

JAVALUTION COFFEE COMPANY
FINANCIAL STATEMENT
December 31, 2007 & 2006

JAVALUTION COFFEE COMPANY, INC.
INDEX TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

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To the Board of Directors
Javalution Coffee Company

Independent Auditor's Report

We have audited the accompanying balance sheets of Javalution Coffee Company as of December 31, 2007 and 2006, and the related statements of operations, shareholders' deficiency, and cash flows for the years then ended. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Javalution Coffee Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the accompanying financial statements, the Company has had recurring losses for the years December 2007 and 2006. These matters along with liquidity issues raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Boca Raton, FL
October 31, 2008

JAVALUTION COFFEE COMPANY, INC.
BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash	\$ 157,652	\$ 41,991
Accounts receivable, net of allowance for doubtful accounts of \$0	10,890	19,412
Inventories	65,375	65,752
Prepaid expenses and other	-	5,000
Debt issue cost, net	8,725	-
Total current assets	242,642	132,155
PROPERTY AND EQUIPMENT, net	34,921	53,361
OTHER ASSETS:		
Investment in CLR Roasters LLC	457,000	-
Total Other Assets	457,000	-
Total assets	\$ 734,563	\$ 185,516
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Note payable	\$ 349,000	\$ -
Accounts payable and accrued expenses	59,151	395,658
Accrued salaries	30,000	125,909
Subscription payable	66,000	-
Due to related parties, net of debt discount of \$0 and \$7,997 at December 31, 2007 and December 31, 2006, respectively	56,301	244,837
Total current liabilities	560,452	766,404
SHAREHOLDERS' DEFICIENCY:		
Preferred stock, No par value, 100,000,000 shares authorized; Series A convertible preferred stock, No par value, 10,000,000 shares authorized; 935,000 and 0 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively	885,000	-
Common stock, No par value, 500,000,000 shares authorized; 71,313,138 and 65,284,938 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively	8,688,263	7,383,263
Additional paid-in capital	416,987	416,987
Accumulated deficit	(9,816,139)	(8,381,138)
Total shareholders' deficiency	174,111	(580,888)
Total liabilities and shareholders' deficiency	\$ 734,563	\$ 185,516

See notes to audited financial statements.

JAVALUTION COFFEE COMPANY, INC.
STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Net revenues	\$ 146,016	\$ 287,709
Cost of sales	99,014	316,060
Gross profit (loss)	47,002	(28,351)
Operating expenses:		
Compensation expense	715,864	638,331
Advertising and marketing	179,814	366,586
Professional Fees	117,574	161,428
Other selling, general and administrative	447,817	480,824
Total operating expenses	1,461,069	1,647,169
Loss from operations	(1,414,067)	(1,675,520)
Other income (expenses):		
Settlement and other income	104,700	372
Interest income	2,689	-
Interest expense	(60,323)	(23,045)
Total other income (expenses)	47,066	(22,673)
Loss from continuing operations before equity investment	(1,367,001)	(1,698,193)
Equity in investee's loss	(68,000)	-
Net loss	\$ (1,435,001)	\$ (1,698,193)
Net loss per common share - basic and diluted	\$ (0.02)	\$ (0.03)
Weighted average number of shares outstanding - basic and diluted	69,652,819	63,766,169

See notes to audited financial statements.

JAVALUTION COFFEE COMPANY, INC.
 STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
 For the Year Ended December 31, 2006 and For the Year Ended December 31, 2007

