

Green Star Products, Inc.

Financial Statements

Years Ended December 31, 2005 and 2006

Green Star Products, Inc.
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Years Ended December 31, 2005 and 2006

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Independent Auditors' Report

Board of Directors
Green Star Products, Inc
Chula Vista, California

We have audited the accompanying balance sheets of Green Star Products, Inc as of December 31, 2005 and 2006, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Green Star Products, Inc as of December 31, 2005 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles which contemplate continuation of the Company as a going concern; however, the Company has incurred net operating losses of \$1,302,169 and \$1,951,095 for the years ended December 31, 2005 and 2006 and has working capital deficiencies of \$1,942,297 and \$2,317,984 at December 31, 2005 and 2006. In addition, and as discussed in Note 2, the research activities conducted by Green Star Products, Inc. have been dependent upon loans from third parties. These matters raise substantial doubt as to the Company's ability to continue as a going concern. Management's plans with respect to these matters are discussed in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Green Star Products, Inc.
Balance Sheets

	December 31, 2005	December 31, 2006
Assets		
Current assets -		
Cash	\$ 21,427	\$ 14,719
Other assets:		
Accounts receivable	-	20,717
Deposit	-	25,000
Loans receivable from related party	33,897	266,922
Other loan receivable	80,743	-
Property and equipment, at cost net of accumulated depreciation	455,357	-
Intangible assets - SuperBat / TVT, net of accumulated amortization	150,000	-
	<u>\$ 741,424</u>	<u>\$ 327,358</u>
 Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 707,147	\$ 1,040,724
Payroll taxes payable	180,521	194,962
Due to related parties	201,197	361,197
Common stock to issue	220,000	527,100
Current portion of notes and loans payable	654,859	208,720
	<u>1,963,724</u>	<u>2,332,703</u>
Total current liabilities		
Notes and loans payable, less current portion	<u>165,000</u>	<u>210,000</u>
Stockholders' deficit:		
Common stock; \$.001 par value, 300,000,000 shares, authorized, 297,535,843 shares issued and outstanding as of December 31, 2005	297,491	336,650
Common stock; \$.001 par value, 400,000,000 shares authorized, 336,694,843 shares issued and outstanding as of December 31, 2006		
Additional paid-in capital	11,179,836	12,263,727
Accumulated deficit	<u>(12,864,627)</u>	<u>(14,815,722)</u>
Total stockholders' deficit	<u>(1,387,300)</u>	<u>(2,215,345)</u>
	<u>\$ 741,424</u>	<u>\$ 327,358</u>

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

Green Star Products, Inc.
Statements of Operations

	Year Ended December 31, 2005	Year Ended December 31, 2006
Operating revenue:		
TVT Products Revenues and Fees	\$ 45,000	\$ 246,585
BioFuel Products and Services Revenue	-	271,192
Other Income	-	1,800
Total operating revenue	<u>45,000</u>	<u>519,577</u>
Cost of goods sold	<u>25,348</u>	<u>292,098</u>
Gross profit	<u>19,652</u>	<u>227,479</u>
Operating expenses:		
Interest expense	146,099	53,463
Consulting fees	100,555	355,685
General and administrative expenses	85,397	248,751
Depreciation and amortization expenses	132,143	116,071
Impairment loss on patent	241,667	50,000
Impairment loss on notes receivable	-	102,188
Impairment loss on notes receivable - ABF	(50,588)	813,130
Loss on conversion of debt	27,903	-
Loss from sale of property, plant, and equipment	-	439,286
Total operating expenses	<u>683,176</u>	<u>2,178,574</u>
Net loss from continuing operations	(663,524)	(1,951,095)
Loss on investment in ABF- equity method investee	<u>638,645</u>	<u>-</u>
Net loss	<u>\$ (1,302,169)</u>	<u>\$ (1,951,095)</u>
Net loss per share, basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>
Weighted average common equivalent shares outstanding, basic and diluted	<u>284,986,987</u>	<u>310,726,753</u>

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

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Green Star Products, Inc
Statement of Stockholders' Deficit
Year Ended December 31, 2005 and 2006

