

LEATT CORPORATION
REPORT ON CONSOLIDATED
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006

LEATT CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Leatt Corporation

We have audited the consolidated balance sheet of Leatt Corporation as of December 31, 2007, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' deficiency and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Leatt Corporation as of and for the year ended December 31, 2006, before the restatement described in Note 3, were audited by other auditors whose report dated July 5, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the 2007 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Leatt Corporation as of December 31, 2007, and their results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 3 that were applied to restate the 2006 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

 J.H. Cohn LLP

Roseland, New Jersey
October 3, 2008

LEATT CORPORATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006 (RESTATED)
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,681,038	\$ 47,640
Short-term investments	3,022,853	-
Accounts receivable, net of allowance for doubtful accounts of \$34,618 in 2007	1,233,449	37,993
Inventory	1,841,319	29,707
Payments in advance	1,261,083	-
Due from related party	159,418	-
Prepaid expenses and other current assets	164,950	7,717
	9,364,110	123,057
Total Current Assets		
Property and equipment, net	589,207	16,000
Deferred tax assets	46,281	-
	\$ 9,999,598	\$ 139,057
TOTAL ASSETS		

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,954,477	\$ 230,617
Income taxes payable	1,939,343	-
Deferred tax liabilities	53,731	-
Customer deposits	291,973	14,065
Due to related party	7,601	55,000
	5,247,125	299,682
Total Current Liabilities		
Obligation to issue preferred and common stock to founders	5,996,507	3,234,153
	11,243,632	3,533,835
Total Liabilities		
Commitments and contingencies		
STOCKHOLDERS' DEFICIENCY		
Preferred stock, \$.001 par value, 28,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$.001 par value, 700,000,000 shares authorized, 110,589,002 shares issued and outstanding	110,589	110,589
Additional paid - in capital	1,091,254	886,840
Accumulated other comprehensive income (loss)	(38,570)	-
Accumulated deficit	(2,407,307)	(4,392,207)
	(1,244,034)	(3,394,778)
Total Stockholders' Deficiency		
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 9,999,598	\$ 139,057

See accompanying notes to the consolidated financial statements

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u> (RESTATED)
REVENUES	\$ 18,317,382	\$ 162,177
COST OF REVENUES	<u>6,201,017</u>	<u>210,389</u>
GROSS PROFIT (LOSS)	<u>12,116,365</u>	<u>(48,212)</u>
OPERATING EXPENSES		
Salaries and wages	2,239,149	-
Commissions and consulting expenses	811,680	-
Professional fees	623,916	47,940
Services rendered for stock	-	15,666
Advertising and marketing	160,059	9,036
Office rent and expenses	129,494	-
Research and development costs	79,745	-
Bad debt expense	34,618	-
General and administrative expenses	1,093,347	38,757
Depreciation	<u>278,597</u>	<u>32,000</u>
Total Operating Expenses	<u>5,450,605</u>	<u>143,399</u>
OPERATING INCOME (LOSS)	<u>6,665,760</u>	<u>(191,611)</u>
OTHER INCOME (EXPENSE)		
Fair value adjustment relating to obligation to issue preferred and common shares	(2,762,354)	(1,878,153)
Interest income, net of expense	<u>28,287</u>	<u>-</u>
Total Other Income (Expense)	<u>(2,734,067)</u>	<u>(1,878,153)</u>
INCOME (LOSS) BEFORE INCOME TAXES	3,931,693	(2,069,764)
Provision for income taxes	1,946,793	-
NET INCOME (LOSS)	<u>\$ 1,984,900</u>	<u>\$ (2,069,764)</u>
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	<u>\$ 1,984,900</u>	<u>\$ (2,069,764)</u>
NET INCOME (LOSS) PER COMMON SHARE - BASIC	<u>\$ 0.02</u>	<u>\$ (0.02)</u>
NET INCOME (LOSS) PER COMMON SHARE - DILUTED	<u>\$ 0.02</u>	<u>\$ (0.02)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	<u>110,589,002</u>	<u>110,257,069</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	<u>110,589,002</u>	<u>110,257,069</u>
COMPREHENSIVE INCOME (LOSS)		
Net income (loss)	\$ 1,984,900	\$ (2,069,764)
Cumulative Translation Adjustments	<u>(38,570)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 1,946,330</u>	<u>\$ (2,069,764)</u>

