

Ethos Environmental, Inc.  
Form 10-K  
April 15, 2009

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

**FORM 10-K**

(Mark One)

**X .**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended December 31, 2008**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

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

**Commission File Number 000-30237**

**ETHOS ENVIRONMENTAL, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**88-0467241**

(IRS Employer Identification No.)

**6800 Gateway Park, San Diego, CA 92154**

(Address of principal executive offices)

**(619) 575-6800**

(Registrant's telephone number, including area code)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  . No  .

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  . No  .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  .

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 126.2 of the Exchange Act). Yes  . No  .

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The aggregate market value of common stock held by non-affiliates of the Registrant on April 13, 2009 based on the closing price on that date of \$0.32 on the Over the Counter Bulletin Board was \$8,758,352. For the purposes of calculating this amount only, all directors, executive officers and shareholders owning in excess of ten percent (10%) of the Registrant's outstanding common stock have been treated as affiliates.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  . Smaller reporting company  .

(Do not check if a smaller reporting company)

The number of shares of common stock outstanding as of December 31, 2008 was 43,493,958.

**DOCUMENTS INCORPORATED BY REFERENCE:**

**ETHOS ENVIRONMENTAL**

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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, 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:

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The availability and adequacy of our cash flow to meet our requirements;

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Economic, competitive, demographic, business and other conditions in our local and regional markets;

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Changes or developments in laws, regulations or taxes in our industry;

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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;

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Competition in our industry;

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The loss of or failure to obtain any license or permit necessary or desirable in the operation of our business;

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Changes in our business strategy, capital improvements or development plans;

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The availability of additional capital to support capital improvements and development; and

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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 Ethos Environmental, Inc. All references to USD or United States Dollars refer to the legal currency of the United States of America.

## **PART I**

### **ITEM 1. BUSINESS**

#### **Item 1. Description of Business**

##### *Overview*

The mission of Ethos is to become the industry leader in the provision of high quality & environmentally friendly engine cleaning and lubrication products. Ethos' affordably priced fuel catalysts maximize fuel mileage while minimizing ecologically damaging emissions.

The Company manufactures and distributes a unique line of fuel catalysts comprised of a blend of low and high molecular weight esters. Our products have been formulated to enhance fuel and motor oil with powerful self-cleaning and lubrication properties, with our flagship product, Ethos FR+ designed to improve the combustion of fuel as well. Our products have been tested on a wide selection of fuels and motor oils including bio-fuels and ultra low sulfur diesel.

Ethos has provided a remedy for reducing both the costs and the environmental impact of vehicle fuels and engine oils. Notably, both wasted fuel and high emissions stem from the same problem – inefficient burning of fuel. That is why the use of our products, formulated and tested for greater fuel burning efficiency, addresses both of these problems while also reducing overall engine maintenance costs in the process.

Ethos products address the problems of wasted fuel, air pollution, and insufficient lubricity. 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 all three of the aforementioned adverse effects. Most importantly, the use of Ethos products is likely to result in fuel cost savings for most customers.

### ***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 re-domiciling 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 re-organization 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.

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,

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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.”

### **Organizational Chart**

#### **ecoMates, LLC**

ecoMates™, a Nevada LLC formed on March 3, 2009, is wholly owned and managed by Ethos, with day-to-day operations handled by Thrive Worldwide, LLC. ecoMates will direct the Company’s retail distribution and marketing functions. ecoMates™ is a network marketing system that will leverage a proprietary suite of web/broadcast communication tools to maximize productivity and optimize communications.

## **Ethos Scientific LLC**

Ethos Scientific, LLC, is a wholly-owned subsidiary also formed on March 3, 2009 as a Nevada LLC. Ethos Scientific™ will conduct research and development activities as well as advisory services to the Company as pertains to new products.

## **Government and Commercial Sales**

All Government and Commercial Sales will continue to be handled by the parent company, Ethos Environmental, Inc.

## **Products**

### **How Do Ethos Products Work?**

Ethos products reformulate fuels for significantly greater lubricity and cleansing properties, with Ethos FR+ having the added benefit of improving the combustion of fuel. All of the internal engine components benefit from the improved cleansing and lubricating action including the fuel lines, filters, carburetors, spark plugs and injectors. A cleaner, more lubricated engine runs smoother, requires less maintenance, and lasts much longer. Most importantly, our products are formulated to help reduce the levels of carbon deposits that result in incomplete fuel combustion, thereby resulting in wasted fuel and toxic emissions. The unique combination of cleaning and lubricating esters in our products stabilize all fuels for greater efficiency without altering the fuel's specifications.

For example, in the Ethos FR® product, a group of low molecular weight esters cleans the dirty deposits formed by fuels and the combustion process. These deposits impair engine performance and result in the exhaust of raw fuel—the primary contributor to pollution. Concurrently, a group of high molecular weight esters lubricate the engine surfaces as the fuel runs through the engine. The molecular structure of these higher weight esters is small enough to penetrate the metal and form a lubricating layer between the engine surfaces. This process enables an engine's moving components to operate with less energy-robbing and pollution-causing 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. Part of the challenge 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.

We believe, that 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 products complement federally mandated oxygenates by lowering emissions. Ethos products are not oxygenates 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 our products are readily available and continuously produced at a lower price.

### *Esters*

Esters comprise the primary element of all of the Company's products. In the simplest terms, esters can be defined as the reaction products of acids and alcohols. Thousands of different varieties of esters are produced commercially for a broad range of applications. Within the realm of synthetic lubrication, a relatively limited family of esters has been demonstrated to be useful. 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 from 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.

#### Product Line

The Company manufactures a unique line of fuel re-formulators that contain a blend of low and high molecular weight esters. Ethos has three products, Ethos FR®, Ethos FR+, and Ethos Bunker Fuel Conditioner ( Ethos BFC ). Ethos FR® and Ethos BFC cleanse and lubricate the engine while Ethos FR+ is a fuel catalyst. There are two esters used in each product, a light ester and a heavy ester. Ethos FR® and Ethos FR+ can be used in any internal combustion engine. Ethos BFC is used for Bunker Fuel, which is used in external combustion engines.

Ethos FR®

**Product Benefits:** Ethos FR® is a unique combination of high-quality, non-toxic, specially designed esters comprised exclusively of carbon, hydrogen and oxygen. This product reduces emissions, helps maximize fuel efficiency, and lowers engine maintenance costs. Its considerable emissions-reducing capacity renders it an immediate and cost-effective method for countering the air pollution caused by fossil fuels and the internal combustion engine. Ethos FR® is a multi-functional fuel catalyst. 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. This combination of low molecular cleaning esters and the high molecular lubricating esters reformulates any fuel whether it is 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<sub>2</sub> is significantly increased.

Ethos FR® is non-toxic, non-hazardous and works with any fuel used in cars, trucks, buses, RVs, 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.

**Testing To Date:** An EPA registered laboratory confirms that Ethos FR® is 99.99976% clean (upon ignition), ash-less upon combustion, and free of carcinogens. It is recommended for use at 1 part in 1280, which is equal to 2 fluid ounces of Ethos FR® per 20 gallons of fuel.