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance at January 1, 2005	272,336,550	\$ 272,292	\$ 10,366,020	\$ (11,562,458)	\$ (924,146)
Shares issued for consulting services	1,772,432	1,772	74,946		76,718
Shares issued for purchase of equipment	15,000,000	15,000	472,500		487,500
Shares issued for conversion of debt	8,426,861	8,427	190,552		198,979
Stock option expenses for consultants			75,818		75,818
Net loss for the year ended December 31, 2005				(1,302,169)	(1,302,169)
Ending balance December 31, 2005	297,535,843	297,491	11,179,836	(12,864,627)	(1,387,300)
Shares issued for consulting services	8,610,000	8,610	297,740		306,350
Shares issued to American Biofuels, Inc	3,000,000	3,000	177,000		180,000
Shares issued for conversion of debt	27,549,000	27,549	609,151		636,700
Net loss for the year ended December 31, 2006				(1,951,095)	(1,951,095)
Ending balance December 31, 2006	<u>336,694,843</u>	<u>\$ 336,650</u>	<u>\$ 12,263,727</u>	<u>\$ (14,815,722)</u>	<u>\$ (2,215,345)</u>

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

Green Star Products, Inc.
Statements of Cash Flows
Increase (Decrease) in Cash

	Year Ended December 31, 2005	Year Ended December 31, 2006
Cash flows provided by (used for) operating activities:		
Net loss	\$ (1,302,169)	\$ (1,951,095)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	132,143	116,071
Loss on investment	638,645	-
Loss on property, plant, and equipment	-	439,286
Loss on intangible assets	241,667	50,000
Option expenses	75,818	-
Issuance of common stock for consulting services	76,718	306,350
Changes in assets and liabilities:		
Increase (decrease) in liabilities:		
Accounts receivable	-	(20,717)
Loans receivable from related party	46,103	(233,025)
Loan receivable	-	80,743
Accounts payable and accrued liabilities	52,797	655,118
Total adjustment	1,263,891	1,393,826
Net cash used for operating activities	(38,278)	(557,269)
Cash flows used for investing activities - deposit	-	(25,000)
Cash flows provided by (used for) financing activities:		
Borrowing from notes and loans payable	-	139,650
Payment of notes and loans payable	(152,620)	95,911
Due to related party	186,839	340,000
Net cash provided by financing activities	34,219	575,561
Net decrease in cash	(4,059)	(6,708)
Cash, beginning of year	25,486	21,427
Cash, end of year	\$ 21,427	\$ 14,719
Supplemental disclosure of cash flow information:		
Issuance of common stock for conversion of debt	\$ 198,979	\$ 636,700
Issuance of common stock for purchase of equipment	\$ 487,500	\$ -
Issuance of common stock for ABF	\$ -	\$ 180,000
Issuance of common stock for services and consultant	\$ -	\$ 306,350

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

(1) Organization and Basis of Preparation:

In June of 1992, Green Star Products, Inc. ("GSPI" or the "Company") formerly known as B.A.T. International, Inc. and Subsidiaries entered into a plan of reorganization whereby it merged into October Associates, Inc., a corporation with no assets or liabilities, and no operations, in a stock for stock exchange. The name of the Company was changed to B.A.T. International, Inc. and the predecessor corporation was dissolved, and the name was again changed to Green Star Products, Inc. in July of 2002. The combination was accounted for as a reorganization of companies under common control, in a manner similar to pooling of interests accounting.

Operations through 1994 consisted of designing and developing electric retrofitted automobiles. In early 1995 the Company closed its facilities in Salt Lake City, Utah, and abandoned its remaining assets. In October 1997, B.A.T. California, Inc. ceased operations.

More recently, the Company's primary focus has been in the following areas:

- a) The design and engineering of bio-diesel reactors and process control systems. Based on the Company's broad experience and knowledge, gained from its involvement of bio-fuel production, GSPI has designed and engineered a state-of-the-art continuous flow, waterless reactor with a capacity in excess of 10-million gallons of bio-fuel per year. Combined with its process control module, the advanced technology converts feedstock to bio-diesel in minutes (versus one to two hours for the rest of the industry). The system requires minimum maintenance and plant operation staff, and reduces energy requirements by more than 30% over industry standards. In the build-out of a new bio-diesel plant, the integration of GSPI's reactor and process control module will reduce capital cost by more than 50%, when compared to the industry average.
- b) A consortium formation between GSPI and companies whose relationships include license alliances in the technological, financial and environmental arenas. The consortium projects will include biodiesel, ethanol, and crossover proven technologies, which will result in a strategic assembly of "waste and renewable feedstock to energy, fuel, food and chemical staples".
- c) The research and development of alternative feedstock for biodiesel and ethanol production. One such alternative is algae, which eat CO₂, the biggest global warming gas. The attractiveness of algae is that it can produce up to 100 times more oil per acre than traditionally used agricultural oil crops while not using valuable agricultural land. Also, as a by product of the crushing process, algae can provide meal, an important and valuable food source. With its consortium partner, GSPI has assembled a seven-member research team at the University of Baja California in Ensenada, Mexico, for the continued research of algae and its commercialization use in the production of biodiesel.