	Preferred Stock, No Par Value		Common Stock, No Par Value		Additional Paid-in Capital	Accumulated Deficit	Deferred Compensation	Subscription Receivable	Shareholders' Deficit
	Number of Shares	Amount	Number of Shares	Amount					
Balance, December 31, 2005	-	\$ -	57,822,938	\$ 5,790,401	\$ 380,347	\$ (6,682,945)	\$ -	\$ (5,000)	\$ (517,197)
Common stock issued for cash, net	-	-	7,420,000	1,580,362	-	-	-	5,000	1,585,362
Stock options issued for services	-	-	-	-	24,645	-	(24,645)	-	-
Stock warrants issued for a related party loan	-	-	-	-	11,995	-	-	-	11,995
Common stock issued for services	-	-	50,000	12,500	-	-	-	-	12,500
Cancellation of common shares	-	-	(8,000)	-	-	-	-	-	-
Amortization of deferred compensation	-	-	-	-	-	-	24,645	-	24,645
Net loss for the year	-	-	-	-	-	(1,698,193)	-	-	(1,698,193)
Balance, December 31, 2006 (unaudited)	-	-	65,284,938	7,383,263	416,987	(8,381,138)	-	-	(580,888)
Preferred stock issued for cash, net	625,000	575,000	-	-	-	-	-	-	575,000
Preferred stock issued for related party loans	310,000	310,000	-	-	-	-	-	-	310,000
Common stock issued for cash, net	-	-	5,473,200	1,166,250	-	-	-	-	1,166,250
Common stock issued for services	-	-	555,000	138,750	-	-	-	-	138,750
Net loss for the period	-	-	-	-	-	(1,435,001)	-	-	(1,435,001)
Balance, December 31, 2007 (unaudited)	935,000	\$ 885,000	71,313,138	\$ 8,688,263	\$ 416,987	\$ (9,816,139)	\$ -	\$ -	\$ 174,111

See notes to audited financial statements.

JAVALUTION COFFEE COMPANY, INC.
STATEMENTS OF CASH FLOWS

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Cash flows from operating activities:		
Net loss	\$ (1,435,001)	\$ (1,698,193)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	18,440	18,416
Stock-based compensation	138,750	37,145
Equity in investee's loss	68,000	-
Amortization of debt issuance cost	17,450	-
Amortization of debt discount	7,997	18,626
Changes in assets and liabilities:		
Accounts receivable	8,522	15,025
Inventories	377	12,033
Prepaid expenses and other	5,000	(5,000)
Deposits	-	885
Accounts payable and accrued expenses	(336,507)	(31,961)
Accrued salaries	(95,909)	27,231
Accrued interest payable - related parties	3,467	2,834
Total adjustments	(164,413)	95,234
Net cash used in operating activities	(1,599,414)	(1,602,959)
Cash flows from investing activities:		
Investment in CLR Roasters LLC	(459,000)	-
Purchase of property and equipment	-	(15,875)
Net cash flows used in investing activities	(459,000)	(15,875)
Cash flows from financing activities:		
Principal payment of unsecured notes payable	-	(150,000)
Repayments on related party loans	(20,000)	-
Proceeds from related party loans	130,000	200,000
Proceeds from note payable	349,000	-
Proceeds from sale of common stock	1,368,300	1,855,000
Proceeds from sale of preferred stock	615,000	-
Proceeds from subscription receivable	-	5,000
Payment of debt issuance cost	(26,175)	-
Placement fees and expenses paid for sale of preferred stock	(40,000)	-
Placement fees and expenses paid for sale of common stock	(202,050)	(274,638)
Net cash flows provided by financing activities	2,174,075	1,635,362
Net increase in cash	115,661	16,528
Cash - beginning of year	41,991	25,463
Cash - end of period	\$ 157,652	\$ 41,991
Supplemental disclosure of cash flow information:		
Cash paid for :		
Interest	\$ 19,776	\$ 1,584
Income taxes	\$ -	\$ -
Supplemental schedule of non-cash financing and investing activities:		
Conversion of related party loans into shares of preferred stock	\$ 310,000	\$ -

See notes to audited financial statements.

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Javalution Coffee Company, Inc. (the “Company”), is a Florida corporation which conducts business from its offices in Ft. Lauderdale, Florida. The Company was incorporated on February 18, 2003 as Image Nutrition, Inc., and changed its name to Javalution Coffee Company on September 26, 2003. The Company develops and markets a unique line of nutritionally enhanced coffee products. The following summarize the more significant accounting and reporting policies and practices of the Company:

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition, and revenues and expenses for the year then ended. Actual results may differ significantly from those estimates. Significant estimates in 2007 and 2006 include the allowance for doubtful accounts, stock-based compensation, and the useful life of property and equipment.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Company has a policy of reserving for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

**NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (continued)**

Inventories

Inventories are stated at the lower of cost or market and consist of raw materials used to make coffee products and finished goods. The Company writes down inventory for estimated obsolescence or unmarketable inventory based upon assumptions and estimates about future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required.