In March 2008, Louis Meyer III, the Technical Director for the Indy Racing League and the Firestone Indy Lights Series, oversaw testing of Ethos FR®. This testing indicated that the product is successful in generating quicker lap times, lower water and oil temperature readings, a drop in emissions, and an improvement in power & fuel efficiency.

Testing was also conducted in September of 2008 at a Transport Canada (Canadian Government) Motor Vehicle Test Center in Blainville, Quebec. The results of this test indicated a 1.51% improvement in fuel consumption and a reduction in opacity from 5.5% to 3.9%.

As well, an October 2008 test conducted at an EPA-approved laboratory confirmed that Ethos FR® increases lubricity in engine oil by 10%. This improved lubricity confirms that the product enables engines to run cooler and reduce friction, thereby resulting in greater engine life. The test was performed by adding 1 ounce of Ethos FR per quart of oil, which is the dosage recommended on each bottle of Ethos FR®.

**Regulatory Status:** Ethos FR® is registered with the Environmental Protection Agency for use in gas and diesel fuels. In 2008, Ethos FR successfully demonstrated compliance with the SAE s J1321 specification.

#### Ethos FR+

**Product Benefits:** Ethos FR+ consists of our original product, with one additional plant based ingredient. Ethos FR+ offers all the same benefits as its predecessor. The + represents improved fuel efficiency and emissions reductions.

**Testing to Date:** Ethos FR+ has been tested at the California Environmental Engineering Laboratory - Center for Environmental Research (EPA-recognized and CARB-certified) in Santa Ana, California. The tests were conducted in full compliance with Federal Regulations. Test analysis confirmed a reduction in tailpipe emissions for Hydrocarbons, Carbon Monoxide, Nitrous Oxide, and Particulate Matter. Tests also confirmed a marked improvement in horsepower. It is recommended that 2 fluid ounces of Ethos FR+ be used per 15 gallons of fuel.

For additional information, please refer to the below letter:







**Regulatory Status:** Ethos is in the process of seeking EPA registration for Ethos FR+, and will seek other approvals, registrations or certifications as necessary to fully comply with all regulations.

### Ethos BFC

**Product Benefits:** Ethos BFC (Ethos Bunker Fuel Conditioner) has been demonstrated to reduce carbon emissions substantially. When added in proper concentration, the components of Ethos BFC are optimized to enhance fuel stability. This product also helps maximize performance by cleaning and maintaining the entire fuel system.

**Testing to Date:** Thus far, all testing on this product has been internal.

**Regulatory Status:** At present, Ethos BFC cannot be sold domestically. Ethos will seek approvals, registrations and certifications as necessary for Ethos BFC.

### 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 also have two pending Trademark registrations for ecoMates™ and Ethos Scientific™. 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 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.

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 The Company 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 through extensive miles of road tests, with all such testing verifying the ability of our products to significantly reduce emissions while improving gas mileage.

### ***Market Research***

#### Domestic Vehicle Market

Since our products have been formulated to benefit both passenger and commercial vehicles, its potential market encompasses all such vehicles in the United States (with other countries to be targeted subsequently): As of 2006, there are over 250 million passenger vehicles in active use in the United States alone<sup>1</sup>. Of these, roughly 135 million are cars, 100 million are pick-up trucks & sport utility vehicles, roughly 9 million are other types of trucks/trailers, and approximately 7 million are motorcycles. These numbers keep growing steadily, even in an economic downturn: Almost 11 Million new vehicles were sold in the United States in 2008<sup>2</sup> -- roughly ¼ of total global demand for new vehicles.

However, due to current economic conditions, the rate of growth is expected to stay negative for the immediate future. The 2008 numbers mark a double digit decrease from the previous year and a further year-over-year decline is expected for 2009<sup>3</sup>. Fortunately, positive growth is expected to resume by the end of 2009 and, by 2010, sales of 14 million new vehicles are projected for the US market<sup>4</sup>. By 2012, that sales figure is projected to exceed 16 million<sup>5</sup>. So, even within the next 3 year period, overall growth estimates are very positive.

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1

Total Number of Vehicles , Department of Transportation: Bureau of Transportation Statistics, 2006

2

J.D. Power & Associates Vehicle Forecast , J.D. Power & Associates, October 9, 2008

3

Germany's VDA Forecasts US Auto Market Will Grow in 2010 - Clean Diesels Go on the Offensive , The Auto Channel, January 11, 2009

4

5

Ibid.

### Segment Focus Domestic Fuel & Engine Oil Consumption

According to the latest (2009) energy outlook from the Department of Energy's Energy Information Administration, current domestic consumption of transportation fuel exceeds 14 Million barrels per day<sup>6</sup>. This figure is expected to rise fairly consistently for the foreseeable future (to 2030) but the projected growth rate is tempered by higher CAFE standards and other regulatory and technological factors that are likely to moderate the use of transportation fuel. Nonetheless, with among the most rapidly growing populations in the industrialized world<sup>7</sup>, continued growth in domestic transportation fuel usage is, for the foreseeable future, inevitable.

### Sub-Segment Focus The Lubricant Additive Industry

Within the fuel segment of the domestic automotive market, Ethos competes in the sub-segment of Lubricant Additives. Despite the current economic contraction, the lubricant additive market will grow by 0.7% in 2009<sup>8</sup> not a remarkable growth rate but very strong when most markets are experiencing marked declines. Notably, within this sub-segment, friction modifiers like Ethos FR are enjoying particularly strong growth and are expected to continue outperforming the general lubricant additive market through to 2013<sup>9</sup>.

A recent market study on this sub-segment revealed a number of trends of direct relevance to the Ethos product line. Until 2013, the primary drivers of growth in the lubricant additive industry will be emission control, improving fuel economy in passenger vehicles, use of bio-fuels, use of ultra low sulfur diesel, and maximizing engine life. Our products have been tested successfully with bio-fuels and ultra low sulfur diesel<sup>10</sup>. Most importantly, the Company's primary objectives with its products pertain specifically to improved fuel economy, lower emissions, and increasing engine life. These objectives seem to be in perfect alignment with the direction of the market.

### A Green Regulatory Environment

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. In March of 2009, the Department of Transportation mandated a significant increase in CAFE (Corporate Average Fuel Economy) standards for 2011 vehicles. These policy initiatives are expected to be continually strengthened throughout the term of the new administration.

Within his first week in office, President Barack Obama issued 2 executive orders of direct relevance to the ongoing growth of the Company: One mandates heightened fuel economy standards while the second strengthens enforcement of greenhouse gas emissions rules. Given that improved fuel economy and lower emissions are the two primary benefits of Ethos products, the direction of the new administration is very positive for Ethos. Moreover, as revealed by its recent budget proposals, the Obama administration is intent on implementing an emissions trading system that will both discourage greenhouse gas emissions and provide an additional source of revenue to the government<sup>11</sup>.