(1) Organization and Basis of Preparation (Continued):

- d) The development and production of anti-friction metal treatment products. Under the name SuperBat TVT (Total Vehicle Treatment), the Company produces advanced anti-friction lubricants and additives that reduces emissions and improves fuel economy in vehicles. TVT increases engine life and can be used in all internal combustion engines, transmissions, power steering, wheel bearings and differentials.

(2) Summary of Significant Accounting Policies:

Business Activity

Green Star Products, Inc. expects future earnings from:

- Sales revenue and royalties from products sold
- License fees from the sale of its licensed technology
- Partnership interests

Use of Estimates

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

Going Concern

The Company's financial statements are prepared using the generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern. The Company has incurred net operating losses of \$1,302,169 and \$1,951,095 for the years ended December 31, 2005 and 2006 and has working capital deficiencies of \$1,942,297 and \$2,317,984 at December 31, 2005 and 2006. This factor raises substantial doubt about the Company's ability to continue as a going concern.

(2) Summary of Significant Accounting Policies (Continued):

Going Concern (Continued)

Management recognizes that the Company must generate additional resources to enable it to continue operations. Management's plans include the sale of additional equity securities and debt financing from related parties. However, no assurance can be given that the Company will be successful in raising additional capital. Further, there can be no assurance, assuming the Company successfully raises additional equity, that the Company will achieve profitability or positive cash flow. If management is unable to raise additional capital and expected significant revenues do not result in positive cash flow, the Company will not be able to meet its obligations and will have to cease operations. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes", which adopts the asset and liability approach to measurement of temporary differences between financial reporting and income tax return reporting. The principal temporary difference is the Federal and State net operating loss carryforward. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for effects of changes in tax laws and rates on the date of enactment. Although the Company has not filed its income tax returns for the past several years, management believes that the federal and California NOL carryover will expire between the years 2012 and 2023.

A summary is as follows:

	<u>Federal and State</u>	
	<u>2005</u>	<u>2006</u>
Net operating loss carryforward as of	\$ 10,113,161	\$ 11,757,906
Estimated effective tax rate	<u>40%</u>	<u>40%</u>
Deferred tax asset	4,045,264	4,703,162
Less valuation allowance	<u>4,045,264</u>	<u>4,703,162</u>
	<u>\$ —</u>	<u>\$ —</u>

(2) **Summary of Significant Accounting Policies (Continued):**

Accounting for Stock-Based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). Under this provision, the share-based compensation cost recognized beginning January 1, 2006 includes compensation cost for (i) all share-based payments granted prior to, but not vested as of January 1, 2006, based on the grant date fair value originally estimated in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123") and (ii) all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Compensation cost under SFAS No. 123(R) is recognized ratably using the straight-line attribution method over the expected vesting period. Prior periods are not restated under this transition method.

Inasmuch as the Company did not have stock based compensation to employees, there was no material impact upon the adoption of this statement.

In the years prior to 2006, as permitted under Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", the Company elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for its stock options and other stock-based employee awards.

During the year ended December 31, 2005, the Company had outstanding stock options that had been granted in prior years to outside consultants, which expired in January 2006. The Company used the Black Scholes valuation method of evaluating the options expense with the following assumptions, (1) an expected life range from 1.9 to 2.6, (2) a risk free interest rate range from 2.79% to 3.19%, and (3) a volatility of 0.93. The option expense for the year ended December 31, 2005 was \$75,818. No options were granted in 2005 or 2006.

Net Loss per Share

Net loss per share has been calculated based upon the weighted average number of common shares outstanding during the period. Common stock equivalents consisting in 2005 of stock options for the purchase of 8,000,000 shares, and in 2005 and 2006 certain convertible debt have been excluded as their effect is anti-dilutive.

