

US SECURITIES & EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-KSB

(X) Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal period ended December 31, 2005.

() Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .

Commission File Number 0-24185

CENTRAL AMERICAN EQUITIES CORP.

Florida 65-0636168
(State of incorporation) (IRS Employer ID Number)

Hotel Alta, Santa Ana, Costa Rica
(Mailing: Hotel Alta, Interlink 964
POB 02-5635 Miami, FL 33102)
(Address of Principal Executive Offices)

+011 (506) 282-4160
(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 Par Value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding twelve (12) months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days. YES (X) NO ().

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and if no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10KSB or any amendment to this Form 10-KSB. []

1,412,393

(Issuer's revenues for its most recent fiscal year).

2,141,553 Shares Common Stock, \$.001 par value

(Number of shares outstanding of each of the Registrant's classes of common stock, as of December 31, 2005)

Transitional Small Business disclosure format (check one)

YES ☒ NO ☐

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2000

Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2001

Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2002

Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2003

Annual Report on Form 10-KSB of Registrant for the year ended December 31, 2004

DEF Proxy statement Schedule 14A (November 21, 2005)

Report on Form 8K (January 6, 2005)

Report on Form 8K of February 14, 2006

Report on Form 8K (Entry into a Material Definitive Agreement) of March 15, 2006

Form SC 14F-1 (Report of Change in Majority of Directors) March 28, 2006

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ITEM 1. DESCRIPTION OF THE BUSINESS

Central American Equities Corp. (the "Company" or "CAE") is a US hospitality company, based in Santa Ana, Costa Rica and incorporated in the State of Florida on January 23, 1996. The Company specializes in providing high-quality food and lodging in Costa Rica. The Company is in the business of owning and operating hotels and restaurants and real property in Costa Rica.

As of December 31, 2004, CAE owned Hotel Alta in Santa Ana (a suburb of the capital city of San Jose) and Sunset Reef Marine Hotel (on the Pacific Ocean in Mal Pais near the protected Cabo Blanco Reserve). CAE also owns and operates Alta Travel Planners (a full-service reservation, travel planning and in-bound tour operation based in Costa Rica).

All Company owned facilities were open and operating by the beginning of 1998. On December 31, 2005, the Company had approximately 65 full-time, part-time and contract employees.

Formation of the Company

Central American Equities was formed by the acquisition of several California limited partnerships. In December 1996, CAE combined the assets of four limited partnerships (Cal Tico, L.P. ("Cal Tico"), Ecolodge Partners L.P. ("Ecolodge"), MarineLodge Partners, L.P. ("MarineLodge") and, L.A. Cal L.P. in a form of entity restructuring referred to as a "roll up." Under the terms of the roll-up, each partners' capital account was exchanged for common stock in Central American Equities (a Florida corporation incorporated on January 23, 1996); one share of common stock for each dollar of capital. In exchange for the ownership of the four partnerships, CAE issued 10,881,277 shares of common stock on December 10, 1996. At this point the partnerships dissolved. (For a complete discussion of the creation of CAE and the original limited partnerships, please refer to the 1998 and 1999 Form 10-KSBs).

ITEM 2. DESCRIPTION OF THE PROPERTIES

As of December 31, 2005, CAE consisted of two properties in Costa Rica: Hotel Alta (including Restaurante La Luz) and Sunset Reef Marine Hotel. During 2004, the Company sold Tropicana Restaurant at Playa Carmen (see below). Hotel

Alta's land and buildings are owned by Hotelera Cal Tico, S.A., a Costa Rican corporation. Sunset Reef's land and buildings are owned by Sociedad Protectora de la Fauna y Flora de Mal Pais, S.A. a Costa Rican company. As of December 31, 2005, CAE owned 100% of the stock of the following Costa Rican Corporations: Hotelera Caltico, S.A. and Sociedad Protectora de la Fauna y Flora de Mal Pais, S.A.

