

Edgar Filing: EYI INDUSTRIES INC. - Form 10QSB

EYI INDUSTRIES INC.  
Form 10QSB  
August 19, 2005

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

FORM 10-QSB

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2005

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

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

Commission File Number: 000-29803

EYI INDUSTRIES, INC.  
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(Exact name of small business issuer as specified in its charter)

NEVADA  
-----

(State or other jurisdiction of incorporation or organization)

88-0407078  
-----

(IRS Employer Identification No.)

7865 Edmonds Street  
Burnaby, BC CANADA  
-----

(Address of principal executive offices)

V3N 1B9  
-----

(Zip Code)

Issuer's telephone number, including area code: (604) 759-5031  
-----

NOT APPLICABLE  
-----

(Former name, former address and former fiscal year end, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 167,803,292 shares of common stock issued and outstanding as of August 19, 2005.

Transitional Small Business Disclosure Format (check one): Yes  No

### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS.

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B, and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the quarterly period ended June 30, 2005 are not necessarily indicative of the results that can be expected for the year ending December 31, 2005.

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

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#### EYI INDUSTRIES, INC. CONSOLIDATED BALANCE SHEETS

|                                       | June 30, 2005<br>(Unaudited) |
|---------------------------------------|------------------------------|
| ASSETS                                |                              |
| CURRENT ASSETS                        |                              |
| Cash                                  | \$ --                        |
| Restricted cash                       | --                           |
| Accounts receivable, net of allowance | 40,455                       |
| Related party receivables             | 4,295                        |
| Prepaid expenses                      | 669,157                      |
| Inventory                             | 191,210                      |
| TOTAL CURRENT ASSETS                  | 905,116                      |
| OTHER ASSETS                          |                              |
| Property, plant and equipment, net    | 30,079                       |
| Deposits                              | 27,746                       |
| TOTAL OTHER ASSETS                    | 57,825                       |
| INTANGIBLE ASSETS                     | 15,481                       |
| TOTAL ASSETS                          | \$ 978,422                   |

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### LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

|   |    |             |
|---|----|-------------|
| CURRENT LIABILITIES   |    |             |
| Bank indebtedness   | \$ | 24,112      |
| Accounts payable and accrued liabilities  |    | 1,467,479   |
| Accounts payable - related parties  |    | 765,241     |
| Interest payable, convertible debt  |    | 31,364      |
| Notes payable - related party   |    | 40,000      |
| Convertible debt-related party, net of discount   |    | 432,918     |
| Loan payable, Cornell   |    | 200,000     |
| TOTAL CURRENT LIABILITIES   |    | 2,961,114   |
| LIABILITIES FROM DISCONTINUED OPERATIONS  |    | 382,067     |
| MINORITY INTEREST IN SUBSIDIARY   |    | 306,514     |
| STOCKHOLDERS' EQUITY (DEFICIT)  |    |             |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding                                      |    | --          |
| Common stock, \$0.001 par value; 300,000,000 shares authorized, 167,803,292 and 162,753,092 shares issued and outstanding, respectively |    | 167,803     |
| Additional paid-in capital  |    | 3,708,856   |
| Stock options and warrants  |    | 2,378,994   |
| Subscription receivable   |    | (195,000)   |
| Accumulated deficit   |    | (8,731,926) |
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT)  |    | (2,671,273) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)  | \$ | 978,422     |

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

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### EYI INDUSTRIES, INC. CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three Months Ended           |                              |    |
|--|------------------------------|------------------------------|----|
|  | June 30, 2005<br>(Unaudited) | June 30, 2004<br>(Unaudited) |    |
| REVENUE  | \$ 1,225,216                 | 1,928,630                    | \$ |
| COST OF GOODS SOLD   | 254,402<br>970,814           | 668,933                      |    |
| GROSS PROFIT BEFORE COMMISSION EXPENSE                       |                              | 1,259,697                    |    |
| COMMISSION EXPENSE   | 450,857                      | 664,290                      |    |
| GROSS PROFIT AFTER COST OF GOODS SOLD AND COMMISSION EXPENSE | 519,957                      | 595,407                      |    |

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GROSS PROFIT AFTER COMMISSION EXPENSE

OPERATING EXPENSES

|                            |           |           |
|----------------------------|-----------|-----------|
| Consulting fees            | 240,848   | 255,374   |
| Legal and professional     | 80,512    | 147,072   |
| Customer service           | 65,471    | 253,078   |
| Finance and administration | 155,398   | 47,730    |
| Sales and marketing        | 1,273     | 8,253     |
| Telecommunications         | 124,890   | 90,369    |
| Wages and benefits         | 371,526   | 270,599   |
| Warehouse expense          | 16,819    | 119,036   |
| TOTAL OPERATING EXPENSES   | 1,056,737 | 1,191,511 |

OPERATING LOSS (536,780) (596,104)

OTHER INCOME (EXPENSES)

|                                  |          |          |
|----------------------------------|----------|----------|
| Interest and other income        | 319      | 3,173    |
| Interest expense                 | (34,442) | (12,511) |
| Foreign currency gain/(discount) | (13,191) | 2,616    |
| TOTAL OTHER INCOME (EXPENSES)    | (47,314) | (6,722)  |

NET LOSS BEFORE TAXES (584,094) (602,826)

PROVISION FOR INCOME TAXES -- --

NET LOSS BEFORE ALLOCATION TO MINORITY INTEREST (584,094) (602,826)

ALLOCATION OF LOSS TO MINORITY INTEREST 17,161 13,067

ALLOCATION OF LOSS TO DISCONTINUED OPERATIONS (296,000) (98,283)

NET LOSS \$ (862,933) (688,042)

BASIC AND DILUTED

NET LOSS PER COMMON SHARE \$ (0.01) nil\$

NET LOSS PER COMMON SHARE: DISCONTINUED OPERATIONS nil nil

WEIGHTED AVERAGE NUMBER OF COMMON STOCK SHARES OUSTANDING

FOR BASIC AND DILUTED CALCULATION 157,060,345 154,888,830

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

EYI INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

-----

|              |            |          |              |         |
|--------------|------------|----------|--------------|---------|
| Common Stock |            | Discount |              |         |
| -----        | Additional | on       | Subscription | Option/ |
| Number of    | Paid-in    | Common   |              |         |

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|  | Shares      | Amount    | Capital  | Stock    | Receivable | Warrants |
|--|-------------|-----------|----------|----------|------------|----------|
| Stock issued for cash on June 21, 2002   | 23,026,200  | \$ 23,026 | \$ 6,974 | \$ --    | \$ --      | \$ --    |
| Contribution of assets, liabilities and subsidiaries acquired at June 30, 2002   | 92,104,800  | 92,105    | --       | (53,598) | --         | --       |
| Net loss for period ended June 30, 2002  | --          | --        | --       | --       | --         | --       |
| Balance, June 30, 2002   | 115,131,000 | 115,131   | 6,974    | (53,598) | --         | --       |
| Shares issued for cash in private placement for \$1.50 per share, net of prorata share of private placement fees of \$61,206 | 2,914,603   | 2,915     | 477,307  | --       | --         | --       |
| Net loss for fiscal year ended June 30, 2003   | --          | --        | --       | --       | --         | --       |
| Balance, June 30, 2003   | 118,045,603 | 118,046   | 484,281  | (53,598) | --         | --       |
| Recapitalization and share exchange (restated)   | 30,135,067  | 30,135    | 343,691  | --       | --         | 128,385  |
| Net loss for fiscal year ended December 31, 2003   | --          | --        | --       | --       | --         | --       |
| Balance, December 31, 2003 (restated)  | 148,180,670 | 148,181   | 827,972  | (53,598) | --         | 128,385  |
| Common stock issued at \$0.20 including warrants less expenses of \$28,715   | 1,466,455   | 1,466     | 146,930  | --       | --         | 70,844   |
| Stock issued at \$0.165 per share  |             |           |          |          |            |          |

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|   |           |       |         |    |    |    |
|---|-----------|-------|---------|----|----|----|
| for cashless exercise of options in form of foregone debt | 3,200,000 | 3,200 | 524,800 | -- | -- | -- |
|---|-----------|-------|---------|----|----|----|

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EYI INDUSTRIES, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (Continued)

|   | Common Stock     |        | Additional Paid-in Capital | Discount on Common Stock | Subscription Receivable | Option/Warrants |
|---|------------------|--------|----------------------------|--------------------------|-------------------------|-----------------|
|   | Number of Shares | Amount |                            |                          |                         |                 |
| Stock issued for exercise of options at \$0.20 per share in lieu of payment of legal fees | 300,000          | 300    | 59,700                     | --                       | --                      | --              |
| Stock issued at \$0.165 per share for cash and promissory note for exercise of options    | 1,000,000        | 1,000  | 164,000                    | --                       | (15,000)                | --              |
| Common stock issued at \$0.21 including warrants  | 5,476,190        | 5,476  | 487,381                    | --                       | --                      | 657,143         |
| Common stock issued at \$0.21 including warrants less expenses of \$3,231                 | 566,833          | 567    | 36,369                     | --                       | --                      | 78,869          |
| Stock issued for exercise of options at \$0.22 per share in lieu of consulting fees       | 50,000           | 50     | 10,950                     | --                       | --                      | --              |
| Stock issued for deferred financing costs   | 1,300,000        | 1,300  | 388,700                    | --                       | --                      | --              |
| Adjustment to subsidiaries stock held by minority interest                                | 176,534          | 177    | 33,126                     | --                       | --                      | --              |

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|  |         |     |        |    |    |           |
|--|---------|-----|--------|----|----|-----------|
| Stock issued at \$0.28 per share for consulting agreement                              | 350,000 | 350 | 97,650 | -- | -- | --        |
| Vested stock options issued for consulting at an average price of \$0.18 per option    | --      | --  | --     | -- | -- | 128,250   |
| Vested stock options issued for compensation at an average price of \$0.18 per option  | --      | --  | --     | -- | -- | 1,078,277 |
| Stock issued at \$0.165 per share for cash and promissory note for exercise of options | 36,360  | 36  | 7,236  | -- | -- | --        |
| Stock issued for exercise of options at \$0.08 per share in lieu of consulting fees    | 200,000 | 200 | 15,800 | -- | -- | --        |
| Stock issued for exercise of options at \$0.08 per share in lieu of consulting fees    | 250,000 | 250 | 19,750 | -- | -- | --        |
| Stock issued for exercise of options at \$0.11 per share by the CEO                    | 200,250 | 200 | 31,841 | -- | -- | (10,013)  |

