase shares of our common stock for 98% of the lowest volume weighted average price on the Over-the-Counter Bulletin Board or other principal market on which our common stock is traded for the 5 days immediately following the advance notice date. Cornell will retain 5% of each advance under the new Standby Equity Distribution Agreement. We may not request advances in excess of a total of \$10 million. Pursuant to the terms of our Registration Rights Agreement and the Standby Equity Agreement with Cornell, we agreed to register and qualify, among other things, the additional shares due to Cornell under the Standby Equity Agreement under a registration statement filed with the SEC. We signed a Termination Agreement on May 13, 2005, for the purpose of terminating our Standby Equity Distribution Agreement, Registration Rights Agreement and Escrow Agreement previously entered into with Cornell on June 22, 2004. On April 4, 2005 we entered into a redemption agreement with TAIB Bank E.C. ("TAIB") pursuant to which TAIB agreed to acquire by assignment a two year 5% secured convertible debenture issued to Cornell Capital Partners, L.P. ("Cornell") in the amount of \$245,000, and a two year 5% convertible debenture in the amount of \$5,000 held by Kent Chou, in consideration of which we agreed not to modify or renegotiate the terms of our Standby Equity Distribution Agreement ("SEDA") with Cornell, and to use any proceeds obtained by EYI under the SEDA to make payments on the debentures. The debentures were assigned to TAIB on April 4, 2005.

### Reseller Agreement

On May 11, 2005 the Company entered into a reseller agreement with Metals & Arsenic Removal Technology, Inc ("MARTI") for a term of five (5) years, pursuant to which MARTI appointed EYII as the exclusive distributor of certain specially formulated MARTI products on a consignment basis and provide EYII with 1000 units of inventory for sale to its customers, proceeds of which are subject to fee payments to MARTI as set out in the schedules accompanying the agreement.

### Service Agreement

On April 22, 2005 Essentially Yours Industries, Inc., our wholly owned

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subsidiary ("EYII") entered into a fulfillment services agreement with Source 1 Fulfillment ("Source One") to warehouse and ship our products. Pursuant to the terms of the agreement, Source One agreed to provide certain storage and fulfillment services to EYII at the rates set out in the schedules to the agreement. Source One also agreed to pay a referral commission of 10% of all handling fees for any client EYII brings to Source One. The agreement is for a term of one year and automatically renews each year unless terminated by either party in accordance with the terms of the agreement. Subsequently in May, 2005 Company ceased warehousing and distributing our products through Halo Distribution LLC ("Halo"), our wholly owned subsidiary.

On September 1, 2005, EYI entered into an agreement for legal services with M. Ali Lakhani Personal Corporation (the "Contractor") to provide EYI and its subsidiaries with certain legal services in exchange for a monthly fee of US \$8,000 and a one time issuance of 500,000 restricted share of our common stock to the contractor. The contract is on a month-to-month basis.

### Investor Relations Agreement

On July 28, 2005, the Company entered into an investor relations agreement with Agora Investor Relations Corp ("AGORA"). Pursuant to the terms of the agreement AGORA agreed to provide certain services including marketing, branding and investor communications services, in consideration of which we agreed to: (i) pay AGORA a fee of \$2,500 per month commencing August 1, 2005; and (ii) issue to AGORA warrants to be registered by us to purchase 350,000 shares of our common stock exercisable at a price of \$0.06 per share and vesting over a twelve month period. The agreement is for an initial term of August 1, 2005 to July 31, 2006 and is renewable at EYI's option for an additional term of 12 months under the same terms and conditions.

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### Escrow Fund

On August 1, 2005, pursuant to references made to the standby equity distribution agreement dated June 22, 2004, and the Promissory Note dated August 1, 2005, the Company allocated fifty-one million two hundred thousand (51,200,000) shares of the Company's common stock into escrow.

### Other Matters

The Company's predecessor organization, Essentially Yours Industries Corp. ("EYIC"), a British Columbia corporation, has outstanding claims from the Internal Revenue Service for penalties and interest of approximately \$2,000,000. Furthermore, one or more states may have claims against EYIC for unpaid state income taxes. Management believes that these claims are limited solely to EYIC and that any prospective unpaid tax claims against the Company are remote and unable to be estimated.

### NOTE 12 - DISCONTINUED OPERATIONS

During the period ended December 31, 2005, the Company elected to discontinue the operations of Halo Distribution LLC (hereinafter "Halo"), a subsidiary of the Company and recorded costs associated from discontinued operations of \$380,368 for the period ended December 31, 2005. In addition, the Company reclassified the December 31, 2004 balance sheet to reflect \$405,838 of liabilities from the discontinued subsidiary and recorded costs from discontinued operations of \$340,305 for the period ended December 31, 2004.

The assets and liabilities disposed of from discontinued operations at December 31, 2005 were as follows:

|              |    |    |
|--------------|----|----|
| Total Assets | \$ | -- |
|--------------|----|----|

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|                                  |           |
|----------------------------------|-----------|
| Accounts payable                 | \$ 79,049 |
| Accrued liabilities              | 275,368   |
| Accounts payable - related party | 105,000   |
|                                  | -----     |
| Liabilities in excess of assets  | \$380,368 |
|                                  | =====     |

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards, No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (hereinafter "SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 was issued in June 2002, effective December 31, 2002. The Company's financial position and results of operations have not been affected by adopting SFAS No. 146.