The drastic emissions-reducing impact of Ethos product line is ideally suited to the aggressively green public policy pursued by the administration and the Democratic-led Congress. Even if only half of these green legislative initiatives become law, they are likely to have a dramatic impact on demand for emissions-reducing products on both the commercial and consumer level. Clearly, from a regulatory perspective, the domestic market is heading into very favorable territory for the commercial and consumer prospects of the Ethos product. Moreover, it is possible that, in such a regulatory environment, there will be public/private partnership opportunities for Ethos (and/or ecoMates, its wholly owned marketing and distribution subsidiary discussed above).

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6

Annual Energy Outlook 2009 . Department of Energy: Energy Information Administration, March 2009

7

U.S. population hits 300 million mark", Associated Press, October 17, 2006

8

Global Lubricant Additives 2008 . Kline & Company, March 18, 2009

9

Ibid.

10

Ibid.

11

Eilperin, Juliet, & Mufson, Steven, Budget Expects Revenue From Limits on Emissions, Washington Post, February 26, 2009

### *Competition*

Although there are hundreds of fuel additive products that purport to improve fuel mileage, relatively few of those products also reduce emissions (in fact, many of those formulations actually worsen emissions). Among those that do both, Ethos products are in a class of their own for a number of compelling reasons: Most importantly, we are not aware of any other brand of fuel additive that has demonstrated its ability to reduce all tailpipe emissions. As well, the company has engineered its products to enable additional horsepower. Offering such an advanced level of performance and environmental advantages, Ethos believes that it is in a class of its own among fuel additive brands.

However, 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, may 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 Company competes 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.

In contrast, the Company's 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. After all, it has been

demonstrated that particulate matter circulating in the engine increases friction thereby increasing the wear on the engine and impairing its ability to operate with maximal efficiency and smoothness.

To illustrate the competitive dynamics further, here is some further information regarding two of the Company's primary competitors (note that even these competitors do not provide the full range of benefits provided by Ethos):

**Red Line Oil: Friction Modifier** -- Red Line's Limited Slip Friction Modifier claims to reduce break-in temperatures by up to 50 degrees Fahrenheit. The product has been formulated for use with both synthetic and petroleum gear lubricants. A four fluid ounce bottle of this product retails for \$6.95<sup>12</sup>. Red Line Synthetic Oil Corporation is a privately held company headquartered in Benicia, California.

**AMSOIL: Friction Modifier** -- Amsoil's Friction Modifier Slip Lock Differential Additive claims to not only reduce but eliminate gear chatter in most cars, trucks, and SUVs. Like Red Line's friction modifier, this product has also been formulated for use with both synthetic and petroleum gear lubricants. A four fluid ounce bottle of this product retails for \$7.70<sup>13</sup>. According to the Goliath business database, AMSOIL Incorporated generated over \$44,000,000 in revenue for 2008. Notably, a successful network marketing system is the primary source of sales for this company. AMSOIL Incorporated is a privately held company based in Superior, Wisconsin.

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Red Line Oil: Gear Lubricants, [Red Line Corporate Website](#), accessed March 23, 2009

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AMSOIL Online Store, [Amsoil Corporate Website](#), accessed March 23, 2009

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, 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.

Another significant element of the competitive advantage is the Company's powerful distribution system: ecoMates, powered by a suite of proprietary communication technologies and a team of direct marketing veterans, is well-positioned to maximize the promotional impact of the Ethos product line and generate long-term sales growth.

### ***Research and Development***

The Ethos Scientific Board is continually identifying and developing new product enhancements for the Company's product line. The purpose of this board is to ensure that the Company maintains its competitive edge in the fuel additive industry.

### ***Distribution and Marketing***

The Company will continue to work to develop its commercial business by expanding the number and size of its commercial clients throughout the United States and beyond. However, for the foreseeable future, the core entity directing the Company's distribution and marketing functions will be ecoMates™.

**ecoMates™**

Like other network marketing systems, ecoMates™ will be comprised of a network of vertically organized independent distributors whereby distributors will acquire designated quantities of Ethos products at wholesale prices. Distributors are free to determine how much of the product to use for themselves and how much to sell to consumers at retail prices. The full profit from such retail sales is kept by distributors. Moreover, distributors earn additional income by enlisting associates. A portion of the wholesale product purchases made by these down-line associates are paid out to those that enlisted them. In such a manner, strong incentives are in place for not only selling as much product as possible but urging others to sell the product as well.

Dissimilar to other network marketing systems, ecoMates™ will host a unique set of advanced communication technologies. These include streaming video web tools especially designed to facilitate remote face-to-face communications among ecoMates distributors. Of course, this saves time, money, and logistical difficulties by minimizing the need for arranging meetings in the same room. As such, it is an excellent way of maximizing the productivity of distributors. Moreover, all video meetings are stored for future playback on any web-enabled device (including cell phones!). Similarly, ecoMates video e-mail enables distributors to utilize a host of advanced video tools within their e-mail communications.

ecoMates™ management and distributors will also benefit from live broadcasting capability whereby one can broadcast via the web and anyone, throughout the world, with the designated login information for the broadcast will be able to view it on any web-enabled device. This broadcasting system includes sophisticated features such as real time chat, polling, and viewer statistics. Among other productivity tools, ecoMates™ also provides a “media vault” through which distributors can instantly backup files of all kinds on the vault and access those files as needed through a user-friendly online interface.

Notably, ecoMates™ is not only advanced in terms of technological sophistication but also in terms of eco-friendliness. ecoMates™ intends to be the leading green network marketing organization in the world. The communication technologies described above are all outstanding green productivity tools that enable a more effective distributor network that can do its business with as little driving, flying, and paper use as possible. And, of course, ecoMates will be distributing a product that reduces emissions thereby enabling an unprecedented green opportunity. That is why ecoMates will be promoted as both a financial opportunity (i.e. reduce fuel expenses and earn money selling the product) and a green opportunity (i.e. reduce emissions on the road).

### ***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<sup>®</sup> (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<sup>®</sup>. 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](http://www.ethosfr.com). In most customer tests.

Following is a Management Report outlining the process and methodology of the testing of Ethos FR<sup>®</sup> 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:

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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.

### **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:



***Ethos FR Proof of Performance Demonstrations***

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 than 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®.

### ***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.

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 six (6) 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.

Our products may also be subject to other local, federal or international regulations, and Ethos will comply with all such regulations.

### ***Research and Development Costs***

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

### ***Employees***

As of April 9, 2009, we employed 5 full-time employees and 0 part-time employees. None of our employees is subject to a collective bargaining agreement and we believe that relations with our employees are very good. We also frequently use third party consultants to assist in the completion of various projects. Third parties are instrumental to keep the development of projects on time and on budget.

### ***Available Information***

We file electronically with the Securities and Exchange Commission our annual reports on Form 10-K, quarterly reports on Form 10-Q, 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>.

## ITEM 1A. RISK FACTORS

### Risk Factors

#### *Cautionary Statement on Forward-Looking Statements*

*We have made and will make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 in our 2006 Annual Report, in this Annual Report on Form 10-K and in other contexts relating to future growth and profitability targets and strategies designed to increase total shareholder value. Forward-looking statements also include, but are not limited to, information regarding our future economic and financial condition, the plans and objectives of our management and our assumptions regarding our performance and these plans and objectives.*

*The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the safe harbor provisions of that Act.*

*Some forward-looking statements that we make in this Annual Report on Form 10-K and in other contexts represent challenging goals for our company, and the achievement of these goals is subject to a variety of risks and assumptions and numerous factors beyond our control. Important factors that could cause actual results to differ materially from the forward-looking statements we make are described below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by the following cautionary statements.*

#### *Going Concern*

Our auditors have expressed substantial doubt about our ability to continue as a going concern, which may result in the loss of your entire investment. If we discontinue operations, you will lose your entire investment.



