Ethos Environmental, Inc.
Form 10KSB/A
November 20, 2008

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

FORM 10-KSB/A
Amendment #1

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

o TRANSITION REPORT UNDER SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission File Number: 000-26673

ETHOS ENVIRONMENTAL, INC.
(Name of Small Business Issuer in Its Charter)

| | |
|---|---|
| Nevada | 88-0467241 |
| (State or Other Jurisdiction of Incorporation or Organization) | IRS Employer Identification Number |

6800 Gateway Park
San Diego, CA 92154
(619) 575-6800
(Address and Telephone Number of Principal Executive Offices)

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

| Title of each class registered: | Name of each exchange on which registered: |
|---|---|
| None | Over-the-Counter Bulletin Board |

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $0.0001
(Title of class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ¨

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 x No o

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

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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. Yes o No x

Revenues for year ended December 31, 2007: $ 1,355,141.

The aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately $ 20,541,157 as of December 31, 2007 based upon the average bid and asked price of the registrant's common stock on the Over the Counter Bulletin Board.

Number of shares of the registrant's common stock outstanding as of December 31, 2007 was: 37,998,562.

Transitional Small Business Disclosure Format: Yes o No x

DOCUMENTS INCORPORATED BY REFERENCE

All reports filed by the Registrant during 2007, and through the date of filing of this Annual Report.

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ETHOS ENVIRONMENTAL, INC.

ANNUAL REPORT ON FORM 10-KSB/A

FOR THE YEAR ENDED DECEMBER 31, 2007

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EXPLANATORY NOTE:

We are filing this first amendment to our Annual Report on Form 10-KSB for the year ended December 31, 2007 (the "2007 Form 10-K") to restate our consolidated financial statements for the years ended December 31, 2007 and 2006. In the course of preparing our interim financial statements for our quarterly report on Form 10-Q to be filed with the Securities and Exchange Commission ("SEC") for the quarter ended September 30, 2008, we discovered a misclassification of accounts receivable, associated revenue and other accounting irregularities resulting in a material misstatement of our 2007 interim financial statements for the previously reported quarters and annual financial statements for the years ended December 31, 2007 and 2006 (collectively, the "Affected Financial Statements"). The restatements in the Affected Financial Statements has had a negative effect on our previously reported net change in cash and cash equivalents and a significant impact on our previously reported consolidated balance sheets and consolidated statements of operations contained in the Affected Financial Statements.

The restatement of our consolidated financial statements as a result of the errors described above has led our management to conclude that a material weakness existed in our internal control over financial reporting as of December 31, 2007, and that Management's Report on Internal Control over Financial Reporting should also be restated. Accordingly, this amended filing includes a revised ITEM 8A(T). CONTROLS & PROCEDURES that reflects management's conclusion that our internal control over financial reporting was not effective at December 31, 2007 for reasons in addition to those previously discussed.

In accordance with the rules of the SEC, the affected items of the 2007 Form 10-K, "Item 1. Description of Business," "Item 6. Management's Discussion of Financial Condition and Results of Operations," "Item 7. Financial Statements," "Item 8A(T). Controls and Procedures," and "Item 14. Principal Accountant Fees & Services" are being amended and completely restated. No other items have been amended and, as such, are not included herein.

No attempt has been made in this Form 10-KSB/A to update other disclosures presented in the 2007 Form 10-KSB as originally filed except as described above or as required to reflect the effects of the restatement. This Form 10-KSB/A does not reflect events occurring after the filing of the 2007 Form 10-K or modify or update those disclosures, including the exhibits to the 2007 Form 10-K affected by subsequent events; however, this Form 10-K/A includes as Exhibits 31.1, 31.2 and 32 new certifications by our principal executive officer and principal financial officer as required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the 2007 Form 10-K, including any amendments to those filings.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections. We use words such as "anticipate," "expect," "intend," "plan," "believe," "fore "estimate" and variations of these words and similar expressions to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted. These risks and uncertainties include the following:

- The availability and adequacy of our cash flow to meet our requirements;
- Economic, competitive, demographic, business and other conditions in our local and regional markets;
- Changes or developments in laws, regulations or taxes in our industry;
- Actions taken or omitted to be taken by third parties including our suppliers and competitors, as well as legislative, regulatory, judicial and other governmental authorities;
- Competition in our industry;
- The loss of or failure to obtain any license or permit necessary or desirable in the operation of our business;
- Changes in our business strategy, capital improvements or development plans;
- The availability of additional capital to support capital improvements and development; and
- Other risks identified in this report and in our other filings with the Securities and Exchange Commission or the SEC.

You should read this report completely and with the understanding that actual future results may be materially different from what we expect. The forward looking statements included in this report are made as of the date of this report and should be evaluated with consideration of any changes occurring after the date of this Report. We will not update forward-looking statements even though our situation may change in the future and we assume no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Use of Term

Except as otherwise indicated by the context, references in this report to "Company," "ETEV," "we," "us" and "our" references to the pre-merger business of Victor Industries, Inc. and post-merger business of Ethos Environmental, Inc. All references to "USD" or "$" refer to the legal currency of the United States of America.

PART I

Item 1. Description of Business

Overview

The mission of Ethos Environmental is to be recognized as the industry standard for high quality, non-toxic cleaning and lubricating products that increase fuel mileage and reduce these ecologically damaging emissions from vehicles, and at a price everyone can afford. The goal of the company is to make the world a better place, "one gallon at a time". According to the Environmental Protection Agency (EPA), "The burning of fuels releases carbon dioxide (CO2) into the atmosphere and contributes to climate change [Global Warming], but these emissions can be reduced by improving your car's fuel efficiency." Air pollution caused by cars, trucks and other vehicles burning petroleum-based fuels is one of the most harmful and ubiquitous environmental problems. Furthermore, local accumulation in heavy traffic is the greatest source of community ambient exposure, largely because carbon monoxide is formed by incomplete combustion of carbon containing fuels.

Ethos Environmental manufactures and distributes a unique line of fuel reformulators that contain a blend of low and high molecular weight esters. The product adds cleaning and lubrication qualities to any type of fuel or motor oil. The overall benefits are increased fuel mileage, reduced emissions and reduced maintenance costs as the product allows engines to perform cooler, smoother and with more vigor.

Esters

In the simplest terms, esters can be defined as the reaction products of acids and alcohols. Thousands of different kinds of esters are commercially produced for a broad range of applications. Within the realm of synthetic lubrication, a relatively small substantial family of esters have been found to be very useful in severe environment applications.

Esters as lubricants have already captured certain niches in the industrial market such as reciprocating air compressors and high temperature industrial oven chain lubricants. When one focuses on high temperature extremes and their telltale signs such as smoking, wear, and deposits, the potential applications for the problem solving ester lubricants are virtually endless.

In many ways esters are very similar to the more commonly known and used synthetic hydrocarbons or PAOs. Like PAOs, esters are synthesized form relatively pure and simple starting materials to produce predetermined molecular structures designed specifically for high performance lubrication. Both types of synthetic base stocks are primarily branched hydrocarbons which are thermally and oxidatively stable, have high viscosity indices, and lack the undesirable and unstable impurities found in conventional petroleum based oils. The primary structural difference between esters and PAOs is the presence of multiple ester linkages (COOR) in esters which impart polarity to the molecules. This polarity affects the way esters behave as lubricants in the following ways:

Volatility: The polarity of the ester molecules causes them to be attracted to one another and this intermolecular attraction requires more energy (heat) for the esters to transfer from a liquid to a gaseous state. Therefore, at a given molecular weight or viscosity, the esters will exhibit a lower vapor pressure which translates into a higher flash point and a lower rate of evaporation for the lubricant. Generally speaking, the more ester linkages in a specific ester the higher its flash point and the lower its volatility.

Lubricity: Polarity also causes the ester molecules to be attracted to positively charged metal surfaces. As a result, the molecules tend to line up on the metal surface creating a film which requires additional energy (load) to penetrate. The result is a stronger film which translates into higher lubricity and lower energy consumption on lubricant applications.

Detergency/Dispersency: The polar nature of esters also makes them good solvents and dispersants. This allows the esters to solubilize or disperse oil degradation by-products which might otherwise be deposited as varnish or sludge, and translates into cleaner operation and improved additive solubility in the final lubricant.

Biodegradability: While stable against oxidative and thermal breakdown, the ester linkage provides a vulnerable site for microbes to begin their work of biodegrading the ester molecule. This translates into very high biodegradability rates for ester lubricants and allows more environmentally friendly products to be formulated.

Ethos Environmental manufactures and distributes Ethos FR, a unique combination of high-quality, non-toxic, specially designed esters that uses only the elements of carbon, hydrogen and oxygen. It significantly reduces emissions, fuel consumption, and engine maintenance costs. Ethos FR provides an immediate, cost-effective strategy for fighting air pollution caused by fossil fuels and the internal combustion engine. This combination of low molecular cleaning esters and the high molecular lubricating esters, reformulates any fuel whether it's gasoline, diesel, methanol, ethanol, LNG, compressed natural gas or bio-diesel. When blended with fuels, Ethos FR reduces the emissions of hydrocarbons (HC), nitrogen oxides (NOx), carbon monoxide (CO), particulate matter (PM) and other harmful products of combustion. Yet, the emission of $O_2$ is significantly increased. An EPA registered laboratory, confirms that Ethos FR is 99.99976% clean upon ignition and ashless upon combustion. Ethos FR is free of carcinogens.

Ethos FR is a multi-functional fuel reformulator. It is designed for use in all fuels to increase power and mileage, dissolve gums and varnishes, lubricate upper cylinder components and keep the entire fuel system clean and highly lubricated. It is recommended for use at 1 part in 1280, which is equal to 1 fluid ounce of Ethos FR per 10 gallons of fuel.

Typical Specifications

| Tests | Results |
|---|---|
| Viscosity @ 37.8º C,CS | 10.39 |
| Viscosity @ 100º F, SSU | 60.2 |
| Specific Gravity @ 15.6/15.6ºC | 0.93 |
| API Gravity, Degrees | 26.6 |
| Flash Point, COC, ºC (ºF) | 149ºC (300ºF) |
| Color and Appearance | Light, bright and clear |
| Sediment | None |

Ethos Environmental offers a cost-effective solution to relieve skyrocketing fuel prices and help lessen environmental regulatory pressures. Ethos products address one problem that has two side effects, wasted fuel and air pollution. Fuel burns inefficiently in an internal combustion engine and that inefficiency leads to wasted fuel transformed into toxic emissions. Ethos products make fuel burn more efficiently so it significantly improves both of the aforementioned adverse effects. Most important, the use of Ethos results in fuel cost savings to the customer.

Fuel and Maintenance Costs Savings:

• Customers report on average increases in Miles-Per-Gallon between 7% and 19% Fleet-Wide
• Enhances Engine Performance by Reducing Heat Produced by Friction

Fines and Downtime are Reduced Due To Air Pollution:

• Reduces Toxic Emissions By 30% or More
• Free Of Carcinogens
• Non-Toxic & Non-Hazardous
• Not a Petrochemical
• 99.99976% Ashless upon Combustion

Repairs:

• Improves Combustion

• Cleans Fuel System
• Lubricates Moving Components
• Extends Engine Life by Reducing Friction

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How Do Ethos Products Work?

Ethos products reformulate any fuel, resulting in two important benefits. The first benefit is the added lubricity to the engine. The second is adding cleansing properties to the fuel. All of the internal components benefit from the cleansing and lubricating action including the fuel lines, filters, carburetors, spark plugs and injectors. Ethos also conditions the engine seals, keeping them tighter for a longer period of time. A cleaner, more lubricated engine runs smoother, requires less maintenance and reduces engine heat significantly, thereby returning horsepower closer to the manufacturer's specifications. Ethos removes carbon deposits that cause fuel to combust incompletely, resulting in wasted fuel that creates toxic emissions. The combination of cleaning and lubricating esters in our products stabilize the fuel without changing its specifications.

In Ethos FR®, for example, a group of low molecular weight esters clean the dirty deposits formed by fuels and the combustion process. These deposits lower performance of an engine making it less fuel-efficient. Causing it to exhaust raw fuel, which is the primary contributor to pollution. A group of high molecular weight esters lubricate the engine surfaces as the fuel runs through it. Their molecular structure is small enough to penetrate the metal and form a lubricating layer between surfaces. This process allows the moving components of an engine to operate smoother and with less power-robbing friction and heat.

The primary task for the Company is to distinguish itself as an industry leader in the reduction of fuel costs and emission problems at a profit gain to the commercial user. Part of the challenge before us is to differentiate Ethos products from two types of products in this industry, additives - that are purported to increase fuel mileage and oxygenates - which are mandated to lower emissions. Both additives and oxygenates provide short-term benefits at the price of long-term engine or environmental problems.