See accompanying notes to the consolidated financial statements

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

<u>Description</u>	<u>Preferred Stock A</u>		<u>Preferred Stock B</u>		<u>Common Stock</u>		<u>Additional Paid - In Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance, December 31, 2005, as originally reported	12,000,000	\$ 12,000	12,000,000	\$ 12,000	110,066,780	\$ 110,067	847,696	\$ -	\$ (966,443)	\$ 15,320
Prior period adjustment (see Note 3)	(12,000,000)	(12,000)	(12,000,000)	(12,000)	-	-	24,000	-	(1,356,000)	(1,356,000)
Balance, December 31, 2005 as restated	-	-	-	-	110,066,780	110,067	871,696	-	(2,322,443)	(1,340,680)
Shares issued for services	-	-	-	-	522,222	522	15,144	-	-	15,666
Net loss, as restated (see Note 3)	-	-	-	-	-	-	-	-	(2,069,764)	(2,069,764)
Balance, December 31, 2006, as restated	-	-	-	-	110,589,002	110,589	886,840	-	(4,392,207)	(3,394,778)
Private shares of founder issued for compensation	-	-	-	-	-	-	204,414	-	-	204,414
Net income for the year	-	-	-	-	-	-	-	-	1,984,900	1,984,900
Cumulative translation adjustments	-	-	-	-	-	-	-	(38,570)	-	(38,570)
Balance, December 31, 2007	-	\$ -	-	\$ -	110,589,002	\$ 110,589	\$ 1,091,254	\$ (38,570)	\$ (2,407,307)	\$ (1,244,034)

See accompanying notes to the consolidated financial statements
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LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
		(RESTATED)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	<u>\$ 1,984,900</u>	<u>\$ (2,069,764)</u>
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	278,597	32,000
Deferred income taxes	7,450	-
Common stock issued for services	-	15,666
Allowance for doubtful accounts	34,618	-
Fair value adjustment relating to obligation to issue preferred and common shares	2,762,354	1,878,153
Compensation paid for by founders private shares	204,414	-
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(1,230,074)	(37,993)
(Increase) in inventory	(1,811,612)	(14,707)
(Increase) in payments in advance	(1,261,083)	-
(Increase) in prepaid expenses and other current assets	(316,651)	(3,501)
Increase in accounts payable and accrued expenses	2,723,860	176,617
Increase in income taxes payable	1,939,343	-
Increase in customer deposits	277,908	14,065
Total adjustments	<u>3,609,124</u>	<u>2,060,300</u>
Net cash provided by (used in) operating activities	<u>5,594,024</u>	<u>(9,464)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(851,804)	-
Purchase of short-term investments	<u>(3,022,853)</u>	<u>-</u>
Net cash used in investing activities	<u>(3,874,657)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments (to) from related party	<u>(51,270)</u>	<u>55,000</u>
Net cash (used in) provided by financing activities	<u>(51,270)</u>	<u>55,000</u>
Effect of exchange rates on cash and cash equivalents	<u>(34,699)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,633,398	45,536
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>47,640</u>	<u>2,104</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,681,038</u></u>	<u><u>\$ 47,640</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid during the period for income taxes	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Common stock issued for services	<u>\$ -</u>	<u>\$ 15,666</u>
Compensation expense paid for by founders private shares	<u>\$ 204,414</u>	<u>\$ -</u>

See accompanying notes to the consolidated financial statements

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 1 - DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

On March 11, 2005, Treadzone, Inc. was incorporated in the State of Nevada. On May 26, 2005, Treadzone, Inc. formally changed its name to Leatt Corporation (the "Company"). The Company incorporated with 75,000 shares of common stock authorized at \$.001 par value. On May 25, 2005, the Company further increased the authorized number of common shares to 700,000,000. On October 10, 2007, the Company formed a wholly-owned subsidiary, Two Eleven Distribution, LLC ("Two Eleven") a California limited liability company, which will act as a distributor of the Leatt-Brace™ in the United States. As of December 31, 2007, there was no activity in Two Eleven.