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are provided using the straight-line method over the estimated economic lives of the assets. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," The Company periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not consider it necessary to record any impairment charges during the year ended December 31, 2007 and December 31, 2006.

Income Taxes

Under the asset and liability method of FASB Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance, when in the Company's opinion it is likely that some portion or the entire deferred tax asset will not be realized.

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

**NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (continued)**

Revenue Recognition

The Company follows the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements". In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

The following policies reflect specific criteria for the revenues stream of the Company:

The Company generates revenue from the sale of its coffee products. Revenues from the sale of these items are recognized upon delivery of the product to the customer.

Consideration given by the Company to a customer (including a reseller of the Company's products) such as slotting fees is accounted for as a reduction of revenue when recognized in the Company's income statement. For the year ended December 31, 2007 and 2006, revenue was reduced by \$86 and \$2,807, respectively.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash, accounts receivable, inventories, accounts payable and accrued expenses, and notes payable approximate their fair market value based on the short-term maturity of these instruments.

Research and Development

Research and development costs are expensed as incurred. These costs primarily consist of fees paid for product testing and clinical studies.

Advertising

Advertising is expensed as incurred. Advertising expenses for the year ended December 31, 2007 and 2006 totaled approximately \$179,814 and \$366,586, respectively.

Shipping costs

Shipping costs are included in cost of goods sold and totaled \$10,539 and \$8,317 for the year ended December 31, 2007 and 2006, respectively.

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per Common Share

Basic net earnings (loss) per share equals net earnings (loss) divided by the weighted average shares outstanding during the year. The computation of diluted net earnings per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be anti-dilutive. The Company's common stock equivalents at December 31, 2007 and 2006 include the following:

	December 31, 2007	December 31, 2006
Options	1,360,000	1,360,000
Warrants	21,636,613	16,373,937
	<u>22,996,613</u>	<u>17,733,937</u>

Stock Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* ("SFAS No. 123R"). SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, the Company recognized the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements.

The Company accounts for stock options and stock issued to non-employees for goods or services in accordance with the fair value method of SFAS 123.

Non-Employee Stock-Based Compensation

The cost of stock based compensation awards issued to non-employees for services are recorded at either the fair value of the services rendered or the instruments issued in exchange for such services, whichever is more readily determinable, using the measurement date guidelines enumerated in Emerging Issues Task Force Issue ("EITF") 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18").

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, and notes payable. The Company's investment policy is to invest in low risk, highly liquid investments. The Company does not believe it is exposed to any significant credit risk in its cash investment.

The Company performs on-going credit evaluations of its customer base including those included in accounts receivable at December 31, 2007 and 2006, and, generally, does not require collateral. The Company maintains reserves for potential credit losses and such losses have been within management's expectations.

NOTE 2 – GOING CONCERN CONSIDERATIONS

The accompanying financial statements are prepared assuming the Company will continue as a going concern. At December 31, 2007, the Company had an accumulated deficit of \$9,816,139, and a working capital deficit of \$317,810. Additionally, for the year ended December 31, 2007, the Company incurred net losses of \$1,435,001, and had negative cash flows from operations in the amount of \$1,599,414. The ability of the Company to continue as a going concern is dependent upon increasing sales and obtaining additional capital and financing. While the Company is attempting to increase revenues, the growth has not been significant enough to support the Company's daily operations. During the year ended December 31, 2007, the Company sold common and preferred shares for total net proceeds of \$1,741,250. During the year ended December 31, 2006, the Company sold common shares for net proceeds of \$1,585,362. Management intends to attempt to raise additional funds by way of a public or private offering. While the Company believes in the viability of its strategy to increase sales volume and in its ability to raise additional funds, there can be no assurances to that effect. The Company's limited financial resources have prevented the Company from aggressively advertising its products and services to achieve consumer recognition.