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EYI INDUSTRIES, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (Continued)

|                             | Common Stock        |        | Additional<br>Paid-in<br>Capital | Discount<br>on<br>Common<br>Stock | Subscription<br>Receivable | Option/<br>Warrants |
|-----------------------------|---------------------|--------|----------------------------------|-----------------------------------|----------------------------|---------------------|
|                             | Number of<br>Shares | Amount |                                  |                                   |                            |                     |
| Cancellation of discount on |                     |        |                                  |                                   |                            |                     |

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|   |              |           |           |        |            |             |
|---|--------------|-----------|-----------|--------|------------|-------------|
| common stock  | --           | --        | (53,598)  | 53,598 | --         | --          |
| Beneficial conversion of convertible debt   | --           | --        | 250,000   | --     | --         | --          |
| Vested stock options issued for compensation and consulting at an average price of \$0.12               | --           | --        | --        | --     | --         | 1,087,900   |
| Cancelled stock options issued for compensation and consulting at an average price of \$0.19 per option | --           | --        | --        | --     | --         | (656,612)   |
| Net loss for period ended December 31, 2004   | --           | --        | --        | --     | --         | --          |
| Balance December 31, 2004   | \$162,753,29 | \$162,753 | 3,048,606 | \$ --  | \$(15,000) | \$2,563,043 |
| Stock issued at \$0.06 per Share for promissory note for exercise of options                            | 3,000,000    | 3,000     | 177,000   | --     | (180,000)  | --          |
| Vested stock options issued for consulting at an average price of \$0.07 per share                      | --           | --        | --        | --     | --         | 35,250      |
| Vested stock options issued for employee compensation at an average price of \$0.07 per share           | --           | --        | --        | --     | --         | 133,750     |
| Stock issued to employee for financing guaranty & pledge valued at \$0.05 per share                     | 800,000      | 800       | 39,200    | --     | --         | --          |
| Nazlin-options exercised  | 250,000      | 250       | 14,750    | --     | --         | (5,000)     |
| Gladys Sargeant 506 Subscription Agreement  | 1,000,000    | 1,000     | 4,000     | --     | --         | 15,000      |



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|   |    |    |    |    |    |           |
|---|----|----|----|----|----|-----------|
| Vested stock option issued for consulting at an average price of \$0.03 per share                       | -- | -- | -- | -- | -- | 62,250    |
| Cancelled stock options issued for compensation and consulting at an average price of \$0.08 per option | -- | -- | -- | -- | -- | (425,300) |

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EYI INDUSTRIES, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (Continued)

|   | Common Stock     |            | Additional Paid-in Capital | Discount on Common Stock | Subscription Receivable | Opt War |
|---|------------------|------------|----------------------------|--------------------------|-------------------------|---------|
|   | Number of Shares | Amount     |                            |                          |                         |         |
| Net loss for period ended June 30, 2005 | --               | --         | --                         | --                       | --                      | --      |
| Balance June 30, 2005 (Unaudited)       | \$167,803,292    | \$ 167,803 | 3,708,856                  | \$ --                    | \$ (195,000)            | \$ 2,3  |

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

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EYI INDUSTRIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Six Months Ended June 30, 2005 (Unaudited) | June (Una |
|--|--|-----------|
| CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES |  |           |
| Net loss   | \$ (1,646,720)                             | \$ (1     |
| Loss allocated to minority interest                | 32,750                                     | (1        |
| Adjustments to reconcile net loss                  | (1,679,470)                                | (1        |

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|  |            |    |
|--|------------|----|
| to net cash used by operating activities:                          |            |    |
| Depreciation and amortization                                      | 44,064     |    |
| Stock and warrants issued for employee compensation and consulting | 231,250    |    |
| Stock issued for options exercised in lieu of legal fees           | --         |    |
| Non cash return of legal fees                                      | --         |    |
| Stock issued for financing guaranty and pledge                     | 40,000     |    |
| Discount recognized on convertible debt                            | 38,159     |    |
| Liabilities in excess of assets on discontinued operations         | 382,06     |    |
| Decrease (increase) in:  |            |    |
| Related party receivables  | 427        |    |
| Accounts receivable  | 5,351      |    |
| Prepaid expenses   | 188,013    |    |
| Inventory  | 48,431     |    |
| Deposits   | (3,385)    |    |
| Increase (decrease) in:  |            |    |
| Accounts payable and accrued liabilities                           | 249,301    |    |
| Accounts payable - related parties                                 | 175,096    |    |
| Net cash used by operating activities                              | (280,696)  |    |
| CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES                 |            |    |
| Decrease/(increase) in restricted cash                             | 100,248    |    |
| Decrease (increase) in property, plant, and equipment              | (12,726)   |    |
| Net cash provided by investing activities                          | 87,522     |    |
| CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES                 |            |    |
| Net change in bank indebtedness                                    | (48,344)   |    |
| Issuance of stock, net of private placement costs & warrants       | 8,500      |    |
| Proceeds from convertible debt                                     | --         |    |
| Net proceeds from loan payable-Cornell                             | 200,000    |    |
| Net cash provided by financing activities                          | 160,156    |    |
| Net increase in cash and cash equivalents                          | (33,018)   |    |
| CASH - Beginning of Year   | 33,018     |    |
| CASH - End of Period   | \$ --      | \$ |
| SUPPLEMENTAL CASH FLOW DISCLOSURES:                                |            |    |
| Interest expense paid  | \$ 34,442  | \$ |
| Income taxes paid  | \$ --      | \$ |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS:                     |            |    |
| Stock subscription issued for promissory note                      | \$ 180,000 | \$ |
| Stock options vested for compensation and consulting               | \$ 231,250 | \$ |
| Stock issued for options exercised in lieu of debt                 | \$ --      | \$ |
| Stock issued for options exercised in lieu of legal fees           | \$ 10,000  | \$ |
| Stock and warrants issued for prepaid expenses                     | \$ --      | \$ |
| Stock issued for deferred offering costs                           | \$ --      | \$ |
| Stock and warrants issued for expenses                             | \$ --      | \$ |
| Stock and warrants issued through 506 Private Placement            | \$ 20,000  | \$ |

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

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EYI INDUSTRIES, INC.  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2005

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### NOTE 1 - DESCRIPTION OF BUSINESS

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

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

The Company has four wholly owned subsidiaries. The first subsidiary is Halo Distribution LLC (hereinafter "Halo"), which was organized on January 15, 1999, in the State of Kentucky. Halo was the distribution center for the Company's product in addition to other products until April 30, 2005 at which time the Company made the decision to discontinue its operations (see Note 11). The second subsidiary is RGM International Inc., which was incorporated on July 3, 1997, in the State of Nevada. RGM International Inc. is a dormant investment company, which owns one percent of Halo. The third subsidiary is Essentially Yours Industries (Canada) Inc. (hereinafter "EYI Canada"), which was organized on September 13, 2002, in the province of British Columbia, Canada. EYI Canada markets health and wellness care products for use in Canada. The fourth subsidiary is 642706 B.C. Ltd., doing business as EYI Management, which was organized on February 22, 2002, in the province of British Columbia, Canada. EYI Management provides accounting and marketing services to the consolidated entity.

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

### Basis of Presentation

The accompanying interim condensed financial statements are prepared in accordance with rules set forth in Regulation SB of the Securities and Exchange Commission. As said, these statements do not include all disclosures required under generally accepted principles and should be read in conjunction with the audited financial statements for the year ended December 31, 2004. In the opinion of management, all required adjustments which consist of normal re-occurring accruals have been made to the financial statements.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the

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reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions that could have a material effect on the reported amounts of the Company's financial position and results of operations.

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

#### Inventory

The Company records inventories at the lower of cost or market on a first-in, first-out basis. Our product inventory is reviewed each month and also when the re-order of the product is necessary. On a monthly basis, our inventory is reviewed based on the expiration of our existing inventory. Product that has a shelf-life of less than 60 days is written off or discounted.

A re-order review consists of an evaluation of our current monthly sales volume of the product, cost of product, shelf-life of the product, and the manufacturers minimum purchase requirement which all determine the overall potential profitability or loss of re-ordering. If the re-order of the product has an assessed loss, then the recommendation to management is to remove the product from the product line.

#### Reclassification

Certain amounts from prior periods have been reclassified to conform to the current period presentation. This reclassification has resulted in no changes to the Company's accumulated deficit or net losses presented.

#### Restricted Cash

Restricted cash includes deposits held in a reserve account in the amount of \$0 and \$100,248 at June 30, 2005 and December 31, 2004 respectively. Such deposits are required by the bank as protection against unfunded charge backs and returns of credit card transactions. Effective June 9, 2005, the bank deemed that this deposit is no longer necessary and released the funds to the Company.

#### Revenue Recognition

The Company is in the business of selling nutritional products in two categories: dietary supplements and personal care products. Sales of personal care products represent less than 5% of the overall revenue and therefore are not classified separately in the financial statements. The Company recognized revenue from product sales when the products are shipped and title passes to customer. Administrative fees charged to the Independent Business Associates are included in the gross sales and amounted \$74,646 and \$117,700 for the six months ended June 30, 2005 and June 30, 2004 respectively.