Since inception, the Company has had the exclusive global manufacturing and distribution rights to the Leatt-Brace™ which is an injection molded neck protection system designed to prevent potentially devastating motor sport injuries to the cervical spine and neck. The patents and all rights for the Leatt-Brace™ are currently held by Leatt-Brace Holdings (Pty) Ltd. ("Holdings"), a company controlled by the Company's founder, a South African incorporated company. There is a license agreement between Holdings and the Company which gives the Company the exclusive right and license to manufacture, sell and use apparatus embodying, employing and containing the Leatt-Brace™ technology. As of December 31, 2007, the Company's revenues have been generated solely from the sale of Leatt-Brace™ products.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Leatt Corporation and its wholly-owned subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

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 amounts reported in the financial statement and accompanying notes. Actual results could differ from those estimates.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Revenue and Cost Recognition

All manufacturing of the Leatt-Brace TM is performed by third party subcontractors in China.

The Company records its revenue and related cost of revenue for its product sales in the United States upon shipment of the merchandise to the customer.

International sales are generally drop-shipped directly from the third party manufacturer to the Company's customers. Revenue and related cost of revenue is recognized at the time of shipment from the manufacturer's port when shipping terms are Free On Board ("FOB") shipping point as legal title and risk of loss to the product pass to the customer. For FOB destination point arrangements, revenue is recorded upon receipt at the customer's location.

Research and Development

All research and development costs are expensed as incurred and are included in operating expenses in the statements of operations for the years ended December 31, 2007 and 2006.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less from the date of purchase to be cash equivalents.

Short-term investments consists of certificates of deposit with a maturity of greater than three months.

Accounts Receivable

Accounts receivable consist of amounts due to the Company from normal business activities. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables as well as historical collection information. Credit is granted to substantially all customers on an unsecured basis. In determining the amount of the allowance, management is required to make certain estimates and assumptions.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of revised Statement of Financial Accounting Standards ("SFAS") No. 123, *Share-Based Payment* ("SFAS 123(R)"), including the provisions of Staff Accounting Bulletins No. 107 ("SAB 107") and No. 110 ("SAB 110"), which addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123(R) eliminates the ability to account for share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and generally requires that such transactions be accounted for using a fair value-based method and recognized as expenses in the statement of operations.

The Company adopted SFAS 123(R) using the prospective method, which requires the application of the accounting standard as of January 1, 2006. In accordance with the modified prospective method, the financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Under that transition method, the calculated expense (if any) in 2006 is equivalent to compensation expense for all awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair values estimated in accordance with the original provisions of SFAS 123.

Stock-based compensation expense for all awards granted after January 1, 2006 is based on the grant-date fair values estimated in accordance with the provisions of SFAS 123R. The Company recognizes these compensation costs, net of an estimated forfeiture rate, on a pro rata basis over the requisite service period of each vesting tranche of each award. The Company considers voluntary termination behavior as well as trends of actual option forfeitures when estimating the forfeiture rate.

The adoption of SFAS 123(R) did not impact the Company's consolidated financial statements as the Company had not granted any share-based payments since inception.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Income Taxes

The Company accounts for income taxes and the related accounts under the liability method. Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the income tax bases of assets and liabilities. A valuation allowance is applied against any net deferred tax asset if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In July 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109* ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is more likely than not of being sustained upon an examination by tax authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition, and any amounts when incurred would be recorded under these provisions. The provisions of FIN 48 were effective as of January 1, 2007, with the cumulative effect of the change in accounting principle (if any) recorded as an adjustment to opening retained earnings in the year of adoption. The Company adopted FIN 48 on January 1, 2007, which did not have a material impact on the Company's consolidated results of operations or financial position (see Note 8).

Patent Costs

Legal costs in connection with approved patents (including those owned by Holdings) and patent applications are expensed as incurred and classified as general and administrative expense in the consolidated statements of operations.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities. Accumulated comprehensive income (loss) at December 31, 2007 represents cumulative translation adjustments related to a foreign branch office. The Company presents comprehensive income (loss) in the consolidated statements of operations and comprehensive income (loss).

Advertising

Costs of advertising and marketing are expensed as incurred. Advertising and marketing costs of \$160,059 and \$9,036, respectively, are included in the consolidated statements of operations for the years ended December 31, 2007 and 2006.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Earnings (Loss) Per Share of Common Share

Basic net income (loss) per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. For the years ended December 31, 2007 and 2006, the Company had no dilutive potential common shares outstanding.

