

ETERNAL IMAGE, INC.

SEPTEMBER 30, 2007

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STATEMENT INPUT DATA

Enter Client Name:	Eternal Image, Inc.
Enter Client Address:	
Enter Client City & State:	FARMINGTON HILLS, MICHIGAN
Enter Client Zip Code:	48334
Enter in Current Yearend Date	September 30, 2007
Enter in Year End Date (s)	September 30, 2007
Enter Date Work Actually Performed:	October 31, 2007
Enter Statement Date:	And for the nine months ended September 30, 2007 and 2006 (Unaudited)

ETERNAL IMAGE, INC.
(A DEVELOPMENT STAGE COMPANY)
FINANCIAL STATEMENT
September 30, 2007

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

1. **Summary of Significant Accounting Policies - (continued):**

Advertising -

The Company expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2006 and 2005 were \$58,966 and \$-0- respectively.

Stock Based Compensation -

Under the provision of SFAS 123, *employee stock awards* under the company's compensation plan can either be expense based on the fair value of the stock options or to use intrinsic value method set forth in Accounting Principles Board Opinion 25, "Accounting for Stock issued to Employees" (APB 25), and related interpretations. The company has elected to measure compensation expense for cost of services received from employees in a share-based payment transaction using fair market value of the underlying stock awarded on the date of grant net of any employees pay (or obligated to pay) for the stock granted.

The Company measures compensation expense for its non-employee stock-based compensation under the Financial Accounting Standards Board (FASB) Emerging Issued Task Force (EITF) Issue No. 96-18, "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". The fair value of the stock awarded is used to measure the transaction, as this is more reliable than the fair value of services received. Fair value is measured as the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the stock award is charged directly to compensation expense and additional paid-in-capital.

Inventories:

Inventory is based on a physical count, and represents the amount of finished goods and work in progress and raw materials, priced at the lower of cost or market, on the first-in, first-out (FIFO) basis.

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies - (continued):

Recently Issued Accounting Standards:

In May 2005, the FASB issued SFAS 154 Accounting Changes and Error Corrections which requires accounting changes to be applied retroactively as of the earliest practicable date and all financial statements for periods subsequent to that date to reflect the adopted principle as if it had been in effect for all periods. SFAS 154 is effective for fiscal years beginning after December 15, 2005. Company does not believe the adoption of SFAS No. 154 will have a material impact on its financial statements.

In February 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 155 (SFAS No. 155), ACCOUNTING FOR CERTAIN HYBRID FINANCIAL INSTRUMENTS -- AN AMENDMENT OF FASB STATEMENTS NO. 133 AND 140, to simplify and make more consistent the accounting for certain financial instruments. Specifically, SFAS No. 155 amends SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, to permit fair value re-measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation provided that the whole instrument is accounted for on a fair value basis. Prior to fair value measurement, however, interests in securitized financial assets must be evaluated to identify interests containing embedded derivatives requiring bifurcation. The amendments to SFAS No. 133 also clarify that interest-only and principal-only strips are not subject to the requirements of the SFAS, and that concentrations of credit risk in the form of subordination are not embedded derivatives. Finally, SFAS No. 155 amends SFAS No. 140, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL FOR LONG-LIVED ASSETS, to allow a qualifying special-purpose entity (SPE) to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier application allowed. The Company does not anticipate that the adoption of this statement to have a material impact on its consolidated financial statements.

The FASB has recently announced a new interpretation, FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which will be effective for fiscal years beginning after December 15, 2006, FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company does not believe the adoption of FIN 48 will impact its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides accounting guidance on the definition of fair value and establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We plan to adopt the provisions of SFAS 157 on November 1, 2008. The implementation of SFAS 157 is not expected to have a material impact on our results of operations or financial condition.

QUANTIFYING AND EVALUATING THE MATERIALITY OF UNRECORDED MISSTATEMENTS.

In September 2006, the SEC issued SAB No. 108 ("SAB 108"), which addresses the process for considering the effects of prior year misstatements when quantifying misstatements in current year financial statements. SAB 108 expresses the SEC Staff's views regarding the process of quantifying financial statement misstatements. The interpretations in SAB 108 are intended to address diversity in practice in quantifying financial statements misstatements and the potential under current practice for the build-up of improper balance sheet amounts. The application of SAB 108 is effective for financial statements issued for an interim period of the first fiscal year ending after November 15, 2006. We will adopt the interpretations of SAB 108 on November 1, 2006. The implementation of SAB 108 is not expected to have a material impact on our results of operations or financial condition.