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

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

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### Going Concern

As shown in the accompanying financial statements, the Company had negative working capital of approximately \$2,056,000 and an accumulated deficit incurred through June 30, 2005. The Company also has limited cash resources and a history of recurring losses. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

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

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

### NOTE 3 - REORGANIZATION

On May 27, 2002, Mr. Jay Sargeant, a shareholder of Essentially Yours Industries, Corp. ("EYI Corp.") agreed to acquire all of the shares of the Essentially Yours Industries, Inc. ("EYII"), along with the transfer agreement, license agreement, and agency appointment agreement as described below, in settlement of amounts owed to him. As part of this transaction, EYI Corp. agreed to provide to EYII the services outlined in a management agreement. These agreements became effective on June 30, 2002. EYII owns ninety-nine percent of Halo Distributions LLC ("HALO"). The other one percent of HALO is owned by RGM International, Inc. ("RGM"), a former subsidiary of EYI Corp., which was transferred to Mr. Sargeant as additional consideration.

On June 30, 2002, the shareholder of EYII exchanged all of the outstanding shares of EYII for 12,000,000 common shares of Burrard Capital Inc ("Burrard"), a shell company with no assets or business operations. Concurrent with this transaction, EYII was merged into Burrard with Burrard emerging as the surviving entity. The combined entity was renamed Essentially Yours Industries, Inc. For accounting purposes, the acquisition has been treated as a recapitalization of EYII with EYII as the acquirer. Prior to this merger, EYII and RGM were considered to be dormant companies, with the activities of HALO being consolidated directly with EYII Corp. although the legal ownership was vested in EYII and RGM. Therefore, the losses from HALO operations and the other economic impacts prior to June 30, 2002 are considered to be the separate activity of EYI Corp.

On June 30, 2002, EYII took over the sales and marketing activities of its former holding company and entered into various agreements with that Company as follows:

#### Transfer Agreement

As part of the aforementioned transaction and for consideration of \$1, EYI Corp. transferred and assigned to EYII all of its rights, title and interest in and to the contracts with its Independent Business Associates and any other contracts

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that may be identified by the parties as being inherent or necessary to the sales and marketing activities to EYII.

### License Agreement

EYI Corp. licensed to EYII all of the rights, title, and interest that it may have in various intellectual properties for \$1 per year for a term of 50 years. The Company has the option at any time to require EYI Corp. to transfer all of its rights, title, interest in and to the intellectual properties to the Company at the sum of \$1 or such greater sum as may be determined to be the fair market value of such intellectual property as determined by agreement between the parties, by arbitration or by the appropriate taxation authorities after all assessments and appeals have been concluded.

### Agency Appointment Agreement

EYI Corp. appointed EYII as the sole and exclusive agent to sell its remaining inventory on hand as of June 30, 2002 at the prices previously established, and to continue to sell at such price unless and until any change is agreed upon with EYI Corp. In consideration for its efforts, the Company is entitled to a sales commission of fifteen percent on all sales of such inventory.

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### Management Agreement

EYI Corp. agreed to perform various services such as administration, computer support, and sales and customer support, on behalf of EYII for a term of one year commencing June 30, 2002. The services and duties to be provided and performed by EYI Corp. for EYII shall be determined and agreed upon by the parties, from time to time, as required, provided however, it is understood and agreed that such services will primarily consist of assisting EYII in the sales and marketing business. At the date of these financial statements, the agreement had expired, and EYII was operating on a month-to-month basis for management services with EYI Corp.

The remuneration to be paid by EYII to EYI Corp. for the aforementioned services is to be negotiated by the parties from time to time, provided however, the parties agree that the remuneration to be paid shall be consistent with industry standards for the type and nature of the services or duties being provided. At the present time, EYII has agreed to pay EYI Corp. actual expenses plus a fee of 5% on these expenses.

### NOTE 4 - ACCOUNTS RECEIVABLE AND CREDIT RISK

Accounts receivable, net of allowance at June 30, 2005 and December 31, 2004 consist of amounts due from direct retail clients of EYII.

### NOTE 5 - PROPERTY AND EQUIPMENT

Capital assets are recorded at cost. Depreciation is calculated using the straight line method over three to seven years.

### NOTE 6 - CONVERTIBLE LOANS PAYABLE

On June 2, 2004, the Company issued to Cornell Capital Partners, LP a 5% secured convertible debenture in the principal amount of \$250,000 with a term of two years, and interest at 5%. The debenture is convertible into the Company's common stock at a price per share equal to the lessor of (a) 120% of the closing bid price by the second anniversary date of issuance or (b) 100% of the lowest daily volume weighted average price for the 30 days immediately prior to conversion. On June 24, 2004, the Company received the \$250,000 loan less related expenses of approximately \$65,000 which has been allocated as discount on debt and will be amortized over a two year period. The convertible securities

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are guaranteed by the assets of the Company. Under the agreement, the Company is required to keep available common stock duly authorized for issuance in satisfaction of the convertible. The conversion amount will be the face amount of the convertible plus interest at the rate of 5% per annum from the closing date of June 24, 2004 to the conversion date, which is the date on which the Company receives a notice of conversion from the investor exercising the right to convert the convertible into common shares of the Company. The debt will automatically convert into common stock on the second anniversary date of issuance. The terms of the debt do not require regular monthly payments.

On September 24, 2004, the Company issued to Cornell Capital Partners, LP ("Cornell") a 5% secured convertible debenture in the principal amount of \$250,000 with a term of two years, and interest at 5%. The debenture is convertible into the Company's common stock at a price per share equal to the lesser of (a) 120% of the closing bid price by the second anniversary date of issuance or (b) 100% of the lowest daily volume weighted average price for the 30 days immediately prior to conversion. On September 27, 2004, the Company re-assigned \$245,000 of this debenture to Taib Bank, E.C. and reassigned \$5,000 of debenture B to an individual. Under the debenture agreement, the Company's failure to issue unrestricted, freely tradable common stock to Cornell or Taib Bank, E.C. or the individual upon conversion after the registration statement filed pursuant to this transaction has been declared effective would be considered an event of default, thereby entitling Cornell to accelerate full repayment of the convertible securities then outstanding. Under the agreement, the Company is required to maintain available common stock duly authorized for issuance in satisfaction of the convertible. On September 24, 2004 the Company received the \$250,000 loan less related expenses of approximately \$55,000, which has been allocated as discount on debt and will be amortized over a two year period. The convertible securities are guaranteed by the assets of the Company. Under the agreement, the Company is required to keep available common stock duly authorized for issuance in satisfaction of the convertible. The conversion amount will be the face amount of the convertible plus interest at the rate of 5% per annum from the closing date of September, 2004 to the conversion date, which is the date on which the Company receives a notice of conversion from the investor exercising the right to convert the convertible into common shares of the Company. The convertible will automatically convert into common stock on the second anniversary date of issuance. The terms of the debt do not require regular monthly payments.

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The convertible debentures contained a beneficial conversion feature computed at its intrinsic value that was the difference between the conversion price and the fair value on the debenture issuance date of the common stock into which the debt was convertible, multiplied by the number of shares into which the debt was convertible at the commitment date. Since the beneficial conversion feature was to be settled by issuing equity, the amount attributed to the beneficial conversion feature, or \$250,000 at December 31, 2004 and \$0 at June 30, 2005, was recorded as an interest expense and a component of stockholders' equity on the balance sheet date.

### Standby Equity Distribution Agreement

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

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revised Standby Equity Distribution Agreement with Cornell dated May 13, 2005. The terms of the agreement remain the same. (See Note 10.)

### NOTE 7 - INTANGIBLE ASSETS

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

#### Trademarks and Formulas

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

### NOTE 8 - CAPITAL STOCK

#### Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock with a par value of \$0.001. As of June 30, 2005 and December 31, 2004 the Company has not issued any preferred stock.

#### Common Stock

The Company is authorized to issue 300,000,000 shares of common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

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

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

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

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

### NOTE 9 - COMMON STOCK OPTIONS AND WARRANTS

Financial Accounting Standards No. 123, "Accounting for Stock-Based



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

In accordance with SFAS No. 123, the fair value of stock options and warrants granted are estimated using the Black-Scholes Option Price Calculation. The following assumptions were made to value the stock options and warrants for the period ended June 30, 2005; estimated risk-free interest rate of 4%, estimated volatility of 120% and term of two years.

### Warrants

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

### Stock Options

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

|  | Number of Shares | Weighted<br>Exercis |
|--|------------------|---------------------|
| Outstanding at December 31, 2004               | 19,747,390       | \$ 0.               |
| Granted  | 5,106,610        | \$ 0.               |
| Exercised                                      | (8,436,610)      | \$ 0.               |
| Forfeited                                      | --               | \$                  |
| Options outstanding at June 30, 2005           | 16,417,390       | \$ 0.1              |
| Options exercisable at June 30, 2005           | 13,772,890       | \$ 0.               |
| Weighted average fair value of options granted |                  | \$                  |

Summarized information about stock options outstanding and exercisable at June 30, 2005 is as follows:

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| Options Outstanding        |                     |                                    |                               |
|----------------------------|---------------------|------------------------------------|-------------------------------|
| Exercise<br>Price<br>Range | Number<br>of Shares | Weighted Ave.<br>Remaining<br>Life | Weighted<br>Exercise<br>Price |
| \$0.04 - \$0.26            | 22,997,390          | 2.00                               | \$ 0.                         |

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| Exercise Price Range        | Options Exercisable |                              |                         |                        |
|-----------------------------|---------------------|------------------------------|-------------------------|------------------------|
|                             | Number of Shares    | Weighted Ave. Remaining Life | Weighted Exercise Price |                        |
| \$0.11 - \$0.22             | 20,875,390          | 2.00                         | \$                      | 0.                     |
|                             | Number of Warrants  | Weighted Remaining Life      | Average                 | Average Exercise Price |
| Outstanding and exercisable | 2,751,746           | 2                            |                         | \$0.11                 |

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Purchase Agreement

On June 30, 2002, the Company entered into a distribution and license agreement with a company in which one of the Company's directors has an ownership interest. The agreement gives the Company the exclusive right to market, sell and distribute certain products for a five-year renewable term. Management estimates that 90% of the Company's sales volume results from products supplied under this licensing agreement.

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

As of the date of these financial statements, the purchase requirements have not been made and it has been determined by the Company to be a remote possibility that the licensor will enforce the minimum purchase requirements, therefore, there has not been an accrual made to the financial statements to reflect any estimated liability pertaining to this agreement due to the fact that the maximum time period to make a claim expired prior to the issuance of the financial statements.