Additives contain highly refined petrochemicals or compressed hydrocarbons that promise better fuel mileage and sometimes lower emissions, by "cleaning" the engine. Used mainly by individual consumers, they are expensive and commonly sold at the auto parts and retail stores. More than five thousand EPA-registered fuel additives compete in the retail market and although the EPA requires that such products be registered, that registration constitutes neither endorsement nor validation of the product's claims.

Oxygenates, such as methyl tertiary butyl ether (MTBE) and Ethanol, are intended to lower emissions by adding oxygen to the fuel. Ethos FR® products actually complement federally mandated oxygenates by lowering emissions, but as mentioned earlier, Ethos FR® is not an oxygenate and cannot be used for the purpose of complying with current language federal legislation.

In contrast, Ethos products have cleaning properties that contribute to the lubrication of the engine instead of destroying it. The ester-based formula dissolves the gums and residues and adds important lubrication that an engine needs. The engine stays clean and lubricated, allowing it to run smoothly and efficiently.

Both E85 and biodiesel, such as B5, are alternative measures currently being considered for use by the federal government. However, these alternative measures rely entirely on agricultural resources such as corn, barley, wheat and vegetable oils. Realistically, the agricultural sector of the economy cannot hope to produce sufficient quantities of these products to cause an appreciable effect on global warming. This is a problem not facing Ethos as the product is readily available and continuously produced at a lower price.

While the debate on emissions reduction solutions continues, Ethos Environmental is making a difference in cleaning the air today while reducing fuel costs to its customers. Extensive road tests by our customers that use Ethos FR® have shown that commercial fleets, on average, increase fuel mileage between 7% and 19% and reduce emissions by more than 30%. Ethos FR® is non-toxic, non-hazardous and works with any fuel used in cars, trucks, buses, RV's, ships, trains and generators.

The overall result is that Ethos FR® makes engines combust fuel more efficiently. When an engine uses each measure of fuel to the maximum degree possible, it has two very important benefits. It reduces fuel consumption and reduces non-combusted residues that an engine expels in the form of exhaust emissions such as hydrocarbons, nitrogen oxides, carbon monoxide, particulate matter and other harmful products of combustion. Unused fuel is saved in the fuel tank, waiting to be used efficiently by the engine, instead of exhausted in the form of toxic emissions. Ethos FR® reduces emissions without adding any of its own components to the exhaust since it is 99.99976% ash-less upon combustion, and free of carcinogenic compounds.

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Ethos Environmental is also at the forefront in the development of new blending methods and is positioned to become an industry leader with new products currently under development.

Our Corporate History

We were originally incorporated under the laws of the State of Idaho on January 19, 1926 under the name of Omo Mining and Leasing Corporation. The Company was renamed Omo Mines Corporation on January 19, 1929. The name was changed again on November 14, 1936 to Kaslo Mines Corporation and finally Victor Industries, Inc. on December 24, 1977.

As Victor Industries, Inc., the Company developed, manufactured, and marketed products related to the use of the mineral known as zeolite. Zeolites have the unique distinction of being nature's only negatively charged mineral. Zeolites are useful for metal and toxic chemical absorbents, water softeners, gas absorbents, radiation absorbents and soil and fertilizer amendments.

Reverse Acquisition of Ethos

On November 2, 2006, as part of a two-step reverse merger, the Company merged with and into Victor Nevada, Inc. a newly incorporated entity for the purpose of redomiciling under the laws of the State of Nevada. Concurrently therewith, we completed the merger transaction with Ethos Environmental, Inc., a privately held Nevada corporation (“Ethos”). The Company was the surviving entity, and changed its name to Ethos Environmental, Inc. to more accurately reflect its new direction and business model.

Additional Corporate History

On April 20, 2006, Victor Industries, Inc., with the approval of its Board of Directors, executed an Agreement and Plan of Merger with San Diego, CA based Ethos Environmental, Inc., a Nevada corporation.

At a meeting of the shareholders of the Company held on October 30, 2006, a majority of shareholders voted in favor of the merger. On November 2, 2006, the merger was consummated. As part of the merger, the Company redomiciled to Nevada, and changed its name to Ethos Environmental, Inc. In addition thereto, and as part of the merger, the Company set a record date of November 16, 2006 for a reverse stock split of 1 for 1,200.

The merger provides for a business combination transaction by means of a merger of Ethos with and into the Company, with the Company as the corporation surviving the merger. Under the terms of the merger, the Company acquired all issued and outstanding shares of Ethos in exchange for 17,718,187 shares of common stock of the Company. Shares of Company common stock, representing an estimated 97% of the total issued and outstanding shares of Company common stock, was issued to the Ethos stockholders. Ethos shareholders were able to exchange their shares beginning on or after November 16, 2006, the record date set for the reverse stock split.

The shares issued by the registrant (17,718,187) were revalued at the new par value of $.0001. Another adjustment to common stock and additional paid in capital was generated due to the cancellation of pre-merger shares (17,717,477). Due to the effect of the reverse merger, the Buyer’s shares outstanding (479,500) were converted to common stock and the effect of the net assets acquired was adjusted to additional paid in capital. During the year, another 4,910,000 shares of common stock were issued for services based upon the price at date of issuance.

The merger was intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and no gain or loss will be recognized by the Company as a result of the merger.

The merger is accounted for under the purchase method of accounting as a reverse acquisition in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method of accounting, Ethos is treated as the "accounting acquirer" for financial reporting purposes. In accordance with guidance applicable to these circumstances, the merger was considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger was treated as the equivalent of Ethos issuing stock for the net monetary assets of the Company. The net monetary assets of the Company have been stated at their fair value.

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In connection with the merger, Lana Pope and Dave Boulter voluntarily resigned from the board of directors of the Company on November 3, 2006.

Following such resignations, as a result of the merger, three persons became the Company's board of directors: Enrique de Vilmorin, President, Chief Executive Officer, and Director, Jose Manuel Escobedo, Director and Secretary, and Luis Willars, Director and Treasurer.

A summary of the merger follows:

- The Company was the surviving legal corporation,
- The Company acquired all issued and outstanding shares of Ethos in exchange for 17,718,187 shares of common stock of the Company. Shares of Company common stock, representing an estimated 97% of the total issued and outstanding shares of Company common stock, was issued to the Ethos stockholders,

- The shareholders of the Company received pro rata for their shares of common stock of Ethos, 17,718,187 shares of common stock of the Company in the merger, and all shares of capital stock of Ethos were cancelled,
- The officers and directors of Ethos became the officers and directors of the Company,

- The name of Victor Industries, Inc. was changed to "Ethos Environmental, Inc.", and
- Ethos requested a new symbol for trading on the Over the Counter Bulletin Board ("OTCBB"), which also reflects the reverse stock split of 1 for 1,200, the new symbol of the Company is "ETEV."

Ethos FR® has been proven through many thousands of miles of on-the-road testing. On average, customers report that they have achieved a 7% to 19% increase in fuel mileage, and more than a 30% reduction in emissions.

Ethos seeks both a cleaner environment and economic success. The Company's approach is to sell Ethos FR® "one gallon at a time", earning the trust and loyalty of each customer by providing products that perform as promised and make a positive difference in the world.

Products

Ethos manufactures a unique line of fuel reformulators that contain a blend of low and high molecular weight esters. Ethos products add cleaning and lubricating qualities to any type of fuel or motor oil, allowing engines to perform cooler, smoother and with more vigor. The overall benefits are increased fuel mileage, reduced emissions, and reduced maintenance costs.

Ethos fuel reformulating products increase fuel mileage and reduce emissions by burning fuel more completely. Exhaust is essentially unburned fuel, i.e. wasted fuel, so when that fuel is used more completely, the engine delivers better mileage from every tank. Efficient fuel use also improves engine performance due to the fact that a more complete combustion process obtains increased power from every engine revolution.

Ethos products reduce fuel emissions, benefiting the environment in two notable ways:

1. Customers report that the use of Ethos products reduce engine exhaust emissions by 30% or more, including measurable reductions in the emission of hydrocarbons (HC), nitrogen oxides (Nox), and carbon monoxide (CO). All of these emissions are highly toxic and detrimental to the environment.

2. Ethos products reduce emissions of particulate matter, especially in diesel-powered engines. Diesel fuel is commonly dirty and maintaining a diesel engine in the prime condition necessary to reduce emissions is both expensive and time-consuming. As a result, diesel engines are a constant source of air contaminants. In most industrialized countries, including the U.S., diesel engines are one of the largest sources of air pollution. When Ethos

products are added to diesel fuel, the engine runs cleaner, smoother and cooler - significantly reducing sooty exhaust. Engines treated with Ethos run with less friction, heat and noise. Fuel and lubricating systems, filters, tanks, and injectors last longer, reducing maintenance costs.

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Ethos has two products, Ethos FR® and Ethos Bunker Fuel Conditioner ("Ethos BFC"). There are two esters used in each product, a light ester and a heavy ester. For the Ethos FR®, we obtain the esters from major suppliers. The mineral oil used in the Ethos FR® is obtained, primarily, from major suppliers.

Ethos FR® can be used in any fuel. Ethos BFC is used for Bunker Fuel, which is used in external combustion engines.

Ethos products provide risk-free benefits with an economic gain to the client. To date, most customers have reported, either verbally or in writing, that they experienced a monetary gain on fuel savings, with all stating that they experienced an average improvement in mileage per gallon between 7% and 19%, depending on the fuel (gasoline or diesel), the vehicle used, and the individual driver's practices and driving traits.

Trademarks

We own the following trademark(s) used in this document (which is registered with the United States Patent and Trademark Office under Registration Number 3,015,561): Ethos FR®. Trademark rights are perpetual provided that we continue to keep the mark in use. We consider these marks, and the associated name recognition, to be valuable to our business.

Air Quality Standards

It is believed that with the increased worldwide focus on the greenhouse effects of petroleum products, the ability of Ethos to reduce emissions by 30% can only increase the Company's market presence. Political and media pressures are causing more people to become concerned about our environment and the effects of global warming. Most researchers had anticipated the complete disappearance of the Arctic ice pack during the summer months would not happen until after the year 2070, but now believe it could happen as early as 2030.

Ethos Environmental began the manufacturing and marketing of Ethos products after ten years of successful product testing. During the early years, widespread public environmental concerns were only beginning to surface. Air quality standards were non-existent and fuel costs were low, making penetration of the market an uphill battle.

In recent years most of the improvements in air quality have come through advancements in engine technologies. Through catalytic converters and computer controlled air and fuel injection systems, engineers have designed cars that use fuel much more efficiently and pollute far less than ever before. But as new engine technologies have reached their limits, the government has turned its attention to the oil companies to produce cleaner-burning fuels.

The approach of Ethos Environmental is to sell our products "one gallon at a time", earning the respect and trust of each user. Over the past decade, our products have gone though extensive miles of road tests, with all such testing verifying the ability of our products to significantly reduce emissions while improving gas mileage. Now, at a time of skyrocketing fuel costs, the value of Ethos products is paying off for a long list of domestic customers and a growing contingent of international clients.

Market Research

Air pollution caused by cars, trucks and other vehicles burning petroleum-based fuels is one of the most harmful and ubiquitous environmental problems. Furthermore, local accumulation in heavy traffic is the greatest source of community ambient exposure, largely because carbon monoxide is formed by incomplete combustion of carbon containing fuels.

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Diesel exhaust is a major contributor of particulate matter concentrations. Representing only 2 percent of the vehicles on the road, diesel powered vehicles generate more than half of the particulates and nearly a third of the nitrogen oxides in the air, according to a study by the California Air Resources Board. Air pollution monitoring efforts by the American Lung Association indicate that diesel accounts for 70% of the cancer risk. Furthermore, pioneers in the study of global warming factors have come to believe that particulate matter, such as that emitted by diesel engines, plays a far more critical role in the development of the "greenhouse effect" than previously suspected.

To combat this problem the U.S. Environmental Protection Agency developed a two-step plan to significantly reduce pollution from new diesel engines. (New Emission Standards for Heavy-Duty Diesel Engines Used In Trucks and Buses) (October 1997, EPA 420-F-97-016). The first step set new emissions standards for diesel engines beginning in 2000. The second step sets even more stringent emission standards that became effective on January 1, 2007, combined with mandated reductions in the sulfur levels of all diesel fuel.

As crude oil is heated, various components evaporate at increasingly higher temperatures. First to evaporate is butane, the lighter-than-air gas used in cigarette lighters, for instance. The last components of crude oil to evaporate, and the heaviest, include the road tars used to make asphalt paving. In between are gasoline, jet fuel, heating oil, lubricating oil, bunker fuel (used in ships), and of course diesel fuel. The fuel used in diesel engine applications such as trucks and locomotives is a mixture of different types of molecules of hydrogen and carbon and include aromatics and paraffin. Diesel fuel cannot burn in liquid form. It must vaporize into its gaseous state. This is accomplished by injecting the fuel through spray nozzles at high pressure. The smaller the nozzles and the higher the pressure, the finer the fuel spray and vaporization. When more fuel vaporizes, combustion is more complete, so less soot will form inside the cylinders and on the injector nozzles. Soot is the residue of carbon, partially burned and unburned fuel.