Hotel Alta

Hotel Alta is a 23-unit, luxury hotel located on approximately one acre of land in Alto de las Palomas, Santa Ana, 8 miles from downtown San Jose. Nearby Santa Ana and Escazu are considered among the most affluent districts of Costa Rica and continue to experience significant business and residential growth. La Luz, a 60-seat fine dining restaurant located within the hotel is owned and operated by CAE. The restaurant receives guests from nearby hotels and upscale locals who seek gourmet meals. Additional facilities are provided for banquets and corporate events for up to 120 guests.

Sunset Reef Marine Hotel

Sunset Reef Marine Hotel is located in the small Pacific beachfront town of Mal Pais on the southern tip of the Nicoya Peninsula. Sunset Reef lies near the northern border of the renowned Absolute Natural Reserve of Cabo Blanco --- described by one guidebook as the "jewel of nature at the very tip of the Nicoya Peninsula."

Sunset Reef contains about 3 acres of beachfront land with 1500 feet of ocean frontage. The hotel is surrounded by miles of unspoiled shoreline, spectacular beaches, and lush tropical forests. Currently on site there is a fully operating 14-room hotel complete with pool, restaurant, and bar.

ITEM 3. LEGAL PROCEEDINGS

Occasionally in the past there have been actions against Central American Equities' subsidiaries in the Costa Rican Labor Court that had been brought by former employees who had been dismissed by the Company due to poor performance or insubordination. These employees dispute the reason for their dismissal and, as such, claim they are entitled to additional monetary compensation. The Company considers

these actions to be routine litigation that is incidental to the business (as defined under Reg. Section 228.103). It is anticipated that any contingent liability stemming from these claims would be immaterial to the Company. In 2005 there was no such claims brought against the Company.

Hotelera Caltico (Hotel Alta) v. Tributacion

On November 2002, Hotel Alta owed Tributacion (the Costa Rican taxing authority) approximately \$240,000 in unpaid sales taxes. These taxes have been listed on past balance sheets as an accrued expense and had been fully reported to the government of Costa Rica.

The Costa Rica government offered to all companies in Costa Rica amnesty from interest and penalties for back taxes paid by April 30, 2003. Prior to April 30, 2003, Hotelera Caltico, the Costa Rica subsidiary that owns Hotel Alta, unable to pay these taxes in cash, proposed that the debt be resolved with the exchange of property worth an equivalent value (part of the parcel in Playa Carmen where Restaurante Tropicana is located). It is Hotelera Caltico's contention that Tributacion accepted this offer on or before April 30, 2003 and began a process of appraising the property to determine how much of the tax liability was to be cancelled. However, in August 2003, Tributacion notified Hotelera Caltico that it would not accept the property in lieu of payment (in whole or in part) and demanded that Hotelera Caltico immediately pay the past due taxes with interest and penalties.

Between August 2003 and August 2004 Hotelera Caltico attempted to negotiate with Tributacion concerning the amount of taxes owed and the applicability and legality of interest and penalties related to those taxes. These negotiations were unsuccessful. As such, on September 13, 2004 Hotelera Caltico brought suit against Tributacion in the Costa Rican constitutional court for not accepting the offer of property in exchange for the outstanding tax liability. The refusal of the offer denied the opportunity for Hotelera Caltico to successfully meet the tax amnesty deadline.

Hotelera Caltico has been notified that the constitutional court had declined to accept the case, directing Hotelera Caltico to first present the case in the lower civil courts. As such, in February 2005, Hotelera Caltico initiated the process of filing this case in Costa Rica's civil courts. Believing it has been denied due process and equal treatment

under Costa Rican law, management plans to pursue the case vigorously. As of March 31, 2006, the case was still pending in civil court.

It is difficult to evaluate the likelihood of an unfavorable outcome in this case but we estimate it to be at or below 50%. If an unfavorable outcome results, the Costa Rica subsidiary, Hotelera Caltico may be liable for interest and penalties of more than \$180,000. Hotelera Caltico has already paid the principal amount of taxes owed in full and has begun to pay the interest and penalty costs on a schedule agreed upon with Tributacion. Due to the Constitutional Court ruling, CAE fully reports on its profit and loss statement in 2005, the interest and penalties owed (the amount has always been reported in the footnotes to the financial statements).

