

THE COMPETITION TRIBUNAL

IN THE MATTER OF THE *COMPETITION ACT*, R.S.C. 1985, c.C-34, as amended;

AND IN THE MATTER OF an inquiry pursuant to subsection 10(1)(b)(ii) of the *Competition Act* relating to the marketing practices of The Dosco Group Inc., Fabutan Corporation, Fabutan Studios and Douglas Scott McNabb, President, carrying on business as Fabutan Sun Tan Studios;

AND IN THE MATTER OF an Application by the Commissioner of Competition for an order pursuant to Section 74.01 of the *Competition Act*.

B E T W E E N:

COMPETITION TRIBUNAL TRIBUNAL DE LA CONCURRENCE FILED / PRODUIT Nov. 15, 2005 CT- 2005-003 Chantal Fortin for / pour REGISTRAR / REGISTRAIRE	
OTTAWA, ONT.	#0013

THE COMMISSIONER OF COMPETITION

Applicant

- and -

**THE DOSCO GROUP INC., FABUTAN CORPORATION,
FABUTAN STUDIOS AND DOUGLAS SCOTT MCNABB, President,
carrying on business as FABUTAN SUN TAN STUDIOS**

Respondents

I, Doug McNabb, business man of the City of Calgary, in the Province of Alberta, SWEAR (or AFFIRM) that:

- 1) I am the sole Director of the respondents; The Dosco Group Inc. (Holding Company), Fabutan Corporation (Franchisor) and Fabutan Studios Inc. carrying on business as Fabutan Sun Tan Studios.
- 2) I am the owner and sole Director of three 3 other corporations that carry on business as Fabutan Sun Tan Studios. They are Fabopco Inc., 678021 Alberta Ltd., and 2003939 Ontario Inc.. I was also the sole owner of 768874 Alberta Ltd. that carried on business as Fabutan Sun Tan Studios, this company was wound up into another entity at September 30, 2004.
- 3) I am a shareholder and/or partner in three other corporations known as 418759 Alberta Ltd., Prestige Salon Solutions Ltd. and 998232 Alberta Ltd. I do not have the authority to pledge the assets of these companies or alternatively the assets of these companies are significantly inadequate to secure adequate funding for legal counsel.

4) As the sole Director and shareholder of the respondents I am authorized by the respondents to act on their behalf in the Competition Tribunal Application file CT-2005-003

5) Attached are the financial statements for the fiscal year ending September 30th, 2004 of the respondents companies as well as the other companies carrying on business as Fabutan Sun Tan Studios.

Exhibit A – The Dosco Group Inc.

Exhibit B – Fabutan Corporation

Exhibit C – Fabutan Studios Inc.

Exhibit D – Fabopco Inc.

Exhibit E – 678021 Alberta Ltd.

Exhibit F – 2003939 Ontario Inc.

Exhibit G - 768874 Alberta Ltd.

Exhibit H – Pre-wind up Balance Sheet of 768874 Alberta Ltd.

6) Attached as Exhibit "I" is a combined financial statement for Fabutan Studios, 678021 Alberta Ltd., 2003939 Ontario Inc and 768874 Alberta Ltd as at September 30, 2004 as prepared by our Vice President Finance, David Hollohan C.A. Consolidated net income for the Fiscal period ending Sept 30, 2004 was \$681.00

7) The aforementioned companies have not completed their 2005 fiscal year end statements. The fiscal year end for these companies is September 30th.

8) Same store revenue in 2005 for Fabutan locations operated by Fabutan Studios Inc., Fabopco Inc., 678021 Alberta Ltd. and 2003939 Ontario Inc. were comparable, on an annual basis, with 2004. Same store revenue for the six months from April 1, 2005 through September 30, 2005 was \$1,402,410 down from \$1,497,806 over the same period in 2004. This is a decrease of \$95,396 or 6.4%.

9) I have pledged all of my personal assets as security for purchases of capital assets and the financial operating needs of the respondents' corporations.

10) To date the respondents have incurred legal fees in excess of \$55,000.00

11) Former counsel provided an estimate of fees to proceed through to the end of the application. The estimate was in excess of \$150,000.00.

12) The respondents may be responsible for taxable costs if the ruling of the Competition Tribunal is not in our favor.

13) Expenses yet to be paid but required or owed in order to prepare an adequate defense include payment of travel expense of expert witnesses estimated at \$15,000.00, administrative and office expense of \$10,000.00.

14) In the event the Competition Tribunal rules in favor of the applicants, the respondents would consider an appeal. The respondents would not be able to exercise their right to appeal if I am not able to represent them.

15) I am not a member of the Law Society of Alberta.

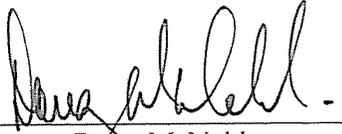
16) I am not an expert on the scientific matters of the case. The application filed by the Commissioner of Competition seeks an order that largely deals with claims relating to the potential health benefits of vitamin D that result from UVB radiation. Given the claims originate from scientific research. The court will find useful the evidence of the expert witnesses. I will not be a principal witness in the proceedings and my role as a witness will be limited to that of more a logistical and background nature.

17) I understand the issues relating to the application. I have and am capable of researching the Competition Tribunal Rules and Procedures necessary to ensure that the tribunal hearings will be conducted in a business like manner and proceed expeditiously thus being concluded within a reasonable timeframe.

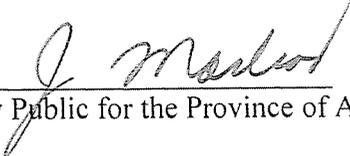
18) I prepared the expert witnesses affidavits that have been served on counsel for the Commissioner of Competition.