### NOTE 13 - RELATED PARTY NOTE PAYABLE

The Company issued two promissory notes for a total of \$90,000 in December 2003. The notes are unsecured, non-interest bearing and are payable upon demand.

### NOTE 14 - CONCENTRATIONS

#### Bank Accounts

The Company maintains its cash accounts in two commercial banks. During the year, the Company may maintain balances in excess of the federally insured amounts in the accounts that are maintained in the United States. The Company also maintains funds in commercial banks in Vancouver, British Columbia, in which funds in U.S. dollars are not insured. At December 31, 2005, December 31, 2004 a total of \$248 and \$140 respectively, was not insured.

#### Economic Dependence

During the year, the Company purchased approximately 90% of its products for resale from one company, Nutri-Diem Inc., which is the sole supplier of the Company's flagship product Calorad. Pursuant to a purchase agreement, the Company is subject to minimum purchases per annum. (See Note 11.)

### NOTE 15 - STATE OR FEDERAL TAX LIABILITY

For the years ended December 31, 2005 and 2004, the Company estimated its California corporate tax liability to be \$23,813 and \$22,897, respectively. The Company has not filed a return with the State of California for several years and because of that the Company has been suspended from operating as a corporation in California. In order to revive its authorized corporation status in California, the Company must file all delinquent tax returns and pay all related California corporate income taxes, penalties and interest.

In the year ended December 31, 2005, the Company's state tax liability increased by \$708.

### NOTE 16 - SUBSEQUENT EVENTS

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Between January 17, 2006 and March 23, 2006, the Company issued 42,941,686 shares to Cornell Capital in exchange for \$1,084,564.51.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES.

(A) Evaluation Of Disclosure Controls And Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed to provide a reasonable level of assurance that our disclosure control objectives are achieved. Our principal executive officer and principal financial officer has concluded that our disclosure controls and procedures are, in fact, effective at providing this reasonable level of assurance as of the period covered.

(B) Changes In Internal Controls Over Financial Reporting

In connection with the evaluation of our internal controls during our last fiscal quarter, our principal executive officer and principal financial officer has determined that there are no changes to our internal controls over financial reporting that has materially affected, or is reasonably likely to materially effect, our internal controls over financial reporting.

ITEM 8B. OTHER INFORMATION.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The following information sets forth the names of our officers and directors, their present positions with our company, and their biographical information.

| Name          | Age | Position with the Company   | Date First Elected   |
|---------------|-----|---|--|
| Jay Sargeant  | 58  | President, Chief Executive Officer and Director                                       | Director, Chief Executive Officer and President since December 2003.         |
| Dori O'Neill  | 46  | Executive Vice-President, Treasurer, Chief Operations Officer, Secretary and Director | Executive Vice-President, Chief Operations Officer, since December 31, 2003. |
| Rajesh Raniga | 40  | Chief Financial Officer   | Chief Financial Officer since 2003.  |
| Bruce Nants   | 55  | Former Director   | Director from March 2005.  |



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Jay Sargeant. Mr. Sargeant has been our President, Chief Executive Officer and a member of our Board of Directors since December 31, 2003. Mr. Sargeant graduated from Boston State College in 1979 with a Bachelors Degree in English Literature and Psychology. From 1995 until June 30, 2002, the date of our merger with Essentially Yours Industries, Inc., Mr. Sargeant was a director of Essentially Yours Industries, Corp. a Canadian Federal corporation and our Affiliate. Mr. Sargeant has resigned as a member of the Board of Directors of Essentially Yours Industries, Corp. to concentrate on our sales and marketing efforts. Mr. Sargeant was a founder of Essentially Yours Industries, Corp.

Dori O'Neill. Mr. O'Neill has been our Executive Vice President, Chief Operations Officer and a member of our Board of Directors since December 31, 2003. From 1997 to June 2002, Mr. O'Neill served as a Vice President and a member of the Board of Directors of Essentially Yours Industries Corp., a Canadian Federal corporation and our Affiliate, from December 2001 to June 2002. From 1994 through 1998 Mr. O'Neill was a self-employed consultant.

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Bruce Nants. Mr. Nants was a member of our Board of Directors from March 1, 2004. On December 2, 2005, at the Annual General Meeting, Mr. Nants failed to be reelected as a member of Board of Directors.

Rajesh Raniga. Mr. Raniga has been our Chief Financial Officer since December 31, 2003. Mr. Raniga is a Certified General Accountant. From 1989 to present Mr. Raniga has practiced with Delves Freer Anderson Raniga Caine as a general partner. In his private practice, prior to joining us, he specialized in auditing publicly-listed companies as well as acquisitions and mergers. He has also sat on the Board of Directors and served as the Chief Financial Officer of Uniserve Communications Services Inc., an internet service provider listed on the TSX Venture Exchange in Canada.

### Family Relationships

There is no family relationship between any of our officers or directors.

### TERMS OF OFFICE

Our directors are appointed for one-year terms to hold office until the next annual general meeting of the holders of our common stock or until removed from office in accordance with our by-laws. Our officers are appointed by our Board of Directors and hold office until removed by our Board of Directors.