Fair Value of Financial Instruments

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, short-term investments, accounts receivable, inventory, payments in advance, customer deposits, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments.

Currency Risk and Foreign Currency Transaction Gain or Loss

The Company transacts business in currencies other than the U.S. Dollar. The Company has determined that based on the cash flow, sales price, sales market, expense, financing, and inter-company transactions and arrangements indicators set forth in SFAS No. 52, *Foreign Currency Translation*, that the functional currency of the Company is that of the U.S. Dollars.

All currency transactions occur in the spot foreign exchange market and the Company does not use currency forward contracts, currency options, currency borrowings, interest rate swaps or any other derivative hedging strategy at this point in time. Transactional gains (losses) arising from the use of differing exchange rates, are included in the accompanying consolidated statements of operations. Net gains (losses) resulting from foreign currency transactions were approximately (\$42,735) and \$0 for the years ended December 31, 2007 and 2006, respectively.

Inventory

Inventory, primarily finished goods, is recorded at the lower of cost or market and is accounted for on the first-in first-out basis (FIFO). In assessing the value of inventories, the Company must make estimates and judgments regarding reserves required for product obsolescence, aging of inventories and other issues potentially affecting the saleable condition of products. Shipping and handling costs are included in inventory. In performing such evaluations, the Company utilizes historical experience as well as current market information.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives. The costs of improvements that extend the lives of the assets are capitalized. Repairs and maintenance are expensed as incurred.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, the Company carries long-lived assets at the lower of the carrying amount or fair value. A long-lived asset shall be tested for impairment whenever events or changes in circumstances indicate what its carrying amount may not be recoverable. Impairment is evaluated by estimating future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flow is less than the carrying amount of the assets, an impairment loss is recognized. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest.

There were no impairment losses recorded during the years ended December 31, 2007 and 2006.

Reclassifications

Certain amounts in the accompanying 2006 financial statements have been reclassified to conform with the 2007 presentation. The reclassifications have no effect on the net income (loss) of the Company.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* (“FSP 157-2”). FSP 157-2 delayed, for one year, the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the consolidated financial statements on at least an annual basis. Consequently, SFAS 157 will be effective for the Company beginning January 1, 2008 for financial assets and liabilities recognized or disclosed in the Company’s consolidated financial statements. The deferred provisions of SFAS 157 will be effective for us beginning January 1, 2009. The adoption of SFAS 157 has not had a material impact on the Company’s consolidated results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* (“SFAS 159”), which provides companies the irrevocable option to measure many financial assets and liabilities at fair value with the changes in fair value recognized in earnings resulting in an opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 will be effective for the Company beginning on January 1, 2008. The adoption of SFAS 159 has not had a material impact on the Company’s consolidated results of operations or financial position.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Recent Accounting Pronouncements (Continued)

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) will significantly change the accounting for and reporting of business combination transactions in consolidated financial statements. SFAS 141(R) is effective for the first annual reporting period beginning on or after December 15, 2008. Thus, the Company is required to adopt SFAS 141(R) on January 1, 2009. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS 141(R) will have a material impact on its consolidated results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 will significantly change the accounting for and reporting of noncontrolling (minority) interests in consolidated financial statements. SFAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS 160 will have a material impact on its consolidated results of operations or financial position.

NOTE 3- RESTATEMENT FOOTNOTE

In April 2008, the Company had determined that it did not obtain the proper authorization required to issue any classes of its preferred stock. As a result, it was determined that the issuance of the Company's Class A and Class B Preferred Stock were never legally executed, as such, do not exist. Therefore, as of June 17, 2005, the Company established an unsettled obligation to the holders of any aforementioned Class A and Class B Preferred Stock.

In addition, upon the performing of the audit of the 2007 consolidated financial statements, it was discovered that the Company failed to properly account for its royalty obligations in its 2006 financial statements.

As a result of the aforementioned errors associated with the issuance of preferred stock and understatement of royalty obligations, the Company concluded that the Company's financial statements for the year ended December 31, 2006 should be restated to adjust previously recognized royalty expense.