19) The issues before the Tribunal relate to the health benefits of adequate levels of vitamin D and the benefits related to maintaining adequate levels and secondly, the efficacy of a Fabutan tanning bed in increasing or maintaining levels of vitamin D. The order will deal with the future distribution of the information related to the application. I am capable of dealing appropriately with the issues before the Tribunal.

Sworn/Affirmed before me at the City of Calgary)
Province of Alberta)
On November 14, 2005)
)
)



Doug McNabb



A Notary Public for the Province of Alberta

THIS IS EXHIBIT " **A** "

referred to in the Affidavit of

Douglas McNabb

Sworn before me this **14**

day of **NOVEMBER**, A.D.
2005

J. Madson
A Notary Public in and for the Province of

Alberta

My Notary expires: *at the Will of the*
Lieutenant Governor of Alberta

Dosco Group Inc.
Financial Statements

Unaudited – See Notice to Reader

September 30, 2004

**THE DOSCO GROUP INC.
BALANCE SHEET
(DRAFT)
SEPTEMBER 30, 2004**

ASSETS

CURRENT ASSETS

Cash	\$ 6,524
	<u>6,524</u>
INVESTMENT IN AND ADVANCES TO SUBSIDIARIES	659,926
ADVANCES TO RELATED COMPANIES	<u>325,200</u>
	<u>\$ 991,650</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 647
Income taxes payable	919
Current portion of long term debt	<u>55,183</u>
	56,749
ADVANCES FROM SHAREHOLDERS, non-interest bearing, no specified terms of repayment	<u>298,760</u>
	<u>355,509</u>

SHAREHOLDERS EQUITY

SHARE CAPITAL	52
CONTRIBUTED SURPLUS	287,630
RETAINED EARNINGS	<u>348,459</u>
	636,141
	<u>\$ 991,650</u>

**THE DOSCO GROUP INC.
INCOME STATEMENT
(DRAFT)
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

REVENUE	<u>15,862</u>
 CORPORATE EXPENSES:	
Bad debts (recovery)	(151)
Bank charges	128
Insurance	1,698
Interest on Long Term Debt	9,681
Professional Fees	488
Office Expense	<u>197</u>
Total Corporate Expenses:	<u>12,041</u>
 NET INCOME BEFORE INCOME TAXES	 3,821
 INCOME TAXES	 <u>919</u>
 NET INCOME	 <u><u>2,902</u></u>

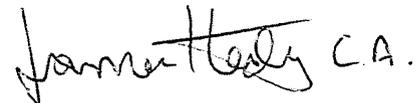
**THE DOSCO GROUP INC.
STATEMENT OF RETAINED EARNINGS
(DRAFT)
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

RETAINED EARNINGS, Beginning of year	\$ 345,557
Net Income	<u>2,902</u>
RETAINED EARNINGS, End of year	<u>\$ 348,459</u>

NOTICE TO READER

I have compiled the balance sheet of Dosco Group Inc. as at September 30, 2004 and the statement of income and retained earnings for the year then ended from information provided by management. I have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purpose.

Calgary Alberta
March 21, 2005



James Healey
Chartered Accountant

THIS IS EXHIBIT " **B** "

referred to in the Affidavit of

Douglas McNabb

Sworn before me this **14**

day of **NOVEMBER**, A.D.
2005

J. [Signature]
A Notary Public in and for the Province of

Alberta

My Notary expires: at the will of the
lieutenant Governor of Alberta

Fabutan Corporation
Financial Statements

Unaudited

September 30, 2004

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Grant Thornton LLP
Chartered Accountants
Management Consultants+

Review Engagement Report

To the Shareholder of
Fabutan Corporation

We have reviewed the balance sheet of **Fabutan Corporation** as at September 30, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements have been prepared, with the consent of the Company's shareholder, in accordance with Canadian generally accepted accounting principles using differential reporting options available to non-publicly accountable enterprises, as described in Note 2 to the financial statements. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Calgary, Alberta
December 8, 2004

Chartered Accountants

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Fabutan Corporation

Statements of Earnings and Retained Earnings

Unaudited

Year Ended September 30,

2004

2003

Revenue		
Royalties	\$ 866,259	\$ 820,585
Access fees	131,040	264,943
Franchise fees	67,586	157,500
Administration fees	118,466	112,281
Interest and other	<u>6,544</u>	<u>5,733</u>
	<u>1,189,895</u>	<u>1,361,042</u>
Expenses		
Advertising	15,112	8,650
Amortization	39,387	41,424
Automotive	14,257	14,087
Bad debts	35,644	44,527
Bank charges and interest	3,355	4,239
Commissions	18,705	88,516
Computer maintenance	5,481	3,523
Franchise training and development	204,217	173,950
Interest on capital lease obligations	390	1,343
Interest on long-term debt	3,404	2,319
Office and administration	95,387	97,791
Professional fees	52,635	24,693
Rent	45,631	43,044
Seminars and courses	20,266	17,743
Telephone and utilities	30,275	28,014
Wages	<u>576,873</u>	<u>655,451</u>
	<u>1,161,019</u>	<u>1,249,314</u>
Earnings before the undernoted	28,876	111,728
Loss on sale of property, plant and equipment	<u>(580)</u>	<u>(995)</u>
Earnings before income taxes	28,296	110,733
Income taxes	<u>7,466</u>	<u>17,203</u>
Net earnings	<u>\$ 20,830</u>	<u>\$ 93,530</u>
<hr/>		
Retained earnings, beginning of year	\$ 187,825	\$ 94,295
Net earnings	<u>20,830</u>	<u>93,530</u>
Retained earnings, end of year	<u>\$ 208,655</u>	<u>\$ 187,825</u>

Fabutan Corporation

Balance Sheet

Unaudited
September 30

2004

2003

Assets

Current

Cash	\$ 34,768	\$ 145,110
Receivables (Note 8)	131,180	165,903
Prepaid expenses	<u>9,015</u>	<u>14,635</u>