### COMMITTEES OF THE BOARD OF DIRECTORS

#### Audit Committee

The entire board of directors performs the functions of an audit committee, but no written charter governs the actions of the board of directors when performing the functions of an audit committee. The board of directors approves the selection of our independent accountants and meets and interacts with the independent accountants to discuss issues related to financial reporting. In addition, the board of directors reviews the scope and results of the audit with the independent accountants, reviews with management and the independent accountants our annual operating results, considers the adequacy of our internal accounting procedures and considers other auditing and accounting matters including fees to be paid to the independent auditor and the performance of the independent auditor.

We presently do not have a compensation committee, an executive committee of our board of directors, stock plan committee or any other committees. However, our

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board of directors will consider establishing various committees during the current fiscal year.

### Nomination Committee

Our board of directors does not maintain a nominating committee. As a result, no written charter governs the director nomination process. The size of EYI and the size of the board of directors, at this time, do not require a separate nominating committee. Our independent directors annually review all director performance over the past year and make recommendations to the board of directors for future nominations. When evaluating director nominees, our independent directors consider the following factors:

- (i) The appropriate size of EYI's board of directors;
- (ii) The needs of EYI with respect to the particular talents and experience of its directors;
- (iii) The knowledge, skills and experience of nominees, including experience in finance, administration or public service, in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the board;
- (iv) Experience with accounting rules and practices; and
- (v) The desire to balance the benefit of continuity with the periodic injection of the fresh perspective provided by new board members.

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Other than the foregoing, there are no stated minimum criteria for director nominees, although the board of directors may also consider such other factors as it may deem are in the best interests of EYI and its stockholders. In addition, the Board of Directors identifies nominees by first evaluating the current members of the board willing to continue in service. Current members of the board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination. If any member of the board does not wish to continue in service or if the board decides not to re-nominate a member for re-election, the board then identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the board of directors are polled for suggestions as to individuals meeting the criteria described above. The board may also engage third parties to identify or evaluate or assist in identifying potential nominees, although we reserve the right in the future to retain a third party search firm, if necessary. The board of directors does not typically consider stockholder nominees because it believes that its current nomination process is sufficient to identify directors who serve our best interests.

### Audit Committee Financial Expert

Our Board of Directors has determined that we do not presently have a director who meets the definition of an "audit committee financial expert." We believe that the cost related to appointing a financial expert to our Board of Directors at this time is prohibitive.

### Audit Committee Financial Expert

We have no financial expert. We believe the cost related to retaining a

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financial expert at this time is prohibitive.

CODE OF ETHICS

We adopted a Code of Ethics applicable to our Chief Executive Officer, Chief Financial Officer, Corporate Controller and certain other finance executives, which is a "code of ethics" as defined by applicable rules of the SEC. Our Code of Ethics is attached to our Annual Report on Form 10-KSB filed with the SEC on April 14, 2005. If we make any amendments to our Code of Ethics other than technical, administrative, or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of our Code of Ethics to our chief executive officer, chief financial officer, or certain other finance executives, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies in a Current Report on Form 8-K filed with the SEC.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than ten percent of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based on our review of the copies of such forms received by us, we believe that during the fiscal year ended December 31, 2005 all such filing requirements applicable to our officers and directors were complied with exception that reports were filed late by the following persons:

| Name and Principal Position   | Number of Late Form 4 Reports | Transactions Not Timely Reported |
|---|-------------------------------|----------------------------------|
| Jay Sargeant,<br>President, Chief Executive Officer, and<br>Director                      | 2                             | 2                                |
| Dori O'Neill<br>President, Chief Operations Officer,<br>Secretary, Treasurer and Director | 1                             | 1                                |
| Bruce A. Nants<br>Fomer Director  | 1                             | 1                                |

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth certain summary information concerning the compensation paid or accrued for each of EYI's last three completed fiscal years to EYI's or its principal subsidiaries' Chief Executive Officer and each of its other executive officers that received compensation in excess of \$100,000 during such period (as determined at December 31, 2005, the end of EYI's last completed fiscal year) (the "Named Executive Officers"):

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## SUMMARY COMPENSATION TABLE

| Name            | Title   | Year | Annual Compensation |       |                           | Restricted Stock Awarded | Options SARs (#) |
|-----------------|---|------|---------------------|-------|---------------------------|--------------------------|------------------|
|                 |   |      | Salary              | Bonus | Other Annual Compensation |                          |                  |
| Jay Sargeant(1) | President, CEO and Director                                 | 2005 |                     |       | \$240,000 (2)             |                          | 1,500,           |
|                 |   | 2004 | --                  | --    | \$240,000 (2)             | --                       | 4,200,           |
|                 |   | 2003 | --                  | --    | \$240,000 (2)             | --                       |                  |
| Dori O'Neill(3) | Chief Operations Officer, Secretary, Treasurer And Director | 2005 | --                  | --    | \$240,000 (4)             | --                       | 1,500,           |
|                 |   | 2004 | --                  | --    | \$240,000 (4)             | --                       | 7,400,           |
|                 |   | 2003 | --                  | --    | \$180,000 (4)             | --                       |                  |