NOTE 3 - INVENTORIES

At December 31, 2007 and 2006, inventories consist of the following:

	2007	2006
Finished goods	<u>\$ 65,375</u>	<u>\$ 65,752</u>

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

NOTE 4 - PROPERTY AND EQUIPMENT

At December 31, 2007 and 2006, property and equipment consisted of the following:

	<u>Estimated life</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Computer equipment and office equipment	5 to 7 years	\$101,032	\$101,032
Displays and tradeshow equipment	3 years	13,230	13,230
		<u>114,262</u>	<u>114,262</u>
Less: Accumulated depreciation		(79,341)	(60,901)
		<u>\$ 34,921</u>	<u>\$ 53,361</u>

For the year ended December 31, 2007 and 2006, depreciation expense amounted to \$18,440 and \$18,416, respectively.

NOTE 5 – INVESTMENT IN CLR ROASTERS LLC

In September 2007, the Company purchased a 50% stake in an LLC with its current coffee roasting company. The purchase price was \$269,000. In addition to the purchase price, the Company has agreed to contribute working capital of \$256,000. The Company contributed working capital of \$190,000 and the balance has been recorded as a subscription payable of \$66,000 as of December 31, 2007. The Company follows the equity method accounting, whereby the investment is originally recorded at the price paid to acquire the investment and subsequently adjusted by the Company's share of CLR's net income/loss and recorded to the Company's income statement as Equity in investee's income/loss. Accordingly, during the year ended December 31, 2007, the Company has recorded a loss on investment of \$68,000 which represents the equity method pick up from investment.

NOTE 6 – NOTES PAYABLE

In December 2005, the Company issued an unsecured note payable amounting to \$150,000 and granted 120,000 warrants at an exercise price of \$.10 per share for a period of seven years. The note payable bears 10% interest per annum and mature on the earlier of March 13, 2006 or on the date of initial closing of subsequent financing of equity or debt securities with gross proceeds equal to \$500,000 or more. In connection with the 120,000 warrants granted with this note payable, the Company recorded imputed interest in the amount of \$29,257 that will be amortized over the original life of the convertible note. These warrants were treated as a discount on the convertible notes payable and valued under SFAS No.123 using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield 0%, risk-free interest rate of 4.41%, estimated volatility of 150% and expected term of 7 years. On January 20, 2006, the Company satisfied the unsecured note payable of \$150,000 in cash plus interest of \$1,584 and amortized the remaining debt discount to interest expense amounting to \$14,629.

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

In September 2007, the Company issued an unsecured note payable amounting to \$349,000. The note payable bears 10% interest per annum and mature on March 5, 2008. The Company paid a loan origination fee of \$26,175 in connection with this note payable. Accordingly, the Company recorded debt issuance cost of \$26,175 which will be amortized over the term of the note. As of December 31, 2007, accrued interest on this note amounted to \$11,633 and amortization of debt issuance cost amounted to \$17,450. In April 2008, the Company amended and restated the terms and provisions of this note. Under the terms of the amendment, the principal and any outstanding accrued interest thereon is to mature on September 15, 2008. Interest on the outstanding principal balance shall be due and payable on the last day of each month commencing May 31, 2008. This note is personally guaranteed by the Chief Executive Officer of the Company.

NOTE 7 - RELATED PARTY TRANSACTIONS

Due to related parties

During 2003, two of the Company's principal officers loaned the Company a total of \$50,000. These debts carried no stated interest rate and were to mature on December 30, 2006. In the event of default, the interest rate shall increase to 12% per annum. In September 2007, the Company amended and restated the terms and provisions of these notes payable. Under the terms of the amendment, these loan bears interest at 10% and the principal and any outstanding accrued interest thereon is to mature on September 5, 2008.

Additionally, on September 19, 2006, the principal officers loaned the Company a total of \$100,000 that were payable on November 19, 2006, and during the year ended December 31, 2007, the Company borrowed \$130,000 from various executive officers. The loans bore interest of 9% per annum. In the event of default, the interest rate shall increase to 12% per annum. During fiscal 2007, \$20,000 of these loans were paid in cash and in connection with a current private placement, three officers converted debt amounting to \$210,000 into 210,000 shares of Series A Convertible Preferred share.