(3) **Intangible Assets/Intellectual Property:**

SuperBat / TVT

In December 2004, GSPI acquired the remaining 25% interest of SuperBat, (75% interest originally owned by Company) owned by Dolphin and Environmental Research ("ER"), each holding a 12.5% interest, for a purchase price of \$500,000. The purchase price, divided equally between Dolphin and ER, includes the assignment of a loan receivable in the amount of \$230,000 (\$115,000 to Dolphin and \$115,000 to ER) and a payment of \$270,000 (\$135,000 to Dolphin and \$135,000 to ER) due December 27, 2006. Under the terms of the agreement, Dolphin and ER will be entitled to a 4% royalty fee (2% to each) on the gross income received by GSPI.

The Company accounted for the transaction under SFAS No. 141, and allocated the purchase price to the intangible asset. The asset was originally amortized over 5 year period but due to reductions in anticipated revenues, was written down in 2005 and completely written off in 2006.

A summary is as follows:

	<u>2005</u>	<u>2006</u>
Intellectual property - SuperBat / TVT	\$ 500,000	\$ 258,333
Less accumulated amortization	108,333	208,333
Less impairment of intangible asset loss	<u>241,667</u>	<u>50,000</u>
Net book value	<u>\$ 150,000</u>	<u>\$ —</u>

Under the guidelines of SFAS 144, based on future cash flow, the book balance of the asset as of December 31, 2006, is 100% impaired and accordingly has been fully charged off.

(4) **Related Party Transaction:**

American Bio-Fuels, Inc.

On July 23, 2002, Green Star Products, Inc. purchased a 35% equity interest in American Bio-Fuels ("ABF"), in exchange for 21,000,000 shares of GSPI stock with a value of \$840,000 and \$51,000 in cash.

ABF held the exclusive rights for Bio-Clean Fuels, Inc. to utilize their continuous flow/waterless bio-diesel process technology in the USA. On November 19, 2002, ABF signed a joint venture agreement with Hondo, Inc. to build a bio-diesel plant at the Hondo facility in Bakersfield, California ("plant"). On January 2004, the bio-diesel plant, with a capacity of approximately 3.0 million gallons a year, was completed and commercial production commenced.

(4) **Related Party Transaction (Continued):**

American Bio-Fuels, Inc. (Continued)

In order to accommodate large volume contracts, which were entered into with various biodiesel distributors, and to attain greater economic efficiencies, ABF preceded with expansion plans to increase its plant capacity to 20 million gallons of biodiesel a year. The financing for this expansion, arranged through a major biodiesel broker, did not materialize, resulting in a funding gap. To complete plant expansion, the shortfalls resulting from the funding gap were covered by ABF and its investors and creditors, including Green Star Products, Inc. By early 2006, plant expansion had been completed to raise the capacity level to 10 million gallons of biodiesel a year.

On February 17, 2006, a fire, unrelated to ABF's production process, caused major property damages to the plant and destroyed business records. Due to the property damages sustained and the disruption of the business, operations ceased and the plant was not rebuilt. After operations were discontinued, ABF continued to incur significant costs, resulting from cleanup, meeting environmental regulations and ensuing creditor claims.

To avoid causing harm to the reputation of Green Star Products, Inc. in the industry and affecting its ability to grow in the biodiesel industry, the Company entered into an agreement with ABF on March, 2006, to assist with financing for cleanup costs and to make every effort to satisfy all claims against ABF. Also, under this agreement, ABF's exclusive rights from Bio-Clean Fuels, Inc. to utilize their continuous flow/waterless biodiesel process technology in the USA were transferred to Green Star Products, Inc. No amounts were recorded for these technology rights.

In 2006 and 2007, the Company settled creditor claims totaling \$360,000 and \$762,100 respectively. The settlements, totaling \$1,122,100, were comprised of \$635,000 in cash, with payments beginning in 2007, and \$487,100 in GSPI's common stock. All of these settlements were booked to ABF's loan receivable account in 2006. As of the date of these financial statements, all known and outstanding claims have been settled and the Company is not aware of any future claims.