174,963 325,648

Due from parent company (Note 3)	140,250	119,250
Property, plant and equipment (Note 4)	<u>79,315</u>	<u>100,905</u>

\$ 394,528 \$ 545,803

Liabilities

Current

Payables and accruals	\$ 128,553	\$ 167,109
Deposits received from prospective franchisees	15,000	35,000
Bonus payable	-	84,500
Income taxes payable	7,466	17,289
Current portion of obligations under capital lease (Note 5)	952	787
Current portion of long-term debt (Note 6)	<u>18,984</u>	<u>18,439</u>

170,955 323,124

Obligations under capital lease (Note 5)	-	952
Long-term debt (Note 6)	<u>14,818</u>	<u>33,802</u>

185,773 357,878

Shareholder's Equity

Capital stock (Note 7)	100	100
Retained earnings	<u>208,655</u>	<u>187,825</u>

208,755 187,925

\$ 394,528 \$ 545,803

Commitments (Note 10)

On behalf of the Board

Director

Fabutan Corporation

Statement of Cash Flows

Unaudited

Year Ended September 30

2004

2003

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings	\$ 20,830	\$ 93,530
Amortization	39,387	41,424
Loss on sale of property, plant and equipment	<u>580</u>	<u>995</u>
	60,797	135,949
Change in non-cash operating working capital (Note 9)	<u>(112,536)</u>	<u>47,864</u>
	<u>(51,739)</u>	<u>183,813</u>
Financing		
Proceeds on issuance of long-term debt	-	25,970
Repayment of obligations under capital lease	(2,563)	(4,397)
Repayment of long-term debt	<u>(16,663)</u>	<u>(21,619)</u>
	<u>(19,226)</u>	<u>(46)</u>
Investing		
Proceeds on sale of property, plant and equipment	1,000	-
Purchase of property, plant and equipment	(19,377)	(59,882)
Advances to parent company	<u>(21,000)</u>	<u>(49,750)</u>
	<u>(39,377)</u>	<u>(109,632)</u>
Net (decrease) increase in cash and cash equivalents	(110,342)	74,135
Cash and cash equivalents		
Beginning of year	<u>145,110</u>	<u>70,975</u>
End of year	\$ <u>34,768</u>	\$ <u>145,110</u>

Fabutan Corporation

Notes to the Financial Statements

Unaudited
September 30, 2004

1. Nature of operations

Fabutan Corporation (the "Company") is a private company that was incorporated under the Alberta Business Corporations Act on November 20, 1991. The Company is the Franchisor of Fabutan Sun Tan Studios.

The number of franchises in operations at the end of the year was as follows:

	<u>2004</u>	<u>2003</u>
Franchised outlets	126	131
Owned in whole or in part by the parent company or president of the parent company	19	19
Owned by family members of the president	<u>5</u>	<u>6</u>
	<u>150</u>	<u>156</u>

2. Summary of significant accounting policies

Differential reporting

The Company, with the consent of its shareholder, has elected to prepare its financial statements in accordance with Canadian generally accepted accounting principles, using the differential reporting options available to non-publicly accountable enterprises described below:

a) Income taxes

The Company has elected to apply the differential reporting measurement option allowed for income taxes and accordingly, to account for income taxes using the taxes payable method under which the Company reports as an expense of the current year only the cost of current income taxes for that year, determined in accordance with the rules established by taxation authorities.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and highly liquid temporary money market instruments with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Fabutan Corporation

Notes to the Financial Statements

Unaudited
September 30, 2004

2. Summary of significant accounting policies (Continued)

Revenue recognition, franchise fees and royalties

Revenue from initial franchise fees, relating to the sale of individual franchises, is recognized upon final execution of the related franchise agreement. Franchise royalties, which are based on sales by the franchisees, are recorded monthly as earned.

Property, plant and equipment

Property, plant and equipment, including assets under capital lease, are recorded at cost and are amortized using the declining balance method at the following annual rates, except in the year of acquisition, one-half the rate is applied:

Office equipment	20%
Computer equipment	30%
Computer software	100%
Assets under capital lease	30%

Leasehold improvements are amortized on a straight-line basis over five years.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, due from parent company, payables and accruals, and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

Use of estimates

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from and affect the results reported in these financial statements.

Fabutan Corporation

Notes to the Financial Statements

Unaudited
September 30, 2004

3. Due from parent company

The amounts due from parent company are unsecured, non-interest bearing and have no fixed terms of repayment.

4. Property, plant and equipment

			<u>2004</u>	<u>2003</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Office equipment	\$ 69,558	\$ 33,273	\$ 36,285	\$ 42,290
Computer equipment	124,692	87,009	37,683	39,706
Computer software	55,690	53,832	1,858	11,980
Assets under capital lease	10,798	8,468	2,330	2,912
Leasehold improvements	<u>14,288</u>	<u>13,129</u>	<u>1,159</u>	<u>4,017</u>
	<u>\$ 275,026</u>	<u>\$ 195,711</u>	<u>\$ 79,315</u>	<u>\$ 100,905</u>

5. Obligations under capital lease

The following is a schedule of the balance of the obligations under capital lease which matures January 1, 2005:

Total minimum lease payment	\$ 985
Less interest implicit in lease	<u>(33)</u>
	952
Less current portion	<u>(952)</u>
	<u>\$ -</u>

Fabutan Corporation

Notes to the Financial Statements

Unaudited
September 30, 2004

6. Long-term debt	<u>2004</u>	<u>2003</u>
Bank loan repayable in monthly instalments of \$1,045 plus interest at prime plus 1.5%. The loan matures on January 1, 2006 and is secured by computer equipment and receivables.	\$ 16,560	\$ 29,100
Conditional Sale contract repayable in quarterly instalments of \$1,943 including interest at 8.9%. The loan matures in March 2007 and is secured by a photocopier.	<u>17,242</u>	<u>23,141</u>
	33,802	52,241
Less current portion	<u>(18,984)</u>	<u>(18,439)</u>
	\$ <u>14,818</u>	\$ <u>33,802</u>