The following tables summarize the individual line items being restated for the applicable periods. As a result of the aforementioned errors, the accumulated deficit as of December 31, 2005 increased \$1,356,000 from (\$966,443) to (\$2,322,443). Additionally for 2006, the net loss increased \$2,013,703 from (\$56,061) to (\$2,069,764), the net loss per share increased \$0.02 from (\$0.00) to (\$0.02), and the accumulated deficit increased \$3,369,703 from (\$1,022,504) to (\$4,392,207).

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 3- RESTATEMENT FOOTNOTE (CONTINUED)

The Company had performed a valuation of the preferred stock. The valuation on May 25, 2005, the date the original transaction was to occur as noted above, was \$1,112,626. The preferred shares were to be issued for organizing the Company, and would be reflected as a charge to the consolidated statement of operations. In addition, the value of the preferred stock increased to \$1,356,000 at December 31, 2005, and increased to \$3,234,153 at December 31, 2006. The related \$243,374 and \$1,878,153 increases in the fair value and the obligation the Company has for the years ended December 31, 2005 and 2006 have been reflected as prior period adjustments in the consolidated statement of changes in stockholders' deficiency. The tables below reflect the changes by line item of the amounts previously reported to the restated amounts.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 3- RESTATEMENT FOOTNOTE (CONTINUED)

As discussed herein, the following tables reflect the restatement adjustments by specific line item:.

December 31, 2005

Accumulated deficit - December 31, 2005, as previously reported	\$ (966,443)
(1) Initial preferred valuation	(1,112,626)
(2) Fair value adjustment related to preferred stock	<u>(243,374)</u>
Accumulated deficit - December 31, 2005, as restated	<u>\$ (2,322,443)</u>
Preferred Stock A - Number of Shares, as previously reported	12,000,000
(1) To correct the issuance of shares	<u>(12,000,000)</u>
Preferred Stock A - Number of Shares, as restated	<u>-</u>
Preferred Stock A - Value, as previously reported	\$ 12,000
(1) To correct the issuance of shares	<u>(12,000)</u>
Preferred Stock A - Value, as restated	<u>\$ -</u>
Preferred Stock B - Number of Shares, as previously reported	12,000,000
(1) To correct the issuance of shares	<u>(12,000,000)</u>
Preferred Stock B - Number of Shares, as restated	<u>-</u>
Preferred Stock B - Value, as previously reported	\$ 12,000
(1) To correct the issuance of shares	<u>(12,000)</u>
Preferred Stock B - Value, as restated	<u>\$ -</u>
Additional paid-in capital, as previously reported	\$ 847,696
(1) To correct the issuance of shares	<u>24,000</u>
Additional paid-in capital, as restated	<u>\$ 871,696</u>

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 3- RESTATEMENT FOOTNOTE (CONTINUED)

December 31, 2006

Net loss prior to restatement	\$ (56,061)
(1) Fair value adjustment related to preferred shares	(2,034,751)
(2) Under-accrual of royalties to patent holder	<u>(135,550)</u>
Net loss after restatement	<u>\$ (2,226,362)</u>
Accumulated deficit	
- prior to restatement (2005 and 2006)	\$ (1,022,504)
2005	(1,199,402)
2006	<u>(2,170,301)</u>
Accumulated deficit	
- after restatement	<u>\$ (4,392,207)</u>
Loss per share - prior to restatement	\$ -
(1) Due to items (1) and (2) above	<u>(0.02)</u>
Loss per share - after restatement	<u>\$ (0.02)</u>

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 3- RESTATEMENT FOOTNOTE (CONTINUED)