Our business is capital intensive and will require additional financing which will result in dilution to existing shareholders which would in turn reduce the share price of earlier issued shares. Our operations are capital intensive and growth will consume a substantial portion of available working capital. We may require additional capital in order to fund our operations. We do not have any commitments for additional financing and there can be no assurance that such additional funding, if required, will be available, or if available, will be available upon favorable terms. With respect to our ability to obtain financing on favorable terms, we do not have significant assets to serve as loan collateral. Still further, we presently do not have a sufficient cash flow to qualify for reasonable debt financing. Insufficient funds may prevent us from implementing our business strategy. In the event we raise additional funds through the issuance of equity securities, dilution to the then existing stockholders will result and future investors may be granted rights superior to those of existing stockholders. Accordingly, such dilution would reduce the share price of the earlier issued shares.

***Lack of operations, positive cash flow and profitability may continue which will affect our ability to remain in business***

Since the inception of the Company, we have been unable to generate positive cash flow or profits in the industries in which we participate. If we do not generate positive cash flow and hence become profitable, we may not be able to remain in business.

***Uncertainty of commercial success may affect our ability to remain in business***

With respect to our revenue and profitability prospects, we may not be able to achieve commercial success with our operations. Furthermore, our industry is characterized by rapid change and growth. Accordingly, we may not be able to keep up with the pace of change or fund its growth. If we fail to achieve commercial success, we will continue to suffer net losses and we will have to go out of business.

***Competition may have an adverse effect on our business***

We are subject to competition from other companies that may try to emulate or compete with similar products or services. These competitors have been in the business longer than us and may have large executive and operating staffs. Our prospects may be adversely affected by competition from these companies. The introduction of similar or superior products by current or future competitors could have a material adverse effect on our business and financial condition.

***Dependence on management will affect our profitability***

Future success depends on the continued services of the Company's Chief Executive Officer, and Board of Directors. The loss of any of their services would be detrimental and could have a material adverse effect on the business, financial condition and results of operations. Future success is also dependent on our ability to identify, hire, train and retain other qualified managerial and other employees. Competition for these individuals is intense and increasing. We may not be able to attract, assimilate, or retain qualified managerial personnel and our failure to do so could have a material adverse effect on the business, financial condition and results of operations.

***Possible Delisting***

On November 16, 2005, the Securities and Exchange Commission (SEC) approved the proposed rule change to NASD Rule 6530, also known as the Eligibility Rule. Under the rule change, OTC Bulletin Board (OTCBB) issuers that are cited for filing delinquency three times in a 24-month period and those removed for failure to file two times in a 24-month period will be ineligible for quotation by an NASD member. The new rule will apply to filings for reporting periods ending on and after October 1, 2005.

Since October 1, 2005, the Company has been cited for a filing delinquency two (2) times. If the Company is cited for a filing delinquency for a third time on or before August 21, 2009, then the Company will be ineligible for quotation by an NASD member, which would cause an investor or an existing shareholder to potentially lose all or part of his investment.

***This is a highly speculative investment.***

Ownership of our common stock is extremely speculative and involves a high degree of economic risk, which may result in a complete loss of your investment. Only persons who have no need for liquidity and who are able to withstand a loss of all or substantially all of their investment should purchase our common stock. There can be no assurance that we will have sufficient economic resources or that such resources will be available to us on terms and at times that are necessary or acceptable, if at all. There is no assurance that future revenues of the Company will ever be significant or that the Company's operations will ever be profitable.



***You will be diluted if we issue additional common stock, options to purchase common stock and/or debt or equity securities convertible into common stock.***

***Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which could dilute our existing stockholders and be senior to our common stock for the purposes of distributions, may have an adverse effect on the value of our common stock.***

In the future, we may attempt to increase our capital resources by making additional offerings of equity or debt securities, including medium-term notes, senior or subordinated notes and common stock. Upon our liquidation, holders of our debt securities, if any, and shares of stock, if any, and lenders with respect to other borrowings, if any, will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings by us reduce the value of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in the Company.

***Results may fluctuate and may not be indicative of future performance.***

Our operating results may fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the costs of identifying, negotiating and consummating acquisitions of businesses consistent with our business plan; variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation; the degree to which we encounter competition in our markets; and other general economic and operational circumstances.

***Our common stock price may be volatile.***

The trading price of our common stock may fluctuate substantially. The price of the common stock may be higher or lower than the price you pay for your shares, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of financial services companies;
- volatility resulting from trading in derivative securities related to our common stock including puts, calls, long-term equity anticipation securities ( LEAPs ), or short trading positions;
- actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
- general economic conditions and trends;
- loss of a major funding source; or
- departures of key personnel.

***OTC Bulletin Board.***

Our common stock is quoted on the OTC Bulletin Board ( OTCBB ). The OTCBB is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market or national or regional exchanges. Securities traded on the OTCBB are typically thinly traded, highly volatile, have fewer markets and are not followed by analysts. The SEC's order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the OTCBB. Quotes for stocks included on the OTCBB are not listed in newspapers. Therefore, prices for securities traded solely on the OTCBB may be difficult to obtain and holders of our common stock may be unable to sell their shares at acceptable prices.

***Penny Stock Rules.***

Trading in our securities will be subject to the penny stock rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our common stock and consequently adversely affect the market price of our common stock.

***Changes in the law or regulations that govern us could have a material impact on us or our operations.***

Our business operations are subject to various laws and regulations concerning consumer financing. We are also regulated by the SEC and impacted by regulations of certain state regulatory agencies and self-regulatory organizations. Any change in the law or regulations that govern our business could have a material impact on us or our operations. Laws and regulations may be changed from time to time, and the interpretations of the relevant laws and regulations also are subject to change, which may have a material effect on our operations.

***No dividends.***

Holders of our securities will only be entitled to dividends when, as and if declared by our Board of Directors. We do not expect to generate a sufficient cash surplus which would be available for dividends in the foreseeable future.

**ITEM 1B.**

**UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2.**

### **PROPERTIES**

Our principal executive office is located at 6800 Gateway Park Drive San Diego, CA 92154. Our telephone number is (619) 575-6800. We lease approximately 65,000 square feet of industrial/office space for \$63,000 per month. The space we lease is utilized for offices and for manufacturing purposes. It is our belief that the various spaces are adequate for our immediate needs. Additional space may be required as we expand our activities. We do not foresee any significant difficulties in obtaining any required additional facilities.

## **ITEM 3.**

### **LEGAL PROCEEDINGS**

From time to time, we are involved in routine legal matters incidental to our business. In the opinion of management, the ultimate resolution of such matters will not have a material adverse effect on our financial position, results of operations or liquidity.