Sulfur is also found naturally in crude oil. Sulfur is a slippery substance and it helps lubricate fuel pumps and injectors. It also forms sulfuric acid when it burns and is a catalyst for the formation of particulate matter (one of the exhaust emissions being regulated). In an effort to reduce emissions, the sulfur content of diesel fuel is being reduced through the refinery process, however, the result is a loss of lubricity.

Diesel fuel has other properties that affect its performance and impact on the environment as well. The main problems associated with diesel fuel include:

· Difficulty getting it to start burning o Difficulty getting it to burn completely
o Tendency to wax and gel
· With introduction of low sulfur fuel, reduced lubrication
· Soot clogging injector nozzles
· Particulate emissions
· Water in the fuel
· Bacterial growth

While diesel engines are the only existing cost-effective technology making significant inroads in reducing "global warming" emissions from motor vehicles, it is not sufficient to satisfy regulators and legislators. Diesel engines will soon be required to adhere to stringent regulatory/legislative guidelines that meet near "zero" tailpipe emissions, especially on smog-forming nitrogen oxides (NOx), particulate matter (PM) and "toxins"; the organic compounds of diesel exhaust.

The U.S. Department of Energy, Energy Information Administration ("EIA") estimates that U.S. annual consumption of fuel will continue to escalate through the year 2030.

A breakdown of this estimate is summarized as follows:

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Based o further EIA published data, the following table* depicts domestic distillate fuel oil consumption by energy use for 2006.

| Sales of Distillate Fuel Oil by End Use 2006 (Thousands of Gallons) | |
|---|---|
| Residential | 4,984,826 |
| Commercial | 2,808,786 |
| Industrial | 2,463,676 |
| Oil Company | 636,788 |
| Farm | 3,261,345 |
| Electric Power | 656,355 |
| Railroad | 3,552,430 |
| Vessel Bunkering | 1,903,138 |
| On-Highway | 39,118,301 |
| Military | 327,827 |
| Off-Highway | 2,478,554 |
| All Other | 0 |
| | 62,192,026 |

Notes: Totals may not equal sum of components due to independent rounding.

Sources: Energy Information Administration Form EIA-821, "Annual Fuel Oil and Kerosene Sales Report for 2002-2006.

When blended with fuels, Ethos products reduce the emissions of hydrocarbons (HC), nitrogen oxides (Nox) carbon monoxide (CO), particulate matter (PM) and other harmful compounds of combustion. Given these conditions, the commercial fuels consumer market represents an important target for Ethos Environmental.

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Competition

The market for products and services that increase diesel fuel economy, reduce emissions and engine wear is rapidly evolving and intensely competitive and management expects it to increase due to the implementation of stricter environmental standards. Competition can come from other fuel additives, fuel and engine treatment products and from producers of engines that have been modified or adapted to achieve these results. In addition, we believe that new technologies, including additives, will further increase competition.

Alternative fuels, gasoline oxygenates and ethanol production methods are continually under development. A number of automotive, industrial and power generation manufacturers are developing more efficient engines, hybrid engines and alternative clean power systems using fuel cells or clean burning gaseous fuels. Vehicle manufacturers are working to develop vehicles that are more fuel efficient and have reduced emissions using conventional gasoline. Vehicle manufacturers have developed and continue to work to improve hybrid technology, which powers vehicles by engines that utilize both electric and conventional gasoline fuel sources. In the future, the emerging fuel cell industry offers a technological option to address increasing worldwide energy costs, the long-term availability of petroleum reserves and environmental concerns.

The diesel fuel additive business and related anti-pollutant businesses are subject to rapid technological change, especially due to environmental protection regulations, and subject to intense competition. We compete with both established companies and a significant number of startup enterprises. We face competition from producers and/or distributors of other diesel fuel additives (such as Lubrizol Corporation, Chevron Oronite Company, Octel Corp., Clean Diesel Technologies, Inc. and Ethyl Corporation), from producers of alternative mechanical technologies (such as Algae-X International, Dieselcraft, Emission Controls Corp. and JAMS Turbo, Inc.) and from alternative fuels (such as bio-diesel fuel and liquefied natural gas) all targeting the same markets and claiming increased fuel economy, and/or a decrease in toxic emissions and/or a reduction in engine wear.

Ethos FR® and Ethos BFC are unique.. The primary task for the Company is to distinguish itself as an industry leader in the reduction of fuel costs and emission problems at a profit gain to the commercial user. Part of the challenge before us is to differentiate Ethos products from two types of products in this industry, additives - that are purported to increase fuel mileage and oxygenates - which are mandated to lower emissions. Both provide short-term benefits at the price of long-term engine or environmental problems.

Additives contain highly refined petrochemicals or compressed hydrocarbons that promise better fuel mileage and sometimes lower emissions, by “cleaning” the engine. Used mainly by individual consumers, they are expensive and commonly sold at the auto parts and retail stores. More than five thousand EPA-registered fuel additives compete in the retail market and although the EPA requires that such products be registered, that registration constitutes neither endorsement nor validation of the product’s claims.

Oxygenates, such as methyl tertiary butyl ether (MTBE) and Ethanol, are intended to lower emissions by adding oxygen to the fuel. Ethos FR® products actually complement federally mandated oxygenates by lowering emissions, but as mentioned earlier, Ethos FR® is not an oxygenate and cannot be used for the purpose of complying with current language federal legislation.

In contrast, Ethos FR® products have cleaning properties that contribute to the lubrication of the engine instead of destroying it. The ester-based formula dissolves the gums and residues and adds important lubrication that an engine needs. The engine stays clean and lubricated, allowing it to run smoothly and efficiently.

Marketing Strategy

Ethos products are ideally positioned to capitalize on regulatory pressure to tighten emissions standards. Fuel is a significant operating cost for companies that use cars, trucks or vessel fleets in their daily business, especially where competitive markets make it difficult to pass along fuel increases. Every hike in the price of fuel hurts the profitability of that company. For these businesses, obtaining better mileage offers a crucial competitive edge, and the goal of Ethos Environmental is to help them maximize their fuel use and maintain profitability.

From its earliest days, Ethos has focused on the product demonstration as the most effective means of introducing Ethos FR® to potential users. Through this demonstration process, we prove to each customer that they can realize the benefits of reduced emissions, smoother-running vehicles and lower maintenance costs at virtually no risk, because the reduction in fuel usage will more than cover the expense of using Ethos FR®. In fact, the addition of Ethos FR® will result in fuel savings beyond the cost of treatment, resulting in monetary gain to the user by extending the life of any particular vehicle.

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Commercial fleets vary in size from a few to thousands of vehicles. Usually a fleet's oldest and dirtiest vehicles, or vehicles out of warranty, are included in the demonstration. Such vehicles amplify the effectiveness of the products and help to ease any initial client objections regarding manufacturer warranties. Once the demonstration is underway, Ethos FR® products sell themselves, increasing fuel mileage between 7% and 19% and reducing emissions by more than 30% as reported by tests performed by our customers. Once the effectiveness of the product has been established, a conscientious customer-service program ensures continued use.

The Ethos Environmental strategy has been to approach each market from the perspective of the customer's strongest motivation, whether to reduce fuel costs, reduce engine emissions or to increase the longevity of a vehicle. From a marketing standpoint, it is most cost-effective for Ethos Environmental to focus on commercial fuel users that keep track of maintenance and operating expenses. These consumers are more sensitive to pressures from rising fuel costs and more concerned about meeting emissions standards.

Significant fuel costs will always be a marketing advantage for Ethos. Higher fuel prices decrease the cost to treat each gallon of fuel; resulting in even greater savings to Ethos clients. The Company's marketing strategy strengthens as the price of fuel increases. Even where cost savings are a client's primary motivator, the use of Ethos FR® identifies the user as an environmentally conscientious business. It also creates goodwill within the community through the reduction of unhealthy and unsightly exhaust emissions.

Ethos FR – Proof of Performance

An integral part of our sales process is to conduct proof of performance demonstrations for potential customers wherein we accumulate historical data that documents the effects of the use of Ethos FR® (i.e. advantages in terms of increased fuel economy, a decrease in engine wear and reductions in toxic emissions) on that customer's specific vehicles or vessels. In connection with the proof of performance demonstrations, we provide fleet monitoring services and forecasts of fuel consumption for purposes of the prospective customer's own analysis.

The results below are test results of customer experiences using Ethos FR®. The results are for a fleet of trucks for Allied Waste. On our website are results for other customers, which may be viewed by visiting www.ethosfr.com. In most customer tests, they have reported a 7% to 19% cost saving, and an over 30% reduction in emissions.

Following is a Management Report outlining the process and methodology of the testing of Ethos FR® for Allied Waste Services:

MANAGEMENT REPORT

Testing of Ethos Fuel Reformulator
Allied Waste Services, Southwestern Region

Overview

Ethos FR has been used, without interruption, at multiple Allied Waste locations in Southern California since the year 2001.

Based on the positive results realized at those locations (estimated at a 10% reduction in fuel consumption plus significant reductions in maintenance/repair costs and emissions) an initial test was conducted at one location in the Southwestern Region of Allied Waste during the months of July and August, 2006. The results of this initial 4 week test showed an estimated reduction in fuel consumption of 10.35%, as measured by gallons per engine hour, compared to a baseline period of the previous 12 months (July 2005 through June 2006).

Based on these positive results, a second phase of testing was initiated in May 2007 encompassing 4 locations in the Southwestern Region. The period of testing was generally the months of May, June and July 2007, however, one location continued Ethos use through August. The detailed data obtained from this testing period is content of this report.

Testing Procedures and Data Compilation & Reporting Methodology

Upon initiation of the testing period, fuel consumption and engine hour data was obtained from each location for a baseline period in order to establish a point of comparison for the test. The baseline period for each location was generally the period of January through March, 2007.

The standard CFA report obtained from each location was the "Fuel Transaction Detail by Equipment #" report. This report provides the most comprehensive daily listing of fuel dispensed and engine hours recorded for each vehicle during each time period. It is important to note that detailed reports were used throughout the compilation of the data contained in this analysis because every report from every location contains several "anomalies" which could distort the accuracy of any data from any report.

Most common among these "anomalies" are:

1. Vehicles showing fuel consumed but few or no engine hours recorded (which would result in a higher fuel per hour calculation than is actually the case),
2. Vehicles showing no fuel consumed yet have engine hours recorded (which would result in a lower fuel per hour calculation than is actually the case), or
3. Vehicles that do not have recorded data for both comparative periods. This would include:
• new vehicles that have been added to the fleet (and therefore have no baseline data)
• vehicles that have been retired from the fleet or are out of service for repairs or maintenance (these vehicles will have baseline data but no data in one or more of the test periods).

Raw Data vs. Comparable Data

Due to the frequency and significance of the anomalies outlined above, a detailed process was implemented to ensure that any such reporting inaccuracies did not undermine the validity of the comparative data obtained during this test.

The procedures utilized by Green Fleet Associates were as follows:

1.) Every CFA report that was obtained from every location for every time period as reviewed line-by-line, vehicle-by-vehicle to assure the validity of the data. Any obvious anomalies were highlighted on the raw CFA report.
2.) This raw data from the CFA report was transferred to a spreadsheet in order to facilitate ongoing side-by-side, vehicle-by-vehicle comparisons of baseline to test period data. Any anomalies or missing data for any vehicle was highlighted on the spreadsheet for reach comparative period.
3.) A true "apples-to-apples" comparison was obtained for each time period by removing all highlighted items.

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Verification of Ethos Use

Equally important in assuring the validity of the data collected was making best efforts to verify that all of the fuel being consumed by each location during the testing period was being treated with Ethos. The method utilized to check this compliance was a detailed tracking of fuel deliveries compared the Ethos inventory at each location during the testing period. While almost all locations maintained a consistent treatment schedule throughout the three month testing period, there were some minor exceptions.

The spreadsheets detailing the baseline & test period data, for each month at each location are as follows:

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Ethos FR – Proof of Performance Demonstrations

Ethos Environmental’s fuel reformulating products reduce emissions by burning fuel more completely, which improves fuel mileage. Exhaust is essentially unburned fuel, wasted fuel, so when the fuel is used more completely the engine delivers better mileage from every tank. Efficient fuel use also means improved engine performance because a more complete combustion process obtains increased power from each engine revolution.

In the last decade hundreds of thousands of miles in road tests have been conducted. Test after test, Ethos products have proven to reduce engine exhaust emissions by 30% and more, including measurable reductions in the emissions of hydrocarbons (HC), nitrogen oxides (NOx), carbon monoxide (CO), and sooty exhaust or particulate matter (PM). All of these emissions are highly toxic and as a result, fuel mileage increases have been significant, ranging from 7% to 19% fleet wide as reported by our customers.