The principal amount due to the principal officers at December 31, 2007 and December 31, 2006 was \$50,000 and \$150,000, respectively. At December 31, 2007 and 2006, accrued interest due on these loans amounted to \$6,301 and \$2,834, respectively.

On December 6, 2006, the Company borrowed \$100,000 from a shareholder. The loan bears interest at 10% and was payable on March 1, 2007. During fiscal 2007, in connection with a current private placement, this debt amounting to \$100,000 was converted into 100,000 shares of Series A Convertible Preferred share. In connection with this loan, the Company granted 50,000 seven-year warrants to purchase 50,000 shares of the Company's common stock at an exercise price of \$.25 per share. In connection with the 50,000 warrants granted with this related party loan, the Company recorded imputed interest in the amount of \$11,995 that will be amortized over the original life of this loan. These warrants were treated as a discount valued under SFAS No.123 using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield 0%, risk-free interest rate of 4.44%, estimated volatility of 150% and expected term of 7 years. Amortization of debt discount for the year ended December 31, 2007 and 2006 amounted to \$7,997 and \$3,998, respectively.

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

NOTE 8 - SHAREHOLDERS' DEFICIENCY

Preferred Stock

The Company has authorized 10,000,000 shares of preferred stock at no par value. The terms such as liquidation, distribution preference, and voting rights of the preferred stock may be set from time to time by the actions of the Board of Directors. During fiscal 2007, the Board of Directors authorized to issue 10,000,000 shares of Series A convertible preferred stock at no par value and is entitled to receive cumulative dividends at the specified rate of 8% per annum. Dividends shall be payable in cash however the Company may, at its option, pay any or all such dividends into number of shares of common stock valued at \$0.25 per share. Each share of preferred stock is convertible to four shares of common stock. The Series A convertible preferred shares do not have voting rights.

Between November 2007 and December 2007, the Company sold 625,000 shares at \$1.00 per share of Series A convertible preferred stock pursuant to a private placement for net proceeds of approximately \$575,000.

The placement agents received 50,000 warrants to purchase Series A convertible preferred stock as compensation for serving as placement agents which are exercisable at a price of \$1.00 per share and expire in five years from the date of the warrant.

Preferred Stock Warrants

Joseph Stevens & Company, Inc. and Skyebanc served as placement agents and received a placement agent cash fee of \$50,000. The placement agents also received 50,000 warrants to purchase Series A convertible preferred stock as additional compensation for serving as placement agent which are exercisable at a price of \$1.00 per share and expire in five years from the date of the warrant.

Common Stock

Between January 20, 2006 and May 12, 2006, the Company sold 7,420,000 restricted common shares at \$0.25 per share pursuant to a private placement for net proceeds of \$1,584,362. In connection with the private placement, the Company granted 3,710,000 warrants to investors exercisable at a price of \$0.25 per share. The purchase warrants expire in seven years from the date of the warrant.

On September 14, 2006, the Company issued 50,000 shares of common stock to an employee for services rendered. The Company valued these common shares at the fair market value on the date of grant at per share price of \$.25 based on the current selling price of common shares.

In December 2006, the Company cancelled 8,000 shares of common stock previously issued.

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
December 31, 2007 and December 31, 2006

NOTE 8 - SHAREHOLDERS' DEFICIENCY (CONTINUED)

In June 2007, the Company issued 5,000 shares of common stock in connection with a settlement of litigation (see Note 8). The fair value of such shares amounted to approximately \$0.25 per share or \$1,250.

Between January 25, 2007 and December 31, 2007, the Company sold 5,473,200 restricted common shares at \$0.25 per share pursuant to a private placement for net proceeds of \$1,166,250. In connection with this private placement, the Company granted 2,736,600 warrants to investors exercisable at a price of \$0.25 per share. The purchase warrants expire in seven years from the date of the warrant.