December 31, 2006

Statement of Operations	Previously Reported	Restated	Change
Cost of revenues	\$ 74,839	\$ 210,389	\$ (135,550)
Gross profit (loss)	87,338	(48,212)	135,550
Fair value adjustment	-	(1,878,153)	1,878,153
Net loss	(56,061)	(2,069,764)	(2,013,703)
Balance Sheet			
Accounts payable and accrued expenses	95,067	230,617	135,550
Obligation to issue preferred and common stock to founders	-	3,234,153	3,234,153
Total current liabilities and total liabilities	164,132	3,533,835	3,369,703
Preferred Stock Class A	12,000	-	(12,000)
Preferred Stock Class B	12,000	-	(12,000)
Additional paid-in capital	862,840	886,840	24,000
Accumulated deficit	(1,022,504)	(4,392,207)	(3,369,703)
Total stockholders' deficiency	(25,075)	(3,394,778)	(3,369,703)
Statement of Changes in Stockholders' Deficiency			
Preferred Stock Class A - shares	12,000,000	-	(12,000,000)
Preferred Stock Class A - value	\$ 12,000	\$ -	\$ (12,000)
Preferred Stock Class B - shares	12,000,000	-	(12,000,000)
Preferred Stock Class B - value	\$ 12,000	\$ -	\$ (12,000)
Additional paid-in capital	862,840	886,840	24,000
Accumulated deficit	(1,022,504)	(4,392,207)	(3,369,703)
Total stockholders' deficiency	(25,075)	(3,394,778)	(3,369,703)
Statement of Cash Flows			
Net loss	(56,061)	(2,069,764)	(2,013,703)
Fair value adjustment	-	1,878,153	1,878,153
Change in prepaid expenses and other current assets	(7,717)	(3,501)	4,216
Change in accounts payable and accrued expenses	41,067	176,617	135,550
Change in amounts due related party (investing)	4,216	-	(4,216)

NOTE 4 INVENTORY

Inventory consists primarily of finished goods. All products are manufactured by third parties in China and shipped to either a warehouse in California, the corporate offices in South Africa or to distributors throughout South America, Africa, Europe, Asia and Australia. There was no reserve for obsolescence on the inventory for either of the years ended December 31, 2007 and 2006.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 5- PROPERTY AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Moulds and tools (2-5 years)	\$ 582,129	\$ 64,000
Office and other equipment (3-6 years)	48,859	-
Computer equipment and software (2-3 years)	233,096	-
Building improvements (6 years)	13,063	-
Vehicles (4-5 years)	<u>39,363</u>	<u>-</u>
	916,510	64,000
Less: accumulated depreciation	<u>(327,303)</u>	<u>(48,000)</u>
Property and equipment, net	<u>\$ 589,207</u>	<u>16,000</u>

The Company recorded depreciation expense of \$278,597 and \$32,000, respectively, for the years ended December 31, 2007 and 2006.

During 2007, the Company acquired equipment consisting of molds, computer equipment and furniture and fixtures from Holdings at the same net cost basis recorded by Holdings.

NOTE 6- CUSTOMER DEPOSITS AND PAYMENTS IN ADVANCE

The Company receives payments from customers prior to recognizing revenue prior to shipment, which are recorded as customer deposit liabilities. If the customer decides to cancel the order after the deposit has been paid, the Company will return the deposit or apply the deposit to a new order, however will not record the deposit as revenue. In addition, payments in advance represent upfront payments made to contract manufacturers for the manufacturing of the braces.

As of December 31, 2007 and 2006, the Company has \$291,973 and \$14,065 recorded as customer deposits in current liabilities on the consolidated balance sheets, and payments in advance of \$1,261,083 as of December 31, 2007 as a current asset on the consolidated balance sheet.

NOTE 7- STOCKHOLDERS' DEFICIENCY

Common Stock

As of December 31, 2007, there were 700,000,000 shares authorized, and 110,589,002 shares issued and outstanding of the Company's common stock with a par value of \$.001.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 7- STOCKHOLDERS' DEFICIENCY (CONTINUED)

Common Stock (Continued)

On March 11, 2005, there were 75,000 common shares authorized. On May 25, 2005, the Company increased the authorized number of common shares to 700,000,000.

The Company issued 25,050,000 shares of common stock to the founders on June 18, 2005. The Company on June 20, 2005 issued 84,666,780 shares of common stock for services valued at \$846,668. The Company on October 28, 2005 issued 350,000 shares of common stock for services valued at \$17,500.

In August 2006, the Company issued 522,222 shares of stock to related parties for services rendered to the Company. The value of the shares is \$15,666.

The Company's founder issued 1,250,000 of his personally owned shares to two employees valued at \$204,414. The value has been reflected as compensation expense in the statement of operations and as additional paid-in capital on the consolidated statement of changes in stockholders' deficiency for the year ended December 31, 2007.