Total principal repayments over the next three years are as follows:

2005	\$	18,984
2006		11,059
2007		3,759

7. Capital stock	<u>2004</u>	<u>2003</u>
Authorized:		
Unlimited number of Class A common voting shares		
Unlimited number of Class B common non-voting shares		
Unlimited number of Class C common non-voting shares		
Unlimited number of Class D preferred non-voting, non-cumulative, redeemable shares		
Issued:		
100 Class A shares	\$ <u>100</u>	\$ <u>100</u>

Fabutan Corporation

Notes to the Financial Statements

Unaudited
September 30, 2004

8. Related party transactions

The Company completed transactions, in the normal course of business, with related parties during the year. These transactions have been measured at the exchange amounts as agreed to between the related parties, which are fair market value. The total of these transactions by category and a description of the relationship are as follows:

Royalties	<u>2004</u>	<u>2003</u>
Parent company and other subsidiaries	\$ 108,249	\$ 70,992
Entity controlled by the shareholder of the parent company	20,451	17,463
Entities subject to significant influence by the parent company	-	26,004
Entities controlled by family members of the shareholder of the parent company	<u>41,643</u>	<u>48,752</u>
	<u>\$ 170,342</u>	<u>\$ 163,211</u>

Access fees

Access fees are charged to an entity that is controlled by the shareholder of the parent company.

Initial franchise fees received	<u>2004</u>	<u>2003</u>
Parent company and other subsidiaries	\$ -	\$ 1,000
Entities controlled by family members of the shareholder of the parent company	<u>-</u>	<u>7,500</u>
	<u>\$ -</u>	<u>\$ 8,500</u>

Administration fees

Parent company and other subsidiaries	\$ 40,532	\$ 28,807
Entity controlled by the shareholder of the parent company	19,800	7,800
Entities subject to significant influence by the parent company	<u>-</u>	<u>22,800</u>
	<u>\$ 60,332</u>	<u>\$ 59,407</u>

The Company also charged administration fees to franchisee advertising funds for office and accounting in the amount of \$58,134 (2003 - \$52,874).

Fabutan Corporation

Notes to the Financial Statements

Unaudited
September 30, 2004

8. Related party transactions (Continued)

Franchise training and development

Included in franchise training and development expense is \$135,960 (2003- \$108,120) paid to two subsidiaries of the parent company for the use of their suntan studios to develop the franchise system.

Receivables

Included in accounts receivable are trade receivables, which arise in the normal course of business and are due from the following related parties:

	<u>2004</u>	<u>2003</u>
Parent company and other subsidiaries	\$ 10,257	\$ 62,134
Entities subject to significant influence by the parent company	10,805	4,854
Entities owned by family members of the shareholder of the parent company	<u>3,023</u>	<u>3,655</u>
	<u>\$ 24,085</u>	<u>\$ 70,643</u>

9. Supplemental cash flow information

Changes in non-cash working capital:

	<u>2004</u>	<u>2003</u>
Receivables	\$ 34,723	\$ (19,430)
Prepays	5,620	6,628
Payables and accruals	(38,556)	4,953
Bonus payable	(84,500)	84,500
Income taxes	(9,823)	31,363
Deposits received from prospective franchisees	<u>(20,000)</u>	<u>(60,150)</u>
	<u>\$ (112,536)</u>	<u>\$ 47,864</u>
Interest received	<u>\$ 6,544</u>	<u>\$ 5,733</u>
Interest paid	<u>\$ 3,794</u>	<u>\$ 3,662</u>
Income taxes paid	<u>\$ 17,289</u>	<u>\$ -</u>

Fabutan Corporation

Notes to the Financial Statements

Unaudited
September 30, 2004

10. Commitments

Operating and premise leases

The Company is committed to the following minimum payments for vehicles, computers and office space over the next four years:

2005	\$ 55,694
2006	10,287
2007	9,680
2008	8,831

Advertising funds

Pursuant to the franchise agreement, each franchisee is required to contribute to advertising based on monthly sales. These funds are administered by the Company at their sole discretion acting as agents for the franchisees and are restricted to promote and advertise the Fabutan Sun Tan Studios system and trademark.

11. Comparative figures

Certain comparative figures have been restated to conform with current year's financial statement presentation.

THIS IS EXHIBIT " **C** "

referred to in the Affidavit of

Douglas McNabb

Sworn before me this **14**

day of **NOVEMBER**, A.D.
2005

J. Marked
A Notary Public in and for the Province of

Alberta

My Notary expires: *at the will of the*
Lieutenant Governor of Alberta

Fabutan Studios Inc.
Financial Statements

Unaudited – See Notice to Reader

September 30, 2004

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Schedule of Corporate Expenses	4

Grant Thornton LLP
Chartered Accountants
Management Consultants

Notice to Reader

To the Shareholder of
Fabutan Studios Inc.

We have compiled the balance sheet of **Fabutan Studios Inc.** as at September 30, 2004 and the statements of earnings and retained earnings for the year then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Grant Thornton LLP

Calgary, Alberta
January 25, 2005

Chartered Accountants

Fabutan Studios Inc.