Common Stock Warrants

During 2006, in connection with the sale of the Company's common shares, the Company granted 3,710,000 warrants to investors exercisable at a price of \$0.25 per share. The purchase warrants expire in seven years from the date of the warrant.

Joseph Stevens & Company, Inc. served as placement agent for the transaction and received a placement agent cash fee and non accountable expense allowance of \$270,638. The placement agent also received 2,226,000 warrants as additional compensation for serving as placement agent which are exercisable at a price of \$.25 per share and expire in seven years from the date of the warrant. Additionally, the placement agent received 3,000,000 warrants as compensation for serving as placement agent which are exercisable at a price of \$.015 per share and expire in seven years from the date of the warrant.

On December 6, 2006, in connection with a loan, the Company granted 50,000 seven-year warrants to purchase 50,000 shares of the Company's common stock at an exercise price of \$.25 per shares (see Note 7).

During the year ended December 31, 2007, in connection with the sale of the Company's common shares, the Company granted 2,736,600 warrants to investors exercisable at a price of \$0.25 per share. The purchase warrants expire in seven years from the date of the warrant. The placement agent also received 1,641,936 warrants as compensation for serving as placement agent which are exercisable at a price of \$.25 per share and expire in seven years from the date of the warrant. Additionally, the placement agent received 684,140 warrants as compensation for serving as placement agent which are exercisable at a price of \$.015 per share and expire in seven years from the date of the warrant.

JAVALUTION COFFEE COMPANY, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
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NOTE 8 - SHAREHOLDERS' DEFICIENCY (CONTINUED)

Common Stock Warrants (continued)

A summary of the status of the Company's outstanding stock warrants as of December 31, 2007 and 2006 and changes during the periods then ended is as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance at December 31, 2005	7,387,937	\$	0.230
Granted	8,986,000		0.170
Exercised/Forfeited	-		-
Balance at December 31, 2006	16,373,937	\$	0.200
Granted	5,062,676		0.218
Exercised/Forfeited	-		-
Balance at December 31, 2007	<u>21,436,613</u>	<u>\$</u>	<u>0.203</u>
 Warrants exercisable at end of period	 <u>21,436,613</u>	 <u>\$</u>	 <u>0.203</u>
 Weighted average fair value of options granted during the year		 \$	 0.22

The following table summarizes information about stock warrants outstanding at December 31, 2007:

Warrants Outstanding				Warrants Exercisable		
Range of Exercise Price	Number Outstanding at December 31, 2007	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2007	Weighted Average Exercise Price	
\$ 0.10	1,120,000	3.65 Years	\$ 0.10	1,120,000	\$ 0.10	
0.015	3,684,140	5.65 Years	0.015	3,684,140	0.015	
0.25	16,374,473	5.50 Years	0.25	16,374,473	0.25	
0.40	258,000	2.55 Years	0.40	258,000	0.40	
	<u>21,436,613</u>		<u>\$ 0.203</u>	<u>21,436,613</u>	<u>\$ 0.203</u>	

JAVALUTION COFFEE COMPANY, INC.
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December 31, 2007 and December 31, 2006

NOTE 8 - SHAREHOLDERS' DEFICIENCY (CONTINUED)

The following table summarizes information about stock warrants outstanding at December 31, 2006:

Warrants Outstanding			Warrants Exercisable		
Range of Exercise Price	Number Outstanding at December 31, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2006	Weighted Average Exercise Price
\$ 0.10	1,120,000	4.40 Years	\$ 0.10	1,120,000	\$ 0.10
0.015	3,000,000	6.15 Years	0.015	3,000,000	0.015
0.25	11,995,937	6.00 Years	0.25	11,995,937	0.25
0.40	258,000	3.30 Years	0.40	258,000	0.40
	<u>16,373,937</u>		<u>\$ 0.20</u>	<u>16,373,937</u>	<u>\$ 0.20</u>

Common Stock Options

In January 2006, the Company granted 100,000 stock options to a consultant for services rendered. The options expire 10 years from the date of grant and are exercisable at \$.25 per share. The Company valued these options utilizing the Black-Scholes options pricing model at approximately \$0.25 or \$24,645 and recorded stock-based compensation of \$24,645.