Ethos Environmental uses an opacity meter, a detection device for diesel vehicles that measures the percentage of opacity (light obstructed from passage through an exhaust smoke plume), to demonstrate dramatic reductions in emissions. In more that 1,000 heavy-duty diesel vehicles treated (a motor vehicle having a manufacturer’s maximum gross vehicle weight rating (GVWR) greater than 6,000 pounds), emissions were lowered by as much as 90%. The Society of Automotive Engineers (SAE) recommended practice SAE J1667 “Snap Acceleration Smoke Test Procedure” to be used for heavy-duty diesel powered vehicles. Attached are samples of opacity test sheets, taken from diesel-powered engines, demonstrating the positive results after using Ethos FR®.

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Target Markets

According to the American Petroleum Institute, the United States fuels consumer market is comprised of the following segments: retail consumer 27%, government agencies 16%, ground fleets 14%, industrial users 10%, aircraft 9%, maritime 6%, miscellaneous 18%.

The Company's typical customers use cars, trucks or vessels in their day-to-day operations. Fuel is a significant operating cost, and consequently these fleets are particularly sensitive to fuel price fluctuations and strict emissions standards. The ideal clients are those with fleet managers and are conscientious about keeping track of operating expenses. They understand that every hike in fuel price hurts their profitability, this being a critical factor wherever competitive markets make it difficult to pass on the price increases to their clients; thereby making it critical for businesses to obtain better mileage as a competitive advantage.

Maritime and government agencies are desirable for their large fuel volume use and industry credibility.  They offer the Company medium to long-term sales, since the process requires a longer lead-time to close. The product demonstration phase and administrative requirements are generally more complex, particularly with large government institutions. At the same time, they offer large volume sales and a continual source of staged orders that promote production stability.

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Marine vessels run on bunker fuel that is less refined than diesel. A mid-size ship will use more than half a ton per hour of operation, or 125 gallons of fuel per hour. For example, a mid-size vessel running on bunker on a typical trip to Japan from Los Angeles will require a half ton per hour, or 180 tons. This represents a total of 45,000 gallons of fuel that requires 4,500 oz. (35 gallons) of Ethos BFC. This vessel would use approximately one drum (55gals.) of Ethos BFC per month. Accordingly, maritime customers represent a large and solid client base.

Countries all around the world are endeavoring to deal with the high costs of petroleum products and the detrimental effects of those products on the environment, much like the United States.

As with our domestic client base, international customers of Ethos appreciate the benefits of improved mileage and reduced emissions.

Customers

Although we have many customers utilizing products, the broadly diversified base means there is no significant concentration in any industry. We derive revenue from our customers as discussed in Note 1, "Organization and Significant Accounting Policies: Revenue Recognition" of the consolidated financial statements.

Supply Arrangements

We presently obtain our raw materials from five (5) suppliers. However, these arrangements are not governed by any formal written contract. Accordingly, either party may terminate the arrangement at any time. If a supplier is not able to provide us with sufficient quantities of the product, or chooses not to provide the product at all (for any reason), business and planned operations could be adversely affected. Although management has identified alternate suppliers of the products, no assurance can be given that the replacement products will be comparable in quality to the product presently supplied to us by current suppliers, or that, if comparable, products can be acquired under acceptable terms and conditions.

Vendors

We are not dependent upon any one vendor for our business.

Governmental Regulation

In the United States, fuel and fuel additives are registered and regulated pursuant to Section 211 of the Clean Air Act. 40 CFR Part 79 and 80 specifically relates to the registration of fuels and fuel additives. Typically, there are registration and regulation requirements for fuel additives in each country in which they are sold. In accordance with the Clean Air Act regulations at 40 CFR 79, manufacturers (including importers) of gasoline, diesel fuel and additives for gasoline or diesel fuel, are required to have their products registered by the EPA prior to their introduction into commerce.

However, EPA registered additives are derived from petroleum while Ethos FR® is a reformulator. Even though you “add it” to the fuel, Ethos FR® is not derived from petroleum and is non-toxic and non-hazardous and therefore not subject to governmental regulations. There could be unforeseen future changes to the registration requirements under the Clean Air Act and Ethos FR® may have to seek registration under such new requirements. In addition, we currently sell our product outside of the United States and intend to further expand our sales efforts internationally. We may need to seek registration in other countries for the Ethos FR® product.

At this time the Company is not aware of any present or pending rules or regulations that would require the Company to seek registration of the Ethos FR® product either domestically or internationally.

Notwithstanding the above, the Company is presently engaged in attempting to qualify its products, as necessary, with the California Air Resources Board (“CARB”), and obtain other testing and certifications as necessary to further establish the quality of our products.

Research and Development Costs

Research and development costs are charged to operations when incurred and are included in operating expenses.

Following is the Ethos FR® Material Safety Data Sheet (MSDS)

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Employees

As of December 31, 2007, we had ten (10) full time employees, we had seven (7) consultants that dedicate a significant amount of time to our Company, and we hire part time employees on an as needed basis to assist in the production of our products.

Available Information

We file electronically with the Securities and Exchange Commission our annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, and current reports on Form 8-K, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. You may obtain a free copy of our reports and amendments to those reports on the day of filing with the SEC by going to http://www.sec.gov.

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PART II

Item 6. Management's Discussion and Analysis or Plan of Operation.

The following discussion should be read in conjunction with our audited financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or our behalf. We disclaim any obligation to update forward-looking statements.

Results of Operations and Analysis of Financial Condition

Results of Operations

The following financial data compares the balances as relates to Ethos Environmental, Inc. for the fiscal years ended December 31, 2007 and 2006. The following discussion has been updated using the restated financial statement balances.

Revenues

During the year ended December 31, 2007, the Company recognized revenues of $1,355,141 compared with $1,521,166 for the year ended December 31, 2006, a decrease of 10.9%. The decrease in overall sales revenue reflects the fact that the Company focused its efforts on the development of its internal processes rather than marketing of its products and finding new customers and distributors. The Company’s primary source of revenue is from the sale of Ethos FR®. Other components of revenue include freight and service.

Our future growth is significantly dependent upon our ability to generate sales. Our main priorities relating to revenue are: (1) increase market awareness of Ethos FR® product through our sales and marketing plan, (2) growth in the number of customers and vehicles per customer, and (3) providing extensive customer service and support.

Gross Profit

Gross profit for the year ended December 31, 2007, defined as revenues less cost of goods sold, was $610,005 or 45.0% of sales compared with $1,064,995 or 70.0% for the year ended December 31, 2006. The decrease in gross profit margin was due to recognition of amortization expense of its building and certain manufacturing equipment throughout fiscal 2007 compared with only partial year during fiscal 2006 along with a $224,751 write-down in inventory to adjust to physical inventory value.

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Operating Expenses

The Company’s current operating expenses are comprised of costs associated with general and administrative costs such as staff salaries, consulting, marketing, and legal and accounting, and selling expenses such as marketing and business development.

Depreciation Expense

For the year ended December 31, 2007, the Company incurred depreciation expense of $201,092 compared to $292,096 for the year ended December 31, 2006. The decrease in depreciation expense was attributed to the sale leaseback of the Company’s building and certain manufacturing equipment during 2007. The Company’s amortization policy is to amortize production and office equipment on a straight-line basis over a 5-year period, and amortize building costs straight-line basis over a 25-year period. The majority of the depreciation expense for the years ended December 31, 2007 and 2006 was charged to cost of sales as the assets used were directly resulting in the production of revenue-producing goods.

General and Administrative

For the year ended December 31, 2007, the Company incurred general and administrative expense of $17,655,463 compared with $12,925,739 for the year ended December 31, 2006. The increase in general and administrative expense is attributed to the issuance of share purchase warrants in May 2007 to replace the convertibility feature of its Promissory Note secured by the purchase of the Company’s building that resulted in a charge to operations of $6,646,171 for the fair value of the warrants using Black-Scholes Option Pricing Model.

Selling Expense

For the year ended December 31, 2007, the Company incurred selling expense of $6,861,554 compared with $4,609,910 for the year ended December 31, 2006 and is related to marketing and business development expenditures that were settled by the issuance of common shares with a fair value of $4,500,000. In fiscal 2007, the Company limited its selling expense based on the fact that the Company’s focus was on internal operations and strategic development rather than marketing and promotion of the Company’s products.

Other Income (Expenses)

Interest Expense

For the year ended December 31, 2007, the Company incurred interest expense of $618,084 compared with $620,244 for the year ended December 31, 2006. Interest expense is associated with an interest-only loan of $4,750,000 that was used to finance the purchase of the Company’s building and the sale-leaseback of the building.

Other Income

During the year ended December 31, 2007, the Company recorded other income of $390,206 compared with $730,813 for the year ended December 31, 2006. Other Income in fiscal 2007 was related to the proceeds from the sale leaseback transactions for its manufacturing facility and certain manufacturing equipment whereas Other Income for fiscal 2006 was attributed to $670,200 from the settlement of debt with one of the Company’s vendors.

Net Loss

For the year ended December 31, 2007, the Company incurred a net loss of $24,582,613 compared with a net loss of $16,474,909 for the year ended December 31, 2006. The increase in the net loss is attributed to the fair value of share purchase warrants of $6,646,171 which was charged to operations in May 2007, and a decrease of $454,990 in gross margins resulting from lower sales revenue.

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Common Shares

During the year ended December 31, 2007, the Company issued 11,214,000 common shares to settle services incurred on behalf of the Company and issued 2,500,000 common shares for cash proceeds of $2,050,000.

In August 2007, the Company issued 2,500,000 common shares to Greenbridge Capital Partners ("Greenbridge") as part of the sale leaseback transaction where the Company sold the rights to its' manufacturing facility to Greenbridge and 2,500,000 common shares in exchange for proceeds of $7,875,000. The sale price was allocated as $5,825,000 to the building and $2,050,000 to the common shares as fair value under a arms-length transaction.

Of the common shares issued for settlement of services, 5,000,000 common shares were issued to Enrique de Vilmorin, the Company's Chief Executive Officer for the year ended December 31, 2007 and as at September 5, 2008 before his resignation. The common shares were issued as part of compensation for his duties as President, Chief Executive Officer, and Directors of the Company and were issued at the closing share price of $0.95 per common share which represented a fair value of $4,750,000.

The remaining 6,214,000 common shares were issued for consulting services and professional fees at varying periods throughout the year and were assessed at fair value using the end-of-day share price of the Company's common stock. Share issuances ranged from $0.95 - $5.00 per common share and the 6,914,000 common shares were reported at a fair value of $8,464,960.

Liquidity and Capital Resources

At December 31, 2007, we had cash of $74,178, current assets of $760,823, total assets of $1,279,158, total liabilities of $929,712, and stockholders' equity of $349,446.

As at December 31, 2007, we had a working capital deficit of $168,889 compared with a working capital deficit of $4,838,812 for the year ended December 31, 2006. The increase in the working capital was attributed to the payment and settlement of a $4,750,000 Promissory Note (the "Note") that was used to finance the acquisition of the building, which is recorded as a current liability for the year ended December 31, 2006.

Subsequent to December 31, 2006, the Company and the lender agreed to modify the Note and extended the due date from January 2007 to March 31, 2009, and a reduction of the interest rate from 14% per annum to 12% per annum. Furthermore, the original conversion feature of the promissory note was replaced by a share purchase warrant which allows the warrant holder to purchase up to 1,900,000 common shares of the Company at an exercise price of $2.50 per common share expiring March 31, 2010. The transaction has been filed in a Form 8-K on May 24, 2007.

Cash Flows from Operating Activities

For the year ended December 31, 2007, the Company used $3,454,124 of cash flows for operating activities compared with $1,737,600 for the year ended December 31, 2006. The increase in cash flows used for operations are attributed to net cash loss for the year ended December 31, 2007 of $2,592,859 compared with net cash loss of $1,219,075 for the year ended December 31, 2006. Furthermore, the Company had slower turnover with respect to collection of accounts receivable and had higher net purchases of inventory given the fact that sales revenue decreased by over 10% for the year ended December 31, 2007.

Cash Flows from Investing Activities

For the year ended December 31, 2007, the Company received cash flows of $6,034,731 for investing activities compared with cash outflow of $6,359,285 for the year ended December 31, 2006. The increase in cash flows provided by investing activities is attributed to the net proceeds from the sale leaseback transactions of its building and manufacturing equipment during fiscal 2007 of $6,233,411 whereas in fiscal 2006, the Company purchased a building for the Company's office and production totaling approximately $5,820,000 in addition to purchases of additional office equipment.

Cash Flows from Financing Activities

During the year ended December 31, 2007 the Company used cashflow of $2,571,298 for financing activities compared with cash inflows of $7,663,254 for the year ended December 31, 2006. During the year, the Company incurred $5,167,819 for the repayment of two promissory notes that were issued for the purchase of the Company's building in 2006. In fiscal 2006, the cash flows received from financing activities were attributed to the issuance $4,750,000 for the purchase of the Company's building, capital contributions of $957,616 and the issuance of 776,225 common shares of the Company for cash proceeds of $1,550,819.