Consistent with Item 103 of Regulation S-K, we are presently involved in the following material pending legal proceedings not incidental to the business of the Company:

On May 21, 2008, a lawsuit was filed in Superior Court of Arizona, Maricopa County, by the Bedrock Group (a shareholder) naming the Company as a defendant. In addition, the Company's former Chief Executive Officer, Enrique de Vilmorin, was also named as a defendant. The lawsuit alleges that the Company, by and through Mr. de Vilmorin, improperly converted certain stock belonging to the Bedrock Group. The Bedrock Group is seeking monetary damages.

On November 19, 2008, the Company filed a lawsuit in Superior Court of California, San Diego County, against Enrique de Vilmorin, its former Chief Executive Officer, and Sonia Dominguez, Mr. de Vilmorin's spouse. The lawsuit alleges that Mr. de Vilmorin improperly used Company assets for personal benefit/expenditures and to purchase/pay for certain real property without the consent of the Company. The Company is seeking monetary

damages.

**ITEM 4.**

**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fiscal year ended December 31, 2008.

**PART II****ITEM 5.****Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our shares of common stock are currently trading on the OTC Bulletin Board (OTCBB). Prior to November 16, 2006, our trading symbol was VICI. On November 16, 2006, to reflect our new name and the 1 for 1,200 stock split, our trading symbol was changed to ETEV. The OTCBB is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter equity securities. An OTCBB equity security generally is any equity that is not listed or traded on NASDAQ or a national securities exchange. The reported high and low bid and ask prices for the common stock are shown below for the period from January 1, 2007 through December 31, 2008.

|                  | <b>Bid*</b> |             |
|------------------|-------------|-------------|
|                  | <b>Low</b>  | <b>High</b> |
| 2007 Fiscal Year |             |             |
| Jan - Mar 2007   | \$ 3.51     | \$ 5.50     |
| Apr - June 2007  | \$ 1.92     | \$ 4.35     |
| July - Sept 2007 | \$ 0.79     | \$ 2.00     |
| Oct - Dec 2007   | \$ 0.90     | \$ 2.15     |
| 2008 Fiscal Year |             |             |
| Jan - Mar 2008   | \$ .55      | \$ 1.71     |
| Apr - June 2008  | \$ .26      | \$ .70      |
| July - Sept 2008 | \$ .13      | \$ .43      |
| Oct - Dec 2008   | \$ .05      | \$ .22      |

\*All of the prices indicated in the table above reflect the reverse stock split, which became effective November 16, 2006.

Our common stock is subject to rules adopted by the Commission regulating broker dealer practices in connection with transactions in penny stocks. Those disclosure rules applicable to penny stocks require a broker dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized list disclosure document prepared by the Securities and Exchange Commission. That disclosure document advises an investor that investment in penny stocks can be very risky and that the investor's salesperson or broker is not an impartial advisor but rather paid to sell the shares. The disclosure contains further warnings for the investor to exercise caution in connection with an investment in penny stocks, to independently investigate the security, as well as the salesperson with whom the investor is working and to understand the risky nature of an investment in this security. The broker dealer must also provide the customer with certain other information and must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. Further, the rules require that, following the proposed transaction, the broker provide the customer with monthly account statements containing market information about the prices of the securities.

These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common stock. Many brokers may be unwilling to engage in transactions in our common stock because of the added disclosure requirements, thereby making it more difficult for stockholders to dispose of their shares.

### ***Holders***

As of April 13, 2009, there were 778 holders of record of our common stock.

### ***Dividends***

We have not paid any cash dividends on our common stock since inception and presently anticipate that all earnings, if any, will be retained for development of our business and that no dividends on our common stock will be declared in the foreseeable future. Any future dividends will be subject to the discretion of our Board of Directors and will depend upon, among other things, future earnings, operating and financial condition, capital requirements, general business conditions and other pertinent facts. Therefore, there can be no assurance that any dividends on our common stock will be paid in the future.

### ***Securities Authorized for Issuance Under Equity Compensation Plans***

On November 20, 2006, the board of directors adopted the 2006 Stock Incentive Plan or the 2006 Plan. The 2006 Plan reserves 3,500,000 shares of our common stock for issuance in connection with stock options, stock awards and other equity-based awards.



***Recent Sales of Unregistered Securities***

None, other than those set forth in the Form 8-Ks filed during the year ended December 31, 2008, those set forth elsewhere in this Report, and those filed on Form 8-Ks subsequent to December 31, 2008 and through the date of this Report.

**ITEM 6.**

**SELECTED FINANCIAL DATA**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

**ITEM 7.**

**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, 2008 and 2007.

***Revenues***

During the year ended December 31, 2008, the Company recognized revenues of \$2,357,553 compared with \$1,355,141 for the year ended December 31, 2007, an increase of 74.0%. The increase in overall sales revenue was a result of a stronger focus on the sales process during the year ended December 31, 2008 compared with the development of its internal processes rather than marketing of its products and finding new customers and distributors during the year ended December 31, 2007. The Company's primary source of revenue is from the sale of *Ethos FR*®. Other components of revenue include freight and service.

The Company is continuing to focus on its future growth of *Ethos FR*®. Our main priorities continue to be: (1) increasing market awareness of *Ethos FR*® through our sales and marketing plan, including partnerships with marketing companies to help promote our company, (2) continued growth in the number of customers and vehicles per customer, especially in light of the poor economy and the cost savings that can be generated by individuals and companies through the use of *Ethos FR*®, and (3) providing extensive customer service and support.

***Gross Profit***

Gross profit for the year ended December 31, 2008, defined as revenues less cost of goods sold, was \$934,795 or 39.7% of sales compared with \$610,005 or 45.0% for the year ended December 31, 2007. The decrease in gross profit margin was due to increased costs of production incurred by the Company that could not be passed onto the consumers given the poor economic conditions and the competitiveness of the fuel reformulating sector.

***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, 2008, the Company incurred depreciation expense of \$81,355 compared to \$201,093 for the year ended December 31, 2007. 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, 2008 and 2007 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, 2008, the Company incurred general and administrative expense of \$7,555,563 compared with \$17,655,463 for the year ended December 31, 2007. The decrease in general and administrative expenses is attributed to the fact that the Company incurred stock based compensation expense of \$6,646,171 in 2007 relating to the issuance of share purchase warrants to replace the convertibility features of its Promissory Note secured by the purchase of the Company's building. Furthermore, the Company issued a lower value of common shares for services in the current year compared to 2007.

*Selling Expense*

For the year ended December 31, 2008, the Company incurred selling expense of \$273,960 compared with \$6,861,554 for the year ended December 31, 2007 and is related to marketing and business development expenditures that were settled by the issuance of common shares. During the year ended December 31, 2008, 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, 2008, the Company incurred interest expense of \$181,993 compared with \$618,084 for the year ended December 31, 2007. The decrease in interest expense is due to the fact that the Company settled the interest-only of \$4,750,000 that was used to finance the purchase of the Company's building in 2007. For the year ended December 31, 2008, interest expense was attributed to accrued interest relating to the promissory notes and convertible notes that were issued by the Company as general financing of the Company's continued operations.