**Notes:**

- (1) Mr. Sargeant was appointed as our President and Chief Executive Officer on December 31, 2003.
- (2) We paid management consulting fees to Flaming Gorge, Inc., a private company controlled by Mr. Sargeant, our President, CEO and director, for his management of the operation of the company and our subsidiaries, reporting to the Board of Directors, and appointing managers to oversee certain departments. Mr. Sargeant was compensated at the rate of \$20,000 per month, on a month to month basis commencing November 5, 2002. The agreement was for an initial five-year term, which is automatically renewable upon expiry of the five-year period on a year-to-year basis. Effective January 1, 2004, we extended the consulting agreement of Mr. Sargeant for an additional five years.
- (3) Mr. O'Neill was appointed as our Executive Vice-President, Chief Operations Officer, Secretary, Treasurer on December 31, 2003.
- (4) We paid management consulting fees to O'Neill Enterprises Inc., a private company controlled by Mr. O'Neill, our Executive Vice-President, COO, Secretary, Treasurer and director, for the management of day to day activities and operations of the company and our subsidiaries. Mr. O'Neill was compensated at the rate of \$15,000 per month, on a month to month basis commencing November 5, 2002. The agreement was for an initial five-year term, which is automatically renewable upon expiry of the five-year period on a year-to-year basis. Effective January 1, 2004, we increased the consulting fees payable to Mr. O'Neill to \$20,000 per month, and extended the term by five years.

**STOCK OPTION GRANTS IN THE LAST FISCAL YEAR**

The following table contains information regarding options granted during the year ended December 31, 2005 to EYI's Named Executive Officers.

OPTION/SAR GRANTS TABLE

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| Name  | No. of Securities Underlying Options/SARs Granted (#) | % Total Options/SARs Granted to Employees in year ended December 31 2005 (%) | Exercise or Base Price (\$ per Share) |
|---|---|--|---------------------------------------|
| Jay Sargeant<br>President, Chief Executive Officer and Director             | 1,500,000   | 20%  | 0.06                                  |
| Dori O'Neill<br>Chief Operations Officer, Secretary, Treasurer And Director | 1,500,000   | 20%  | 0.06                                  |

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EXERCISES OF STOCK OPTIONS AND YEAR-END OPTION VALUES

The following table contains information regarding options exercised in the year ended December 31, 2005, and the number of shares of common stock underlying options held as of December 31, 2005, by EYI's named Executive Officers.

AGGREGATED OPTIONS/SAR EXERCISES  
IN LAST FISCAL YEAR AND  
FISCAL YEAR END OPTIONS/SAR VALUES

| Name  | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Options/SARs at FY-End |               | In Exercis |
|---|---------------------------------|---------------------|--|---------------|------------|
|   |                                 |                     | Exercisable  | Unexercisable |            |
| Jay Sargeant<br>President,<br>Chief Executive Officer and Director                | --                              | --                  | 2,299,750  | --            | --         |
| Dori O'Neill<br>Chief Operations Officer,<br>Secretary,<br>Treasurer and Director | --                              | --                  | 2,500,000  | --            | --         |

COMPENSATION ARRANGEMENTS

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Compensation of Directors

All of our directors receive reimbursement for out-of-pocket expenses for attending Board of Directors meetings. From time to time we may engage certain members of the Board of Directors to perform services on behalf of the Company and may compensate such persons for the performance of those services.

In November 2002, we entered into a consulting agreement with Flaming Gorge, Inc., a company controlled by Jay Sargeant, our President, Chief Executive Officer and a member of our Board of Directors. Pursuant to this agreement, we agreed to pay Flaming Gorge, Inc. \$20,000 per month in consideration of management consulting services provided by Mr. Sargeant to us. The agreement automatically renews on a year-to-year basis at the end of the initial five (5) year term.

In November 2002, we entered into a consulting agreement with O'Neill Enterprises, Inc., a company controlled by Dori O'Neill, our Executive Vice President, Chief Operations Officer, Secretary, Treasurer and a member of our Board of Directors. Pursuant to the agreement, we agreed to pay \$15,000 per month in consideration of management consulting services provided by Mr. O'Neill to us. This agreement automatically renews on a year-to-year basis at the end of the initial five (5) year term. Effective January 1, 2004, we increased the consulting fees payable to O'Neill Enterprises, Inc., to \$20,000 per month for management consulting services provided by Mr. O'Neill to us.

LONG-TERM INCENTIVE PLANS

We do not have any long-term incentive plans, pension plans, or similar compensatory plans for our directors or executive officers.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information about the beneficial ownership of our common stock as of March 31, 2006, by (i) each person who we know is the beneficial owner of more than 5% of the outstanding shares of common stock (ii) each of our directors or those nominated to be directors, and executive officers, and (iii) all of our directors and executive officers as a group.

| Title of Class<br>-----          | Name and Address<br>of Beneficial Owner<br>-----                          | Amount and Nature<br>of Beneficial Ownership<br>----- |
|----------------------------------|---|---|
| Directors and Executive Officers |   |   |
| Common Stock                     | Jay Sargeant<br>3324 Military Avenue<br>Los Angeles, California           | 44,958,896<br>Direct and Indirect (2)                 |
| Common Stock                     | Dori O'Neill<br>6520 Walker Avenue<br>Burnaby, British Columbia<br>Canada | 12,363,361<br>Direct and Indirect (3)                 |
| Common Stock                     | Rajesh Raniga   | 700,000   |