As a result of the fire, discontinued operations and the inability of ABF to provide neither audited financial statements nor in-house financial statements, a summary for the Company's investment in American Bio-Fuels is as follows:

	<u>2005</u>	<u>2006</u>
a) Investment in ABF - Beg	\$ 638,645	\$ -
Current year losses	<u>(638,645)</u>	<u>-</u>
Investment in ABF	<u>\$ -</u>	<u>\$ -</u>

Green Star Products, Inc.
Notes to Financial Statements
Years Ended December 31, 2005 and 2006

(4) Related Party Transaction (Continued):

American Bio-Fuels, Inc. (Continued)

	<u>2005</u>	<u>2006</u>
b) Loan receivable from ABF	\$ 592,818	\$ 1,405,948
Allowance for doubtful accounts	<u>(592,818)</u>	<u>(1,405,948)</u>
	<u>\$ —</u>	<u>\$ —</u>
Current year impairment loss	<u>\$ —</u>	<u>\$ 813,130</u>
Current year recovery	<u>\$ (50,588)</u>	<u>\$ —</u>

NRG Resources, Inc.

On July, 2005, Green Star Products, Inc. entered into a purchase agreement with NRG Resources, Inc. ("NRG") for the exclusive distribution rights of SuperBat TVT. NRG issued 500,000 shares of its stock to Green Star Products, Inc. for the purchase of the exclusive distribution rights. In addition, as an inducement to facilitate the transaction and in exchange for NRG's plant equipment, used in the blending and packaging of SuperBat TVT, Green Star Products, Inc. issued 15,000,000 shares (5.04% of the total shares outstanding as of December 31, 2005) of its stock to NRG. The Company recorded the plant equipment at \$487,500, the fair market value of GSPI's stock at the time of the exchange.

On April, 2006, in an effort to maintain the Company's focus on the biodiesel industry and the development of renewable feedstock for fuel and energy, Green Star Products, Inc. entered into an agreement with NRG for the repurchase of the plant equipment. Under the repurchase agreement, NRG issued 875,000 shares of its stock in exchange for the plant equipment.

NRG is not a publicly traded company nor are audited financial statements or any other financial information available. Since a fair market value for the NRG stock was not determinable, no book value was recognized for the 1,375,000 shares of NRG stock received by Green Star Products, Inc. accordingly a loss on disposition of equipment of \$439,286 was recorded.

Loans Receivable

A summary of loans receivable from related parties is as follows:

	<u>2005</u>	<u>2006</u>
Southern States Gas & Oil Ltd.	\$ 31,071	\$ 104,736
Joseph P. LaStella, President	<u>2,826</u>	<u>162,186</u>
	<u>\$ 33,897</u>	<u>\$ 266,922</u>

(4) Related Party Transaction (Continued):

Southern States Gas and Oil Ltd. (William L. "Stretch" Fowler)

The president of Southern States Gas and Oil Ltd. is William L. ("Stretch") Fowler, who is also the Managing Member & Director for American Bio-Fuels Inc. Mr. Fowler has extensive experience in the biodiesel industry and frequently advises the Company on various business matters and marketing strategies. He is not under a consulting agreement nor does he receive compensation from the Company for his services. As of March 31, 2008, the loan balance has been reduced to \$19,196.

Joseph P. LaStella, President

Joseph P. LaStella is the inventor of numerous patent applications filed with the U.S. Patent and Trademark Office for the continuous flow method and apparatus for making biodiesel fuel and system for removal of methanol from crude biodiesel fuel. Mr. LaStella assigned his patents in 2001 to Bio-Clean Fuels ("BCF") and under a royalty agreement with BCF is able to personally borrow up to \$100,000 a year from BCF or "downline licenses", which includes Green Star Products, Inc., against present or future royalties. Under the royalty agreement, Mr. LaStella is to receive a gross royalty of ¼ % of all produced products using his patented technology which will be the source of repayment for the loan. His patented technology will be used in the biodiesel refinery line that the Company has recently contracted to build in Odessa, Washington (refer to Note 10).

(5) Accounts Payable and Accrued Expenses:

A summary is as follows:

	<u>2005</u>	<u>2006</u>
Accounts payable	\$ 116,698	\$ 106,273
Accrued expenses payable	-	635,000
Accrued interest – unrelated parties	192,868	222,089
Accrued interest – related parties	<u>397,581</u>	<u>77,362</u>
	<u>\$ 707,147</u>	<u>\$ 1,040,724</u>

(6) Payroll Taxes Payable:

Payroll taxes payable consists of withheld payroll taxes from 1994 (which were not assumed by B.A.T. California, Inc.). The Company attempted to negotiate a settlement with the Internal Revenue Service but has not received any correspondence for the past seven years. To the extent such a settlement cannot be reached, the president of the corporation may become personally liable for a portion of such taxes.