Loan Facilities

On February 7, 2007, the Company entered into an equipment lease agreement with Mazuma Capital Corp. wherein the Company agreed to a 24-month sale and leaseback arrangement for up to $800,000 of its manufacturing equipment. The lease calls for a monthly payment based on a factor of .04125 times the average outstanding loan balance during the month. Through March 29, 2007, the company has placed property valued at $737,968 under this lease arrangement with Mazuma Capital Corp.

The contract for this sale and leaseback of equipment should be accounted for as an operating lease per SFAS 13 and 28, and will be shown as such in 2007. There is no bargain purchase option at the end of the lease, and neither the 75% nor the 90% test has been met. The title may pass back to the Company at the end of the lease; however, the lease may also be continued at the end of the 24 month period. The Company feels the appropriate stance is to show this as an operating lease in 2007; thereby recording the reduction of equipment, the corresponding loss, and treating the payments as lease expense.

Inflation has not significantly impacted the Company's operations.

Going Concern

As at December 31, 2007, the Company had a cash balance of $74,178. For the years ended December 31, 2007 and 2006, the Company recorded sales revenue of $1,355,141 and $1,521,166 and had gross profit of $610,005 and $1,064,995, respectively. The Company recorded a net loss of $24,582,613 for the year ended December 31, 2007 compared with a net loss of $16,474,909 for the year ended December 31, 2006.

Based on the above factors, there is substantial doubt regarding the Company's ability to continue as a going concern. The continuation of the Company as a going concern is dependent on the continuation of the Company's profitability from its' operations, continued financial support from its shareholders, and the ability to raise additional equity or debt financing to sustain operations. The consolidated financial statements presented in the Form 10-K/A does not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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Off-Balance Sheet Arrangements

We do not have any 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 that are material to our investors.

Critical Accounting Policies

Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to valuation allowances on accounts receivable and inventory, valuation and amortization policies on property and equipment, and valuation allowances on deferred income tax losses. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Revenue Recognition

The Company will recognize revenue from the sale of its fuel reformulating products in accordance with Securities and Exchange Commission Staff Bulletin No. 104 ("SAB 104"), "Revenue Recognition in Financial Statements". Revenue will be recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is provided, and collectibility is assured.

Stock-Based Compensation

The Company records stock-based compensation in accordance with SFAS No. 123R "Share-Based Payments", using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133". SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.  It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged.  The Company is currently evaluating the impact of SFAS No. 161 on its financial statements, and the adoption of this statement is not expected to have a material effect on the Company's financial statements.

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In December 2007, the FASB issued SFAS No. 141R, “Business Combinations”. This statement replaces SFAS 141 and defines the acquirer in a business combination as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141R also requires the acquirer to recognize contingent consideration at the acquisition date, measured at its fair value at that date. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements Liabilities –an Amendment of ARB No. 51”. This statement amends ARB 51 to establish accounting and reporting standards for the Noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.
In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including and amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending February 28, 2009. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB No. 108 is effective for periods ending after November 15, 2006. The adoption of SAB No. 108 did not have a material effect on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132 (R)" SFAS No. 158 requires employers to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. The provisions of SFAS No. 158 are effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. As such, the Company is required to adopt these provisions effective this fiscal year end. The adoption of this statement has no material effect on the Company's reported financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending February 28, 2009. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated financial statements.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statements No. 109" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a two-step method of first evaluating whether a tax position has met a more likely than not recognition threshold and second, measuring that tax position to determine the amount of benefit to be recognized in the financial statements. FIN 48 provides guidance on the presentation of such positions within a classified statement of financial position as well as on de-recognition, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

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Item 7. Financial Statements

Ethos Environmental, Inc.

December 31, 2007

MOORE & ASSOCIATES, CHARTERED
ACCOUNTANTS AND ADVISORS
PCAOB REGISTERED

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ethos Environmental Inc.

We have audited the accompanying restated consolidated balance sheets of Ethos Environmental Inc. as of December 31, 2007 and December 31, 2006, and the related restated consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2007 December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the restated consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethos Environmental Inc. as of December 31, 2007 and December 31, 2006, and the related restated consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2007 December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying restated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred a net loss of $24,582,613 and $16,474,909, which raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Moore & Associates, Chartered

Moore & Associates Chartered
Las Vegas, Nevada
November 19, 2008

2675 S. Jones Blvd. Suite 109, Las Vegas, NV 89146 (702) 253-7499 Fax (702) 253-7501

Ethos Environmental, Inc.
Consolidated Balance Sheets
(expressed in U.S. dollars)

| | December 31, 2007 $ (Restated – Note 11) | December 31, 2006 $ (Restated – Note 11) |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash | 74,176 | 64,867 |
| Accounts Receivable, net of allowance of doubtful accounts | 84,248 | 295,932 |
| Inventory (Note 3) | 602,399 | 410,915 |
| Other Current Assets | – | 19,900 |
| Total Current Assets | 760,823 | 791,614 |
| Property and Equipment (Note 4) | 118,916 | 6,354,740 |
| Other Assets | 399,419 | 5,000 |
| Total Assets | 1,279,158 | 7,151,354 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts Payable | 223,891 | 311,119 |
| Accrued Liabilities | 109,300 | 101,488 |
| Notes Payable (Note 5) | 350,000 | 5,167,819 |
| Demand Loan (Note 5(a)) | 246,521 | 50,000 |
| Total Liabilities | 929,712 | 5,630,426 |
| Stockholders' Equity | | |
| Common Stock (Note 6)<br>Authorized: 100,000,000 common shares, par value: $0.0001 per common share<br>Issued and outstanding: 37,998,562 and 24,334,562 common shares, respectively | 3,800 | 2,434 |

| | | |
|---|---|---|
| Additional Paid-In Capital (Note 6) | 44,779,632 | 21,369,867 |
| Accumulated Deficit | (44,433,986) | (19,851,373) |
| Total Stockholders’ Equity | 349,446 | 1,520,928 |
| Total Liabilities and Stockholders’ Equity | 1,279,158 | 7,151,354 |

Going Concern (Note 1)
Commitments (Note 9)
Restatement (Note 12)
Subsequent Events (Note 13)

(The accompanying notes are an integral part of these consolidated financial statements)



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Ethos Environmental, Inc.
Consolidated Statements of Operations
(expressed in U.S. dollars)

| | For the Year Ended December 31, 2007 $ (Restated – Note 11) | For the Year Ended December 31, 2006 $ (Restated – Note 11) |
|---|---|---|
| Revenue | 1,355,141 | 1,521,166 |
| Cost of Sales | 745,136 | 456,471 |
| Gross Profit | 610,005 | 1,064,995 |
| Operating Expenses | | |
| Amortization Expense | 20,193 | 18,865 |
| Bad Debt Expense (Note 2(d)) | 427,530 | – |
| General and Administrative | 17,655,463 | 12,925,739 |
| Impairment of Property and Equipment | – | 36,728 |
| Selling Expense | 6,861,554 | 4,609,910 |
| Total Operating Expenses | 24,964,740 | 17,591,242 |
| Total Operating Loss | (24,354,735) | (16,526,547) |
| Other Income (Expenses) | | |
| Interest Expense | (618,084) | (620,244) |
| Other Expense | – | (58,931) |
| Other Income | 390,206 | 730,813 |
| Net Loss | (24,582,613) | (16,474,909) |
| Net Loss Per Share – Basic and Diluted | | |
| Net Loss Per Share – Basic and Diluted | (0.87) | (0.78) |
| Weighted Average Shares Outstanding | 28,197,683 | 21,188,318 |

(The accompanying notes are an integral part of these consolidated financial statements)

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Ethos Environmental, Inc.
Consolidated Statements of Cash Flows
(expressed in U.S. dollars)

| | For the Year Ended December 31, 2007 $ (Restated – Note 11) | For the Year Ended December 31, 2006 $ (Restated – Note 11) |
|---|---|---|
| Operating Activities | | |
| Net Loss For The Year | (24,582,613) | (16,474,909) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Amortization Expense | 201,093 | 292,096 |
| Bad Debt Expense | 427,530 | – |
| Common Stock Issued for Services | 13,214,960 | 14,927,010 |
| Impairment from Sale Leaseback of Building | 1,500,000 | – |
| Impairment from Sale of Property and Equipment | – | 36,728 |
| Share Purchase Warrants Issued for Debt Extinguishment | 6,646,171 | – |
| Changes in operating assets and liabilities: | | |
| Accounts Receivable | (215,846) | (5,875) |
| Inventory | (191,484) | (151,351) |
| Other Assets | (374,519) | 67,209 |
| Accounts Payable and Accrued Liabilities | (79,416) | (428,508) |
| Net Cash Used In Operating Activities | (3,454,124) | (1,737,600) |
| Investing Activities | | |
| Purchase of Property and Equipment | (198,680) | (6,359,874) |
| Proceeds on Sale of Equipment, net | 6,233,411 | 589 |
| Net Cash Provided By (Used in) Investing Activities | 6,034,731 | (6,359,285) |
| Financing Activities | | |
| Proceeds from Capital Contribution | – | 957,616 |
| Proceeds from Issuance of Common Shares | 2,050,000 | 1,550,819 |
| Proceeds from Issuance of Note Payable | 350,000 | 5,167,819 |
| Proceeds from Related Parties | 196,521 | 50,000 |
| Repayment of Note Payable | (5,167,819) | (13,000) |
| Repurchase of Common Shares | – | (50,000) |

| | | |
|---|---|---|
| Net Cash Provided By (Used In) Financing Activities | (2,571,298) | 7,663,254 |
| Increase (Decrease) in Cash | 9,309 | (433,631) |
| Cash – Beginning of Period | 64,867 | 498,498 |
| Cash – End of Period | 74,176 | 64,867 |
| Supplemental Disclosures | | |
| Interest paid | – | – |
| Income tax paid | – | – |

(The accompanying notes are an integral part of these consolidated financial statements)

Ethos Environmental, Inc.
Consolidated Statement of Stockholders' Equity
From January 1, 2005 to December 31, 2007
(expressed in U.S. dollars)

| | Common Stock Shares # | Par Value $ | Additional Paid-In Capital $ | Accumulated Deficit $ | Total $ |
|---|---|---|---|---|---|
| Balance – December 31, 2004 | 17,609,992 | 1,761 | 3,805,764 | (2,324,827) | 1,482,698 |
| Issuance of common shares for cash | 5,108,395 | 511 | 175,689 | – | 176,200 |
| Net loss for the year | – | – | – | (1,051,637) | (1,051,637) |
| Balance – December 31, 2005 | 22,718,387 | 2,272 | 3,981,453 | (3,376,464) | 607,261 |
| Repurchase of common shares | (5,000,200) | (500) | (49,500) | – | (50,000) |
| Recapitalization Transaction | | | | | |
| Shares of Victor Industries Inc. | 479,500 | 48 | (48) | – | – |
| Net assets assumed in recapitalization | – | – | 3,131 | – | 3,131 |
| Capital Contribution | – | – | 957,616 | – | 957,616 |
| Issuance of common shares to settle services | 4,910,000 | 491 | 13,574,499 | – | 13,574,990 |
| Issuance of common shares for cash | 776,225 | 78 | 1,550,741 | – | 1,550,819 |
| Issuance of common shares for services | 350,650 | 35 | 751,985 | – | 752,020 |
| Issuance of common shares for services | 100,000 | 10 | 599,990 | – | 600,000 |
| Net loss for the year | – | – | – | (16,474,909) | (16,474,909) |
| Balance – December 31, 2006 (Restated – Note 11) | 24,334,562 | 2,434 | 21,369,867 | (19,851,373) | 1,520,928 |
| Issuance of common shares for services | 11,214,000 | 1,121 | 13,213,839 | – | 13,214,960 |
| Issuance of common shares for cash | 2,500,000 | 250 | 2,049,750 | – | 2,050,000 |

| | | | | | |
|---|---|---|---|---|---|
| Fair value of share purchase warrants | – | – | 6,646,171 | – | 6,646,171 |
| Impairment of Sale Leaseback of Equipment | – | – | 1,500,000 | – | 1,500,000 |
| Cancellation of common shares | (50,000) | (5) | 5 | – | – |
| Net loss for the year | – | – | – | (24,582,613) | (24,582,613) |
| Balance – December 31, 2007 (Restated – Note 11) | 37,998,562 | 3,800 | 44,779,632 | (44,433,986) | 349,446 |

(The accompanying notes are an integral part of these consolidated financial statements)

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Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

1. Nature of Operations

Ethos Environmental, Inc. (the “Company”) was incorporated under the laws of the State of Nevada on January 19, 1926 as Omo Mining and Leasing Corporation. On January 19, 1929, the Company changed its name to Omo Mines Corporation. On November 14, 1936, the Company changed its name to Kaslo Mines Corporation. On December 24, 1977, the Company changed its name to Victor Industries, Inc., focused on the development, manufacturing, and marketing of products related to zeolite, a metal used for the production of toxic chemical absorbents, water softeners, gas absorbents, radiation absorbents and soil and fertilizer amendments.