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|   |  |                                       |
|---|--|---------------------------------------|
|   | 13357-56 Avenue<br>Burnaby, British Columbia<br>Canada                   | Direct and Indirect ((4))             |
| Common Stock                                | All Directors and Executive Officers<br>as a Group (Four Persons)        | 58,022,257<br>Direct and Indirect     |
| Holders of More than 5% of Our Common Stock |  |                                       |
| Common Stock                                | Jay Sargeant<br>3324 Military Avenue<br>Los Angeles, California          | 44,728,634<br>Direct and Indirect (2) |
| Common Stock                                | Barry LaRose<br>20080 84th Avenue<br>Langley, British Columbia<br>Canada | 23,249,249<br>Indirect (5)            |

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- \* Represents less than 1%.
- (1) Applicable percentage of ownership is based on 260,273,921 shares of common stock outstanding as of March 31, 2006 together with securities exercisable or convertible into shares of common stock within 60 days of December 14, 2005 for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days of March 31, 2006 are deemed to be beneficially owned by the person holding such options for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (2) The shares are held as follows: (i) 146,419 shares held by Mr. Jay Sargeant (ii) 50,000 shares are held by Northern Colorado, Inc., a company controlled by Mr. Sargeant; (iii) 42,462,727 shares are held by Viper Network Inc., a company controlled by Mr. Sargeant; (iv) 2,299,750 shares which may be acquired by Mr. Sargeant on exercise of incentive stock options within 60 days of March 31, 2006.
- (3) The shares are held as follows: 2,454,500 shares of our common stock are held by Dori O'Neill directly, 7,308,861 shares are held by O'Neill Enterprises Inc., a company controlled by Mr. O'Neill and 2,500,000 shares may be acquired by Mr. O'Neill on exercise of incentive stock options within 60 days of March 31, 2006.
- (4) Consists of 250,000 shares held directly by Mr. Raniga and 450,000 shares which may be acquired by Mr. Raniga on exercise of incentive stock options within 60 days of March 31, 2006.
- (5) Barry Larose indirectly holds 23,249,249 shares which are currently held in trust.

### Security Ownership of Management

We are not aware of any arrangement that might result in a change in control in the future.

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information concerning all equity compensation plans previously approved by stockholders and all previous equity compensation plans not previously approved by stockholders, as of the most recently completed fiscal year. On February 17, 2004, our board of directors

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approved the Stock Compensation Program (the "Plan"). The Plan became effective on March 30, 2004. Under the Plan, options to purchase up to 25,000,000 shares of our common stock may be granted to our employees, officers, directors, and eligible consultants of our company. The Plan provides that the option price be the fair market value of the stock at the date of grant as determined by the Board of Directors. Options granted become exercisable and expire as determined by the Board of Directors.

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### EQUITY COMPENSATION PLAN INFORMATION AS AT DECEMBER 31, 2005

| Plan Category   | Number of securities to<br>be issued upon exercise<br>of outstanding options,<br>warrants and rights<br>(a) | Weighted-average<br>exercise price of<br>outstanding options,<br>warrants and rights<br>(b) | Number of<br>availab<br>equit<br>(ex<br>refle |
|---|---|---|---|
| Equity Compensation Plans<br>approved by security holders     | Nil   | N/A   |   |
| Equity Compensation Plans not<br>approved by security holders | 16,252,390  | \$0.14  |   |
| Total   | 16,252,390  | \$0.14  |   |

#### Stock Compensation Program

On February 17, 2004, we established our Stock Compensation Program. The purpose of the Plan is to advance the interests of our company and our stockholders by strengthening our ability to obtain and retain the services of the types of employees, consultants, officers and directors who will contribute to our long term success and to provide incentives which are linked directly to increases in stock value which will inure to the benefit of all our stockholders. The Plan is administered by our Board of Directors or by a committee of two or more non-employee directors appointed by the Board of Directors (the "Administrator"). Subject to the provisions of the Plan, the Administrator has full and final authority to grant the awards of stock options and to determine the terms and conditions of the awards and the number of shares to be issued pursuant thereto. Options granted under the Plan may be either "incentive stock options," which qualify for special tax treatment under the Internal Revenue Code of 1986, as amended, (the "Code"), nonqualified stock options or restricted shares.

All of our employees and members of our Board of Directors are eligible to be granted options. Individuals who have rendered or are expected to render advisory or consulting services to us are also eligible to receive options. The maximum number of shares of our common stock with respect to which options or rights may be granted under the Plan to any participant is 25,000,000 shares, subject to certain adjustments to prevent dilution.



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The exact terms of the option granted are contained in an option agreement between us and the person to whom such option is granted. Eligible employees are not required to pay anything to receive options. The exercise price for incentive stock options must be no less than 70% of the fair market value of the common stock on the date of grant. The exercise price for nonqualified stock options is determined by the Administrator in its sole and complete discretion. An option holder may exercise options from time to time, subject to vesting. Options will vest immediately upon death or disability of a participant and upon certain change of control events.

The Administrator may amend the Plan at any time and in any manner, subject to the following: (1) no recipient of any award may, without his or her consent, be deprived thereof or of any of his or her rights thereunder or with respect thereto as a result of such amendment or termination; and (2) any outstanding incentive stock option that is modified, extended, renewed, or otherwise altered must be treated in accordance with Section 424(h) of the Code.