Pinkham and Pinkham v. CAE

On November 2, 2005, Pinkham and Pinkham, the Company's former auditor, sued CAE in the United States District Court for the District of New Jersey, at Civil Action No. 05-CV-4899. Pinkham and Pinkham claimed that CAE owed approximately \$105,000 for past auditing services; this sum included alleged unpaid principal and interest. Pinkham and Pinkham also sought to recover its attorney's fees from CAE. Finally, Pinkham and Pinkham claimed that CAE was liable for punitive damages as a result of its purported intentional bad faith in dealing with Pinkham and Pinkham.

CAE denied the material allegations of Pinkham and Pinkham's complaint. CAE asserted that it reached agreement with, and made payments to, Pinkham and Pinkham in respect of Pinkham and Pinkham's bills; and that, in accordance with the agreement, CAE owed a fraction of the claimed \$105,000 to Pinkham and Pinkham. On February 3, 2006 CAE settled this case and all potential claims for \$30,000.

ITEM 3. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management,

including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the last fiscal quarter. The Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company submitted several matters to a vote of its security holders during its fiscal year ended December 31, 2005. On December 29, 2005 the Company held its annual meeting at Hotel Alta in Santa Ana, Costa Rica. At the meeting a quorum was certified with 1,274,313 shares present or about 60% of the 2,141,553 shares outstanding at the time. During the meeting:

1. Richard Wm. Talley, Michael Caggiano, and Jim Voloshin were elected to the board of directors with a 97% approval of those shareholders voting.
2. Killman, Murrell & Company, P.C. was approved as the auditor for the Corporation with a 98% approval of those shareholders voting.
3. The Articles of Incorporation were changed to create a class of super-voting preferred shares with a 74% approval of those shareholders voting.
4. The amount of Common Stock outstanding was increased from 25,000,000 shares to 100,000,000 shares with a 91% approval of those shareholders voting.

A full description of these matters can be found in DEF Proxy statement Schedule 14A (November 2005).

The Company submitted no other matters to a vote of its security holders during the 12-month period ended December 31, 2005.

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Description of Securities

As of December 31, 2005, the Company's authorized capital stock consisted of 100,000,000 shares of common stock, par value \$.001 per share, and 1,000,000 shares of convertible preferred stock, par value \$.001 per share. As of December 31, 2005, 2,141,553 shares of common stock were issued and outstanding and no (0) shares of convertible preferred stock were issued and outstanding.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the stockholders. The common stock does not have cumulative voting rights, which means that the holders of a majority of the outstanding shares of common stock voting for the election of directors can elect all members of the board of directors. A majority vote is also sufficient for other actions that require the vote or concurrence of the stockholders (except in cases in which more than a simple majority is required by law). Holders of common stock are entitled to receive dividends, when, as, and if declared by the board of directors, in its discretion, from funds legally available. Subject to the dividend rights of the holders of preferred stock, dividends for holders of shares of common stock are declared by the board of directors out of funds legally available. Upon liquidation, dissolution or winding up of the Company, after payment to creditors, the holders of common stock are entitled to share ratably in the assets of the Company, if any. The Bylaws of the Company require that only a majority of the issued and outstanding shares of common stock of the Company need be represented to constitute a quorum and to transact business at a stockholders' meeting. The common stock has no preemptive rights or subscription, redemption or conversion privileges. All of the outstanding shares of common stock are fully paid and non-assessable.