On November 2, 2006, the Company signed and executed the Plan of Merger (the “Merger”) with Ethos Environmental, Inc., a company incorporated in the State of Nevada which manufactures and distributes fuel reformulating products that increase fuel mileage, reduce emissions, and maintain lower fuel costs. Under the terms of the Agreement, the Company acquired 100% of the issued and outstanding common shares of Ethos Environmental, Inc. in exchange for the issuance of 17,718,187 common shares of the Company. As a result of the Agreement, the former owners of Ethos Environmental, Inc. hold approximately 97% of the issued and outstanding common shares of the Company. The acquisition is, in substance, a capital transaction and is outside of the scope of SFAS No. 141, Business Combinations, and the acquisition has been accounted for as a continuation of the Ethos Environmental, Inc. business in accordance with EITF 98-3, Determining Whether a Non-Monetary Transaction Involves a Receipt of Productive Assets or a Business. Under recapitalization accounting, Ethos Environmental, Inc. is considered the acquirer for accounting and financial reporting purposes, and acquired the assets and assumed the liabilities of Victor Industries, Inc.

In addition, as part of the Merger agreement, the Company agreed to a reverse stock split of its’ issued and outstanding common shares at a rate of 1 for 1,200 common shares. This reverse stock split was approved and finalized on November 16, 2006. All common share amounts listed are shown subsequent to the reverse stock split.

These consolidated financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. During the year ended December 31, 2007 and 2006, the Company recognized sales revenue of $1,355,141 and $1,521,166 but incurred a net loss of $24,582,613 and $16,474,909, respectively. As at December 31, 2007, the Company had an accumulated deficit of $44,433,986. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability to raise equity or debt financing, and the attainment of profitable operations from the Company's future business. These factors raise substantial doubt regarding the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company’s plan of action over the next twelve months is to continue its operations to manufacture and distribute fuel reformulating products and raise additional capital financing, if necessary, to sustain operations.

2. Summary of Significant Accounting Policies

a) Basis of Presentation

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. The Company's fiscal year-end is December 31.

b) Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to valuation allowances on accounts receivable and inventory, valuation and amortization policies on property and equipment, and valuation allowances on deferred income tax losses. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

2. Summary of Significant Accounting Policies (continued)

c) Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. As at December 31, 2007 and 2006, the Company had no cash equivalents.

d) Accounts Receivable

Accounts receivable are stated at their principal balances and are non-interest bearing and unsecured. Management conducts a periodic review of the collectability of accounts receivable and deems all unpaid amounts greater than 30 days to be past due. If uncertainty exists with respect to the recoverability of certain amounts based on historical experience or economic climate, management will establish an allowance against the outstanding receivables. For the year ended December 31, 2007, the Company recorded bad debt expense of $427,530 related to one customer who has defaulted on their amount owing. As at December 31, 2007 and 2006, the Company recorded an allowance for doubtful accounts of $111,362 and $126,485, respectively.

e) Inventory

Inventory is comprised of raw materials and finished goods of its fuel reformulating products and is recorded at the lower of cost or net realizable value on a first in first out (FIFO) basis. The Company establishes inventory reserves for estimated obsolete or unmarketable inventory equal to the differences between the cost of inventory and the estimated realizable value based upon assumptions about future and market conditions. Shipping and handling costs are classified as a component of cost of sales in the statement of operations.

f) Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the anticipated lease term or the estimated useful life. The Company's policy is to capitalize items with a cost greater than $4,000 and an estimated useful life greater than one year. The Company reviews all property and equipment for impairment at least annually. Typically, the company depreciates its assets over a 5 year period except for the building which is depreciated on a 25 year basis.

g) Revenue Recognition

The Company will recognize revenue from the sale of its fuel reformulating products in accordance with Securities and Exchange Commission Staff Bulletin No. 104 (“SAB 104”), “Revenue Recognition in Financial Statements”. Revenue will be recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is provided, and collectibility is assured.

h) Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with SFAS No. 128, "Earnings per Share". SFAS No. 128 requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing Diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive.

i) Comprehensive Loss

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive loss and its components in the consolidated financial statements. As at December 31, 2007 and 2006, the Company did not record any comprehensive income or loss.

j) Financial Instruments

The fair value of financial instruments, which include cash, accounts receivable, other current assets, accounts payable, and accrued liabilities were estimated to approximate their carrying value due to the immediate or relatively short maturity of these instruments.

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

2. Summary of Significant Accounting Policies (continued)

k) Foreign Currency Translation

The Company's functional and reporting currency is the United States dollar. Monetary assets and liabilities denominated in foreign currencies are translated in accordance with SFAS No. 52 "Foreign Currency Translation" using the exchange rate prevailing at the balance sheet date. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in Canadian dollars. The Company has not, to the date of these financials statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

l) Advertising Costs

Advertising costs are expensed as incurred and are recorded in the consolidated financial statements as selling expense. For the years ended December 31, 2007 and 2006, the Company recorded advertising costs of $283,470 and $132,955, respectively.

m) Income Taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109 "Accounting for Income Taxes" as of its inception. Pursuant to SFAS No. 109 the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefits of net operating losses have not been recognized in these consolidated financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

n) Stock-Based Compensation

The Company records stock-based compensation in accordance with SFAS No. 123R "Share Based Payments", using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

o) Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133". SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact of SFAS No. 161 on its financial statements, and the adoption of this statement is not expected to have a material effect on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations”.  This statement replaces SFAS 141 and defines the acquirer in a business combination as the entity that obtains control of one or more businesses in a business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141R also requires the acquirer to recognize contingent consideration at the acquisition date, measured at its fair value at that date. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements Liabilities –an Amendment of ARB No. 51”.  This statement amends ARB 51 to establish accounting and reporting standards for the Noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and earlier adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.



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Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

2. Summary of Significant Accounting Policies (continued)

o) Recent Accounting Pronouncements (continued)

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including and amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending February 28, 2009. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial statements.

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3. Inventory

| | December 31, 2007 $ | December 31, 2006 $ |
|---|---|---|
| Raw Materials | 267,278 | 335,381 |
| Finished Goods | 335,121 | 75,534 |
| | 602,399 | 410,915 |

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

4. Property and Equipment

| | Cost | Accumulated Amortization | Net Book Value December 31, 2007 | Net Book Value December 31, 2006 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Building and Land | – | – | – | 5,666,824 |
| Computers | 36,637 | 35,482 | 1,155 | 12,762 |
| Equipment | 235,257 | 120,339 | 114,918 | 669,609 |
| Furniture and Fixtures | 16,698 | 13,855 | 2,843 | 5,545 |
| | 288,592 | 169,676 | 118,916 | 6,354,740 |

During the year ended December 31, 2007, the Company recorded an impairment charge of $nil (2006 - $36,728 relating to vehicles purchased by the Company that was no longer used in the Company's operations.

5. Notes Payable

a) As at December 31, 2007, the Company owed $246,521 (2006 - $50,000) in a demand loan for financing of operations. Under the terms of the loan, the amount is unsecured, non-interest bearing, and due on demand.

b) In December 2007, the Company entered into a Demand Loan Agreement with a third party for $350,000. Under the terms of the loan, the amount was unsecured, non-interest bearing, and due on demand.

b) On December 26, 2006, the company entered into a Demand Loan Agreement with a third party for $500,000 with an annual interest rate of 12%. As at December 31, 2007, the Company had fully repaid the demand loan.

c) On January 26, 2006, the Company secured a loan for its building in the amount of $4,750,000 with a convertible Promissory Note. The Note was convertible into 1,900,000 common shares of the Company at a conversion rate of $2.50 per common share. The Note carried an annual interest rate of 17% with interest-only payments and a term of one year.

On December 6, 2006, the Note was assigned to another third party, and interest was renegotiated to 14% per annum.

On May 24, 2007, the Company and the third party renegotiated the terms of the settlement and cancelled the convertibility feature of the Note and replaced it with the issuance of 1,900,000 share purchase warrants. Each share purchase warrants entitles the warrant holder to purchase one common share of the Company at $2.50 per common share for a three-year period commencing from the date of the renegotiated terms. In addition, the annual interest rate of the Note was reduced from 14% to 12% per annum.

In October 2007, corresponding with the completion of the sale leaseback of the Company's building, the Note was fully repaid.

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
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6. Common Shares

Transactions for the year ended December 31, 2007:

a) On November 27, 2007, the Company issued 350,000 common shares of the Company at $2.05 per common share to settle consulting services valued at $717,500.

b) On November 21, 2007, the Company issued 20,000 common shares of the Company at $2.15 per common share to settle consulting services valued at $43,000.

c) On November 9, 2007, the Company issued 167,500 common shares of the Company at $1.20 per common share to settle consulting services and professional fees valued at $201,000.

d) On October 13, 2007, the Company issued 10,025,000 common share of the Company at $0.95 per common share to settle consulting services, professional fees, and management fees totalling $9,523,750, including 5,000,000 common shares to the Company's Chief Executive Officer with a fair value of $4,750,000.

e) On July 24, 2007, the Company issued 2,500,000 common shares of the Company in a private placement agreement as part of the sale of the Company's land and building, for proceeds of $2,000,000. The remaining $5,875,000 of the purchase and sale agreement has been allocated to the sale of the land and building.

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
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6. Common Shares (continued)

f) On April 27, 2007, the Company issued 127,500 common shares of the Company at $3.10 per common share, or fair value of $395,250, for consulting services incurred.

g) On April 5, 2007, the Company cancelled 50,000 common shares of the Company and returned the shares to treasury.

h) On April 4, 2007, the Company issued 156,000 common shares of the Company at $4.25 per common share, or fair value of $663,000, for professional fees and consulting services incurred.

i) On March 23, 2007, the Company issued 100,000 common shares of the Company at $4.00 per common share, or fair value of $400,000, for professional fees and consulting services incurred.

j) On March 9, 2007, the Company issued 10,000 common shares of the Company at $3.54 per common share, or fair value of $35,400, for professional fees incurred.

k) On February 6, 2007, the Company issued 58,000 common shares of the Company at $4.07 per common share, or fair value of $236,060, for professional fees and consulting services incurred.

l) On January 24, 2007, the Company issued 200,000 common shares at $5.00 per common share, or fair value of $1,000,000, for consulting services incurred.

Transactions for the year ended December 31, 2006:

m) On December 4, 2006, the Company issued 100,000 common shares of the Company to the Chief Financial Officer of the Company at $6.00 per common share for a fair value of $600,000 as part of the compensation package.

n) On November 21, 2006, the Company issued 1,310,000 common shares of the Company for consulting services at $5.00 per common share.

o) In November 2006, the Company issued 776,225 common shares of the Company in various private placements for gross proceeds of $1,550,819.

p) In November 2006, the Company issued 350,650 common shares of the Company at approximately $2.00 per common share to settle services valued at $752,020.

q) On November 16, 2006, the Company approved a 1-to-1,200 reverse common stock split that decreased the number of issued and outstanding common shares from 573,850,485 common shares to 479,500 common shares after accounting for rounding up of partial common shares affected by the reverse stock split. The common stock split has been applied retroactively.

r) On November 2, 2006, the Company issued 17,718,187 post-reverse split common shares to acquire 100% of the common shares of Ethos Environmental, Inc. in a reverse takeover transaction, as disclosed in Note 3. The common shares issued have been applied retroactively.

s) On November 1, 2006, the Company issued 3,500,000 post-reverse split common shares of the Company to the President of the Company with a fair value of $2.00 per common share as settlement of services. The fair value of the common shares were derived by management using historical share issuance prices to third parties, and were a result of pre-merger activity.

t) On November 1, 2006, the Company issued 100,000 post-reverse split common shares at $0.25 per common share to settle legal fees valued at $25,000.

u) During the six months ended June 30, 2008, the Company received capital contributions totalling $957,616 which has been recorded as additional paid-in capital.

7. Share Purchase Warrants

In May 2007, the Company issued 1,900,000 share purchase warrants as part of the amendment of the loan agreement, as noted in Note 5(b) above. Each warrant allows the warrant holder to purchase one additional common share of the Company at $2.50 per common share within three years of the signed date. As at December 31, 2007, no share purchase warrants have been exercised.

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

7. Share Purchase Warrants (continued)

During the year ended December 31, 2007, the Company issued the following share purchase warrants:

| | Number of Warrants | Exercise Price |
|---|---|---|
| Balance – December 31, 2006 | – | – |
| Issued | 1,900,000 | $ 2.50 |
| Balance – December 31, 2007 | 1,900,000 | $ 2.50 |

As at December 31, 2007, the following share purchase warrants were outstanding:

| Number of Warrants | Exercise Price | Expiry Date |
|---|---|---|
| 1,900,000 | $ 2.50 | May 23, 2010 |
| 1,900,000 | | |

8. Related Party Transactions

a) During the year ended December 31, 2007, the Company issued 5,000,000 common shares to the Chief Executive Officer of the Company (now former Chief Executive Officer of the Company) for management fees with a fair value of $4,750,000.