The Plan terminates on March 30, 2014 unless sooner terminated by action of the Board of Directors. All awards granted under the Plan expire ten years from the date of grant, or such shorter period as is determined by the Administrator. No option is exercisable by any person after such expiration. If an award expires, terminates or is canceled, the shares of our common stock not purchased thereunder may again be available for issuance under the Plan.

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We filed a registration statement under the Securities Act of 1933, as amended, to register the 25,000,000 shares of our common stock reserved for issuance under the Plan on March 30, 2004.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Except as described below, none of the following parties has over the past two years, had any material interest, direct or indirect, in any transaction with us or in any presently proposed transaction that has or will materially affect us, other than noted in this section:

- o Any of our directors or officers;
- o Any person proposed as a nominee for election as a director;
- o Any person who beneficially owns, directly or indirectly, shares carrying more than 10% of the voting rights attached to our outstanding shares of common stock;
- o Any of our promoters; and
- o Any relative or spouse of any of the foregoing persons who has the same house as such person.

In November 2002, we entered into a consulting agreement with O'Neill Enterprises, Inc., a company controlled by Dori O'Neill, our Executive Vice President, Chief Operations Officer, Secretary, Treasurer and a member of our Board of Directors. Pursuant to the agreement, we agreed to pay \$15,000 per month in consideration of management consulting services provided by Mr. O'Neill to us. This agreement automatically renewed on a year-to-year basis at the end of the initial five (5) year term. Effective January 1, 2004, we increased the consulting fee payable to Mr. O'Neill to \$20,000 per month with a five year extension.

In November 2002, we entered into a consulting agreement with Flaming Gorge, Inc., a company controlled by Jay Sargeant, our President, Chief Executive Officer and a member of our Board of Directors. Pursuant to the agreement, we agreed to pay \$20,000 per month in consideration of management consulting services provided by Mr. Sargeant to us. This agreement automatically renewed on

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a year-to-year basis at the end of the initial five (5) year term. Effective January 1, 2004, we extended the consulting agreement of Mr. Sargeant for an additional five year extension.

In January 2004, entered into a consulting agreement with Rajesh Raniga to act as our Chief Financial Officer on a month to month basis for consideration of \$150 per hour with a minimum charge of \$2,000 per month and 250,000 shares of our common stock. In January, 2004, we issued 250,000 shares of restricted common stock to Rajesh Raniga Inc. for prior consulting services provided to EYI. Mr. Raniga became our chief financial officer on January 1, 2004.

On May 27, 2002, pursuant to a Declaration of Trust and the revised First Amendment to Trust Agreement dated December 23, 2003, 91,874,538 shares of our common stock were held by Jay Sargeant as trustee on behalf of certain beneficiaries. Of the 91,874,538 shares held pursuant to the trust, 26,397,436 of the shares were owned by Mr. Sargeant beneficially. The trust was unwound in March, 2006.

We have contracts with Nutri-Diem, Inc. that grant to us the exclusive license and right to market, sell and distribute in Canada and the United States and a non-exclusive right to market on the Internet certain products owned by Michel Grise Consultant, Inc., a Quebec corporation, which is controlled by Michel Grise. Mr. Grise is a director of our subsidiary EYI Nevada. To maintain the license and distribution rights granted by those contracts, we are obligated to purchase from Nutri-Diem, Inc. during that period commencing on June 1, 2003, and continuing through and including May 31, 2004, products totaling \$1,530,000. Those contracts also specify that for the period from June 1, 2004 to May 31, 2005, we are required to purchase from Nutri-Diem, Inc. products totaling \$3,825,000. Additionally, those contracts specify that for each year commencing on June 1, and ending on May 31 thereafter during the term of that agreement we are required to purchase products totaling \$5,355,000. The provisions of those contracts specify that Nutri-Diem, Inc. will offer us the right to sell, market and distribute in those territories any new product developed by Nutri-Diem, Inc.

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### ITEM 13. EXHIBITS.

#### (a) Exhibits

The following exhibits are either provided with this Annual Report or are incorporated herein by reference:

| Exhibit Number | Description of Exhibit   |
|----------------|--|
| 3.1            | Articles of Incorporation.(1)  |
| 3.2            | Certificate of Amendment to Articles of Incorporation dated December 29, 2003.(  |
| 3.3            | Certificate of Amendment to Articles of Incorporation dated December 31, 2003.(  |
| 3.4            | Bylaws.(1)   |
| 3.5            | Amended Bylaws. (12)   |
| 3.6            | Certificate of Amendment to Articles of Incorporation dated March 30, 2006   |
| 10.1           | Consulting Agreement, dated as of November 5, 2002, between Essentially Yours I<br>corporation, and Flaming Gorge, Inc.(1)       |
| 10.2           | Consulting Agreement, dated as of November 5, 2002, between Essentially Yours I<br>corporation, and O'Neill Enterprises, Inc.(1) |
| 10.3           | First Amendment to Trust Agreement dated December 23, 2003,  |