NOTE 8- PROVISION FOR INCOME TAXES

Income tax (expense) benefit consists of the following components for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Current (expense) benefit		
Federal	\$ (1,516,637)	\$ -
State	(394,326)	-
Foreign	(28,380)	-
	<u>(1,939,343)</u>	<u>-</u>
Deferred (expense) benefit		
Federal	(5,913)	
State	(1,537)	
	<u>(7,450)</u>	<u>-</u>
Income tax (expense) benefit	<u>\$ (1,946,793)</u>	<u>\$ -</u>

The Company's effective income tax (expense) benefit differs from the federal statutory amount because of the effect of the following items:

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 8- PROVISION FOR INCOME TAXES (CONTINUED)

	2007	2006
Federal tax statutory rate	34.00%	0.00%
State income taxes, net of federal benefit	8.84%	0.00%
Effect of fair value adjustment	17.24%	0.00%
Utilization of net operating losses	(10.56%)	0.00%
	60.08%	0.00%

The Company's deferred tax assets and liability consists of the following:

	2007	2006
Deferred tax assets:		
Net operating loss carryforwards (NOL)	\$ -	\$ 735,851
Allowance for doubtful accounts	14,846	-
Depreciation	46,281	16,000
	61,127	751,851
Total deferred tax assets	61,127	751,851
Valuation allowance	-	(751,851)
	\$ 61,127	\$ -
Deferred tax liabilities:		
Prepaid expenses	\$ 68,577	\$ -
	\$ 68,577	\$ -
Total deferred tax liabilities	\$ 68,577	\$ -

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 8- PROVISION FOR INCOME TAXES (CONTINUED)

The Company files federal and state income tax returns in the United States. The Company is not presently undergoing any significant tax audits. As of December 31, 2007, the tax years that remain subject to examination are 2005 to 2007 for federal and 2007 for state.

The Company utilized the entire federal and state NOLs of \$2,115,752 in 2007, and the Company realized approximately \$225,000 in federal and state tax benefits.

In 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109, Accounting for Income Taxes* (“FIN 48”). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

The Company has reviewed its tax positions in accordance with FIN 48 and determined that no exposures exist that require an adjustment as of December 31, 2007. While the Company believes that it has performed adequate procedures to identify all reasonably identifiable exposures, it is possible that exposures exist and that these exposures will need to be assessed and potentially have a material impact on the Company’s consolidated financial statements.

NOTE 9- RELATED PARTY TRANSACTIONS

The Company as of December 31, 2007 and 2006 had \$7,601 and \$55,000, due to Holdings, a company that is controlled by the Chief Executive Officer of the Company. The Company paid Holdings royalty fees based on 5% of net sales of braces worldwide, in the amount of \$957,081 during the year ended December 31, 2007, associated with the sales of Leatt-Brace products. The term of the royalty agreement is for the life of the intellectual property.

Holdings was also reimbursed \$1,261,486 during 2007 by the Company for compensation payments paid to South African employees on behalf of the Company.

The payroll service provider that the Company utilizes for its South African employees is partially owned and controlled by an officer of the Company. The Company paid the payroll service provider \$75,546 for the year ended December 31, 2007.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 9- RELATED PARTY TRANSACTIONS (CONTINUED)

The Company purchases its computer equipment through a company that is owned by the head of its IT department. The Company in 2007 and 2006 purchased \$82,164 and \$0, respectively, from the aforementioned related party.

NOTE 10- CONCENTRATIONS

The Company maintains cash and cash equivalent balances at several financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At December 31, 2007, the Company had \$4,503,984 in excess of insurance.

The Company's trade receivables are derived from sales to distributors and dealers. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of the Company's end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary.

The Company has derived, and believes that it will continue to derive, a significant portion of its revenue from a limited number of customers. For the years ended December 31, 2007 and 2006, the Company's revenue was concentrated in four and two customers, respectively, that accounted for approximately 29% and 38% of annual revenue, respectively. During 2007 and 2006, two customers for 2006 (one customer was 20% and the other was 18%) accounted for 10% or more of annual revenue. There were no customers accounting for 10% or more in 2007. At December 31, 2007 and 2006, two and three of the Company's customers, respectively, represented 50% and 95% (for 2007 the two customers represented 32% and 18%, respectively, and for 2006, the three customers represented 58%, 25% and 12%, respectively) of the Company's accounts receivable.