Stock option activity for the year ended December 31, 2007 and 2006 is summarized as follows:

	Number of shares	Weighted average exercise price
Outstanding at December 31, 2005	1,260,000	0.30
Granted.....	100,000	0.25
Exercised	-	-
Cancelled	-	-
Outstanding at December 31, 2006	1,360,000	\$0.29
Granted.....	-	-
Exercised	-	-
Cancelled	-	-
Outstanding at December 31, 2007	1,360,000	\$0.29

JAVALUTION COFFEE COMPANY, INC.
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NOTE 8 - SHAREHOLDERS' DEFICIENCY (CONTINUED)

The following table summarizes the Company's stock options outstanding at December 31, 2007 and 2006:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.50	210,000	2.90 Years	\$ 0.50	210,000	\$ 0.50
0.25	1,150,000	4.90 Years	0.25	1,150,000	0.25
	<u>1,360,000</u>		<u>\$ 0.30</u>	<u>1,360,000</u>	<u>\$ 0.30</u>

NOTE 8 - COMMITMENTS

Operating Lease

The Company leases office space on a month-to-month basis. For the year ended December 31, 2007 and 2006, rent expense was \$24,121 and \$18,550, respectively.

Litigation

There was a pending case against the Company in the Circuit Court in and for Broward County, Florida involving a breach of contract matter involving advertising which we had placed. In June 2007, the Company has settled the litigation for payment of \$20,000 and an issuance of 5,000 shares of common stock.

Employment Agreements

Currently, the Company has identical employment agreements with 3 executive officers. The employment agreements expire on March 31, 2010. Each executive officer has a current salary of approximately \$96,000 per year. Each executive officer will also participate in a pooled bonus program that will pay out a total 1.5% of the gross revenues (less returns and allowances) generated from the sale of the Company's products, 3% of Executive Generated direct sales, 2.5% of gross margins, as well as participation in an incentive bonus pool for meeting the Company's net profit objectives. In addition, each is entitled to be awarded Stock Options as outlined in their employment agreement. The Company also provides health insurance coverage for each executive officer and each receives a car allowance of \$800 per month.

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NOTE 9 – OTHER INCOME

In January 2007, the Company entered into a settlement agreement with a vendor, whereby the Company agreed to pay \$7,000 as follows: (i) \$4,000 upon execution of the agreement and (ii) \$1,500 no later than February 15, 2007, and (iii) \$1,500 no later than March 15, 2007. In fiscal 2007, in connection with this settlement agreement, the Company recorded settlement income of \$3,000.

In January 2007, the Company entered into a settlement agreement with a vendor, whereby the Company agreed to pay \$3,000 for settlement of an outstanding balance owed. In fiscal 2007, in connection with this settlement agreement, the Company recorded settlement income of \$7,000.

On February 7, 2007, the Company entered into a settlement agreement with a vendor, whereby the Company agreed to pay the vendor \$77,000 as follows; (i) \$20,000 upon execution of the agreement and (ii) \$4,750 per month until the remaining balance is paid in full. In fiscal 2007, in connection with this settlement agreement, the Company recorded settlement income of approximately \$102,000.

NOTE 10 – SUBSEQUENT EVENTS

Between January 2008 and July 2, 2008, the Company sold 678,700 shares at \$1.00 per share of Series A convertible preferred stock pursuant to a private placement for net proceeds of approximately \$644,330. In connection with this private placement, the Company granted 678,700 warrants to investors exercisable at a price of \$0.25 per share. The purchase warrants expire in five years from the date of the warrant.

The placement agents received 39,370 warrants to purchase Series A convertible preferred stock as compensation for serving as placement agents which are exercisable at a price of \$1.00 per share and expire in five years from the date of the warrant.

In April 2008, the Company amended and restated the terms and provisions of the 10% note payable (see Note 6). Under the terms of the amendment, the principal and any outstanding accrued interest thereon is to mature on September 15, 2008. Interest on the outstanding principal balance shall be due and payable on the last day of each month commencing May 31, 2008. This note is personally guaranteed by the Chief Executive Officer of the Company.