### *Other Income*

During the year ended December 31, 2008, the Company recorded other income of \$201,137 compared with \$390,206 for the year ended December 31, 2007.

### *Net Loss*

For the year ended December 31, 2008, the Company incurred a net loss of \$7,177,819 compared with a net loss of \$24,582,613 for the year ended December 31, 2007. The decrease in the net loss is attributed to the fact that the Company increased its gross profit from fiscal 2007 by \$324,790 and decreased the value of its issuance of common shares to settle debt and services by \$9,143,110, and had an overall decrease in stock-based compensation expense relating to the issuance of share purchase warrants of \$6,274,034.

### *Common Shares*

#### *December 31, 2008*

During the year ended December 31, 2008, the Company issued 5,745,877 common shares to settle debt and services on behalf of the Company, issued 12,465,428 common shares as penalty and settlement shares as part of the Registration Rights Agreement executed in October 2007, issued 909,091 common shares for cash proceeds, and cancelled 13,600,000 common shares that were previously issued to the former Chief Executive Officer of the Company.

During the year ended December 31, 2008, the Company issued 12,465,428 common shares as penalty and settlement of a Registration Rights Agreement signed in October 2007. The common shares issued had a fair value of \$2,818,840 using the end of day share trading price of the Company based on the date of issuance.



In November 2008, the Company cancelled 13,600,000 common shares that were previously issued by the former Chief Executive Officer of the Company.

In August 2008, the Company issued 909,091 common shares at \$0.33 per common share for gross proceeds of \$300,000.

December 31, 2007

During the year ended December 31, 2007, the Company issued 11,914,000 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 office building to Greenbridge and 2,500,000 common shares in exchange for proceeds of \$7,875,000. The sale price was allocated as \$5,875,000 to the building and \$2,000,000 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 6,914,000 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 \$11,107,708.

Liquidity and Capital Resources

At December 31, 2008, we had cash of \$72,232, current assets of \$390,270, and total assets of \$866,239 compared with cash of \$74,178, current assets of \$1,413,104, and total assets of \$2,004,247 at December 31, 2007. The decrease in current assets and total assets were attributed to a decrease in capital assets of \$48,364 based primarily on amortization of existing assets, and decrease in inventory of \$379,255 as the Company had limited cash flows and did not replenish their inventory amounts at December 31, 2008.

The Company had total liabilities of \$2,400,039 and stockholders' deficit of \$1,533,800 as at December 31, 2008 compared with total liabilities of \$929,712 and stockholders' equity of \$349,446 as at December 31, 2007. The increase in total liabilities is attributed to net issuance of \$835,059 of debt financing from various demand loans and promissory notes along with net increases in accounts payable and accrued liability of \$576,308 due to timing differences from payment of expenditures given the limited nature of the Company's cash flow.

#### *Cash Flows from Operating Activities*

For the year ended December 31, 2008, the Company used \$1,104,012 of cash flows for operating activities compared with \$3,454,124 for the year ended December 31, 2007. The decrease in cash flows used for operations are attributed to net cash loss for the year ended December 31, 2008 of \$1,778,829 compared with net cash loss of \$2,592,859 for the year ended December 31, 2007. Furthermore, the Company incurred less cash on inventory purchases compared to December 31, 2007 which resulted in a net cash savings of \$570,739 and had net cash savings of \$655,724 from accounts payable and accrued liabilities based on timing differences of when billed invoices were paid.

#### *Cash Flows from Investing Activities*

For the year ended December 31, 2008, the Company used cash flows of \$32,991 for purchases of capital assets compared with receiving cash flows of \$6,034,731 for the year ended December 31, 2007 which was related to the proceeds from the sale leaseback transactions of its building and manufacturing equipment.

#### *Cash Flows from Financing Activities*

During the year ended December 31, 2008 the Company received proceeds of \$1,135,059 from cash flows from financing activities compared with use of cash of \$2,571,298 for the year ended December 31, 2007. In fiscal 2008, the Company received \$1,431,580 from the issuance of promissory notes and demand loans, \$300,000 from the issuance of common shares, and repaid \$350,000 in promissory notes and \$246,521 in related party payables. In fiscal 2007, the Company received \$2,050,000 from the issuance of common shares, \$350,000 from the issuance of note payable, but also repaid \$5,167,819 of existing demand loans and notes payable.



**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.

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 as at December 31, 2008. 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.

**Going Concern**

As at December 31, 2008, the Company had a cash balance of \$72,232. For the years ended December 31, 2008 and 2007, the Company recorded sales revenue of \$2,357,553 and \$1,355,141 respectively, and had gross profit of \$934,795 and \$610,005, respectively. The Company recorded a net loss of \$7177,819 for the year ended December 31, 2008 compared with a net loss of \$24,582,613 for the year ended December 31, 2007.

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.

**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.





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.

#### ITEM 7A.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

**Item 8. Financial Statements and Supplementary Data**

**Ethos Environmental, Inc.**

**December 31, 2008 and 2007**

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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 consolidated balance sheets of Ethos Environmental Inc. as of December 31, 2008 and December 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2008 and December 31, 2007. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethos Environmental Inc. as of December 31, 2008 and December 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2008 and December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred an accumulated deficit of \$51,029,259, 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

April 13, 2009

6490 West Desert Inn Road, Las Vegas, NV 89146 (702) 253-7499 Fax (702) 253-7501

F-2

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Ethos Environmental, Inc.

Consolidated Balance Sheets

(expressed in U.S. dollars)

|  | <b>December<br/>31,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|--|----------------------------------|----------------------------------|
|--|----------------------------------|----------------------------------|

\$

\$

**ASSETS**

**Current Assets**

|  |                |                |
|--|----------------|----------------|
| Cash   | 72,232         | 74,176         |
| Accounts Receivable, net of allowance of doubtful accounts | 94,894         | 84,248         |
| Inventory (Note 3)   | 223,144        | 602,399        |
| <b>Total Current Assets</b>                                | <b>390,270</b> | <b>760,823</b> |

|                                      |                |                  |
|--------------------------------------|----------------|------------------|
| Property and Equipment, net (Note 4) | 70,552         | 118,916          |
| Other Assets (Note 5)                | 405,417        | 399,419          |
| <b>Total Assets</b>                  | <b>866,239</b> | <b>1,279,158</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)**

**Current Liabilities**

|                  |         |         |
|------------------|---------|---------|
| Accounts Payable | 681,583 | 223,891 |
|------------------|---------|---------|

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|   |                    |                  |
|---|--------------------|------------------|
| Accrued Liabilities   | 301,876            | 109,300          |
| Notes Payable (Note 6)  | 1,416,580          | 350,000          |
| Demand Loan   |                    | 246,521          |
| <b>Total Liabilities</b>  | <b>2,400,039</b>   | <b>929,712</b>   |
| <b>Stockholders' Equity (Deficit)</b>   |                    |                  |
| Common Stock (Note 7)   |                    |                  |
| Authorized: 100,000,000 common shares, par value: \$0.0001 per common share   |                    |                  |
| Issued and outstanding: 43,518,958 and 37,998,562 common shares, respectively |                    |                  |
|   | 4,352              | 3,800            |
| Additional Paid-In Capital (Notes 7 and 8)                                    | 50,073,653         | 44,779,632       |
| Accumulated Deficit   | (51,611,805)       | (44,433,986)     |
| <b>Total Stockholders' Equity (Deficit)</b>                                   | <b>(1,533,800)</b> | <b>349,446</b>   |
| <b>Total Liabilities and Stockholders' Equity (Deficit)</b>                   | <b>866,239</b>     | <b>1,279,158</b> |

**Going Concern (Note 1)**

**Commitments and Contingencies (Note 11)**

**Subsequent Events (Note 13)**

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



Ethos Environmental, Inc.