Green Star Products, Inc.
Notes to Financial Statements
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(7) Common Stock to Issue:

Common stock to issue originally consists of liabilities to three debtors; a summary of liabilities is as follows:

	<u>2005</u>	<u>2006</u>
Little Willow Creek Trust	220,000	220,000
Roger Crandlemire	-	180,000
Jess Karr	-	127,100
	<u>220,000</u>	<u>527,100</u>

In 2007, the Company issued in aggregate 10,100,000 shares of its common stock to fully retire the above referenced liabilities, totaling \$527,100.

(8) Notes and Loans Payable:

A summary is as follows:

	<u>2005</u>	<u>2006</u>
Loan payable to Environmental Research, A Trust, a stockholder, is unsecured, payable upon demand with 10% accrued interest annually, convertible at 50% of average market price of the preceding 30 days of the shares at conversion date.	\$ 84,139	\$ 8,000
Loan payable to Global Galaxy Investments, Inc., a stockholder, is unsecured, payable upon demand with 10% accrued interest annually, convertible at 50% of average market price of the preceding 30 days of the shares at conversion date.	67,059	67,059
Loan payable to William Wason, a stockholder, is unsecured, payable upon demand with 10% accrued interest annually, convertible at 50% of average market price of the preceding 30 days of the shares at conversion date.	63,222	63,222
Loan payable to Mahon Family Trust, due March 23, 2005, is unsecured with 20% accrued interest annually and the right to convert to 2,000,000 shares at \$.10 per share.	200,000	-

Green Star Products, Inc.
Notes to Financial Statements
Years Ended December 31, 2005 and 2006

(8) Notes and Loans Payable:

	<u>2005</u>	<u>2006</u>
Loan payable to Curtis Lindner, due July 26, 2005, is unsecured with 10% accrued interest annually, convertible at \$.025 to \$.10 per share, depending on various conversion dates between September 1, 2004 and September 1, 2005.	100,000	—
Loan payable to Little Willow Creek Trust, due October 15, 2009, secured by the American Bio-Fuels Plant and guaranteed by GSPI, interest accrues at \$3,237 per month plus an additional interest payment of 4,000,000 shares, convertible at \$.0476 per share.	165,000	165,000
Note payable to Scott Family Trust, unsecured, with 20% accrued interest annually, convertible at \$.10 per share.	70,000	—
Note payable to Dolphin Automotive Company, Inc., due December 27, 2006, represents an unsecured installment payment (referred in Note 3) with no interest rate.	55,000	55,000
Note payable to Environmental Research, a Trust, due December 27, 2006, represents an unsecured installment payment (referred in Note 3) with no interest rate.	135,000	135,000
Note payable to Dolphin Automotive Company, Inc., unsecured with no interest rate.	11,197	116,197
Note payable to NRG Resources, Inc., a stockholder, unsecured with no interest rate.	—	55,000
Other various note payables, principally to individuals, at various Interest rates between 10% and 20%, due at various times during 2007.	<u>70,439</u>	<u>115,439</u>
	1,021,056	779,917
Less current portion	<u>856,056</u>	<u>569,917</u>
	<u>\$ 165,000</u>	<u>\$ 210,000</u>

(9) Losses per Share:

The computation of per share amounts for 2005 and 2006 is based on the weighted average number of common shares outstanding for the period. Common stock equivalents, consisting of convertible debt, were not considered in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

(10) Subsequent Events:

Biodiesel Plant - Odessa, Washington

On August 27, 2007, Green Star Products, Inc. entered into a purchase contract with the Odessa Public Development Authority, a Washington Public Corporation ("OPDA"), for the purchase of its proprietary "continuous flow biodiesel reactor and control system". The third party beneficiary of this Contract is Inland Empire Oilseeds, LLC ("IEO"), which is OPDA's private industry partner and the manager of the project located in Odessa, Washington.

Under terms of the agreement, the Company will receive \$2,600,000 for the equipment, engineering and installation of a biodiesel refinery line, with a production capacity of 8,000,000 gallons of ASTM 6751 biodiesel a year, which represents Phase 1 of the project. In addition, the Company acquired a 15.8% interest in the IEO partnership for \$1,100,000.