Statements of Earnings and Retained Earnings

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Revenue	
Tanning	\$ 945,122
Lotion and accessories	<u>359,892</u>
	<u>1,305,014</u>
Cost of goods sold	
Tanning royalties	52,106
Lotion and accessories purchased	<u>136,019</u>
	<u>188,125</u>
Gross profit	<u>1,116,889</u>
Studio expenses	
Advertising	69,647
Bank charges and interest	20,562
Business taxes and licences	9,263
Insurance	13,752
Occupancy	235,370
Office	13,891
Operating and maintenance	68,723
Telephone	22,888
Utilities	28,519
Wages	444,466
Expense recoveries	<u>(95,172)</u>
	<u>831,909</u>
Earnings before the undernoted	284,980
Corporate expenses (Schedule)	<u>155,826</u>
Earnings from operations	129,154
Gain on sale of property and equipment	<u>2,112</u>
Earnings before income taxes	131,266
Income taxes	<u>22,833</u>
Net earnings	\$ <u>108,433</u>
Retained earnings, beginning of year	\$ 210,903
Net earnings	<u>108,433</u>
Retained earnings, end of year	\$ <u>319,336</u>

Fabutan Studios Inc.

Balance Sheet

Unaudited – See Notice to Reader

September 30, 2004

Assets

Current

Cash	\$	34,788
Receivables		32,398
Inventory, at lower of cost and net realizable value		27,355
Prepaid expenses		<u>13,590</u>

108,131

Deposits		15,824
Property and equipment		237,340
Franchise agreements and goodwill		71,029
Due from parent company, non-interest bearing, no specified terms of repayment		<u>142,000</u>

\$ 574,324

Liabilities

Current

Payables and accruals	\$	58,904
Income taxes payable		23,424
Deferred revenue		89,478
Current portion of long-term debt		<u>25,726</u>

197,532

Long-term debt		<u>56,846</u>
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254,378

Shareholders' Equity

Common Shares		10
Preferred Shares, redeemable at the option of the holder		600
Retained earnings		<u>319,336</u>

319,946

\$ 574,324

On behalf of the Board

_____ Director

_____ Director

Fabutan Studios Inc.
Schedule of Corporate Expenses

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Administration fees	\$	15,900
Amortization		74,404
Corporate management		49,669
Corporate office		1,257
Courier and postage		6,361
Interest on long-term debt		4,613
Professional fees		2,889
Travel		<u>733</u>
	\$	<u>155,826</u>

THIS IS EXHIBIT " **D** "

referred to in the Affidavit of

Douglas McNabb

Sworn before me this **14**

day of **NOVEMBER**, A.D.
2005


A Notary Public in and for the Province of

Alberta

at the will of the

My Notary expires: *Lieutenant Governor of Alberta*

Fabopco Inc.
Financial Statements

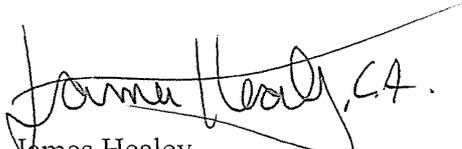
Unaudited – See Notice to Reader

September 30, 2004

NOTICE TO READER

I have compiled the balance sheet of Fabopco Inc. as at September 30, 2004 and the statement of income and deficit for the year then ended from information provided by management. I have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purpose.

Calgary Alberta
March 29, 2005


James Healey
Chartered Accountant

Fabopco Inc.

Statement of Income

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Revenue	
Tanning	\$ 85,812
Lotion and accessories	<u>32,485</u>
	<u>118,297</u>
Cost of goods sold	
Tanning royalties	5,316
Lotion and accessories purchased	<u>14,267</u>
	<u>19,583</u>
Gross profit	<u>98,714</u>
Studio expenses	
Advertising	8,955
Bank charges and interest	2,621
Insurance	1,444
Occupancy	24,351
Office	2,501
Operating and maintenance	9,422
Telephone	2,631
Utilities	6,792
Wages	<u>48,471</u>
	<u>107,188</u>
Loss before corporate expenses	<u>(8,474)</u>
Corporate expenses	
Administration fees	3,000
Amortization	12,808
Corporate management	7,027
Corporate office	1,543
Interest on long-term debt	764
Professional fees	<u>1,105</u>
	<u>26,247</u>
Loss before undernoted	(34,721)
Debt Forgiveness	<u>113,072</u>
Net Income	<u>\$ 78,351</u>

Fabopco Inc.
Statement of Deficit

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Deficit, beginning of year	\$ (271,646)
Net income	<u>78,351</u>
Deficit, end of year	\$ <u>(193,295)</u>

Fabopco Inc.

Balance Sheet

Unaudited – See Notice to Reader
September 30, 2004

Assets

Current

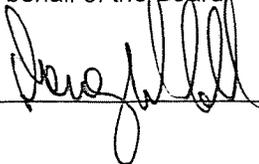
Cash and cash equivalents	\$	947
Inventory, at lower of cost and net realizable value		3,380
Prepaid expenses		<u>358</u>
		4,685
Deposits		2,265
Franchise agreements		8,250
Property and equipment		<u>28,593</u>
	\$	<u>43,793</u>

Liabilities

Current

Payables and accruals	\$	13,751
Deferred revenue		<u>9,206</u>
		22,957
Advances from related company		<u>44,131</u>
		<u>67,088</u>
Shareholders' Deficiency		
Capital stock		170,000
Deficit		<u>(193,295)</u>
		<u>(23,295)</u>
	\$	<u>43,793</u>

On behalf of the Board



Director

Director

THIS IS EXHIBIT " **E** "

referred to in the Affidavit of

Douglas McNabb

Sworn before me this **14**

day of **NOVEMBER**, A.D.
2005

 J. Medad
A Notary Public in and for the Province of

Alberta

at the Will of the

My Notary expires: *Lieutenant Governor of Alberta*

678021 Alberta Ltd.
Financial Statements

Unaudited – See Notice to Reader

September 30, 2004

Grant Thornton 

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Notice to Reader	1
Statements of Earnings and Deficit	2
Balance Sheet	3
Schedule of Corporate Expenses	4

Grant Thornton LLP
Chartered Accountants
Management Consultants

Notice to Reader

To the Shareholders of
678021 Alberta Ltd.