In mid-August 2000, Central American Equities qualified under the new rules of the National Association of Securities Dealers (NASD) and listed its stock on the Over the Counter Bulletin Board ("OTCBB") under the symbol "CENE" (since June 2005 the Company's symbol has been CEAQ). During all of 2004 the stock was listed on the Electronic Pink Sheets. As of March 2005, the Company had again been listed on the OTCBB. Between January 2005 and December 2005 the stock had a range

of approximately \$0.04 to \$2.00 per share. These quotations may reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

The number of shareholders of record of the Company's common stock is approximately 230 with approximately 420 stock certificates outstanding. The Company has not paid nor declared any dividends upon its shares of common stock since its inception and, does not contemplate or anticipate paying any dividends upon its shares of common stock in the near future. The transfer agent for the Company's common stock is Olde Monmouth Stock Transfer Company, 200 Memorial Parkway, Atlantic Highlands, NJ 07716.

The Company's board of directors has total discretion as to the issuance and the determination of the rights and privileges of any shares of preferred stock issued by the Company. Such rights and privileges may be detrimental to the rights and privileges of the holders of common stock.

Equity Activity

In early April 2005, Medical Ventures Group, the holder of 1,000,000 shares of Class "A" Convertible Preferred Stock elected to convert those shares to Common Stock. (The Class "A" Convertible Preferred Stock had the following provisions: a) the option to transfer the shares into common stock on a one-for-one basis, b) the same voting rights as common stock, and c) the same liquidation preferences as common stock.) At the time of conversion, board director P. James Voloshin held controlling interest in Medical Ventures Group. Subsequent to the conversion, Mr. Voloshin sold the shares of Common Stock to Richard Wm. Talley, a board director of the Company. In March 2005, the board awarded Michael Caggiano, the CEO of the Company 500,000 options to purchase common stock at \$0.04 per share. Mr. Caggiano exercised those options. As such, as of May 6, 2005 there were 21,364,268 Shares of Common Stock at \$.001 par value and no (0) shares of Class "A" Convertible Preferred Stock issued and outstanding.

In May 2005 the Company awarded several employees of the Company a total of 50,000 shares of Common stock. As such, as of May 22, 2005 there were 21,414,268 Shares of Common Stock at \$0.001 par value and no (0) shares of Class "A" Convertible Preferred Stock issued and outstanding.

On May 23, 2005, the Company's board of directors unanimously approved a 1 for 10 reverse split of the Company's common stock. This reverse split went into effect at the beginning of business on June 7, 2005 (and the Company's symbol became CEAQ). This reduced the Company's outstanding shares of common stock to 2,141,553 shares (all fraction-per-certificate ownerships are rounded up). There are no (0) shares of Class "A" Convertible Preferred Stock issued and outstanding.

ITEM 6. MANAGEMENT DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of significant factors that have affected the Company's financial position and operations during the fiscal year ended December 31, 2005.

Overview

The Company improved significantly in 2005. Annual occupancy for 2005 at Hotel Alta increased by about 31% from 58% occupancy in 2004 to 76% in 2005. In 2005 occupancy at Sunset Reef grew by 36% from 25% to 34%. The Company closed Sunset Reef for two months of the low season to reduce costs, repair the hotel and make important changes in personnel. During the 10 months the hotel was open, occupancy was 41%.

Several management programs over the past few years have continued to help the hotel capture more than its proportional share of the increased tourism. Hotel Alta's redesigned webpage (www.thealtahotel.com) and web-marketing campaigns (including search-engine positioning and strategic placement of click-through advertisements) have resulted in increases in on-line reservations. Hotel Alta's listing on Hotels.com and Expedia.com have increased the Hotel's exposure worldwide. Management has been better able to control inventory by running single-day specials during low occupancy periods. Between FYE 2004 and FYE 2005 Hotel Alta's web reservation revenue has more than tripled to \$190,000 or about 28% of room revenue.

The decision to increase the Hotel Alta's attractiveness to the business traveler (with the installation of high-speed internet access in the hotel rooms and the hotel's business center) continue to increase business reservations in both the high season and especially the low season. Revenue from corporate reservations has increased by 60% and now accounts

for fully 31% of hotel occupancy. Business related events have increased accordingly.

In 2005, increasing interest in Costa Rica came from European visitors who are looking for eco-travel and a favorable exchange rate. Several European airlines have increased their flights from European capitals to Costa Rica. We have followed this trend and increased our marketing in European countries.

