Financial Statements and Report of
Independent Certified Public Accountants

THE HEALTHSTORE FOUNDATION

December 31, 2005 and 2004

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Report of Independent Certified Public Accountants

Board of Directors
The HealthStore Foundation
Minneapolis, Minnesota

We have audited the accompanying statement of financial position of The HealthStore Foundation as of December 31, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2004 financial statements and in our report dated July 19, 2005, we expressed an unqualified opinion on those financial statements.

We did not audit the financial statements of the Kenya Operation, a division of the Foundation. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Kenya Operation, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 and the report of other auditors provide a reasonable basis for our opinion, except for the matter described in the following paragraph.

The financial statements of the Kenya Operation, which were audited by other auditors, were audited in accordance with International Standards of Auditing and International Accounting Standards, and therefore are not in accordance with auditing standards generally accepted in the United States of America.

In our opinion, except for the matter described in the preceding paragraph, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of The HealthStore Foundation as of December 31, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

COPELAND BUHL & COMPANY P.L.L.P.

October 9, 2006

THE HEALTHSTORE FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005
WITH COMPARATIVE TOTALS FOR 2004

	2005			
	US Operation	Kenya Operation	Total	2004 Total
ASSETS				
Current Assets:				
Cash and equivalents	$ 625,607	$ 78,277	$ 703,884	$ 253,519
Notes receivable, 18%		15,697	15,697	52,950
Other receivables		25,362	25,362	19,699
Supplies on hand		20,168	20,168	13,375
Deposit	500		500	3,500
Total Current Assets	626,107	139,504	765,611	343,043
Equipment, net of accumulated depreciation of $71,508 and $48,526, respectively		79,439	79,439	84,550
TOTAL ASSETS	$ 626,107	$ 218,943	$ 845,050	$ 427,593

See notes to financial statements.

	2005			
	US Operation	Kenya Operation	Total	2004 Total
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Note payable to bank				$ 24,891
Accounts payable	$ 16,820	$ 62,114	$ 78,934	58,473
Accrued payroll	18,576		18,576	
Accrued interest	1,823		1,823	
Due to related party	121,828		121,828	334,429
Current maturities of long-term debt		17,421	17,421	13,729
Total Current Liabilities	159,047	79,535	238,582	431,522
Long-Term Debt	174,401	68,203	242,604	35,768
Total Liabilities	333,448	147,738	481,186	467,290
Net Assets:				
Unrestricted	63,686	71,205	134,891	(207,277)
Temporarily restricted	228,973		228,973	167,580
Total Net Assets	292,659	71,205	363,864	(39,697)
TOTAL LIABILITIES AND NET ASSETS	$ 626,107	$ 218,943	$ 845,050	$ 427,593

THE HEALTHSTORE FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005
WITH COMPARATIVE TOTALS FOR 2004

	2005			
	US Operation			Kenya Operation
	Unrestricted	Temporary Restricted	Total	Unrestricted
Revenue and Support:				
Grants and contribution	$ 912,217	$ 170,000	$ 1,082,217	$ 346,919
Sales				105,128
Interest income	3,335		3,335	2,035
Other income				8,234
Net assets released from restrictions	108,607	(108,607)		
Total Revenue and Support	1,024,159	61,393	1,085,552	462,316
Expenses:				
Program	329,918		329,918	585,755
Management and general	87,262		87,262	
Fundraising	141,372		141,372	
Total Expenses	558,552		558,552	585,755
Change in Net Assets	465,607	61,393	527,000	(123,439)
Net Assets - Beginning of Year	(401,921)	167,580	(234,341)	194,644
Net Assets - End of Year	$ 63,686	$ 228,973	$ 292,659	$ 71,205

See notes to financial statements.