9. Commitments and Contingencies

a) The Company leases an office building under a lease agreement that expires in July 2012. For the years ended December 31, 2006 and 2005, rent expense totalled $52,657 and 66,844, respectively.

In October 2007, the Company completed a sale and leaseback agreement with respect to its building. Commencing November 1, 2007, the Company entered into a 15-year lease agreement, with monthly lease payments of $63,000 in 2007. For the year ended December 31, 2007, the Company incurred lease expense of $126,000 (2006 - $52,657).

During the year ended December 31, 2007, the Company entered into various lease agreements with respect to its manufacturing equipment, including sale leaseback agreements of manufacturing equipment of approximately $737,968. Under the lease terms, the monthly payment is based on a factor of 0.04125 times the average outstanding loan balance for the month. For the year ended December 31, 2007, the Company incurred lease expense of $246,554 (2006 - $4,996).

The Company's future annual minimum lease payments are as follows:

| | Amount $ |
|---|---|

| | |
|---|---|
| December 31, 2008 | 1,174,860 |
| December 31, 2009 | 900,891 |
| December 31, 2010 | 809,568 |
| December 31, 2011 | 809,568 |
| December 31, 2012 | 782,784 |
| Thereafter | 3,654,000 |
| | 8,131,671 |



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Ethos Environmental, Inc.
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10. Concentrations

Inventory Purchases

For the year ended December 31, 2007, the Company uses eight vendors for its fuel reformulating products which account for 97% of product purchases compared with five vendors comprising 90% of product purchases for the year ended December 31, 2006.

Sales Revenue

For the year ended December 31, 2007, the Company had one customer comprising $705,205 or 52% of total revenues compared with one customer comprising $1,205,189 or 88% of total revenues for the year ended December 31, 2006.

11. Income Taxes

The Company has adopted the provisions of SFAS 109, "Accounting for Income Taxes". Pursuant to SFAS 109, the Company is required to compute tax asset benefits for net operating losses carried forward. The potential benefit of net operating losses have not been recognized in the consolidated financial statements because the Company cannot be assured that it is more likely than not that it will utilize the net operating losses carried forward in future years. The Company has $15,038,000 of net operating losses to carryforward to offset taxable income in future years which expire through fiscal 2027. For the years ended December 31, 2007 and 2006, the valuation allowance established against the deferred tax assets increased by $8,289,716 and $5,588,981, respectively.

The components of the net deferred tax asset at December 31, 2007 and 2006, the statutory tax rate, the effective tax rate and the amount of the valuation allowance are indicated below:

| | December 31, 2007 $ | December 31, 2006 $ |
|---|---|---|
| Income (Loss) Before Taxes | (24,582,613) | (16,474,909) |
| Statutory rate | 34% | 34% |
| Computed expected tax recovery | (8,358,088) | (5,601,469) |
| Non-deductible expenses | 68,372 | 12,488 |
| Change in valuation allowance | 8,289,716 | 5,588,981 |
| Reported income taxes | – | – |

| | December 31, 2007 $ | December 31, 2006 $ |
|---|---|---|

| | | |
|---|---|---|
| Deferred tax asset | | |
| - Cumulative net operating losses | 15,038,059 | 6,748,343 |
| - Less valuation allowance | (15,038,059) | (6,738,343) |
| | | |
| Net deferred tax asset | – | – |

The Company has incurred operating losses of $15,038,000 which, if unutilized, will expire through to 2027. Future tax benefits, which may arise as a result of these losses, have not been recognized in these consolidated financial statements, and have been offset by a valuation allowance. The following table lists the fiscal year in which the loss was incurred and the expiration date of the operating:

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
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| Period Incurred | Net Loss $ | Expiration Date of Operating Losses |
|---|---|---|
| December 31, 2004 | 801,800 | 2011 |
| December 31, 2005 | 357,500 | 2020 |
| December 31, 2006 | 5,589,000 | 2026 |
| December 31, 2007 | 8,289,700 | 2027 |
| | 15,038,000 | |

12. Restatement

The Company has restated its consolidated financial statements as at and for the years ended December 31, 2007 and 2006. The consolidated financial statements have been restated to reflect the following transactions:

- impairment of goodwill and intangible assets upon the Company's acquisition of Ethos Environmental, Inc.;
- recording of fair value of issuance of common shares to management and directors of the Company at the end-of-day trading price when the Company's common stock was publicly traded or based on the most recent third-party issuance price when the Company's common stock was not publicly traded;
- recording of the issuance of common shares for cash proceeds and issuance of common shares for services for the years ended December 31, 2007 and 2006;
- recording of the issuance in fiscal 2006 of common shares to the Company's Chief Financial Officer (CFO) that was previously booked during the year ended December 31, 2007;
- recording of $901,080 of capital contributions for the year ended December 31, 2006;
- reversal of restricted cash that was previously recorded in the Company's audited financial statements, as the Company does not have ownership of the funds;
- property and equipment that was purchased for personal use were written off and charged to operations under general and administrative expense;
- impairment of property & equipment that are no longer in the Company's ownership and use of operations and adjustments to amortization expense based on the Company's amortization policies; and
- reversal of unsupported sales invoices and inventory purchases for the years ended December 31, 2007 and 2006.

December 31, 2007

The effect of the restatement is to decrease total assets and stockholders' equity by $7,050,194. Furthermore, the restatements decreased sales revenue by $9,021,505, and increased net loss for the year ended December 31, 2007 by $6,230,130 and accumulated deficit as at December 31, 2007 by $16,363,959.

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

a) Balance Sheet

| | As at December 31, 2007 | | |
|---|---|---|---|
| | As Reported | Adjustment | Restated |
| | $ | $ | $ |
| Assets | | | |
| Accounts Receivable | 5,951,275 | (5,867,027) | 84,248 |
| Inventory | 1,376,030 | (773,631) | 602,399 |
| Total Current Assets | 7,401,481 | (6,640,658) | 760,823 |
| Property and Equipment | 228,452 | (109,536) | 118,916 |
| Other Assets | 699,419 | (300,000) | 399,419 |
| Total Assets | 8,329,352 | (7,050,194) | 1,279,158 |
| Stockholders' Equity | | | |
| Common Stock | 3,687 | 113 | 3,800 |
| Additional Paid-In Capital | 35,615,040 | 9,164,592 | 44,779,632 |
| Accumulated Deficit | (28,219,087) | (16,214,899) | (44,433,986) |
| Total Stockholders' Equity | 7,399,640 | (7,050,194) | 349,446 |
| Total Liabilities and Stockholders' Equity | 8,329,352 | (7,050,194) | 1,279,158 |

b) Statement of Operations

| | For the Year Ended December 31, 2007 | | |
|---|---|---|---|
| | As Reported | Adjustment | Restated |
| | $ | $ | $ |
| Sales Revenue | 10,376,646 | (9,021,505) | 1,355,141 |
| Cost of Sales | 3,404,735 | (2,659,599) | 745,136 |
| Gross Profit | 6,971,911 | (6,361,906) | 610,005 |
| Operating Expenses | | | |
| Bad Debt Expense | – | 427,530 | 427.530 |
| General and Administrative | 18,214,796 | (559,333) | 17,655,463 |
| Total Operating Expenses | 25,096,543 | (131,803) | 24,964,740 |
| Net Loss | (18,352,510) | (6,230,130) | (24,582,640) |
| Net Loss Per Share – Basic and Diluted | (0.66) | (0,21) | (0.87) |

Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

12. Restatement (continued)

c) Statement of Cashflows

| | For the Year Ended December 31, 2007 | | |
|---|---|---|---|
| | As Reported | Adjustment | Restated |
| | $ | $ | $ |
| Operating Activities | | | |
| Net Loss for the Year | (18,352,510) | (6,230,103) | (24,582,613) |
| Amortization Expense | 213,702 | (12,609) | 201,093 |
| Bad Debt Expense | – | 427,530 | 427,530 |
| Common Stock Issued for Services | 15,359,710 | (2,144,750) | 13,214,960 |
| Impairment from Sale Leaseback of Building | – | 1,500,000 | 1,500,000 |
| Changes in Operating Assets and Liabilities | | | |
| Accounts Receivable | (5,623,951) | 5,408,105 | (215,846) |
| Inventory | (965,115) | 773,631 | (191,484) |
| Other Assets | (674,519) | 300,000 | (374,519) |
| Accounts Payable and Accrued Liabilities | (272,195) | 192,779 | (79,416) |
| Cashflows Provided By (Used In) Operating Activities | (3,668,707) | 214,583 | (3,454,124) |
| | | | |
| Investing Activities | | | |
| Purchase of Property and Equipment | – | (198,680) | (198,680) |
| Proceeds from Sale of Property and Equipment | 1,199,314 | 5,034,097 | 6,233,411 |
| Cashflows Provided By Investing Activities | 1,199,314 | 4,835,417 | 6,034,731 |
| | | | |
| Financing Activities | | | |
| Proceeds from Issuance of Note Payable | 1,055,334 | (705,334) | 350,000 |
| Repayment of Note Payable | (1,123,153) | (4,044,666) | (5,167,819) |
| Cashflows Provided by (Used In) Financing Activities | 2,178,702 | (4,750,000) | (2,571,298) |
| Increase (Decrease) in Cash | (290,691) | 300,000 | 9,309 |
| Cash – Beginning of Period | 364,867 | (300,000) | 64,867 |

d) Statement of Stockholders' Deficit

| | Balance – December 31, 2007 | | |
|---|---|---|---|
| | As Reported | Adjustment | Restated |
| | $ | $ | $ |
| Common Stock | 3,687 | 113 | 3,800 |
| Additional Paid-In Capital | 35,615,040 | 9,164,592 | 44,779,632 |
| Accumulated Deficit | (28,219,087) | (16,214,899) | (44,433,986) |
| | | | |
| Number of Shares of Common Stock | 36,871,687 | 1,126,875 | 37,998,562 |

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Ethos Environmental, Inc.
Notes to the Consolidated Financial Statements
(expressed in U.S. dollars)

12. Restatement (continued)

December 31, 2006

The effect of the restatement is to decrease total assets by $4,702,099, decrease total liabilities by $192,779, and decrease stockholders' equity by $4,509,320. Furthermore, the restatements decrease sales revenue by $3,395,907, and increase net loss for the year ended December 31, 2006 and accumulated deficit as at December 31, 2006 by $10,067,166.

a) Balance Sheet

| | As at December 31, 2006 | | |
|---|---|---|---|
| | As Reported $ | Adjustment $ | Restated $ |
| Assets | | | |
| Restricted Cash | 300,000 | (300,000) | – |
| Accounts Receivable | 327,324 | (31,392) | 295,932 |
| Total Current Assets | 1,123,006 | (331,392) | 791,614 |
| Property and Equipment | 10,725,447 | (4,370,707) | 6,354,740 |
| Total Assets | 11,853,453 | (4,702,099) | 7,151,354 |
| Liabilities | | | |
| Accounts Payable | 503,898 | (192,779) | 311,119 |
| Total Liabilities | 5,823,205 | (192,779) | 5,630,426 |
| Stockholders' Equity | | | |
| Common Stock | 2,311 | 123 | 2,434 |
| Additional Paid-In Capital | 15,961,204 | 5,408,663 | 21,369,867 |
| Accumulated Deficit | (9,933,267) | (9,918,106) | (19,851,373) |
| Total Stockholders' Equity | 6,030,248 | (4,509,320) | 1,520,928 |
| Total Liabilities and Stockholders' Equity | 11,853,453 | (4,702,099) | 7,151,354 |

b) Statement of Operations

| | For the Year Ended December 31, 2006 | | |
|---|---|---|---|
| | As Reported $ | Adjustment $ | Restated $ |
| Sales Revenue | 4,768,013 | (3,246,847) | 1,521,166 |
| Cost of Sales | 1,340,135 | (883,664) | 456,471 |
| Gross Profit | 3,427,878 | (2,363,243) | 1,064,635 |
| Operating Expenses | | | |
| Amortization Expense | – | 18,865 | 18,865 |
| General and Administrative | 5,346,409 | 7,579,330 | 12,925,739 |
| Impairment of Property and Equipment | – | 36,728 | 36,728 |
| Selling Expense | 4,689,910 | (80,000) | 4,609,910 |
| Total Operating Expenses | 10,036,319 | 7,554,923 | 17,591,242 |
| Net Loss | (6,556,803) | (9,918,106) | (16,474,909) |
| Net Loss Per Share – Basic and Diluted | (0.05) | (0.73) | (0.78) |