Physical improvements at Sunset Reef have increased the attractiveness of the property. Coupled with a stepped-up program of site visits by wholesalers, bookings through wholesalers and tour operators have increased modestly. Most important for the growth in sales at Sunset Reef has been the increasing interest in the Pura Vida Adventures women's surf camp at the hotel.

Results of Operations --- Years Ending December 31, 2005 and 2004

The following is management's discussion and analysis of significant differences in the Company's financial position and operations between the fiscal year ended December 31, 2004 (FYE 2004) and the fiscal year ended December 31, 2005 (FYE 2005).

Balance Sheet

Between December 31, 2004 and December 31, 2005 the Company's current assets (primarily cash and accounts receivable) decreased by about \$85,000. This reflects primarily the use of cash to reduce debt. Total assets had a net decrease of about \$250,000 to \$5,506,776 primarily as a result of depreciation of approximately \$170,000 and the decline in cash.

Between FYE 2004 and FYE 2005, total liabilities increased from \$675,000 to \$750,000. The major reason for this increase was the \$181,000 in penalties and interest related to an outstanding tax debt with Tributacion, the Costa Rican taxing agency. As previously explained (see Litigation), the Company is actively disputing these payments in the Costa Rica civil courts.

Long-term debt declined as the Company reduced the principal on its loan from BCT bank by about \$88,000 (note that part of the BCT debt is classified as current portion). Debts to shareholders increased by about \$68,000 as interest costs of

about \$70,000 were added. Accrued expenses increased by about \$52,000 (this includes a reduction of principal owed to Tributacion, but the addition of interest and penalties).

Statement of Operations

Revenues at the two hotels are primarily dependent upon the occupancy rates and restaurant and per room charges (although other services are also sold). Between FYE 2004 and FYE 2005 total sales revenue increased from \$1,196,630 to 1,412,393 (about 18%). Gross profit increased by 22.5% to \$1,007,157. Total operational expenses (cost of services and general and administrative costs) were \$1,334,770. This is an increase of about 13% from 2004 and partially reflects additional legal and audit and related filing costs with the SEC.

The Company had a profit of about \$78,000 before other expenses and depreciation. During FYE 2005, depreciation was approximately \$170,000. Of the approximately \$92,000 in interest expense during the period, the majority was for the first time accounting of interest related to shareholder loans. Also for the first time, the Company accounted for interest and penalties related to the taxes owed to Tributacion. This totaled approximately \$181,000 (see litigation).

Because of the one time expense related to the Tributacion interest and penalties, net losses (including interest expenses and depreciation) have increased. Net loss for FYE 2005 was \$367,154. This is approximately \$128,000 more than the net loss for FYE 2004. Loss per share is about \$0.17. Between December 31, 2004 and December 31, 2005 cumulative losses (retained deficit) grew to about \$5.7 million.

Future Direction

Management has been discussing for several years the advantages and disadvantages of continuing to operate its current business while remaining a publicly trading company. Foremost is the cost to the Company of remaining a publicly trading company, as it is expensive and time consuming. For this reason, the board has questioned the value of remaining a publicly trading Company and has reviewed whether it is in the best interests of the shareholders to operate the hotels as a public entity. As such, we have been searching for business opportunity candidates to merge into the Company.

On December 29, 2005, at our annual shareholder meeting, the shareholders approved a new class of preferred shares that permitted the board to vote for a business combination without additional shareholder approval (see Submission of Matters to a Vote of Security Holders).

On March 13, 2006 Central American Equities Corp. and its wholly owned subsidiary, Ostar Acquisition Corp., entered into an Agreement and Plan of Merger with Ostar Pharmaceutical, Inc. Ostar Pharmaceutical owns 60% of Hebei Aoxing Pharmaceutical Group, which is involved in the business of manufacturing and distributing analgesic drugs in the People's Republic of China.