We have compiled the balance sheet of 678021 Alberta Ltd. as at September 30, 2004 and the statements of earnings and deficit for the year then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Grant Thornton LLP

Calgary, Alberta
March 25, 2005

Chartered Accountants

Suite 1000
112 – 4th Avenue SW
Calgary, Alberta
T2P 0H3
T (403) 260-2500
F (403) 260-2571
E Calgary@GrantThornton.ca
W www.GrantThornton.ca

678021 Alberta Ltd.

Statements of Earnings and Deficit

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Revenue	
Tanning	\$ 378,673
Lotion and accessories	<u>151,777</u>
	<u>530,450</u>
Cost of goods sold	
Tanning royalties	23,435
Lotion and accessories purchased	<u>57,857</u>
	<u>81,292</u>
Gross profit	<u>449,158</u>
Studio expenses	
Advertising	27,299
Bank charges and interest	7,708
Business taxes and licences	5,271
Insurance	5,562
Occupancy	78,686
Office	6,146
Operating and maintenance	24,497
Telephone	7,392
Utilities	19,080
Wages	<u>163,271</u>
	<u>344,912</u>
Earnings before the undernoted	104,246
Corporate expenses (Schedule)	<u>93,345</u>
Earnings from operations	10,901
Loss on sale of property and equipment	<u>(893)</u>
Net earnings	\$ <u>10,008</u>

Retained earnings, beginning of year	\$ 50,462
Net earnings	10,008
Consideration given on Section 85 rollover of their carrying value recorded in the books of account	(66,981)
Dividends on preferred shares	(800)
Redemption of preferred shares in excess of stated capital	<u>(25,000)</u>
Deficit, end of year	\$ <u>(32,311)</u>

678021 Alberta Ltd.

Balance Sheet

Unaudited – See Notice to Reader
September 30, 2004

Assets

Current

Cash and cash equivalents	\$	30,437
Receivables		26,810
Inventory, at lower of cost and net realizable value		19,674
Prepaid expenses		<u>12,520</u>
		89,441

Property and equipment		257,719
Franchise agreements and goodwill		<u>62,700</u>
	\$	<u>409,860</u>

Liabilities

Current

Payables and accruals	\$	78,881
Deferred revenue		80,427
Current portion of long-term debt		<u>78,030</u>
		237,338

Long-term debt		189,229
Due to parent company, non-interest bearing, no set terms of repayment		<u>15,304</u>
		<u>441,871</u>

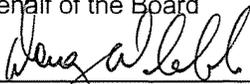
Shareholders' Deficiency

Capital stock

Common shares		75
Preferred shares		225

Deficit		<u>(32,311)</u>
		<u>(32,011)</u>
	\$	<u>409,860</u>

On behalf of the Board


_____ Director

_____ Director

Grant Thornton 

3

678021 Alberta Ltd.
Schedule of Corporate Expenses

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Administration fees	\$	7,814
Amortization		46,945
Corporate management		16,385
Corporate office		2,780
Interest on long-term debt		11,234
Professional fees		5,906
Travel		<u>2,281</u>
	\$	<u>93,345</u>

THIS IS EXHIBIT " **F** "

referred to in the Affidavit of

Douglas McNabb

Sworn before me this **14**

day of **NOVEMBER**, A.D.
2005

J. MacLeod
A Notary Public in and for the Province of

Alberta

My Notary expires: *at the Will of the*
Lieutenant Governor of Alberta

2003939 Ontario Inc.
Financial Statements

Unaudited – See Notice to Reader

September 30, 2004

NOTICE TO READER

I have compiled the balance sheet of 2003939 Ontario Inc. as at September 30, 2004 and the statement of loss and deficit for the year then ended from information provided by management. I have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purpose.

Calgary Alberta
March 29, 2005



James Healey
Chartered Accountant

2003939 Ontario Inc.

Statements of Loss and Deficit

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Revenue	
Tanning	\$ 449,069
Lotion and accessories	<u>186,014</u>
	<u>635,083</u>
Cost of goods sold	
Tanning royalties	27,402
Lotion and accessories purchased	<u>73,574</u>
	<u>100,976</u>
Gross profit	<u>534,107</u>
Studio expenses	
Advertising	43,329
Bank charges and interest	9,532
Insurance	9,926
Occupancy	124,064
Office	8,269
Operating and maintenance	42,968
Telephone	14,155
Utilities	28,451
Wages	260,628
Expense recoveries	<u>(40,788)</u>
	<u>500,534</u>
Earnings before corporate expenses	33,573
Corporate expenses (Schedule)	<u>(131,670)</u>
Loss before undernoted	(98,097)
Loss on sale of property and equipment	<u>(3,157)</u>
Net loss	\$ <u>(101,254)</u>
Deficit, beginning of year	\$ (245,776)
Net loss	<u>(101,254)</u>
Deficit, end of year	\$ <u>(347,030)</u>

2003939 Ontario Inc.

Balance Sheet

Unaudited – See Notice to Reader

September 30, 2004

Assets

Current

Cash and cash equivalents	\$	4,530
Receivables		8,076
Inventory, at lower of cost and net realizable value		17,147
Prepaid expenses		<u>19,921</u>

49,674

Franchise agreements and goodwill 91,343

Property and equipment 180,452

\$ 321,469

Liabilities

Current

Payables and accruals	\$	309,482
Deferred revenue		49,556
Current portion of long-term debt		40,124
Current portion of obligation under capital lease		<u>11,510</u>

410,672

Advances from shareholders 171,832

Long-term debt 37,456

Obligation under capital lease 17,745

637,705

Shareholders' Deficiency

Capital stock 210

Contributed surplus 30,584

Deficit (347,030)