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

2. **Furniture, Office Equipment, and Product Design and Tooling:**

Furniture, Office Equipment, and Product Design and Tooling are summarized as follows :

	<u>December 31, 2006</u>	<u>September 30, 2007</u>
Furniture and Fixtures	\$ 17,299	\$ 17,299
Office Equipment	13,968	15,766
Product Design and Tooling	231,502	473,902
	262,769	506,967
Less Accumulated Depreciation	8,452	39,168
	\$ 254,317	\$ 467,799

Depreciation expense for the year ended December 31, 2006 was \$6,964.

3. **Other Assets:**

Other Assets are summarized as follows:

	<u>December 31, 2006</u>	<u>September 30, 2007</u>
Organizational Cost	\$ 12,443	\$ 12,443
Patents and Copyrights	12,120	12,120
Auto Lease Capitalized Cost	2,954	2,954
Loan Fees	1,620	1,620
	29,137	29,137
Less Accumulated Amortization	5,069	7,484
	\$ 24,068	\$ 21,653

Amortization expense for the year ended December 31, 2006 was \$9,852.

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

4. **Long Term Debt:**

Long term debt at December 31, 2006 consists of the following:

	2006
6.75% note payable to Fifth Third Bank, in monthly installments of \$689, including interest, secured by personal guarantees of Clint Mytych, Donna Shatter, shareholders and officers of Eternal Image, Inc., and Roy Mytych. Final payment is due May, 2009.	\$ 46,901
2% unsecured note payable to J. Scott Watkins, in monthly installments of \$2,211, including interest. Final payment is due December, 2007.	26,250
8.25% unsecured note payable to Woodrow Browne, in three installments of \$25,000. Final payment is due October, 2007	75,000
5% unsecured note payable to Clint Mytych, shareholder and officer of Eternal Image, Inc., in monthly installments of \$1,305, including interest. Final payment is due May, 2009.	29,750
5% unsecured note payable to Donna Shatter, shareholder and officer of Eternal Image, Inc., in monthly installments of \$959, including interest. Final payment is due June, 2009.	21,857
	199,758
Less: Current Portion	121,015
Long Term Debt	\$ 78,743

Maturities of long term debt are as follows:

Year Ending December 31,		
2007	\$	121,015
2008		31,509
2009		17,176
2010		6,414
2011		6,861
Thereafter		16,783
	\$	199,758

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

5. **Commitments:**

Office Lease

On April 24, 2006 the Company entered into a sixty-five (65) month operating lease for its current office space in Farmington Hills, Michigan. The lease calls for escalating monthly payments over the next five years. Future minimum rental costs under this lease for the next five years is as follows:

	<u>Annually</u>
2007	\$ 37,031
2008	37,031
2009	37,031
2010	37,031
2011	27,773

Public Relations and Marketing

The Company has entered into a one (1) year agreement with ASAPR, Inc., a Public Relations and Marketing firm. The period of the agreement is March 22, 2006 through March 31, 2007. Either party can cancel this contract with 60 days written notice. These fees are being expensed as paid.

Fees are payable as follows:

	<u>Per Month</u>
April, May and June, 2006	\$ 5,000
July, 2006 through March, 2007	\$ 6,500
Total Agreement	\$ 73,500

Purchase Commitment

On January 26, 2007, the Company executed purchase orders with a supplier in the amount of \$360,200.

Licensing Consultant

On January 1, 2007, the Company renewed an agreement with Building Q. This agreement establishes Building Q as the Company's sole and exclusive licensing consultant, offering advice, counsel and general assistance with respect to seeking and obtaining licenses from third party licensors for the Company's casket and urn lines. A monthly fee of \$2,500 and a two (2%) percent commission of the Company's net sales of all licensed products that were sold, distributed or shipped under any third party license agreement are payable to Building Q for services rendered under this agreement. This agreement is renewable annually.