Consolidated Statements of Operations

(expressed in U.S. dollars)

|  | <b>For the Year<br/>Ended December<br/>31,<br/>2008<br/>\$</b> | <b>For the Year<br/>Ended December<br/>31,<br/>2007<br/>\$</b> |
|--|--|--|
| Revenue                                    | 2,357,553  | 1,355,141  |
| Cost of Sales                              | 1,422,758  | 745,136  |
| <b>Gross Profit</b>                        | <b>934,795</b>   | <b>610,005</b>   |
| <b>Operating Expenses</b>                  |  |  |
| Amortization Expense                       | 8,133  | 20,193   |
| Bad Debt Expense                           | 294,102  | 427,530  |
| General and Administrative (Notes 8 and 9) | 7,555,563  | 17,655,463   |
| Selling Expense                            | 273,960  | 6,861,554  |
| <b>Total Operating Expenses</b>            | <b>8,131,758</b>   | <b>24,964,740</b>  |
| <b>Loss from Operations</b>                | <b>(7,196,963)</b>   | <b>(24,354,735)</b>  |
| <b>Other Income (Expenses)</b>             |  |  |
| Interest Expense                           | (181,993)  | (618,084)  |
| Income tax expense (Note 12)               |  |  |

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|   |                    |                     |
|---|--------------------|---------------------|
| Other Income                                | 201,137            | 390,206             |
| <b>Total Other Income (Expenses)</b>        | <b>19,144</b>      | <b>(227,878)</b>    |
| <b>Net Loss</b>                             | <b>(7,177,819)</b> | <b>(24,582,613)</b> |
| <b>Net Loss Per Share Basic and Diluted</b> |                    |                     |
| <b>Net Loss Per Share Basic and Diluted</b> | <b>(0.18)</b>      | <b>(0.87)</b>       |
| <b>Weighted Average Shares Outstanding</b>  | <b>39,797,210</b>  | <b>28,197,683</b>   |

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

Ethos Environmental, Inc.

Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

(unaudited)

|   | <b>For the Year<br/>Ended December<br/>31,<br/>2008</b> | <b>For the Year<br/>Ended December<br/>31,<br/>2007</b> |
|---|---|---|
|   | \$  | \$  |
| <b>Operating Activities</b>   |   |   |
| Net Loss  | (7,177,819)   | (24,582,613)  |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |   |   |
| Amortization Expense  | 81,355  | 201,093   |
| Accretion of discounts on convertible debt (Note 5)                                       | 45,000  |   |
| Bad Debt Expense  | 294,102   | 427,530   |
| Common Stock Issued for Services (Note 6)   | 1,280,610   | 14,714,960  |
| Common Stock Issued for Registration Rights (Note 6)                                      | 2,818,240   |   |
| Issuance of Share Purchase Warrants (Note 7)  | 372,137   | 6,646,171   |
| Issuance of Stock Options (Note 8)  | 463,586   |   |
| Changes in operating assets and liabilities:  |   |   |
| Accounts Receivable   | (304,748)   | (215,846)   |
| Inventory   | 379,255   | (191,484)   |
| Other Assets  | (5,998)   | (374,519)   |
| Accounts Payable and Accrued Liabilities  | 650,268   | (79,416)  |

|  |                    |                    |
|--|--------------------|--------------------|
| <b>Net Cash Used In Operating Activities</b>               | <b>(1,104,012)</b> | <b>(3,454,124)</b> |
| <b>Investing Activities</b>                                |                    |                    |
| Purchase of Property and Equipment                         | (32,991)           | (198,680)          |
| Proceeds from Sale of Equipment                            |                    | 6,233,411          |
| <b>Net Cash Provided By (Used in) Investing Activities</b> | <b>(32,991)</b>    | <b>6,034,731</b>   |
| <b>Financing Activities</b>                                |                    |                    |
| Proceeds from Issuance of Common Shares                    | 300,000            | 2,050,000          |
| Proceeds from Issuance of Note Payable (Note 6)            | 1,431,580          | 350,000            |
| Proceeds from Related Parties, net                         | (246,521)          | 196,521            |
| Repayment of Note Payable                                  | (350,000)          | (5,167,819)        |
| <b>Net Cash Provided By (Used In) Financing Activities</b> | <b>1,135,059</b>   | <b>(2,571,298)</b> |
| <b>Increase (Decrease) in Cash</b>                         | <b>(1,944)</b>     | <b>9,309</b>       |
| <b>Cash Beginning of Year</b>                              | <b>74,176</b>      | <b>64,867</b>      |
| <b>Cash End of Year</b>                                    | <b>72,232</b>      | <b>74,176</b>      |
| <b>Supplemental Disclosures</b>                            |                    |                    |
| Interest paid  |                    |                    |
| Income tax paid  |                    |                    |

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



Ethos Environmental, Inc.

Consolidated Statements of Stockholders' Equity (Deficit)

From January 1, 2007 to December 31, 2008

(expressed in U.S. dollars)

|  | Common Stock      |              | Additional        | Accumulated         |                  |
|--|-------------------|--------------|-------------------|---------------------|------------------|
|  | Shares            | Par Value    | Paid-In           | Deficit             | Total            |
|  | #                 | \$           | Capital           | \$                  | \$               |
|  |                   |              | \$                |                     |                  |
| <b>Balance December 31, 2006</b>       | <b>24,334,562</b> | <b>2,434</b> | <b>21,369,867</b> | <b>(19,851,373)</b> | <b>1,520,928</b> |
| Issuance of common shares for services | 11,214,000        | 1,121        | 14,713,839        |                     | 14,714,960       |
| 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        |
| Cancellation of common shares          | (50,000)          | (5)          | 5                 |                     |                  |
| Net loss for the year                  |                   |              |                   | (24,582,613)        | (24,582,613)     |
| <b>Balance December 31, 2007</b>       | <b>37,998,562</b> | <b>3,800</b> | <b>44,779,632</b> | <b>(44,433,986)</b> | <b>349,446</b>   |
| Issuance of common shares for services | 5,745,877         | 575          | 1,280,035         |                     | 1,280,610        |
| Issuance of common shares for cash     | 909,091           | 91           | 299,909           |                     | 300,000          |

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|   |                   |              |                   |                     |
|---|-------------------|--------------|-------------------|---------------------|
| Issuance of common shares for registration rights | 12,465,428        | 1,246        | 2,816,994         | 2,818,240           |
| Cancellation of common shares                     | (13,600,000)      | (1,360)      | 1,360             |                     |
| Fair value of share purchase warrants             |                   |              | 372,137           | 372,137             |
| Fair value of stock options                       |                   |              | 463,586           | 463,586             |
| Accretion of discount on convertible debt         |                   |              | 60,000            | 60,000              |
| Net loss for the year                             |                   |              | (7,177,819)       | (7,132,819)         |
| <b>Balance December 31, 2008</b>                  | <b>43,518,958</b> | <b>4,352</b> | <b>50,073,653</b> | <b>(51,611,805)</b> |
|   |                   |              |                   | <b>(1,533,800)</b>  |

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

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.