Lease Payments

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

| Year ended December 31, | Minimum Amount |
|-------------------------|----------------|
| 2005                    | \$262,805      |
| 2006                    | 276,739        |
| 2007                    | 182,432        |
| 2008                    | 135,000        |
| 2009 and thereafter     | 435,000        |

Management Agreement

EYI Corp. has agreed to perform various services and administrative assistance to the Company on a month to month basis commencing April 1, 2004. The services and duties to be provided and performed by EYI Corp. for EYII shall be

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determined and agreed upon by the parties, from time to time, as required, provided however, it is understood and agreed that such services will primarily consist of assisting EYII in the sales and marketing business.

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

### Regulatory Risks and Claims

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

### Secured Promissory Note

On February 24, 2005 we received a loan of \$200,000 from Cornell secured by a secured promissory note. Under the terms of the secured promissory note, the loan is payable by April 24, 2005 and accrues interest at a rate of 12% per annum. In connection with the issuance of the Secured Note, we agreed to: (i) pay Cornell a fee of \$20,000; and (ii) pay Yorkville Advisors Management LLC a structuring fee in the amount of \$2,500. As a condition to Cornell's entry into the Secured Note on February 24, 2005, an employee of EYI, Janet Carpenter, entered into a guaranty agreement with Cornell and a pledge and escrow agreement with Cornell and David Gonzalez. Pursuant to the terms of the guaranty agreement and the pledge and escrow agreement, Ms. Carpenter agreed to: (i) personally guarantee the payment and performance obligations of EYI under the Secured Note; and (ii) pledge to Cornell 3,000,000 shares of EYI held by her to secure the obligations of EYI under the Secured Note. In consideration of Ms. Carpenter providing the guarantee and pledge, EYI entered into a bonus shares agreement dated February 14, 2005 with Ms. Carpenter, pursuant to which we agreed to issue to Ms. Carpenter 800,000 shares of our common stock at a deemed price of \$0.05 per share. The shares are to be issued to Ms. Carpenter pursuant to Regulation S of the Securities Act. (See Note 8.)

### Subsidy Agreements

On July 23, 2004, the Company entered into subsidy agreements with three related parties in which the Company agreed to pay a guaranteed amount of \$2,500 per week to each party for sales and marketing services. This is in lieu of all commissions earned by each of these three individuals. The Company has renewed these agreements every 12 weeks since they became effective.

### Standby Equity Distribution Agreement

On June 22, 2004, the Company entered into a two-year standby equity distribution agreement with Cornell Capital Partners LP ("Cornell"). Pursuant to this agreement, Cornell will purchase up to 10,000,000 shares of the Company's common stock through a placement agent. The Company issued 1,300,000 shares of its common stock to Cornell and the placement agent upon the inception of this agreement. The \$390,000 value of these shares was based on the fair market value of the shares on the date of the contract and is recognized as a period expense due to the fact that the 1,300,000 shares have been deemed to be fully earned as of the date of the agreement. (See Note 6.)

On May 13, 2005 the Company entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP ("Cornell") pursuant to which we entered into the following agreements: a Registration Rights Agreement, an Escrow Agreement, and a Placement Agent Agreement. Pursuant to the terms of the new Standby Equity

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Distribution Agreement, we may, at our discretion, periodically issue and sell shares of our common stock for a total purchase price of \$10 million. If we request advances under the Standby Equity Distribution Agreement, Cornell will purchase shares of our common stock for 98% of the lowest volume weighted average price on the Over-the-Counter Bulletin Board or other principal market on which our common stock is traded for the 5 days immediately following the advance notice date. Cornell will retain 5% of each advance under the new Standby Equity Distribution Agreement. We may not request advances in excess of a total of \$10 million. Pursuant to the terms of our Registration Rights Agreement and the Standby Equity Agreement with Cornell, we agreed to register and qualify, among other things, the additional shares due to Cornell under the Standby Equity Agreement under a registration statement filed with the SEC. We signed a Termination Agreement on May 13, 2005, for the purpose of terminating our Standby Equity Distribution Agreement, Registration Rights Agreement and Escrow Agreement previously entered into with Cornell on June 22, 2004.

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On April 4, 2005 we entered into a redemption agreement with TAIB Bank E.C. ("TAIB") pursuant to which TAIB agreed to acquire by assignment a two year 5% secured convertible debenture issued to Cornell Capital Partners, L.P. ("Cornell") in the amount of \$245,000, and a two year 5% convertible debenture in the amount of \$5,000 held by Kent Chou, in consideration of which we agreed not to modify or renegotiate the terms of our Standby Equity Distribution Agreement ("SEDA") with Cornell, and to use any proceeds obtained by EYI under the SEDA to make payments on the debentures. The debentures were assigned to TAIB on April 4, 2005.

In February, 2004 we entered into a letter of commitment with Source, Inc. ("Source") for the purpose of further developing our corporate marketing position with Source and for assistance in raising equity capital. Pursuant to the terms the letter agreement, we agreed to: (i) pay Source 20% of the gross revenues generated by Source under a Corporate Marketing Organization Agreement ("CMO Agreement") previously entered into with Premier Lifestyles International Corporation, a company related to Source; (ii) to offer up to \$4,000,000 of EYI restricted stock over a 90 day period at \$0.21 per share and warrants exercisable at a price of \$0.30 per share for investors referred to EYI by Source in connection with any equity offerings by EYI; (iii) at the end of the 12 months period following execution of the agreement, and if Source had referred enough investors to raise a minimum of \$500,000, to issue to Source \$1,800,000 in common stock of EYI or pay the balance in cash; and (iv) on a monthly basis, during the 12 month period, pay 50% of all monies collected by EYI from Source referred investors, to be paid to Source towards the \$1,800,000 to pay for the CMO Agreement and \$300,000 towards a proposed web portal. Subsequently, we terminated the CMO agreement in accordance with its terms in July, 2004, and notified Source that they failed to raise the minimum funding of \$500,000 in connection with EYI's equity offering closing in June, 2004. Source has notified EYI that they dispute the fact that they did not raise the minimum financing amount. Management believes that if Source were to advance any such claims against EYI its chance of success would be remote and we intend to vigorously defend against any potential legal claims respecting this matter.

On May 11, 2005 the Company entered into a Reseller Agreement with MARTI for a term of five (5) years, pursuant to which MARTI appointed EYII as the exclusive distributor of certain specially formulated MARTI products on a consignment basis and provide EYII with a 1,000 units of inventory for sale to its customers, proceeds of which are subject to fee payments to MARTI as set out in the schedules accompanying the agreement.

On April 22, 2005 Essentially Yours Industries, Inc., our wholly owned subsidiary ("EYII") entered into a Fulfillment Services Agreement with Source 1

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

### Other Matters

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

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### NOTE 11 - DISCONTINUED OPERATIONS

During the period ended June 30, 2005, the Company elected to discontinue the operations of Halo Distribution LLC (hereinafter "Halo"), a subsidiary of the Company and recorded costs associated from discontinued operations of \$387,461 for the period ended June 30, 2005. In addition, the Company reclassified the December 31, 2004 balance sheet to reflect \$405,838 of liabilities from the discontinued subsidiary and recorded costs from discontinued operations of \$170,690 for the period ended June 30, 2004.

The assets and liabilities disposed of from discontinued operations at June 30, 2005 were as follows:

|                                  |    |         |
|----------------------------------|----|---------|
| Total Assets                     | \$ | --      |
| Accounts payable                 | \$ | 78,217  |
| Accrued liabilities              |    | 198,850 |
| Accounts payable - related party |    | 105,000 |
|                                  |    | -----   |
| Total Liabilities                |    | 382,067 |
| Liabilities in excess of assets  | \$ | 382,067 |
|                                  |    | =====   |

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

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### NOTE 12 - RELATED PARTY NOTE PAYABLE

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

On February 10, 2005, we entered into a loan agreement with one of our employees, pursuant to which we loaned her \$180,000. (See Note 8 and 10)

On February 14, 2005 the Company entered into a bonus share agreement with one of our employees and issued 800,000 shares of our common stock according to the terms of the agreement. (See Note 8 and 10)

### NOTE 13 - CONCENTRATIONS

#### Bank Accounts

The Company maintains its cash accounts in two commercial banks. During the year, the Company may maintain balances in excess of the federally insured amounts in the accounts that are maintained in the United States. The Company also maintains funds in commercial banks in Vancouver, British Columbia, in which funds in U.S. dollars are not insured. At June 30, 2005 and December 31, 2004, a total of \$0, and \$248 respectively, was not insured.

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#### Economic Dependence

During the year, the Company purchased approximately 90% of its products for resale from one company, Nutri-Diem Inc., which is the sole supplier of the Company's flagship product Calorad. Pursuant to a purchase agreement, the Company is subject to minimum purchases per annum. (See Note 10.)

### NOTE 14 - RELATED PARTY TRANSACTIONS

On May 27, 2002, Mr. Jay Sargeant, a shareholder of Essentially Yours Industries, Corp. ("EYI Corp.") agreed to acquire all of the shares of the Essentially Yours Industries, Inc. ("EYII"), along with the transfer agreement, license agreement, and agency appointment agreement, in settlement of amounts owed to him. As part of this transaction, EYI Corp. agreed to provide to EYII the services outlined in a management agreement.

The Company acquired, through agreements with Essentially Yours Industries, Corp. ("EYI Corp."), the rights, title, and interest in and to the contracts with the Company's Independent Business Associates as well as the rights and licenses to trademarks and formula for the Company's primary products. Expanded details are explained in Note 7.

Accounts payable to related parties represents amounts due to the president and chief executive officer for services preformed during the last year as well as to other related parties and the company with which they have a signed management agreement. These payables are non-interest bearing and non-collateralized.

See note 10 regarding subsidy agreements with related parties.

During the year, the Company purchased approximately 90% of its products for resale from one company, Nutri-Diem Inc., which is owned in part by a director of the Company.