License Agreements

The Company develops and produces its products under license agreements with third parties. The amounts paid periodically under terms of these agreements usually range from 8% to 10% of the net sales of the licensed products. The Company is obligated for guaranteed minimum royalty and other license payments at December 31, 2006 as follows:

<u>Year Ending</u> <u>December 31,</u>	
2007	\$ 225,000
2008	47,000
2009	15,000
Total	<u>\$ 287,000</u>

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Employment Agreements:

On March 15, 2006 the Company entered into a five year employment agreement with Clint Mytych to serve as President, Chief Executive Officer and Chairman of the Board of Directors. This agreement calls for an annual base salary of \$75,000 per year. At the expiration date, this agreement will be considered renewed for regular periods of one year, provided neither party submits notice of termination. Should the employer terminate the employee for any reason then the employer shall pay the employee 70% of the balance of the employment contract within 5 business days. In no case shall this balance be less than \$50,000. Employee can only be terminated by majority vote of the board of directors. Employee shall receive a monthly vehicle allowance not to exceed \$2,000 per month. This allowance shall continue for a period of one year beyond any termination date of employee. Salary payable to Clint Mytych under this agreement was \$27,986 at December 31, 2006.

On March 15, 2006 the Company entered into a five year employment agreement with Donna Shatter, mother of Clint Mytych, to serve as Vice-President and a member of the Board of Directors. This agreement calls for an annual base salary of \$65,000 per year. At the expiration date, this agreement will be considered renewed for regular periods of one year, provided neither party submits notice of termination. Should the employer terminate the employee for any reason then the employer shall pay the employee 70% of the balance of the employment contract within 5 business days. In no case shall this balance be less than \$50,000. Employee can only be terminated by majority vote of the board of directors. Employee shall receive a monthly vehicle allowance not to exceed \$2,000 per month. This allowance shall continue for a period of one year beyond any termination date of employee. Salary payable to Donna Mytych under this agreement was \$25,600 at December 31, 2006.

On March 15, 2006 the Company entered into a five year employment agreement with Wallace N. Popravsky to serve as Vice-President. This agreement calls for an annual base salary of \$65,000 per year. At the expiration date, this agreement will be considered renewed for regular periods of one year, provided neither party submits notice of termination. Should the employer terminate the employee for any reason then the employer shall pay the employee 70% of the balance of the employment contract within 5 business days. In no case shall this balance be less than \$50,000. Employee can only be terminated by majority vote of the board of directors. Employee shall receive a monthly vehicle allowance not to exceed \$2,000 per month. This allowance shall continue for a period of one year beyond any termination date of employee. Salary payable to Wallace N. Popravsky under this agreement was \$20,559 at December 31, 2006.

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

7. **Stockholders' Equity:**

Common Stock Transactions:

During the fiscal year ended December 31, 2006, the following were issued.

829,370,000 shares of restricted common stock were issued for consulting services valued at \$3,192,145.

3,000,000 shares of restricted common stock were issued to C. Woodrow Browne as payment for \$100,000 in debt incurred in 2005.

202,926,378 shares of common stock were issued due to a four for one stock split. \$1,059,631 was distributed to all shareholders.

786,622,602 shares of common stock were issued to various shareholders for cash.

Warrants:

On July 18, 2006, as part of its acquisition of International Testing from Carley Enterprises, Eternal Image, Inc., issued 6,000,000 warrants exercisable at \$.10 a share 5 years from date of issuance.

As of the third quarter ended September 30, 2007, the following were issued:

Preferred Stock Transactions:

On July 25, 2007, Clint Mytych, Chief Executive Officer and Chairman of the Board of Directors was awarded 1,925,000,000 shares of preferred stock. Preferred shares have a 10 to 1 voting right over common shares, and were issued to mitigate the risk of a hostile takeover. The total value of these shares at par is \$1,925,000.

Common Stock Transactions:

325,500,000 shares of restricted common stock were issued for consulting services valued at \$393,000.

73,809,524 shares of free trading common stock were issued to Emerald Asset Advisors, L.L.C. as payment for \$150,000 of debt incurred in 2007.

540,935,897 shares of free trading common stock were issued to North Atlantic Resources, Ltd. as payment for \$315,000 of debt incurred in 2007.

747,949,995 shares of common stock were issued to various shareholders for cash.

On August 14, 2007 each member of the Board of Directors was awarded 30,000,000 restricted shares of common stock for a total of 90,000,000 restricted shares as executive compensation. Refer to Note 1 page 8 for further explanation of the treatment of these awards.