2005		2004
Inter-Divisional Transfers	Total	Total
$ (311,868)	$ 1,117,268	$ 630,508
	105,128	51,709
	5,370	3,885
	8,234	4,599
(311,868)	1,236,000	690,701
(311,868)	603,805	410,317
	87,262	23,929
	141,372	4,123
(311,868)	832,439	438,369
	403,561	252,332
	(39,697)	(292,029)
$	$ 363,864	$ (39,697)

THE HEALTHSTORE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005
WITH COMPARATIVE TOTALS FOR 2004

	2005			
	Program			
	US Operation	Kenya Operation	Inter-Divisional Transfers	Total
Grants to Kenya	$ 311,868		$ (311,868)	
Compensation		$ 280,705		$ 280,705
Supplies		89,308		89,308
Travel and meetings	1,313	14,412		15,725
Depreciation		35,419		35,419
Rent		14,908		14,908
Vehicle expense		31,265		31,265
Restructuring local partner loans		24,450		24,450
Telephone		16,216		16,216
Promotion		18,915		18,915
Professional fees		12,122		12,122
Interest expense	11,594	2,755		14,349
Office expense	1,530	3,890		5,420
Bad debts		11,048		11,048
Exchange loss		6,869		6,869
Training		5,532		5,532
Insurance		854		854
New shop costs		4,633		4,633
Repairs and maintenance		2,868		2,868
Grants to third parties	3,613			3,613
Printing and stationery		2,883		2,883
Security		2,573		2,573
Information systems database		1,705		1,705
Bank fees		1,157		1,157
Baseline survey		994		994
Postage, shipping, delivery				
Electricity		274		274
Loan guarantee				
Total Functional Expenses	$ 329,918	$ 585,755	$ (311,868)	$ 603,805

See notes to financial statements.

2005			
Management and General	Fundraising	Total	2004 Total
$ 37,733	$ 114,779	$ 433,217	$ 201,613
1,743	1,231	92,282	45,727
15,659	14,347	45,731	37,290
		35,419	17,818
13,600	3,400	31,908	14,151
		31,265	10,994
		24,450	
3,405	3,405	23,026	13,150
		18,915	
6,432		18,554	37,272
		14,349	6,114
3,730	2,558	11,708	7,947
		11,048	
		6,869	2,384
		5,532	7,895
3,189	1,063	5,106	3,147
		4,633	250
930	310	4,108	2,037
		3,613	
96	32	3,011	3,425
		2,573	468
		1,705	
		1,157	2,104
		994	7,467
745	247	992	2,069
		274	47
			15,000
$ 87,262	$ 141,372	$ 832,439	$ 438,369

THE HEALTHSTORE FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005
WITH COMPARATIVE TOTALS FOR 2004

	2005			
	US Operation	Kenya Operation	Total	2004 Total
Cash Flows from Operating Activities:				
Change in net assets	$ 527,000	$ (123,439)	$ 403,561	$ 252,332
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		35,419	35,419	17,818
Forgiveness of due to related party	(212,601)		(212,601)	
Gain on sale of equipment		(1,851)	(1,851)	
Increase in loan guarantee				15,000
Prior period adjustment				(16,480)
(Increase) decrease in pledges receivable	3,500		3,500	(3,500)
(Increase) in other receivables		(5,663)	(5,663)	(4,156)
(Increase) in supplies on hand		(6,793)	(6,793)	(6,703)
(Increase) in deposit	(500)		(500)	
Increase (decrease) in accounts payable	(96)	20,557	20,461	(2,739)
Increase in accrued expenses	20,399		20,399	
Net Cash Provided by (Used in) Operating Activities	337,702	(81,770)	255,932	251,572
Cash Flows from Investing Activities:				
Note receivable collections		37,253	37,253	192
Purchase of equipment		(30,308)	(30,308)	(71,655)
Proceeds from sale of equipment		1,851	1,851	
Net Cash Provided by (Used in) Investing Activities		8,796	8,796	(71,463)
Cash Flows from Financing Activities:				
Net proceeds from (repayment of) note payable to bank	(24,891)		(24,891)	24,891
Proceeds from long-term debt	125,000	87,108	212,108	
Repayment of long-term debt	(96)	(1,484)	(1,580)	(141)
Net Cash Provided by Financing Activities	100,013	85,624	185,637	24,750
Net Increase in Cash and Equivalents	437,715	12,650	450,365	204,859
Cash and Equivalents - Beginning of Year	187,892	65,627	253,519	48,660
Cash and Equivalents - End of Year	$ 625,607	$ 78,277	$ 703,884	$ 253,519

See notes to financial statements.

Note A: Significant Accounting Policies

Nature of Operations

The Foundation is a not-for-profit Minnesota corporation with operations both in the United States and Kenya. The Kenya division operates under the name Sustainable Healthcare Foundation. The Foundation's mission is to provide affordable drugs to communities in Kenya by opening community drug stores in cooperation with local partners in Kenya.