### NOTE 15 - SUBSEQUENT EVENTS

On July 28, 2005, the Company entered into an Investor Relations Agreement with

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

On August 1, 2005, the Company entered into a promissory note with Cornell Capital Partners, LP for the principal sum of one Million (U.S.) dollars (\$1,000,000) and will be payable in nineteen equal weekly installments of Fifty Thousand Dollars (\$50,000) and one additional installment of Eighty-five Thousand Thirteen Dollars and Seventy Cents (85,013.70) start on September 5, 2005. Interest on this note is twelve percent (12%) per annum.

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

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

#### FORWARD LOOKING STATEMENTS

The information in this discussion contains forward-looking statements. These forward-looking statements involve risks and uncertainties, including statements regarding EYI Industries, Inc.'s (the "Company") capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks outlined in the Risk Factors section below, and, from time to time, in other reports the Company files with the Securities and Exchange Commission (the "SEC"). These factors may cause the Company's actual results to differ materially from any forward-looking statement.

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#### OVERVIEW

We are in the business of selling, marketing, and distributing a product line consisting of approximately 30 nutritional products in two categories, dietary supplements and personal care products. Our most successful product is Calorad, a liquid collagen-based dietary supplement presently available on the market. These products are marketed through a network marketing program in which IBAs (Independent Business Associates) purchase products for resale to retail customers as well as for their own personal use. We have a list of over 380,000 IBAs, of which approximately 9,500 we consider "active". An "active" IBA is one who purchased our products within the preceding 12 months. Over 1,300 of these IBAs are considered "very active". A "very active" IBA is one who is on our automatic Auto-ship Program and is current with their annual administration fee. Our Auto-ship Program allows our IBAs to set up a reoccurring order that is automatically shipped to them each month.

The IBAs in our network are encouraged to recruit interested people to become new distributors of our products. New IBAs are placed beneath the recruiting IBA

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

On an ongoing basis we review our product line for duplication and sales trends and make adjustments accordingly. As of June 30, 2005, our product line consisted of: (i) 22 dietary supplement products; and (ii) 8 personal care products consisting primarily of cosmetic and skin care products. Our products are primarily manufactured by Nutri-Diem, Inc., a related party, and sold by us under a license and distribution agreement with Nutri-Diem. Certain of our own products are manufactured for us by third party manufacturers pursuant to formulations developed for us. Our products are sold to our IBAs located in the United States and Canada.

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

### Recent Corporate Developments

We experienced the following significant developments since our last fiscal quarter ended March 31, 2005:

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

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On August 1, 2005, we received a loan from Cornell Capital Partners, LP ("Cornell") of \$1,000,000 secured by a promissory note with Cornell and payable in nineteen equal weekly installments of \$50,000 and one additional installment of \$85,013 starting on September 5, 2005. Interest accrues on the note at a rate of twelve percent (12%) per annum.

We entered into a letter of intent with Guangzhou CEIEC Enterprise (Group) Co. Ltd. (CEIEC), a Chinese company. Pursuant to the terms of the letter of intent CEIEC agreed commencing in September, 2005, subject to further negotiations respecting the terms and price of the purchase orders, to enter into certain purchase commitments to purchase up to 30,000,000 of EYI's water filtration



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systems for the removal of nitrates and arsenic from potable water (the "Filtration System") and to acquire the master agency rights to market and distribute the Filtration System in China. The parties agreed to sign an initial purchase order in September, 2005 and CEIEC agreed to purchase not less than \$10,000 of the Filtration Systems as samples. The letter of intent is subject to the negotiation of a final agreement outlining the terms and price of the purchase orders.

On May 13, 2005 we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners, LP ("Cornell") pursuant to which we entered into the following agreements: a Registration Rights Agreement, an Escrow Agreement, and a Placement Agent Agreement. Pursuant to the terms of the Standby Equity Distribution Agreement, we may, at our discretion, periodically issue and sell shares of our common stock for a total purchase price of \$10 million. If we request advances under the new Standby Equity Distribution Agreement, Cornell will purchase shares of our common stock for 98% of the lowest volume weighted average price on the Over-the-Counter Bulletin Board or other principal market on which our common stock is traded for the 5 days immediately following the advance notice date. Cornell will retain 5% of each advance under the new Standby Equity Distribution Agreement. We may not request advances in excess of a total of \$10 million. Pursuant to the terms of our Registration Rights Agreement and the Standby Equity Agreement with Cornell, we agreed to register and qualify, among other things, the additional shares due to Cornell under the Standby Equity Agreement under a registration statement filed with the SEC. We signed a Termination Agreement on May 13, 2005, for the purpose of terminating our Standby Equity Distribution Agreement, Registration Rights Agreement and Escrow Agreement previously entered into with Cornell on June 22, 2004.

On May 27, 2005 we filed a registration statement on Form SB-2 (Registration No. 333-125344) registering the resale of 97,264,558 shares of our common stock held or to be sold by certain of our stockholders, including Cornell, which intends to sell up to an aggregate of 85,000,000 shares of our common stock pursuant to our Standby Equity Distribution Agreement with Cornell. The registration statement was subsequently declared effective by the SEC on July 29, 2005

During our fiscal quarter ended June 30, 2005, we ceased warehousing and distributing our products through Halo Distribution LLC ("Halo"), our wholly owned subsidiary and elected to discontinue the operations of Halo. On April 22, 2005 EYII entered into a Fulfillment Services Agreement with Source 1 Fulfillment ("Source One") to warehouse and ship our products. Pursuant to the terms of the agreement, Source One agreed to provide certain storage and fulfillment services to EYII at the rates set out in the schedules to the agreement. Source One also agreed to pay a referral commission of 10% of all handling fees for any client EYII brings to Source One. The agreement is for a term of one year and automatically renews each year unless terminated by either party in accordance with the terms of the agreement. We presently intend to continue warehousing and shipping our products through Source One.

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On April 29, 2005 Essentially Yours Industries, Inc., our wholly owned subsidiary ("EYI") signed a letter of intent with Metals & Arsenic Removal Technology, Inc. ("MARTI") for the purpose of marketing certain of MARTI's products provided to EYII on a consignment basis and assigning marketing rights to certain of MARTI's product lines to EYII, subject to EYII's entry into a definitive agreement with MARTI by November 1, 2005. Subsequently, on May 11, 2005 EYII entered into a Reseller Agreement (the "Reseller Agreement") with MARTI for a term of five (5) years, pursuant to which MARTI appointed EYII as the exclusive distributor of certain specially formulated MARTI products on a consignment basis and provide EYII with 1000 units of inventory for sale to its customers, proceeds of which are subject to fee payments to MARTI as set out in

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the schedules accompanying the agreement. The Reseller Agreement was subsequently by way of an Addendum dated for reference June 1, 2005 (the "Addendum"). Pursuant to the terms of the Addendum, MARTI agreed to provide EYII with: (i) a unit for removal of nitrates, nitrites and arsenic from water, (ii) an exclusively designed pitcher; and (iii) funding of up to a maximum of \$10,000 for the production of a promotional DVD demonstrating the arsenic removal unit. On July 14, 2005 EYII entered into a non-circumvention and non-disclosure agreement with MARTI for the purpose of protecting the parties on a world wide basis against the circumvention of one by the other through unauthorized contacts with the other party's business sources during the term of the Reseller Agreement and provide for joint protection of proprietary information of the parties. The agreement contains standard terms respecting confidentiality and non-circumvention and is for a term of: (i) five years from the date of the execution, or (ii) the duration of the Reseller Agreement, whichever is longer.

On April 4, 2005 we entered into a redemption agreement with TAIB Bank E.C. ("TAIB") pursuant to which TAIB agreed to acquire by assignment a two year 5% secured convertible debenture issued to Cornell in the amount of \$245,000, and a two year 5% convertible debenture in the amount of \$5,000 held by Kent Chou, in consideration of which we agreed not to modify or renegotiate the terms of our Standby Equity Distribution Agreement ("SEDA") with Cornell, and to use any proceeds obtained by EYI under the SEDA to make payments on the debentures. The debentures were assigned to TAIB on April 4, 2005.

We intend over the next twelve months to undertake the following:

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

**International Sales.** We see international sales as a key component for our growth in the next 5 years. During our second quarter of fiscal 2004, we entered into a joint venture agreement (the "JV Agreement") with World Wide Buyers' Club Inc. ("WWBC") and Supra Group, Inc. ("Supra Group"), dated as of May 28, 2004, for the purpose of jointly marketing and distributing our products through the existing Supra Group distribution system in the Latin American countries identified in the JV Agreement and the products of Supra Group using the existing EYI distribution system to residents in the U.S. We believe Supra Group has significant international experience, expertise and contacts and that this alliance will assist in our ability to expand into Spanish-speaking countries.

Over the next twelve months we intend to expand our operations into the Asian market. In June 2005, we secured the consulting services of Ms. Eliza Fung who will primarily assist in the entry and development of EYI into the Asian market. It is expected that sales will commence in Hong Kong in the fall of 2005.

**Network Support.** We intend to expand the marketing of our Calorad product by internet direct and the distribution network. We also intend to support the growth and expansion of the Sales Communication department. Their success is measured on the number of inactive IBAs who, through the efforts of the Sales Communication department, become current with their membership fees and purchase our products. As the revenues generated by this department grow, we intend to add additional staff. Also, over the next twelve months we intend to promote our Autoshop Program by offering one or more of the following: initial incentives, purchase discounts, and long-term commitment rewards. We believe that our automated ordering system supports on-going sales.