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

8. **Income Taxes:**

The income tax benefit for the year ended December 31, 2006 includes:

Federal	\$	-
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There is no current provision for corporate income tax for the year ended December 31, 2006 as the Company generated net losses for income tax purposes. At December 31, 2006 the Company had available for federal income tax purposes net operating loss carryforwards of approximately \$726,598 that will expire in 2026, and contribution carryforward of \$3,120.

The reconciliation of estimated income taxes attributed to operations at the statutory tax rates to the reported income tax benefit is as follows:

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are summarized as follows:

	December 31, 2006	December 31, 2005
DEFERRED TAX ASSETS:		
Net operating loss carryforwards	726,598	-
Less: Valuation allowance	(726,598)	-
	-----	-----
Net deferred tax assets	-	-
	=====	=====
Expected federal tax benefit at statutory rate	\$ (247,043)	
State taxes, net of federal tax rate	\$ -	
Change in valuation allowance	\$ (247,043)	

9. **Risks and Uncertainties:**

The Company is subject to risk and uncertainty common to start-up companies including, but not limited to, successful development, promotion, and sale of products, protection of proprietary technology, and expansion of market coverage.

As reflected in the accompanying financial statements, the Company has incurred significant losses from operations and negative operating cash flows, which have been financed primarily by proceeds from stock and debt issuance. As a result the Company had an accumulated deficits of \$5,150,801 and \$163,529 at December 31, 2006 and 2005 respectively.

Management plans to provide for additional working capital and funds for the continued development and promotion of its products through public sale of the Company's common stock. Management is also attempting to enter into an agreement with its major developer/supplier which could increase cash flow during early stages of sales growth. See Note 11 for more details. No assurance can be given that the Company will successfully execute the agreement.

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

10. **Subsequent Events:**

Royalty Agreements:

Patent Protection

In a press release dated November 2, 2007, the Company announced that it has filed for "design patent protection" for urns from three of the licensed product lines. Those product lines include the Vatican Library Collection TM, Major League Baseball TM, and American Kennel Club TM. Claims have also been filed for Major League Baseball TM and Vatican Library Collection TM caskets.

The process of applying for specific design patents requires an individual company to submit an application along with draftsman drawings to the U.S. Patent Office. Eternal Image may be issued the design patents for the aforementioned product designs in six to eighteen months.

ETERNAL IMAGE, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
 FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005,
 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2007 (UNAUDITED)

Description	Shares	Par Value Amount	Additional Paid In Capital	Accumulated Deficit During Development Stage	Accumulated Deficit September 30, 2007	Totals
Balance as of December 31, 2004				(30,552)	-	(30,552)
Net loss for the period ending December 31, 2005		-	-	(132,977)	-	(132,977)
Balance as of January 1, 2006	-	-	-	(163,529)	-	(163,529)
Issuance of common stock for fees/services	1,032,296,378	1,032,296	3,219,480	-	-	4,251,776
Issuance of common stock for loan repayment	3,000,000	3,000	97,000	-	-	100,000
Issuance of common stock for cash	786,622,602	786,623	226,773	-	-	1,013,396
Net Loss for the period ending December 31, 2006	-	-	-	(4,987,272)	-	(4,987,272)
Balance as of December 31, 2006	1,821,918,980	1,821,919	3,543,253	(5,150,801)	-	214,371
Issuance of preferred stock for fees/services	-	1,925,000	(1,825,000)	-	-	100,000
Issuance of common stock for fees/services	325,500,000	325,500	399,500	-	-	725,000
Issuance of common stock for loan repayments	614,745,421	614,745	652,255	-	-	1,267,000
Issuance of common stock for cash	747,949,995	747,950	(320,622)	-	-	427,328
Net loss for the period ending September 30, 2007	-	-	-	-	(1,978,599)	(1,978,599)
Balance as of September 30, 2007 (Unaudited)	<u>3,510,114,396</u>	<u>\$ 5,435,114</u>	<u>\$ 2,449,386</u>	<u>\$ (5,150,801)</u>	<u>\$ (1,978,599)</u>	<u>\$ 755,100</u>

The accompanying footnotes are an integral part of the financial statements

ETERNAL IMAGE, INC.