(316,236)

\$ 321,469

On behalf of the Board

_____ Director _____ Director

2003939 Ontario Inc.
Schedule of Corporate Expenses

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Administration fees	\$	11,400
Amortization		59,844
Corporate management		27,040
Corporate office		6,442
Interest on long-term debt		25,049
Professional fees		900
Travel		<u>995</u>
	\$	<u>131,670</u>

THIS IS EXHIBIT " **G** "

referred to in the Affidavit of

Douglas McNabb

Sworn before me this **14**

day of **NOVEMBER**, A.D.
2005

 J. Madson
A Notary Public in and for the Province of

Alberta

My Notary expires: *at the Will of the*
Lieutenant Governor of Alberta

768874 Alberta Ltd.
Financial Statements

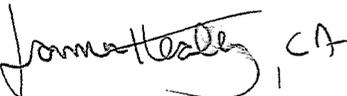
Unaudited – See Notice to Reader

September 30, 2004

NOTICE TO READER

I have compiled the statement of loss and statement of deficit for 768874 Alberta Ltd. for the year ended September 30, 2004 from information provided by management. I have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purpose.

Calgary Alberta
March 29, 2005


James Healey
Chartered Accountant

768874 Alberta Ltd.

Statement of Loss

Unaudited – See Notice to Reader
Year Ended September 30, 2004

Revenue	
Tanning	\$ 316,375
Lotion and accessories	<u>144,682</u>
	<u>461,057</u>
Cost of goods sold	
Tanning royalties	20,443
Lotion and accessories purchased	<u>55,556</u>
	<u>75,999</u>
Gross profit	<u>385,058</u>
Studio expenses	
Advertising	27,805
Bank charges and interest	21,909
Business tax and license	3,068
Insurance	4,154
Occupancy	81,174
Office	6,959
Operating and maintenance	26,931
Telephone	9,281
Utilities	20,213
Wages	<u>180,612</u>
	<u>382,106</u>
Earnings before corporate expenses	<u>2,952</u>
Corporate expenses	
Administration fees	7,786
Amortization	35,135
Corporate management	16,158
Corporate office	5,683
Interest on long-term debt	13,272
Professional fees	<u>846</u>
	<u>78,880</u>
Loss before the undernoted	(75,928)
Loss on sale of property and equipment	(2,400)
Writedown of Goodwill	<u>(16,530)</u>
Net loss	\$ <u>(94,858)</u>

768874 Alberta Ltd.**Statement of Deficit**

Unaudited – See Notice to Reader

Year Ended September 30, 2004

Deficit, beginning of year	\$ (357,863)
Net loss	<u>(94,858)</u> (452,721)
Transfer upon wind-up via Section 88 (1) of the income tax act	452,721
Deficit, end of year	\$ <u> -</u>

THIS IS EXHIBIT “ **H** ”

referred to in the Affidavit of

Douglas McNabb

Sworn before me this **14**

day of **NOVEMBER**, A.D.
2005

J. MacLeod
A Notary Public in and for the Province of

Alberta

My Notary expires: *at the Will of the*
Lieutenant Governor of Alberta

768874 Alberta Ltd.
Pre Wind-up Balance Sheet

Unaudited – See Notice to Reader

September 30, 2004

Notice to Reader

To the shareholder of 768874 Alberta Ltd.:

We have compiled the pre wind-up balance sheet of **768874 Alberta Ltd.** as at September 30, 2004. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that this balance sheet may not be appropriate for their purposes.

Calgary, Alberta
March 29, 2005



David W. Hollohan
Chartered Accountant

768874 Alberta Ltd.
Pre Wind-up Balance Sheet

Prepared In-House
September 30, 2004

Assets

Current

Cash and cash equivalents	\$	3,605
Accounts receivable		1,887
Inventory, at lower of cost and net realizable value		3,043
Prepaid expenses		<u>3,481</u>

12,016

Investment

200

Property and equipment

14,537

\$ 26,753

Liabilities

Current

Payables and accruals	\$	78,486
Deferred revenue		<u>8,797</u>

87,283

Advances from parent company

325,200

412,483

Shareholders' Deficiency

Capital stock		10
Contributed Surplus		66,981
Deficit		<u>(452,721)</u>

(385,730)

\$ 26,753

768874 Alberta Ltd.
Note to Balance Sheet

Prepared In-House
For the Year Ended September 30, 2004

1. Wind-up of operations:

At the end of business on September 30, 2004 the company wound up operations into a related company. The Balance Sheet that this note accompanies reflects the assets, liabilities and shareholder deficiency of the company immediately before the wind-up.

THIS IS EXHIBIT " 1 "

referred to in the Affidavit of

Douglas McNabb

Sworn before me this 14

day of **NOVEMBER**, A.D.
2005

J. MacLeod
A Notary Public in and for the Province of

Alberta

My Notary expires: at the Will of the
Lieutenant Governor of
Alberta

Fabutan Sun Tan Studios

Combined Financial Statements For:

Fabutan Studios Inc.

Fabopco Inc.