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RESULTS OF OPERATIONS

Second Quarter and Six Months Summary

|  | Second Quarter Ended June 30 |             |                                  | Six M       |
|--|------------------------------|-------------|----------------------------------|-------------|
|  | 2005                         | 2004        | Percentage Increase / (Decrease) | 2005        |
| Revenue                                | \$1,225,216                  | \$1,928,630 | (36.47%)                         | \$2,514,283 |
| Cost of Goods Sold                     | \$254,402                    | \$668,933   | (61.97%)                         | \$489,936   |
| Gross Profit before commission expense | \$970,814                    | \$1,259,697 | (22.93%)                         | \$2,024,347 |
| Commission expense                     | \$450,857                    | \$664,290   | (32.13%)                         | \$922,462   |
| Gross Profit                           | \$519,957                    | \$595,407   | (12.67%)                         | \$1,101,885 |
| Gross Profit Margin                    | 42.44%                       | 30.87%      | 37.46%                           | 43.83%      |

Revenues

During the three months ended June 30, 2005 we had total revenues of \$1,225,216 as compared to revenues of \$1,928,630 for the same period in 2004 which represents a decline of \$703,414 or 36%. The year-to-date results for 2005 compared with 2004 indicate a revenue decline of \$906,155 or 26%. The decrease in our revenues can be primarily attributed to the following factors:

- o Our inability to attract new IBA's
- o Lack of IBA participation in our auto-ship program
- o our inability to fund marketing initiatives and programs that may promote growth within new markets and existing ones

Gross Profit

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During the three months ended June 30, 2005 as compared to the same period in 2004, we had gross profits of \$519,957 and \$595,407 respectively. This represents a decline of \$75,450 or 13%. The year-to-date results for 2005 compared with 2004 indicate that the gross profit has declined \$156,965 or 12%. The decline in our gross profit is primarily attributed to our decreased sales.

Expenses

Operating expenses:

The following table summarizes operating expenditures for the periods indicated:

Operating Expenses

|  | Second Quarter Ended June 30 | Six Mon |
|--|------------------------------|---------|
|--|------------------------------|---------|

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|                            | 2005        | 2004        | Percentage Increase / (Decrease) | 2005        |
|----------------------------|-------------|-------------|----------------------------------|-------------|
| Consulting fees            | \$240,848   | \$255,374   | (5.69%)                          | \$478,810   |
| Legal and professional     | \$80,512    | \$147,072   | (45.26%)                         | \$146,757   |
| Customer service           | \$65,471    | \$253,078   | (74.13%)                         | \$152,005   |
| Finance and administration | \$155,398   | \$47,730    | 225.58%                          | \$363,478   |
| Sales and marketing        | \$1,273     | \$8,253     | (84.58%)                         | \$4,991     |
| Telecommunications         | \$124,890   | \$90,369    | 38.20%                           | \$242,258   |
| Wages and benefits         | \$371,526   | \$270,599   | 37.30%                           | \$743,152   |
| Warehouse expense          | \$16,819    | \$119,036   | (85.87%)                         | \$61,846    |
| Operating Expenses         | \$1,056,737 | \$1,191,511 | (11.31%)                         | \$2,193,297 |

We incurred operating expenses in the amount of \$1,056,737 during the three months ended June 30, 2005, compared to \$1,191,511 for the three months ended June 30, 2004. The following explains the most significant changes for the periods presented:

Customer Service - For the three months ended June 30, 2005, customer services fees totaled \$65,471 and represented 6% of our total operating expenditures, as compared to \$253,078 or 21% of the total operating expenditures for the three months ended June 30, 2004. Until April 2004, we acquired our customer service support department through a management agreement with EYI Corp. In April 2004, we hired our own employees to perform this function and therefore, the related expenses are included under "Wages and benefits", below.

Finance and administration - For the three months ended June 30, 2005, finance and administration fees totaled \$155,398 and represented 15% of our total operating expenditures, as compared to \$47,730 or 4% of the total operating expenditures for the three months ended June 30, 2004. A majority of the increased expenditures realized during the June 2005 quarter relates to depreciation expenditures associated with the discontinuation of operations of Halo Distributions LLC.

Wages and benefits - For the three months ended June 30, 2005, wages and benefits totaled \$371,526 and represented 35% of our total operating expenditures, as compared to \$270,599 or 23% of the total operating expenditures for the three months ended June 30, 2004. This increase is primarily a combination of the April 2004 staff expansion and the accrual of a severance package for a terminated employee.

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FINANCIAL CONDITION

Cash and Working Capital

|                           | At June 30, 2005 | At December 31, 2004 | Percent Increase / (Decrease) |
|---------------------------|------------------|----------------------|-------------------------------|
| Current Assets            | \$905,116        | \$1,228,714          | (26%)                         |
| Current Liabilities       | \$2,961,114      | \$1,853,252          | 60%                           |
| Working Capital (Deficit) | (\$2,055,998)    | (\$624,538)          | (229%)                        |

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We had cash of \$0 as at June 30, 2005, compared with cash of \$0 as at December 31, 2004. We had a working capital deficit at June 30, 2005 and December 31, 2004 of \$2,055,998 and \$624,538 respectively. The increase to our working capital deficit was primarily attributed to the increases in our trade payables, related party payables and amounts due on the Cornell Convertible Debenture. The increase in convertible debt relates to the accrued interest on the debt.

### Liabilities

|   | At June 30, 2005 | At December 31,<br>2004 | Percent<br>Incras<br>(Decrea |
|---|------------------|-------------------------|------------------------------|
| Accounts Payable and Accrued Liabilities        | \$1,467,479      | \$1,141,001             | 29%                          |
| Accounts Payable-Related Parties                | \$765,241        | \$159,455               | 380%                         |
| Convertible Debt-Related Party, Net Of Discount | \$432,918        | \$379,724               | 14%                          |
| Loan Payable, Cornell                           | \$200,000        | \$0                     | 100%                         |

We had an increase of 29% in Accounts Payable and Accrued Liabilities during the three months which represents the increase in unpaid trade payables. We also experienced a 380% increase in Accounts Payable-Related Parties which is due to the increase in unpaid wages of two of our officers and an increase in the amount owed to EYI Corp. The increase in convertible debt relates to the accrued interest on the debt.

### Cash Used in Operating Activities

Cash used in operating activities for the six months ended June 30, 2005 was \$280,696 compared to \$533,869 for the comparative period in 2004, representing a decrease of \$253,173 or 47%.

### Cash Provided by Financing Activities

We have continued to finance our business primarily through private placement sales of our common stock, exercises of stock options, short term loans, conversion of accrued liabilities into stock and through increases in our accrued liabilities and accounts payable. Cash provided by financing activities for the six months ended June 30, 2005 was \$160,156, compared to \$470,387 for the six months ended June 30, 2004.

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### Financing Requirements

Our consolidated interim financial statements included with this Quarterly Report on Form 10-QSB have been prepared assuming that we will continue as a going concern. As shown in the accompanying financial statements, we had negative working capital of approximately \$2,056,000 and an accumulated deficit of approximately \$8,732,000 incurred through June 30, 2005.

Our current sources of working capital are sufficient to satisfy our anticipated current working capital needs. In the event we do not receive further financing from our arrangements with Cornell, we will be required to seek additional

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financing to fully implement our business plan. We may not be able to obtain additional working capital on acceptable terms, or at all. Accordingly, there is substantial doubt about our ability to continue as a going concern. We anticipate that any additional financing would be through the sales of our common or preferred stock or placement of convertible debt.

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

### OFF-BALANCE SHEET ARRANGEMENTS

We have no 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.

### Critical Accounting Policies

Our significant accounting policies are described in Note 2 to the Consolidated Financial Statements, which are included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004.

### Recent Accounting Pronouncements

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

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

### RISKS AND UNCERTAINTIES

We have a limited operating history, an accumulated deficit and may have

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continued losses for the foreseeable future with no assurance of profitability.

As of June 30, 2005, we had an accumulated deficit of \$8,731,925. We will need to generate significant revenues to achieve profitability, which may not occur. We expect operating expenses to increase as a result of the further implementation of our business plan. Even if we achieve profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis in the future. It is possible that we will never achieve profitability.

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

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

We have a working capital deficit; we may need to raise additional capital to finance operations.

We have relied on significant external financing to fund our operations. As of June 30, 2005, we had \$0 of cash on hand and our total current assets were \$905,116. Our current liabilities were \$2,961,114 as at June 30, 2005. We will need to raise additional capital to fund our anticipated operating expenses and future expansion. Among other things, external financing may be required to cover our operating costs. Unless we obtain profitable operations, it is unlikely that we will be able to secure additional financing from external sources. If we are unable to secure additional financing or we cannot draw down on the Standby Equity Distribution Agreement, we believe that we will be required to seek additional financing to fund our continued operations. The sale of our common stock to raise capital may cause dilution to our existing shareholders. Our inability to obtain adequate financing will result in the need to curtail business operations. Any of these events would be materially harmful to our business and may result in a lower stock price. Our inability to obtain adequate financing will result in the need to curtail business operations and you could lose your entire investment. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have been subject to a going concern opinion from our independent auditors

Our independent auditors have added an explanatory paragraph to their audit issued in connection with the financial statements for the period ended December 31, 2004, relative to our ability to continue as a going concern. We have negative working capital of approximately \$2,056,000 and an accumulated deficit incurred through June 30, 2005, which raises substantial doubt about our ability to continue as a going concern. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We are dependent on our IBAs for our product marketing efforts, the loss of a significant number of IBAs or the loss of a key IBA could adversely affect our sales.

Our success and growth depend upon our ability to attract, retain and motivate our network of IBAs who market our products. IBAs are independent contractors who purchase products directly from us for resale and their own use. IBAs

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typically offer and sell our products on a part-time basis and may engage in other business activities, possibly including the sale of products offered by our competitors. Typically, we have non-exclusive arrangements with our IBAs which may be canceled on short notice and contain no minimum purchase requirements. While we encourage IBAs to focus on the purchase and sale of our products, they may give higher priority to other products, reducing their efforts devoted to marketing our products. Also, our ability to attract and retain IBAs could be negatively affected by adverse publicity relating to us, our products or our operations. In addition, as a result of our network marketing program, the down-line organizations headed by a relatively small number of key IBAs are responsible for a significant percentage of total sales.

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The loss of a significant number of IBAs, including any key IBA, for any reason, could adversely affect our sales and operating results, and could impair our ability to attract new IBAs. There is no assurance that our network marketing program will continue to be successful or that we will be able to retain or expand our current network of IBAs. Also, if our IBAs do not accept recent changes to our commission plan, our business may be adversely affected.