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, 2008, the Company recognized sales revenue of \$2,357,553 (2007 - \$1,355,141) but incurred a net loss of \$7,177,819 (2007 - \$24,582,613). At December 31, 2008, the Company had a working capital deficit of \$2,009,769 (2007 - \$168,889) and an accumulated deficit of \$51,611,805 (2007 - \$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 and Principles of Consolidation

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. These consolidated financial statements include the accounts of the Company and its subsidiary, Ethos Environmental, Inc. 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.

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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)**

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, 2008 and 2007, 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. At December 31, 2008 and 2007, the Company recorded an allowance for doubtful accounts of \$nil and \$205,119, respectively.

e)

Inventory



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, 2008 and 2007, the Company did not record any comprehensive income or loss.

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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)**

j)

Financial Instruments and Concentrations

The fair value of financial instruments, which include cash, accounts receivable, other current assets, other assets, accounts payable, and accrued liabilities were estimated to approximate their carrying value due to the immediate or relatively short maturity of these instruments. During the year ended December 31, 2008, the Company had one customer comprising \$1,586,531 (2007 - \$705,205), or 67% (2007 - 52%), of total revenues.

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 year ended December 31, 2008 and 2007, the Company recorded advertising costs of \$152,260 and \$283,470, 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 June 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method as described in FASB Statement of Financial Accounting Standards No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for financial statements issued for 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 consolidated 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 May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts* . An interpretation of FASB Statement No. 60 . SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise s risk-management activities. SFAS 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The adoption of this statement is not expected to have a material effect on the Company s consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* . SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* . The adoption of this statement is not expected to have a material effect on the Company s financial statements.



Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**2.**

**Summary of Significant Accounting Policies (continued)**

p) Recently Adopted Accounting Pronouncements (continued)

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No.51. SFAS No. 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS No. 160 also requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), 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 No. 141 (revised 2007) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS No. 141 (revised 2007) 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. The adoption of this statement did not have an impact on the Company's consolidated financial statements.

**3.**



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Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

**6.**

**Notes Payable**

a)

As at December 31, 2008, the Company owed \$31,580 to an investor for funding of the Company's operations. The amount owing is unsecured, due interest at 10% per annum, and is due on demand. As at December 31, 2008, the Company owes \$750 in accrued interest with respect to the amount owing.

b)

On December 31, 2008, the Company issued \$100,000 of convertible notes to a company managed by the interim Chief Executive Officer of the Company. Under the terms of the note agreement, the amounts are unsecured, due interest at 12% per annum, due two years from the date of issuance, and convertible into common shares of the Company at a rate of \$0.25 per common share at the election of the note holder. In accordance with EITF 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, the Company determined that the convertible notes contained no embedded beneficial conversion feature as the convertible notes were issued with a conversion price higher than the fair market value of the Company's common shares at the time of issuance.

c)

On December 31, 2008, the Company issued \$50,000 of convertible notes to a third-party investor. Under the terms of the note agreement, the amounts are unsecured, due interest at 12% per annum, due two years from the date of issuance, and convertible into common shares of the Company at a rate of \$0.25 per common share at the election of the note holder. In accordance with EITF 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, the Company determined that the convertible notes contained no embedded beneficial conversion feature as the convertible notes were issued with a conversion price higher than the fair market value of the Company's common shares at the time of issuance.

d)

In December 2008, the Company entered into a Promissory Note Agreement (the Note Agreement ) with a third party. Under the terms of the Note Agreement, the Company issued a \$150,000 promissory note which is unsecured, due interest at 10% per annum, and due in June 2009.

e)

On August 11, 2008, the Company entered into a Promissory Note Agreement (the Note Agreement ) as part of a Stock Purchase Agreement (the Purchase Agreement ) with a third party. Under the terms of the Note Agreement, the Company issued a \$300,000 promissory note which is unsecured, due interest at 10% per annum only in the event if the note is not converted into common shares, and due February 11, 2009. The Note Agreement is convertible into common shares of the Company at a rate of \$0.25 per common share at the election of the note holder. In accordance with EITF 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, the Company determined that the convertible notes contained a beneficial conversion feature of \$60,000 which has been recorded as a discount against the note payable with a corresponding credit to additional paid-in capital. As at December 31, 2008, the Company has recognized accretion expense of \$45,000, which is recorded in general and administrative expenses, which increased the carrying value of the promissory note to \$285,000.

f)

On July 30, 2008, the Company issued a Nonrecourse Loan (the Loan ) of \$500,000 and the proceeds were used to repay the Secured Promissory Note issued on March 26, 2008, and as disclosed in Note 5(e). Under the terms of the Nonrecourse Loan, the amounts are unsecured, non-interest bearing, and due on demand. On October 16, 2008, the Company amended the terms of the Loan to be due interest at 10% per annum and due on October 1, 2009.

g)

On March 31, 2008, the Company issued a promissory note (the Note ) in exchange for cash proceeds of \$300,000. Under the terms of the Note, the amount is unsecured, due interest at 12% per annum, and is due on March 31, 2009. Refer to Note 11(c).

h)

On March 26, 2008, the Company issued a Secured Promissory Note in exchange for cash proceeds of \$1,000,000, which was unsecured, non-interest bearing, and due on July 30, 2008. On July 30, 2008, the Secured Promissory Note was fully repaid.

i)

In December 2007, the Company entered into a Demand Loan Agreement (the Agreement ) with a third party for cash financing of \$350,000. Under the terms of the Agreement, the amount was unsecured, non-interest bearing, and due on demand. As at December 31, 2008, the Company had fully repaid the demand loan.

j)

As at December 31, 2008, the Company owed \$nil (2007 - \$246,521) 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.

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Ethos Environmental, Inc.

Notes to the Consolidated Financial Statements

(expressed in U.S. dollars)

7.

**Common Shares**

Transactions for the year ended December 31, 2008

a)

On December 31, 2008, the Company issued 1,000,000 common shares of the Company at \$0.18 per common share for consulting services with a fair value of \$180,000.

b)

On December 31, 2008, the Company issued 500,000 common shares of the Company at \$0.18 per common share with a fair value of \$90,000.

c)

On December 31, 2008, the Company issued 33,000 common shares of the Company at \$0.18 per common share with a fair value of \$5,940 for incentive shares as part of the issuance of a private placement.

d)

On December 31, 2008, the Company issued 3,066,000 common shares of the Company at \$0.18 per common share for compensation and incentive shares for a private placement with a fair value of \$551,880.









































