678021 Alberta Ltd.

2003939 Ontario Inc.

768874 Alberta Ltd. (immediately prior to wind-up)

Unaudited – see Notice to Reader

September 30, 2004

Notice to Reader

To the shareholder of:
Fabutan Studios Inc.
Fabopco Inc.
678021 Alberta Ltd.
2003939 Ontario Inc.
768874 Alberta Ltd (Note 2)

We have compiled the combined balance sheet of the above noted companies operating as **Fabutan Sun Tan Studios** as at September 30, 2004 and the combined statements of earnings, deficit and cash flows for the year then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Calgary, Alberta
March 25, 2005



David W. Hollohan
Chartered Accountant

Fabutan Sun Tan Studios Combined Statement of Earnings

Unaudited – see Notice to Reader
For the Year Ended September 30, 2004

Revenue	
Tanning	\$ 2,175,052
Lotion and accessories	<u>874,849</u>
	<u>3,049,901</u>
Cost of goods sold	
Tanning royalties	128,701
Lotion and accessories purchased	<u>337,273</u>
	<u>465,974</u>
Gross profit	<u>2,583,927</u>
Studio expenses	
Advertising	177,035
Business tax & license	17,602
Bank charges and interest	62,333
Insurance	34,837
Occupancy	543,646
Office	37,767
Operating and maintenance	172,540
Telephone	56,348
Utilities	103,055
Wages	1,097,446
Expense recoveries	<u>(135,960)</u>
	<u>2,166,649</u>
Earnings before the undernoted	417,278
Corporate expenses (Schedule)	<u>485,969</u>
Loss from operations	<u>(68,691)</u>
Other Income (Expenses):	
Loss on sale of property and equipment	(4,338)
Writedown of Goodwill	(16,529)
Debt Forgiveness	<u>113,072</u>
	<u>92,205</u>
Earnings before income taxes	23,514
Income taxes	<u>22,833</u>
Net earnings	<u>\$ 681</u>

Fabutan Sun Tan Studios **Combined Statement of Deficit**

Unaudited – see Notice to Reader
Year Ended September 30, 2004

Deficit, beginning of year	\$ (613,921)
Net earnings	681
Dividends on preferred shares	(800)
Redemption of preferred shares in excess of stated capital	<u>(25,000)</u>
Deficit, end of year	\$ <u>(639,040)</u>

Fabutan Sun Tan Studios Combined Balance Sheet

Unaudited – see Notice to Reader
September 30, 2004

Assets

Current

Cash and cash equivalents	\$	74,307
Accounts receivable		74,606
Inventory, at lower of cost and net realizable value		70,599
Prepaid expenses		<u>27,117</u>

246,629

Deposits		40,842
Franchise agreements and goodwill		233,322
Property and equipment		<u>718,640</u>

\$ 1,239,433

Liabilities

Current

Payables and accruals	\$	544,937
Income taxes payables		23,424
Deferred revenue		237,464
Current portion of obligation under capital lease		11,510
Current portion of long-term debt		<u>143,880</u>

961,215

Advances from parent company		414,467
Obligation under capital lease		17,745
Long-term debt		<u>283,531</u>

1,676,958

Shareholders' Deficiency

Capital stock		170,930
Contributed Surplus		30,585
Deficit		<u>(639,040)</u>

(437,525)

\$ 1,239,433

Fabutan Sun Tan Studios Combined Statement of Cash Flows

Unaudited – see Notice to Reader
September 30, 2004

Increase (decrease) in cash and cash equivalents

Operating

Net earnings	\$	681
Amortization		229,136
Loss on sale of property, plant and equipment		4,338
Writedown of goodwill		<u>16,530</u>
		250,685
Change in non-cash operating working capital		
Accounts receivable		(40,866)
Inventory		(13,015)
Prepaid expenses		1,562
Payables and accruals		(65,961)
Income taxes payable		6,407
Deferred tanning revenue		<u>49,499</u>
		<u>188,311</u>

Financing

Collection of note receivable		2,000
Deposits		1,122
Repayment of long term debt		(133,417)
Repayment of obligation under capital lease		(29,939)
Dividends on preferred shares		(800)
Redemption of preferred shares		(25,000)
Advances to parent company		<u>(6,638)</u>
		<u>(192,672)</u>

Investing

Purchase of capital assets		(120,527)
Proceeds on sale of capital assets		<u>65,672</u>
		<u>(54,855)</u>

Net decrease in cash and cash equivalents (59,216)

Cash and cash equivalents

Beginning of year		<u>133,523</u>
End of year	\$	<u>74,307</u>

Supplementary information Note 3.

Fabutan Sun Tan Studios

Notes to Combined Financial Statements

Unaudited – see Notice to Reader
September 30, 2004

1. Nature of operations and the business combination

The companies that form these combined financial statements are wholly owned subsidiaries of The Dosco Group Inc. or are owned directly by the owner of The Dosco Group Inc. In total these companies own nineteen franchised indoor tanning studios that operate under the trade name Fabutan Sun Tan Studios. The companies have been included in these combined financial statements based on common business operations.

The companies included in these combined financial statements are as follows:

- Fabutan Studios Inc.
- Fabopco Inc.
- 678021 Alberta Ltd.
- 2003939 Ontario Inc.
- 768874 Alberta Ltd. (Note 2)

2. 768874 Alberta Ltd.:

On September 30, 2004 the operations of 768874 Alberta Ltd. were wound up into a related company. The Combined Balance Sheet includes the assets, liabilities and shareholder deficiency of 768874 Alberta Ltd. immediately prior to the wind-up.

3. Statement of Cash Flows - Supplementary Information:

During the year property and equipment were acquired at an aggregate cost of \$158,527. Purchases in the current year were financed by a term loan for \$38,000 and cash payments of \$120,527. The company also sold property and equipment with a net book value of \$70,011. Cash proceeds on the sale of these assets were \$59,672 with another \$6,000 in accounts receivable.

Supplementary information:

Interest paid	<u>\$ 50,487</u>
Income taxes paid	<u>\$ 17,017</u>

Fabutan Sun Tan Studios

Combined Schedule of Corporate Expenses

Unaudited – see Notice to Reader
For the Year Ended September 30, 2004

Corporate expenses	
Administration fees	45,900
Amortization	229,136
Corporate management	116,279
Corporate office	3,449
Courier & Postage	17,883
Interest on long-term debt	54,933
Professional fees	11,646
Travel	<u>6,743</u>
	<u>485,969</u>