During 2005, the Foundation changed its name to The HealthStore Foundation from Sustainable Healthcare Enterprise Foundation.

Basis of Accounting

The Foundation's policy is to prepare its financial statements for the United States operation on the accrual basis in conformity with accounting principles generally accepted in the United States of America; consequently, certain revenues and the related assets are recognized when earned rather than when received, and certain expenses are recognized when the obligation is incurred rather than when paid.

The financial statements for the Kenya operation, which have been audited by other auditors, are prepared using International Accounting Standards, and, therefore, are not in accordance with accounting principles generally accepted in the United States of America.

All assets and liabilities of the Kenya operation were translated to United States currency at year-end at the rate of exchange as of the statement of financial position date. Transactions during the year were translated at the rate in effect when the payments were made. Any gain or loss on exchange has been included in the statement of functional expenses.

Financial Statement Presentation

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

THE HEALTHSTORE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Note A: Significant Accounting Policies (Continued)

Use of Estimates

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

Economic Dependency

The Foundation is dependent on continuing contributions from supporting individuals, foundations, businesses, corporations, and other charities to meet annual operating expenses.

Concentration of Credit Risk

The Foundation maintains its cash balances in financial institutions located in Minnesota, which at times may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and equivalents.

Net Assets, Revenue and Support

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent funds available to support the operations of the Foundation. Temporarily restricted net assets have donor-imposed purpose or time restrictions. There are no permanently restricted net assets.

Contributions are recorded as temporarily restricted if donor-imposed restrictions exist. When a restriction expires, restricted net assets are reclassed to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Note A: Significant Accounting Policies (Continued)

Net Assets, Revenue and Support (Continued)

The Foundation reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the donated assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Pledges Receivable

The Foundation considers pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to expense when that determination is made.

Supplies on Hand

Supplies on hand consist of drugs and medical supplies valued at the lower of cost or net realizable value.

Equipment

Purchased equipment is recorded at cost and donated equipment is recorded at estimated market value when received. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives at 12.5% to 30% per year.

Expenditures for maintenance and repairs are charged to operations when the expense is incurred. Expenditures determined to represent additions and betterments are capitalized.

THE HEALTHSTORE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Note A: Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

No provision for income taxes is necessary as the Foundation is exempt from taxes as provided under Section 501(c)(3) of the Internal Revenue Code.

Note B: Due to Related Party

Due to related party consist of the following at December 31:

	2005	2004
Due to Scott Hillstrom, non-interest bearing, due on demand	$ 121,828	$ 198,679
Due to Mark Benson, non-interest bearing, due on demand, to be repaid with 25,000 shares of Inkine Pharmaceutical Company, Inc. stock		135,750
Total	$ 121,828	$ 334,429

The balance of the payable to Mark Benson was adjusted each December 31 to reflect the current market value of Inkine stock. The change in value was reported in the income statement as loan guarantee and was $15,000 in 2004. The loan was forgiven and recorded as donation income in 2005. $76,851 of the loan from Scott Hillstrom was forgiven in 2005.

Note C: Note Payable to Bank

The note payable to bank was available under a $25,000 line of credit agreement that expired in July 2005. The note bore interest at a variable rate and was collateralized by assets of the Foundation and the personal guarantee of an officer.

Note D: Long-Term Debt

Long-term debt consists of installment notes bearing interest at 5% - 9% and maturing through December 2010. The notes are collateralized by assets of the Foundation. Maturities of the notes are as follows for years ending December 31:

2006	$ 17,421
2007	26,399
2008	89,243
2009	57,179
2010	69,783
	$ 260,025

Cash paid for interest on all debt amounted to $12,526 in 2005 and $6,114 in 2004.

Note E: Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2005	2004
Pilot project	$ 170,000	
Trial clinics	58,973	$ 93,950
Staffing – development director position		73,630
	$ 228,973	$ 167,580

Assets restricted for the above purposes are as follows at December 31:

	2005	2004
Cash	$ 228,973	$ 167,580

Note F: In-Kind Contributions

The Foundation records in-kind contributions at fair market value on the date the contribution is made. In-kind contributions for professional fees totalling $13,460 were received in 2004. No in-kind contributions were received in 2005 other than the loan forgiveness discussed in Note B.

Note G: Related Party Transactions

In 2005, the Foundation began sharing office space with a company owned by a board member. The Foundation charged $12,500 to rent expense for its share of the office rent.