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- between Jay Sargeant and twelve named trust beneficiaries, revising the terms of the Declaration of Trust dated as of May 27, 2002, between Jay Sargeant and twelve named trust beneficiaries.(5)
- 10.4 Registration Rights Agreement, dated December 31, 2003, by and among Safe ID Corporation, A Nevada corporation, and certain shareholders of EYI Industries, Inc., A Nevada corporation.(5)
- 10.5 Stock Compensation Program(4)
- 10.6 Consulting Agreement dated December 27, 2003 between Rajesh Raniga Inc. and Saf
- 10.7 Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and O'N
- 10.8 Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and Fla
- 10.9 Addendum to the Distribution and License Agreement between Essentially Yours In Inc. dated April 30, 2004.(6)
- 10.10 Letter Agreement dated May 4, 2004 between Eye Wonder, Inc. and EYI Industries,
- 10.11 Standby Equity Distribution Agreement, dated June 22, 2004 by and between EYI I Capital Partners, LP(6)
- 10.12 Registration Rights Agreement, dated June 22, 2004 by and between EYI Industrie Partners, LP(6)
- 10.13 Escrow Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and C
- 10.14 Placement Agent Agreement, dated June 22, 2004 by and between EYI Industries, I Partners, LP(6)
- 10.15 Compensation Debenture, dated June 22, 2004(7)
- 10.16 Securities Purchase Agreement, dated June 22, 2004 by and between EYI Industrie Partners, LP(6)
- 10.17 Investor Registration Rights Agreement, dated June 22, 2004 by and between EYI Capital Partners, LP(6)
- 10.18 Security Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and LP(6)
- 10.10 Irrevocable Transfer Agent Instructions, dated June 22, 2004, by and among EYI Capital Partners, LP and Corporate Stock Transfer(6)
- 10.20 Escrow Agreement, dated June 22, 2004 by and among EYI Industries, Inc., Cornell Butler Gonzalez, LLP(6)
- 10.21 Form of Secured Convertible Debenture(6)
- 10.22 Form of Warrant(7)
- 10.23 Letter Agreement dated May 25, 2004 between EYI Industries, Inc. and Source Cap
- 10.24 Lease Agreement dated May 1, 2003 among 468058 B.C. Ltd., 642706 B.C. Ltd., Ess Corp., and Essentially Yours Industries, Inc. (8)
- 10.25 Amendment to Lease Agreement dated January 9, 2004 between Business Centers, LL (8)
- 10.26 Subsidy Agreement dated July 23, 2004 between Essentially Yours Industries, Inc

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| Exhibit Number | Description of Exhibit  |
|----------------|---|
| -----          | -----   |
| 10.27          | Subsidy Agreement dated July 23, 2004 between Essentially Yours Industries, Inc Products. (8)       |
| 10.28          | Subsidy Agreement dated July 23, 2004 between Essentially Yours Industries, Inc                     |
| 10.29          | 5% Secured Convertible Debenture dated September 24, 2004 between EYI Industrie Partners, LP(8)     |
| 10.30          | 5% Secured Convertible Debenture dated September 27, 2004 between EYI Industrie                     |
| 10.31          | 5% Secured Convertible Debenture dated September 27, 2004 between EYI Industrie                     |
| 10.32          | Assignment Agreement dated September 27, 2004 between Cornell Capital Partners,                     |
| 10.33          | Assignment Agreement dated September 27, 2004 between Cornell Capital Partners                      |
| 10.34          | Joint Venture Agreement dated May 28, 2004 between EYI Industries, Inc., World Supra Group, Inc.(9) |

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|       |  |
|-------|--|
| 10.35 | Indenture of Lease Agreement dated January 3, 2005 between Golden Plaza Company 642706 B.C. Ltd.(10)   |
| 10.36 | Consulting Services Agreement dated March 5, 2004 between EYI Industries, Inc.   |
| 10.37 | Letter dated May 25, 2004 between Source Capital Group, Inc. and EYI Industries  |
| 10.38 | Consulting Agreement dated April 1, 2004 between EYI Industries, Inc. and Danie  |
| 10.39 | Loan Agreement between Janet Carpenter and EYI Industries, Inc., dated Februar   |
| 10.40 | Promissory Note dated February 10, 2005 between Janet Carpenter and EYI Industr  |
| 10.41 | Bonus Share Agreement between Janet Carpenter and EYI Industries, Inc. dated Fe  |
| 10.42 | Pledge and Escrow Agreement dated February 24, 2005 between Janet Carpenter, Co and David Gonzalez. (15)   |
| 10.43 | Guaranty Agreement dated February 24, 2005 between Janet Carpenter, Cornell Cap  |
| 10.44 | Secured Promissory Note dated February 24, 2005 between EYI Industries, Inc. an LP(15)   |
| 10.45 | Agreement dated April 22, 2005 between Essentially Yours Industries Inc. and So  |
| 10.46 | Reseller Agreement dated May 11, 2005 between Essentially Yours Industries Inc. Technology, Inc. (16)  |
| 10.47 | Termination Agreement dated May 13, 2005 between EYI Industries Inc. and Cornel  |
| 10.48 | Standby Equity Distribution Agreement dated May 13, 2005 between EYI Industries Partners, LP(17)   |
| 10.49 | Registration Rights Agreement dated May 13, 2005 between EYI Industries Inc. an LP(17)   |
| 10.50 | Escrow Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Cap  |
| 10.51 | Placement Agent Agreement dated May 13, 2005 between EYI Industries Inc. and Co  |
| 10.52 | Consulting Agreement dated June 1, 2005 between EYI Industries, Inc. and Eliza   |
| 10.53 | Addendum to the Reseller Agreement dated June 1, 2005 between Essentially Yours Arsenic Removal Technology, Inc. (18)  |
| 10.54 | Non-Circumvention and Non-Disclosure Agreement dated July 14, 2005 between Esse and Metals & Arsenic Removal Technology, Inc. (18)                             |
| 10.55 | Promissory Note dated August 1, 2005 between EYI Industries Inc. and Cornell ca  |
| 10.56 | Investor Relations Agreement dated July 28, 2005 between EYI Industries, Inc. a Corp. (18)   |
| 10.57 | China Agency Agreement entered into with Guangzhou Zhongdian Enterprises (Grou Electronics Import and Export South China Corporation. Dated September 15, 2005 |
| 10.58 | Logistics Management Agreement dated September 1, 2005 between Essentially Your Limited and All In One Global Logistics Ltd. (20)                              |
| 10.59 | Contract for Legal Services dated September 1, 2005 between EYI Industries Inc. Corporation(21)  |
| 10.60 | Amended Investor Relations Agreement dated October 5, 2005 between EYI Industri Relations Corp. (22)   |
| 10.61 | Settlement Agreement dated December 21, 2005 between EYI Industries, Inc., Halo Business Centers, LLC  |
| 10.62 | Global Consulting Group Agreement dated January 19, 2006 entered into with Glob EYI Industries Inc.  |