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12. Restatement (continued)

c) Statement of Cashflows

| | For the Year Ended December 31, 2006 | | |
|---|---|---|---|
| | As Reported | Adjustment | Restated |
| | $ | $ | $ |
| Operating Activities | | | |
| Net Loss for the Year | (6,556,803) | (9,918,106) | (16,474,909) |
| Amortization Expense | 358,786 | (66,690) | 292,096 |
| Common Stock Issued for Services | 7,580,990 | 7,346,020 | 14,927,010 |
| Impairment of Property and Equipment | – | 36,728 | 36,728 |
| Changes in Operating Assets and Liabilities | | | |
| Accounts Receivable | (37,267) | 31,392 | (5,875) |
| Accounts Payable and Accrued Liabilities | (235,729) | (192,779) | (428,508) |
| Cashflows Provided By (Used In) Operating Activities | 1,025,835 | (2,763,435) | (1,737,600) |
| Financing Activities | | | |
| Proceeds from Capital Contribution | 45,000 | 912,616 | 957,616 |
| Proceeds from Issuance of Common Shares | – | 1,550,819 | 1,550,819 |
| Cashflows Provided by Financing Activities | 5,199,819 | 2,463,435 | 7,663,254 |
| Increase (Decrease) in Cash | (133,631) | (300,000) | (433,631) |
| Cash – End of Period | 364,867 | (300,000) | 64,867 |

d) Statement of Stockholders' Deficit

| | Balance – December 31, 2006 | | |
|---|---|---|---|
| | As Reported | Adjustment | Restated |
| | $ | $ | $ |
| Common Stock | 2,311 | 123 | 2,434 |
| Additional Paid-In Capital | 15,961,204 | 5,408,663 | 21,369,867 |
| Accumulated Deficit | (9,933,267) | (9,918,106) | (19,851,373) |
| Number of Shares of Common Stock | 23,107,687 | 1,226,875 | 24,334,562 |

13. Subsequent Events

a) On March 31, 2008, the Company issued a Promissory Note (the "Note") in exchange for cash proceeds of $300,000. In accordance with the terms of the Note, the amount is unsecured, due interest at 12% per annum payable monthly in arrears, and due on March 28, 2009.

b) On March 26, 2008, the Company issued a Promissory Note (the "Note") in exchange for cash proceeds of $1,000,000. In accordance with the terms of the Note, the amount is secured with 2,000,0000 common shares owned by the Company's Chief Executive Officer, due interest of 12% per annum, and is due on July 30, 2008.

c) On January 30, 2008, the Company repaid outstanding promissory notes totaling $500,000. Refer to Note 12(d).

d) On January 18, 2008, the Company issued a Promissory Note in exchange for cash proceeds of $150,000. In accordance with the terms of the Note, the amount is unsecured, non-interest bearing, and is due on January 18, 2009. The Note was subsequently repaid on January 30, 2008.

e) Subsequent to December 31, 2007, the Company issued 106,550 common shares to settle consulting services and professional fees, and issued 742,798 common shares pursuant to a provision in the Registration Rights Agreement with GreenBridge Capital Partners IV, LLC.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Other than as may have been previously disclosed in our filings with the SEC, we have had no changes in and disagreements with our independent public accountants on accounting and financial disclosure.

Item 8A(T). Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, our management, including Corey P. Schlossmann, our Chief Executive Officer, and Thomas W. Maher, our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures for the period ended December 31, 2007 and December 31, 2006. This evaluation was performed as of November 18, 2008.

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our chief executive officer and our chief financial officer. Based on that evaluation, Mssrs. Schlossmann and Maher concluded that because of the material weaknesses in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of December 31, 2007.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007 and December 31, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. During our assessment of the effectiveness of internal control over financial reporting as of December 31, 2007 and December 31, 2006, management identified material weaknesses related to (i) the U.S. GAAP expertise of our internal accounting staff and (ii) our internal audit functions, and material weaknesses related to (i) the absence of an Audit Committee as of December 31, 2007 and December 31, 2006 and (ii) a lack of segregation of duties within accounting functions.

The Company completed a merger in November 2006, following which new management was appointed. Since that time, our internal accounting department has been inadequate to effectively respond to requirements under Section 404, which resulted in material weaknesses of our internal control over financial reporting for the years ended December 31, 2007 and 2006.

On September 5, 2008, the Company accepted the resignations of Enrique de Vilmorin, Luis Willars, and Jose Manuel Escobedo from all positions with the Company. These resignations were precipitated by certain shareholders of the Company advising Mr. de Vilmorin that they would be formally requesting a shareholder vote to replace management, including the Company's directors. Prior to receiving such a demand, Mr. de Vilmorin, Mr. Willars and Mr. Escobedo resigned from their positions with the Company.

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Immediately following their resignations, the Company launched an internal investigation, led by the Audit Committee which was formed on September 25, 2008, to ascertain the extent of the financial statement items requiring restatement and other issues requiring disclosure to the Securities & Exchange Commission and to the investment community. On or about October 16, 2008, we concluded that sufficient support had been obtained that certain revenue transactions dating back to the year ended December 31, 2006 were unsupportable, and that certain personal expenditures were incurred on the Company's accounts. Upon evidence of these transactions which were materially misstated for all periods dating back to December 31, 2006, the Company filed a Form 8-K on October 21, 2008 citing non-reliance on its issued financial statements since that time.

Among the materially misstated transactions noted were the following:

- Sales invoices and transactions to companies that did not exist dating back to the fiscal year ended December 31, 2006;
- Purchases of inventory that were not supportable dating back to the fiscal year ended December 31, 2006; and
- Personal expenditures incurred by Mr. de Vilmorin dating back to the fiscal year ended December 31, 2006, including cash payments and purchases of personal assets that were recorded as Company assets.

The Company, through co-operation of its management and Board of Directors, has substantively reviewed all significant transactions and will be restating, to the extent not already done, all reported financial statements from December 31, 2006 to June 30, 2008 to reflect the Company's true financial position for each of the reporting periods then ended.

The following material weaknesses over internal controls over financial reporting existed as at December 31, 2007 and 2006:

Lack of Control Environment that sufficiently promotes effective internal control over financial reporting throughout the management structure.

Our control environment did not sufficiently promote effective internal control over financial reporting throughout our management structure, and this material weakness was a contributing factor in the development of other material weaknesses described below. Principal contributing factors included the lack of permanent employees in key financial reporting positions, resistance to change of long-held practices developed in an entrepreneurial and trust culture, the lack of a formal program for training members of our finance and accounting group and a lack of a full evaluation of our financial system applications due to incomplete documentation and testing of key controls. Our control environment also contributed to our inability to fully evaluate our general computer controls and financial system application controls, as described more fully below.

Insufficient Segregation of Duties.

We did not segregate duties in several important functions, including: permitting one person the ability to receive inventory, perform cycle counts and process adjustments, and another individual to initiate and authorize the scrapping of obsolete and excess inventory; permitting changes to inventory quantity information within the financial application system without appropriate review; providing users access within our financial application system to areas outside of their responsibilities; and permitting the creation, modification and updating of customer or vendor data without a secondary level of review or approval.

Insufficient personnel in our finance/accounting functions and Lack of Controls over the Invoice Posting Process.

We had a lack of resources and inadequate training within our finance and accounting departments. Training for our accounting staff with respect to generally accepted accounting principles ("GAAP") had been ad hoc rather than systematic. As a result of these factors, certain transactions were not recorded initially in accordance with GAAP, such as a limited number of third-party vendor contracts, leases and licenses; the capitalization of sales and use taxes on fixed assets and the internal labor component of a financial application system implementation; and appropriate period-end cut-off for "FOB Origin" inventory received shortly after the end of the period.

Insufficient policies and procedures over various financial statement areas.

We had insufficient processes and personnel to provide adequate oversight of financially significant transactions and determinations by our finance and accounting personnel in our offices outside of headquarters. These deficiencies represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

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Lack of control process for recording and approving journal entries.

We did not have appropriate controls around the process for recording and approving journal entries. We also noted instances where material journal entries were recorded before subsequently provided supporting documentation was prepared or reviewed by the accounting department. Instances also occurred in which journal entries were not adequately documented and reviewed. These deficiencies represented an operating effectiveness deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Lack of controls over the sales transaction process.

We did not have a consistent process in place to document the significant terms of all important product sales contracts and our accounting for these contracts. We enter into a small number of high dollar amount contracts for our product sales. These contracts often contain complex terms that impact our recognition and determination of revenue (including customer rights of return, multiple elements and contingencies that can have a material impact on the recognition or deferral of revenue) and balance sheet classification of deferred revenue. These deficiencies represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Lack of Independent Directors for our audit committee & lack of an audit committee financial expert.

We did not have an audit committee with a designated financial expert. An audit committee is engaged primarily in an oversight function and ultimately is responsible for the company's financial reporting processes and the quality of its financial reporting. As a basis for carrying out its responsibilities, an audit committee must have a working knowledge of a company's goals and strategies as well as the issues it faces in achieving its objectives. We had numerous material weaknesses which would have likely made the role of an audit committee ineffective. These deficiencies represented a design deficiency in internal controls, and constituted a material weakness at December 31, 2006, and again at December 31, 2007.

Lack of Training in Public Company Reporting Obligations.

Our Chief Executive Officer and Chief Financial Officer for the years ended December 31, 2007 and 2006 appear to have had limited knowledge of the reporting obligations associated with being a reporting company. This represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Insufficient documentation for accounting or business transactions and Lack of Policies and procedures over records retention.

In November 2006, new officers and directors were appointed and the process of obtaining and producing certain corporate documentation proved to be a difficult and lengthy task. These deficiencies represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Insufficient Corporate Governance Policies.

Following the transaction in which Ethos Environmental, Inc. became a public company, our officers and directors failed to implement appropriate corporate governance policies. This represented a design deficiency in internal controls which resulted in more than a remote likelihood that a material error would not have been prevented or detected, and constituted a material weakness.

Auditor Attestation

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

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Changes in Internal Controls.

As at November 19, 2008, the filing date of our amended Form 10-K for the year ended December 31, 2007, we have not implemented any new internal controls or significantly changed our existing internal controls. However, as a response to the material misstatements of our financial statements from December 31, 2006 to June 30, 2008 as a result of material weaknesses in our internal controls over financial reporting, we created an Audit Committee on September 25, 2008 to oversee our internal controls and financial reporting process and have hired a financial statement consulting firm to review our policies and implement required internal controls over financial reporting for all significant financial statement processes.

Conclusion:

For the year ended December 31, 2007, and as at November 18, 2008 (the filing of our amended Form 10-K for the year ended December 31, 2007), our management has concluded that because of the material misstatements of our financial statements from December 31, 2006 to June 30, 2008, and the material weaknesses in internal controls over financial reporting identified in various significant financial statement processes, our internal controls over financial reporting were not effective as of December 31, 2007 and December 31, 2006.

Item 8B. Other Information

None.

PART III

Item 13. Exhibits

| EXHIBIT NUMBER | DESCRIPTION | LOCATION |
|---|---|---|
| 3.1 - 3.2 | Articles of Incorporation and Bylaws | Incorporated by reference as Exhibits to the Form 8-K filed on December 12, 2004 as amended on February 3, 2005. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification (CEO) | Filed herewith |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification (CFO) | Filed herewith |
| 32.1 | Section 1350 Certification (CEO) | Filed herewith |
| 32.2 | Section 1350 Certification (CFO) | Filed herewith |

Item 14. Principal Accounting Fees and Services

During the year ended December 31, 2007, we engaged Peterson Sullivan PLLC, J.H. Cohn LLP and Moore & Associates, Chartered as our independent auditors. For the year ended December 31, 2007, we incurred fees to these firms as discussed below.

- Audit Fees: Peterson Sullivan PLLC fees for audit and quarterly review services totaled $29,273 and $117,457 for 2007 and 2006, respectively, including fees associated with consents and the review of this report.

- Tax Fees: We paid PETERSON SULLIVAN PLLC, $1,728 for tax related services associated with our 2006 corporate tax return extensions.

- All Other Fees: J. H. Cohn LLP fees totaled $43,411 for 2007, although they were not associated with any audit or review, and NIL for 2006. In addition, the Company contracted for the services of Blum and Clark, CPAs, for assistance in preparing the Registrant's financial statements. The fees associated with Blum and Clark in 2007 were $68,076 and NIL in 2006. Moore & Associates, Chartered, fees totaled $57,500 for 2007 and $12,500 for 2006.

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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 on the 19th day of November, 2008.

Ethos Environmental, Inc.
a Nevada Corporation
By:

/s/ Corey P. Schlossmann
Corey P. Schlossmann
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed this report below.

| Signature | Position | Date |
|---|---|---|
| /s/ Corey P. Schlossmann<br><br>Corey P. Schlossmann | Chief Executive Officer and Director | November 19, 2008 |
| /s/ Howard Landa<br>Howard Landa | Director | November 19, 2008 |
| /s/ Bruce Tackman<br>Bruce Tackman | Director | November 19, 2008 |
| /s/ Thomas W. Maher<br>Thomas W. Maher | Principal Accounting Officer<br>Chief Financial Officer | November 19, 2008 |

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