The Company generates revenue both in the United States and internationally. For the years ended December 31, 2007 and 2006, annual revenues associated with international customers was approximately \$7,788,570 (43%) and \$138,515 (85%), respectively. In addition, the Company maintained approximately \$160,552 (27%) and \$16,000 (100%) in fixed assets in their international branch office.

NOTE 11- COMMITMENTS AND CONTINGENCIES

Office / Warehouse Lease

The Company is leasing through a sublease agreement with its United States sales manager, office and warehouse space in Valencia, California. The lease commenced on April 1, 2007 and continues through March 31, 2010. The lease agreement calls for monthly rent in the amount of \$8,250 for the entire length of the lease.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 11- COMMITMENTS AND CONTINGENCIES (CONTINUED)

Office / Warehouse Lease (Continued)

In addition, the Company subleases space in South Africa that expires on April 30, 2008. The Company has entered into a month-to-month rental while they construct an office.

All other operating leases are on a month-to-month basis.

Minimum lease payments under operating leases in each of the years subsequent to December 31, 2007 are as follows:

2008	\$ 113,150
2009	99,000
2010	<u>24,750</u>
	<u>\$ 236,900</u>

Rent expense for the year ended December 31, 2007 was \$139,779.

Litigation/Potential Litigation

In the normal course of business, the Company is subject to lawsuits and other claims and proceedings. Such matters are subject to uncertainty and outcomes are often not predictable with assurance.

One of these cases has already been decided in the United Kingdom against Fro Systems Limited and Mark McCann. In this case, settled in February 28, 2008, Fro Systems Limited is denied the ability to make, offer, promote, put on the market, sell, import, export, otherwise distribute or use in any other way the product known as the FRO Neck-Protect or any other product giving the same overall impression.

Other instances of patent infringement for Leatt-Brace Holdings and the Company are in very early stages, in both the United States and Italy. There is no liability accrued for potential losses, because the Company's management and counsel should and will benefit from any pending litigation against these companies.

NOTE 12- SUBSEQUENT EVENTS

On January 28, 2008, the Company entered into a purchase agreement for property located in Cape Town, South Africa to build an office building for their South Africa operations. The Company paid a deposit of approximately \$30,000, with the balance of R4,070,000 (approximately \$500,000) paid April 7, 2008.

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 12- SUBSEQUENT EVENTS (CONTINUED)

On March 1, 2008, the Company issued 200,000 warrants to an investment relations/ public relations firm for services provided to the Company.

The Company, effective January 1, 2008, entered into an employment agreement with its President for a period of three-years. Under the agreement, the Company will compensate its President \$240,000 per year. In addition, the Company has granted 1,000,000 shares of common stock to its President that vest over the same three-year period.

On September 25, 2008, the Company was served with a complaint filed on July 18, 2008 in the Superior Court of the State of California for the County of Los Angeles – Central District, Case Number BC394621, which named the Company as one of twelve defendants named in a lawsuit originally filed in the Superior Court of the State of California for the County of Los Angeles – Central District, Case Number BC394621. The claim is for product defects and breach of product warranties. The Company believes the claim is without merit and will vigorously defend themselves.

In September 2008, the Company agreed to amend their Articles of Incorporation to establish a Series A Voting Convertible Preferred Stock in the amount of 28,000,000 shares, with a par value of \$.001. The amended Articles of Incorporation also authorizes the Company to have the authority to establish additional series of preferred stock with such rights, preferences, and designations as determined by the Board of Directors.

Upon these amendments, the Company established a Series A Voting Convertible Preferred Stock (“Preferred Stock”). The Company authorized 3,000,000 shares of this series of Preferred Stock.

In September 2008, the Company agreed to issue, in accordance with the settlement agreement dated in September 2008, 3,000,000 shares of the Preferred Stock to satisfy its obligation from June 17, 2005. The Series A Convertible Preferred Stock will have a par value of \$.001, and will not be entitled to receive any dividends. Each holder of the Preferred Stock will be entitled to 100 votes for each one share of Preferred Stock and converts on a 1:1 ratio to common stock. In addition, the Company agreed to issue 21,000,000 shares of common stock to these principals to satisfy the remainder of the obligation. The approximate fair value as of September 26, 2008 of this obligation is \$6,261,246.