Government regulation by the Food and Drug Administration and other federal and state entities of our products can impact our ability to market products.

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

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

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

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

Under the Dietary Supplement Health and Education Act of 1994, companies that manufacture and distribute dietary supplements are limited in the statements that they are permitted to make about nutritional support on the product label without FDA approval. In addition, a manufacturer of a dietary supplement must have substantiation for any such statement made and must not claim to diagnose, mitigate, treat, cure or prevent a specific disease or class of disease. The



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product label must also contain a prominent disclaimer. These restrictions may restrict our flexibility in marketing our product.

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

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### Dietary Supplements

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

### Personal Care Products

- o Definition (cream) (R)

### Other Products

- o Code Blue(TM)
- o Code Blue(TM) TOGO

Code Blue is a new addition to our product line—a water filtration unit and shipping commenced in August 2005.

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

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

If the Federal Trade Commission or certain states object to our product claims and advertising we may be forced to give refunds, pay damages, stop marketing certain products or change our business methods.

The Federal Trade Commission and certain states regulate advertising, product claims, and other consumer matters, including advertising of our products. In

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the past several years the Federal Trade Commission has instituted enforcement actions against several dietary supplement companies for false or deceptive advertising of certain products. We provide no assurance that:

- o the Federal Trade Commission will not question our past or future advertising or other operations; or
- o a state will not interpret product claims presumptively valid under federal law as illegal under that state's regulations.

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

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

A complaint based on the activities of one IBA, whether or not such activities were authorized by us, could result in an order affecting some or all IBAs in a particular state, and an order in one state could influence courts or government agencies in other States.

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

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

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

- o the evolving interpretations of existing laws and regulations, and

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

We have not obtained any no-action letters or advance rulings from any federal or state securities regulator or other governmental agency concerning the legality of our operations. Also, we are not relying on a formal opinion of counsel to such effect. Accordingly there is the risk that our network marketing system could be found to be in noncompliance with applicable laws and regulations, which could have a material adverse effect on us. Such a decision could require modification of our network marketing program, result in negative publicity, or have a negative effect on IBA morale and loyalty. In addition, our network marketing system will be subject to regulations in foreign markets administered by foreign agencies should we expand our network marketing organization into such markets.

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The legality of our network marketing program is subject to challenge by our IBAs.

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

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

Proceedings resulting from these claims could result in significant defense costs, settlement payments or judgments, and could have a material adverse effect on us.

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

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

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retain IBAs.

A large portion of our sales is attributable to Calorad, if Calorad loses market share or loses favor in the marketplace, our financial results will suffer.

A significant portion of our net sales is expected to be dependent upon our Calorad product. Calorad has traditionally represented more than 65% of our net sales and, although we hope to expand and diversify our product offerings, Calorad is expected to provide a large portion of our net sales in the foreseeable future. If Calorad loses market share or loses favor in the marketplace, our financial results will suffer.

Our products are subject to obsolescence, which could reduce our sales significantly.

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

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

We have no manufacturing capabilities and we are dependent upon Nutri-Diem, Inc. and other companies to manufacture our products.

We have no manufacturing facilities and have no present intention to manufacture any of our dietary supplement and personal care products. We are dependent upon relationships with independent manufacturers to fulfill our product needs. Nutri-Diem, Inc., a related party, manufactures and supplies more than 70% of our products. We have contracts with Nutri-Diem that require us to purchase set amounts of its manufactured products for at least the next five years and possibly the next ten years. It is possible that these contracts with Nutri-Diem, Inc. could become unfavorable, and we may not be able to use other manufacturers to provide us with these services if our terms with Nutri-Diem, Inc. become unfavorable. In addition, we must be able to obtain our dietary supplement and personal care products at a cost that permits us to charge a price acceptable to the customer, while also accommodating distribution costs and third party sales compensation. Competitors who do own their own manufacturing may have an advantage over us with respect to pricing, availability of product and in other areas through their control of the manufacturing process. In addition, if we are forced to hold longer quantities of inventory, we face the risk that our inventory becomes obsolete with the passage of large amounts of time.

We may not be able to deliver various products to our customers if third party providers fail to provide necessary ingredients to us. We are dependent on

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various third parties for various ingredients for our products. Some of the third parties that provide ingredients to us have a limited operating history and are themselves dependent on reliable delivery of products from others. As a result, our ability to deliver various products to our users may be adversely affected by the failure of these third parties to provide reliable various ingredients for our products.

We are materially dependent upon our key personnel and the loss of such key consultants could result in delays in the implementation of our business plan or business failure.

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

We face substantial competition in the dietary supplement and personal care industry, including products that compete directly with Calorad.

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

Depending on the product category, our competition varies.

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

We may be subject to products liability claims and may not have adequate insurance to cover such claims. As with other retailers, distributors and manufacturers of products that are designed to be ingested, we face an inherent risk of exposure to product liability claims in the event that the use of our products results in injury.

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

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

We may be adversely affected by unfavorable publicity relating to our products or similar products manufactured by our competitors.

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

Because we have few proprietary rights, others can provide products and services substantially equivalent to ours.

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

Our common stock is "penny stock", which may make it more difficult for investors to sell their shares due to suitability requirements

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

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

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

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

### ITEM 3. CONTROLS AND PROCEDURES.

#### Evaluation Of Disclosure Controls And Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of achieving our disclosure control objectives. Our Principal Executive Officer and Principal Accounting Officer have concluded that our disclosure controls and procedures are, in fact, effective at this reasonable assurance level as of the period covered.

#### Changes In Internal Controls Over Financial Reporting

In connection with the evaluation of our internal controls during our last fiscal quarter, our Principal Executive Officer and Principal Financial Officer have determined that there are no changes to our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS.

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

##### 1. Oppression Action by Lavorato/Heyman

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

##### 2. Action By Suhl, Harris and Babich

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

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

### 3. Agreement with Source, Inc.

In February 2004 we entered into a letter of commitment with Source, Inc. ("Source") for the purpose of further developing our corporate marketing position with Source and for assistance in raising equity capital. Pursuant to the terms of the letter agreement, we agreed to (i) pay Source 20% of the gross revenues generated by Source under a Corporate Marketing Organization Agreement ("CMO Agreement") previously entered into with Premier Lifestyles International Corporation, a company related to Source; (ii) to offer up to \$4,000,000 of EYI restricted stock over a 90 day period at \$0.21 per share and warrants exercisable at a price of \$0.30 per share for investors referred to EYI by Source in connection with any equity offerings by EYI; (iii) at the end of the 12 months period following execution of the agreement, and if Source had referred enough investors to raise a minimum of \$500,000, to issue to Source \$1,800,000 in common stock of EYI or pay the balance in cash; and (iv) on a monthly basis, during the 12 month period, pay 50% of all monies collected by EYI from Source referred investors, to be paid to Source towards the \$1,800,000 to pay for the CMO Agreement and \$300,000 towards a proposed web portal. Subsequently, we terminated the CMO Agreement in accordance with its terms in July, 2004 and notified Source that they failed to raise the minimum funding of \$500,000 in connection with EYI's equity offering closing in June, 2004. Source has notified EYI that they dispute the fact that they did not raise the minimum financing amount. Management believes that if Source were to advance any such claims against EYI its chance of success would be remote and we intend to vigorously defend against any potential legal claims respecting this matter, and are considering initiating proceedings against Eyewonder for breach of contract.

### 4. Lease Agreement with Business Centers, LLC

In February 1999 our subsidiary, Halo Distribution, LLC entered into a Lease Agreement with Business Centers, LLC (the "Landlord"). This Lease Agreement was extended for a period of three years on January 5, 2004. We received a letter dated August 2, 2005 notifying us of a default by Halo under the lease agreement and notice that the landlord intends to commence legal proceedings against Halo and EYI for the sum of \$150,000 for defaulted lease payments. We intend to vigorously defend against any potential legal claims respecting this matter.

### 5. Action by Eyewonder, Inc.

On August 8, 2005 we received notice from counsel to Eyewonder, Inc. ("Eyewonder") that Eyewonder is contemplating legal action against EYI for failure to assist in procuring a legal opinion for the removal of the legend restrictions on 5,476,190 restricted shares of EYI's common stock issued to Eyewonder. We intend to vigorously defend against any potential legal claims respecting this matter, and are considering initiating proceedings against Eyewonder for breach of contract.

To the best of our knowledge, we are not subject to any other active or pending legal proceedings or claims against us or our subsidiaries or any of our properties that will have a material effect on our business or results of operations. However, from time to time, we may become subject to claims and litigation generally associated with any business venture.



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### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

#### Unregistered Sales of Equity Securities

During the three months ended June 30, 2005, we completed the sales of the following securities that were not registered pursuant to the Securities Act of 1933 (the "Securities Act") and have not been reported on our previous Quarterly Reports on Form 10-QSB during the year:

On June 9, 2005, we issued 1,000,000 shares of common stock and 3,000,000 warrants for the purchase of shares of our common stock at an exercise price of \$0.02 per share to one investor. The shares were purchased from us in a private placement transaction pursuant to Rule 506 of Regulation D of the Securities Act. All securities were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

#### Use of Proceeds

We registered the resale of 97,264,558 shares of our common stock (the "Shares") held or to be sold by certain of our stockholders, including Cornell, which intends to sell up to an aggregate of 85,000,000 shares of our common stock, at prices established on the Over-the-Counter Bulletin Board during the term of the offering pursuant to a registration statement on Form SB-2 under the Securities Act of 1933 (the "Offering"). The SEC declared our registration statement on Form SB-2 (Registration No. 333-125344), effective on July 29, 2005 (the "Effective Date"). We did not sell any shares of our common stock in the Offering and therefore will not receive any proceeds from the Offering. However, we will receive the proceeds from the sale of shares of common stock to Cornell under the Standby Equity Distribution Agreement, which we intend to use for general working capital purposes, including, among other things, sales and marketing, product development and debt retirement. The Offering will terminate twenty four months after the Effective Date. We are paying all expenses of the Offering. No portion of these expenses will be paid by the selling stockholders. The selling stockholders, however, will pay any other expenses incurred in selling their common stock, including any brokerage commissions or costs of sale.