BALANCE SHEET

	December 31, 2006	September 30, 2007 (Unaudited)
Current Assets:		
Cash	\$ 88,569	\$ 112,830
Accounts Receivable	-	75,835
Inventories	-	707,319
Advance Marketing Expenses	20,000	6,600
Total Current Assets	108,569	902,584
Fixed Assets:		
Furniture, Office Equipment and Product Design and Tooling, net	254,317	467,799
Other Assets:		
Goodwill	23,500	23,500
Advance Royalties	337,500	249,595
Security Deposit	3,495	-
Other Assets, net	24,068	21,653
Total Other Assets	388,563	294,748
Total Assets	\$ 751,449	\$ 1,665,131
Current Liabilities:		
Accounts Payable	\$ 248,783	\$ 647,971
Rent Payable	8,898	8,898
Salaries Payable	74,145	85,845
Payroll Taxes	50	-
Accrued Interest	3,154	4,279
Customer Deposit	2,290	-
Notes Payable, Current Portion	121,015	95,850
Total Current Liabilities	\$ 458,335	\$ 842,843
Long Term Liabilities:		
Notes Payable	78,743	67,188
Total Long Term Debt	78,743	67,188
Total Liabilities	537,078	910,031
Stockholders' Equity		
Preferred Stock - \$.001 par value:		
1,925,000,000 shares authorized		
1,925,000,000 shares issued and outstanding	-	1,925,000
Common Stock - \$.001 par value:		
5,800,000,000 shares authorized		
1,821,918,980 and 3,510,114,396 shares issued and outstanding	1,821,919	3,510,114
Additional Paid in Capital	3,543,253	2,449,386
Accumulated Deficit During Development Stage	(5,150,801)	(5,150,801)
Accumulated Deficit	-	(1,978,599)
Total Stockholders' Equity	214,371	755,100

The accompanying footnotes are an integral part of the financial statements

Total Liabilities and Stockholders' Equity

\$ 751,449 \$ 1,665,131

ETERNAL IMAGE, INC.
STATEMENT OF OPERATIONS

	Year Ended December 31, 2006	Year Ended December 31, 2005	Nine Months Ended September 30, 2007 (Unaudited)	Nine Months Ended September 30, 2006 (Unaudited)
Revenue	\$ -	\$ -	\$ 250,894	\$ -
Cost of Goods Sold	<u>-</u>	<u>-</u>	<u>175,776</u>	<u>-</u>
Gross Profit	-	-	75,118	-
Operating Expenses:				
Salaries	208,758	-	763,360	182,128
Travel and Entertainment	27,347	5,819	20,920	3,119
Professional Fees	42,598	3,101	82,113	5,679
Payroll Taxes and Employee Benefits	21,653	-	54,527	13,909
Consulting Fees	4,304,173	23,515	296,100	1,490,858
Rent	27,757	1,849	28,532	9,185
Public Relations and Marketing	97,127	-	336,698	24,827
Product Licensing and Royalties	157,500	75,000	313,956	96,000
General and Administrative	72,985	13,281	123,872	45,917
Depreciation and Amortization	16,816	7,995	33,132	14,271
Total Operating Expenses	<u>4,976,714</u>	<u>130,560</u>	<u>2,053,210</u>	<u>1,885,893</u>
Loss Before Other Income and (Expense)	(4,976,714)	(130,560)	(1,978,092)	(1,885,893)
Other Income (Expenses):				
Interest Income	2,421	-	790	1,210
Miscellaneous Income	-	-	5,001	-
Interest Expense	(13,518)	(2,417)	(6,298)	(10,138)
Gain on Sale of Equipment	539	-	-	539
Total Other Income (Expenses)	<u>(10,558)</u>	<u>(2,417)</u>	<u>(507)</u>	<u>(8,389)</u>
Net Loss	<u>\$ (4,987,272)</u>	<u>\$ (132,977)</u>	<u>\$ (1,978,599)</u>	<u>\$ (1,894,282)</u>
Basic and diluted net loss per share	\$ 0.00343	\$ -	\$ 0.00083	\$ 0.00854
Weighted average common shares outstanding	1,454,921,527	-	2,393,928,290	221,735,993

The accompanying footnotes are an integral part of the financial statements

ETERNAL IMAGE, INC.