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| -----          | -----   |
| 10.63          | Consulting Agreement dated January 27, 2006 entered into with Lou Prescott and Inc. |
| 14.1           | Code of Ethics (5)  |
| 21.1           | List of Subsidiaries  |
| 23.1           | Consent of Williams & Webster, P.S.   |
| 31.1           | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbane     |
| 31.2           | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbane     |
| 32.1           | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as     |

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32.2 906 of the Sarbanes-Oxley Act of 2002  
Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as  
906 of the Sarbanes-Oxley Act of 2002

### Notes

- (1) Filed as an exhibit to the registration statement on Form 10-SB/A of Safe ID Corporation, filed with the SEC on September 21, 2000.
- (2) Filed as an exhibit to the registration statement on Form SB-2 of Essentially Yours Industries, Inc., filed with the SEC on November 12, 2002.
- (3) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 8, 2004.
- (4) Filed as an exhibit to our Registration Statement on Form S-8, filed with the SEC on March 30, 2004.
- (5) Filed as an exhibit to our annual report on Form 10-KSB for the year ended December 31, 2003, filed with the SEC on April 14, 2004.
- (6) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended March 31, 2004, filed with the SEC on May 24, 2004.
- (7) Filed as an exhibit to our registration statement on Form SB-2, filed with the SEC on September 17, 2004.
- (8) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2004, filed with the SEC on November 22, 2004.
- (9) Filed as an exhibit to our Amendment No. 1 to our registration statement on Form SB-2 on December 23, 2004.
- (10) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 12, 2005.
- (11) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2004, filed with the SEC on November 22, 2004.
- (12) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on March 10, 2005.
- (13) Filed as an exhibit to our quarterly report on Form 10-QSB/A for the period ended March 31, 2004, filed with the SEC on December 15, 2004.
- (14) Filed as an exhibit to our quarterly report on Form 10-QSB/A for the period ended June 30, 2004, filed with the SEC on December 15, 2004.
- (15) Filed as an exhibit to our annual report on Form 10-KSB for the period ended December 31, 2004, filed with the SEC on April 18, 2005.
- (16) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on May 17, 2005.
- (17) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended March 31, 2005, filed with the SEC on May 20, 2005.
- (18) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended June 30, 2005, filed with the SEC on August 19, 2005.
- (19) Filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on September 27, 2005.
- (20) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2005.
- (21) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2005.
- (22) Filed as an exhibit to our quarterly report on Form 10-QSB for the period ended September 30, 2005.

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### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

#### Audit Fees

The aggregate fees billed for the two most recently completed fiscal years ended

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December 31, 2005 and 2004 for professional services rendered by the principal accountant for the audit of the Corporation's annual financial statements and review of the financial statements included our Quarterly Reports on Form 10-QSB and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

|                    | Year End December 31, 2005 | Year Ended December 31, 2004 |
|--------------------|----------------------------|------------------------------|
| Audit Related Fees | \$56,664                   | \$106,500                    |
| Tax Fees           | \$5,823                    | \$0                          |
| All Other Fees     | \$1,899                    | \$0                          |
| Total              | \$64,386                   | \$106,500                    |

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EYI INDUSTRIES, INC.

By: /s/ signed  
-----  
JAY SARGEANT  
President, Chief Executive Officer  
(Principal Executive Officer)  
Director

Date: March 31, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ signed  
-----  
JAY SARGEANT  
President, Chief Executive Officer  
(Principal Executive Officer)  
Director

Date: March 31, 2006

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By: /s/ signed  
-----  
RAJESH RANIGA  
Chief Financial Officer  
(Principal Accounting Officer)

Date: March 31, 2006

By: /s/ signed  
-----  
DORI O'NEILL  
Executive Vice-President, Secretary, Treasurer,  
Chief Operations Officer  
Director

Date: March 31, 2006