Cornell is an "underwriter" within the meaning of the Securities Act in connection with the sale of common stock under the Standby Equity Distribution Agreement. Cornell will pay EYI 98% of the lowest volume weighted average price of EYI common stock on the Over-the-Counter Bulletin Board or other principal trading market on which our common stock is traded for the 5 days immediately following the advance date. In addition, Cornell will retain 5% of the proceeds received by EYI under the Standby Equity Distribution Agreement, plus a one-time commitment fee of 1,266,589 shares of common stock to be issued to Cornell. The 5% retainage and the commitment fee are underwriting discounts. In addition, we engaged Newbridge Securities Corporation, a registered broker-dealer, to advise us in connection with the Standby Equity Distribution Agreement. For its services, Newbridge Securities Corporation received 33,411 shares of our common stock.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

### ITEM 5. OTHER INFORMATION.

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None.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| 3.1            | Articles of Incorporation.(1)   |
| 3.2            | Certificate of Amendment to Articles of Incorporation dated December 29, 2003.(1)   |
| 3.3            | Certificate of Amendment to Articles of Incorporation dated December 31, 2003.(1)   |
| 3.4            | Bylaws.(1)  |
| 3.5            | Amended Bylaws. (12)  |
| 10.1           | Consulting Agreement, dated as of November 5, 2002, between Essentially Yours Inc, a Nevada corporation, and Flaming Gorge, Inc.(1)   |
| 10.2           | Consulting Agreement, dated as of November 5, 2002, between Essentially Yours Inc, a Nevada corporation, and O'Neill Enterprises, Inc.(1)   |
| 10.3           | First Amendment to Trust Agreement dated December 23, 2003, between Jay Sargeant and twelve named trust beneficiaries, revising the terms of the Declaration of Trust dated as of May 27, 2002, between Jay Sargeant and twelve named trust beneficiaries.(5) |
| 10.4           | Registration Rights Agreement, dated December 31, 2003, by and among Safe ID Corporation, A Nevada corporation, and certain shareholders of EYI Industries, Inc., A Nevada corporation.(5)  |
| 10.5           | Stock Compensation Program(4)   |
| 10.6           | Consulting Agreement dated December 27, 2003 between Rajesh Raniga Inc. and Saf   |
| 10.7           | Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and O'N   |
| 10.8           | Consulting Agreement dated January 1, 2004 between EYI Industries, Inc. and Fla   |
| 10.9           | Addendum to the Distribution and License Agreement between Essentially Yours Inc and Nutri-Diem Inc. dated April 30, 2004.(6)   |
| 10.10          | Letter Agreement dated May 4, 2004 between Eye Wonder, Inc. and EYI Industries,   |
| 10.11          | Standby Equity Distribution Agreement, dated June 22, 2004 by and between EYI I Capital Partners, LP(6)   |
| 10.12          | Registration Rights Agreement, dated June 22, 2004 by and between EYI Industrie Partners, LP(6)   |
| 10.13          | Escrow Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and C LP(6)   |
| 10.14          | Placement Agent Agreement, dated June 22, 2004 by and between EYI Industries, I Partners, LP(6)   |
| 10.15          | Compensation Debenture, dated June 22, 2004(7)  |
| 10.16          | Securities Purchase Agreement, dated June 22, 2004 by and between EYI Industrie Partners, LP(6)   |
| 10.17          | Investor Registration Rights Agreement, dated June 22, 2004 by and between EYI Cornell Capital Partners, LP(6)  |
| 10.18          | Security Agreement, dated June 22, 2004 by and between EYI Industries, Inc. and LP(6)   |
| 10.19          | Irrevocable Transfer Agent Instructions, dated June 22, 2004, by and among EYI Capital Partners, LP and Corporate Stock Transfer(6)   |
| 10.20          | Escrow Agreement, dated June 22, 2004 by and among EYI Industries, Inc., Cornel and Butler Gonzalez, LLP(6)   |
| 10.21          | Form of Secured Convertible Debenture(6)  |
| 10.22          | Form of Warrant(7)  |
| 10.23          | Letter Agreement dated May 25, 2004 between EYI Industries, Inc. and Source Cap   |
| 10.24          | Lease Agreement dated May 1, 2003 among 468058 B.C. Ltd., 642706 B.C. Ltd., Ess   |

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|       |  |
|-------|--|
|       | Corp., and Essentially Yours Industries, Inc. (8)  |
| 10.25 | Amendment to Lease Agreement dated January 9, 2004 between Business Centers, LLC. (8)  |
| 10.26 | Subsidy Agreement dated July 23, 2004 between Essentially Yours Industries, Inc. (8)   |
| 10.27 | Subsidy Agreement dated July 23, 2004 between Essentially Yours Industries, Inc. Products. (8)                                     |
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| 10.28 | Subsidy Agreement dated July 23, 2004 between Essentially Yours Industries, Inc.   |
| 10.29 | 5% Secured Convertible Debenture dated September 24, 2004 between EYI Industries Partners, LP(8)                                   |
| 10.30 | 5% Secured Convertible Debenture dated September 27, 2004 between EYI Industries   |
| 10.31 | 5% Secured Convertible Debenture dated September 27, 2004 between EYI Industries   |
| 10.32 | Assignment Agreement dated September 27, 2004 between Cornell Capital Partners,  |
| 10.33 | Assignment Agreement dated September 27, 2004 between Cornell Capital Partners   |
| 10.34 | Joint Venture Agreement dated May 28, 2004 between EYI Industries, Inc., World Supra Group, Inc.(9)                                |
| 10.35 | Indenture of Lease Agreement dated January 3, 2005 between Golden Plaza Company and 642706 B.C. Ltd.(10)                           |
| 10.36 | Consulting Services Agreement dated March 5, 2004 between EYI Industries, Inc.   |
| 10.37 | Letter dated May 25, 2004 between Source Capital Group, Inc. and EYI Industries  |
| 10.38 | Consulting Agreement dated April 1, 2004 between EYI Industries, Inc. and Danie  |
| 10.39 | Loan Agreement between Janet Carpenter and EYI Industries, Inc. dated February   |
| 10.40 | Promissory Note dated February 10, 2005 between Janet Carpenter and EYI Industr  |
| 10.41 | Bonus Share Agreement between Janet Carpenter and EYI Industries, Inc. dated Fe  |
| 10.42 | Pledge and Escrow Agreement dated February 24, 2005 between Janet Carpenter, Co and David Gonzalez. (15)                           |
| 10.43 | Guaranty Agreement dated February 24, 2005 between Janet Carpenter, Cornell Cap  |
| 10.44 | Secured Promissory Note dated February 24, 2005 between EYI Industries, Inc. an LP(15)   |
| 10.45 | Agreement dated April 22, 2005 between Essentially Yours Industries Inc. and So  |
| 10.46 | Reseller Agreement dated May 11, 2005 between Essentially Yours Industries Inc. Removal Technology, Inc. (16)                      |
| 10.47 | Termination Agreement dated May 13, 2005 between EYI Industries Inc. and Cornel  |
| 10.48 | Standby Equity Distribution Agreement dated May 13, 2005 between EYI Industries Partners, LP(17)                                   |
| 10.49 | Registration Rights Agreement dated May 13, 2005 between EYI Industries Inc. an LP(17)   |
| 10.50 | Escrow Agreement dated May 13, 2005 between EYI Industries Inc. and Cornell Cap  |
| 10.51 | Placement Agent Agreement dated May 13, 2005 between EYI Industries Inc. and Co LP(17)   |
| 10.52 | Consulting Agreement dated June 1, 2005 between EYI Industries, Inc. and Eliza   |
| 10.53 | Addendum to the Reseller Agreement dated June 1, 2005 between Essentially Yours & Arsenic Removal Technology, Inc.                 |
| 10.54 | Non-Circumvention and Non-Disclosure Agreement dated July 14, 2005 between Esse Inc. and Metals & Arsenic Removal Technology, Inc. |
| 10.55 | Promissory Note dated August 1, 2005 between EYI Industries Inc. and Cornell ca  |
| 10.56 | Investor Relations Agreement dated July 28, 2005 between EYI Industries Inc. an  |
| 14.1  | Code of Ethics(5)  |
| 21.1  | List of Subsidiaries(15)   |
| 31.1  | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbane  |
| 31.2  | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbane  |
| 32.1  | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Section 906 of the Sarbanes-Oxley Act of 2002      |
| 32.2  | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Section 906 of the Sarbanes-Oxley Act of 2002      |

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### Notes

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

(b) Reports on Form 8-K:

| Date of SEC filing<br>of Form 8-K | Description of the Form 8-K   |
|-----------------------------------|---|
| January 12, 2005                  | Disclosure of lease agreement entered into by EYI's wholly owned subsidiary 642706 B.C. Ltd.  |
| January 24, 2005                  | Disclosure of termination of letter of intent entered into between EYI and Vespa Power Products Limited in July, 2004.  |
| January 24, 2005                  | Amendment to January 24, 2005 Form 8-K to include exhibit respecting disclosure of termination of letter of intent entered into between EYI and Vespa Power Products Limited in July, 2004. |

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February 15, 2005                      Disclosure of termination of existing stock options  
of Mr. Sargeant and Mr. O'Neill.

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March 10, 2005                      Disclosure of amendments to EYI's bylaws to remove  
restrictions on the forms of consideration  
acceptable for the issuance of shares of EYI and  
to decrease quorum for the transaction of business  
at stockholders meetings.

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May 17, 2005                      Disclosure of Reseller Agreement entered into with  
Metals & Arsenic Removal Technology, Inc.  
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SIGNATURES

In accordance with requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EYI INDUSTRIES, INC.

By: /s/ Jay Sargeant

-----  
Jay Sargeant  
President, Chief Executive Officer,  
and Director  
(Principal Executive Officer)  
Date: August 19, 2005

By: /s/ Rajesh Raniga

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Rajesh Raniga  
Chief Financial Officer  
(Principal Accounting Officer)  
Date: August 19, 2005