STATEMENT OF CASH FLOWS

	<u>Year Ended</u> <u>December 31, 2006</u>	<u>Year Ended</u> <u>December 31, 2005</u>	<u>Nine Months Ended</u> <u>September 30, 2007</u> <u>(Unaudited)</u>	<u>Nine Months Ended</u> <u>September 30, 2006</u> <u>(Unaudited)</u>
Cash Flows from Operating Activities:				
Net Loss	\$ (4,987,272)	\$ (132,977)	\$ (1,978,599)	\$ (1,894,282)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:				
Depreciation	6,964	357	30,716	4,865
Amortization	9,852	7,638	2,416	3,337
Gain on Sale of Equipment	(539)	-	-	-
Retirement of Other Assets	6,445	-	-	-
Capital Stock Issued in lieu of Payment for Services	4,251,776	-	825,000	1,519,461
Capital Stock Issued in lieu of Payment on Loan	100,000	-	1,267,000	100,000
(Increase) Decrease in:				
Accounts Receivable	-	-	(78,125)	-
Inventories	-	-	(707,319)	-
Prepaid Consulting	-	-	-	14,500
Advance Royalties	(215,000)	(130,000)	87,904	10,000
Advance Marketing Expenses	(20,000)	-	13,400	(10,000)
Security Deposit	(2,895)	-	3,495	(3,495)
Increase (Decrease) in:				
Accounts Payable	248,783	-	394,766	(12,250)
Rent Payable	8,898	-	-	-
Payroll Taxes	50	-	(50)	-
Accrued Interest	3,154	-	1,125	10,138
Royalties Payable	-	-	-	(75,000)
Salaries Payable	74,145	-	11,700	99,208
Customer Deposit	2,290	-	-	-
Net Cash Used in Operating Activities	<u>(513,349)</u>	<u>(254,982)</u>	<u>(126,571)</u>	<u>(233,518)</u>
Balance Forward	\$ (513,349)	\$ (254,982)	\$ (126,571)	\$ (233,518)

The accompanying footnotes are an integral part of the financial statements

ETERNAL IMAGE, INC.

STATEMENT OF CASH FLOWS (CONTINUED)

	<u>Year Ended December 31, 2006</u>	<u>Year Ended December 31, 2005</u>	<u>Nine Months Ended September 30, 2007 (Unaudited)</u>	<u>Nine Months Ended September 30, 2006 (Unaudited)</u>
Balance Forward	\$ (513,349)	\$ (254,982)	\$ (126,571)	\$ (233,518)
Cash Flows from Investing Activities:				
Purchase of Fixed Assets	(247,032)	(800)	(244,198)	(69,592)
Purchase of Intangible Assets	(23,500)	(11,563)	-	(26,452)
Proceeds from Sale of Fixed Assets	<u>768</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Used in Investing Activities	<u>(269,764)</u>	<u>(12,363)</u>	<u>(244,198)</u>	<u>(96,044)</u>
Cash Flows from Financing Activities:				
Proceeds from Sale of Capital Stock	786,623	-	747,950	27,772
Proceeds from Additional Paid in Capital	226,773	-	(320,622)	392,174
Proceeds from Notes Payable	-	264,919	20,000	28,000
Principal Payments of Notes Payable	(171,789)	(9,435)	(52,298)	(116,995)
Change in Member's Equity	<u>-</u>	<u>10,764</u>	<u>-</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>841,607</u>	<u>266,248</u>	<u>395,030</u>	<u>330,951</u>
Net Increase (Decrease) in Cash	58,494	(1,097)	24,261	1,389
Cash, Beginning	<u>30,075</u>	<u>31,172</u>	<u>88,569</u>	<u>30,075</u>
Cash, Ending	<u><u>\$ 88,569</u></u>	<u><u>\$ 30,075</u></u>	<u><u>\$ 112,830</u></u>	<u><u>\$ 31,464</u></u>
Cash Paid During the Year for:				-
Interest	\$ 7,219	\$ 2,417	\$ 5,173	\$ -
Non-Cash Transactions:				
Capital Stock Issued in lieu of Payment for Services	\$ 4,251,776	\$ -	\$ 393,000	\$ -
Capital Stock Issued in lieu of Payment on Loan	\$ 100,000	\$ -	\$ 1,267,000	\$ 100,000

The accompanying footnotes are an integral part of the financial statements

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005,

AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 (UNAUDITED)

The Company -

Eternal Image was incorporated January 31, 2006 in the State of Delaware. Eternal Image, Inc. Eternal Image Inc. ("Eternal Image") ("The Company") is the first manufacturer of branded, licensed funerary products for humans and pets. Eternal Image secures license agreements with appropriate brand licensors and develops funerary products (such as caskets, urns, and vaults) using the brand logo and images prominently in the design of the product.

Once a license is secured, Eternal Image works with designers and engineers to create product drawings and prototypes. The prototypes are then approved by the brand license holder. Once approval has been received by the brand licensor, Eternal Image then sources the product for manufacture with the appropriate manufacturing agent. Eternal Image utilizes a distribution network that in turn supplies Funeral Homes throughout the United States.

From inception until December 31, 2006 the Company was in the development stage and had accumulated a deficit of \$5,150,801. In January, 2007 the Company had achieved planned operations and began generating revenue from sales.

1. **Summary of Significant Accounting Policies:**

Basis of Presentation -

Eternal Image, Inc. acquired all of the shares of Diamics, Inc. in an exchange of stock transaction and it became a 100% owned subsidiary of Eternal Image, Inc. The acquisition was accounted for as a reverse acquisition. Eternal Image, Inc has been treated as the acquirer of Diamics, Inc. for financial reporting purposes as it's shareholders control more than 50% of the post transaction of the combined company. Therefore, the accompanying presentation presents the historical financials of Diamics, Inc., and the accounting acquirer.

The Company's policy is to prepare its financial statements in conformity with generally accepted accounting principles. Consequently, certain revenue and the related assets are recognized when incurred rather than when received, and certain expenses and he related liabilities are recognized when the obligation is incurred rather than paid. Depreciation expense under generally accepted accounting principles is spread over the estimated useful lives of the assets using straight-line and certain accelerated methods.

The accompanying unaudited financial statements for the nine months ended September 30, 2007 and 2006 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. The results for the periods indicated are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) which management considers necessary for a fair presentation of operating results.

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies - (continued):

Use of Estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments -

The Company's financial instruments include cash and cash equivalents, accounts payable, accrued expenses and notes payable. These financial instruments are carried at cost, which, unless otherwise disclosed, approximates fair market value due to their short maturities.

Cash and Cash Equivalents -

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

The Company's cash and cash equivalents are held principally at three financial institutions and at times may exceed insured limits.

Furniture, Equipment, Product Development Costs and Depreciation -

Furniture, equipment and product costs are stated at cost. Depreciation of furniture and equipment is determined on the straight-line and accelerated methods over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of furniture or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income (the results of operations).

Royalties

The Company enters into agreements to license trademarks, copyrights and patents. The agreements may call for minimum amounts of royalties to be paid in advance and through out the term of the agreement which are nonrefundable in the event that product sales fail to meet certain minimum levels. Advance royalties resulting from such transactions are stated at amounts estimated to be recoverable from future sales of the related products. The Company expenses royalties at the time liabilities under license agreements are incurred.

ETERNAL IMAGE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies - (continued):

Impairment of Long-Lived Assets -

The Company periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is determined to exist if estimated undiscounted future cash flows are less than the carrying amount of the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company has determined that there was no impairment of long-lived assets in 2006 and thus no impairment loss was taken in that year.

Goodwill -

Goodwill of \$23,500 resulted from a merge to a public shell company in 2006. This asset will be periodically reviewed for impairment and expensed as necessary

Patents -

The Company capitalizes its expenditures relating to the filing and maintenance of its patents and amortizes such costs over the estimated useful life of the patent, which generally approximates fifteen years. Accumulated amortization was \$2,087 at December 31, 2006. Amortization expense relating to patents was \$808 for the year ended December 31, 2006.

Income Taxes -

The Company accounts for income taxes using the liability method. The liability method requires the determination of deferred tax assets and liabilities based on the differences between the financial statements and income tax bases of assets and liabilities, using enacted tax rates. Additionally, net deferred tax assets are adjusted by a valuation allowance, if, based on the weight of available evidence, it is uncertain whether some portion or all of the net deferred tax assets will be realized. There is no current provision for corporate income tax for the year ended December 31, 2006 as the Company generated a net loss for income tax purposes.

Basic and Diluted Loss per Common Share -

The Company displays earnings (loss) per share in a dual presentation of basic and diluted earnings (loss) per share. Basic earnings (loss) per share includes no dilution and is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding for the period.

Outstanding common stock options, warrant, convertible preferred shares and convertible notes payable have not been considered in the computation of diluted earnings per share amounts, since the effect of their inclusion would be antidilutive. Accordingly, basic and diluted earnings (loss) per share are identical.