The Agreement provides that at a closing, which is expected to occur later in April 2006, Ostar Pharmaceutical will be merged into Ostar Acquisition Corp., and become a wholly-owned subsidiary of Central American Equities Corp. In connection with the merger, Central American Equities Corp. will issue to the shareholders of Ostar Pharmaceutical 37,858,447 share of common stock and 300 shares of a new Series C Preferred Stock. The Series C Preferred Stock will be convertible into a total of 120,000,000 shares of common stock. Accordingly, the current shareholders of Ostar Pharmaceutical will own, after the merger, on a fully-diluted basis, 157,858,447 shares of Central American Equities Corp common stock, representing 98.7% of the outstanding, fully-diluted common share (for additional information and merger agreements see reports on February and March 2006 on Form 8K).

Liquidity and Capital Resources

To date, Company operations have resulted in losses. During 2005 capitalization was not sufficient to fund necessary expenses. The Company has limited, albeit improving, cash liquidity and capital resources. Although occupancy trends are clearly positive, the Company plans to hold sufficient cash from the sale of assets in reserve to protect against liquidity needs during 2006.

Currency Devaluation

Historically, changes in the rate of exchange between dollars and colones (the Costa Rican currency) have had an insignificant effect on liquidity because the rate of exchange is relatively predictable. The Central Bank eases

devaluation pressure on the colon through a system called "mini-devaluation" whereby it decreases the colon's value daily by centimos, establishing a rate that is generally followed by most banks and exchange houses in the country. Over the past few years the colon has devalued against the dollar between about 10% to 15% annually.

Currency devaluations can have a positive effect on the Company's net operating revenues. Although the hotels are in Costa Rica, all hotel rates and restaurant charges are quoted in US dollars (the majority of hotel guests are from the US and other parts of North America) and, as such, hotel revenues are generally unaffected by devaluation of the colon relative to the US dollar. The majority of hotel expenses in Costa Rica (including most salaries) are in colones although during 2005 goods and services experienced significant inflation.

ITEM 7. FINANCIAL STATEMENTS

Audited financial statements for 2004 and 2005 follow. Clyde Bailey, P.C., audited the Company financial statements in 2004 and Killman, Murrell & Company P.C., Certified Public Accountant audited the Company financial statements in 2005.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

Central American Equities Corp. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Central American Equities Corp. and Subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central American Equities Corp. and Subsidiaries at December 31, 2004 and the results of their operations, and their cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company's uncertainty as to its sales growth and its ability to raise sufficient capital, raise substantial doubt about the entity's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Clyde Bailey P.C.

March 31, 2005
San Antonio, Texas

Report of Independent Public Registered Accounting Firm

Board of Directors

Central American Equities Corp. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Central American Equities Corp. and Subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central American Equities Corp. and Subsidiaries at December 31, 2005 and the results of their operations, and their cash flows for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company's uncertainty as to its sales growth and its ability to raise sufficient capital, raise substantial doubt about the entity's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Killman, Murrell & Company, P. C.

Killman, Murrell & Company, P.C.

April 4, 2006

Odessa, Texas

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
BALANCE SHEET
DECEMBER 31, 2005

Assets

Current Assets	
Cash and Cash Equivalents	\$ 18,749
Accounts Receivable	125,871
Inventory	32,969
Prepaid Expenses	<u>156</u>
Total Current Assets	177,745
Buildings & Equipment, Net Of Accumulated Depreciation	5,329,030
Total Assets	<u>\$5,506,775</u>

Liabilities And Stockholders' Equity

Current Liabilities	
Accounts Payable	\$142,248
Accrued Expenses	266,357
Current Portion of Long-Term Debt	<u>88,000</u>
Total Current Liabilities	496,605
Long-Term Debt, less current portion	100,876
Related Party Long-Term Debt	<u>153,170</u>
Total Liabilities	<u>750,651</u>
Stockholders' Equity	
Preferred Stock, par value \$.001, 1,000,000 shares authorized, no shares issued and outstanding	-
Common Stock, par value \$.001; 100,000,000 shares authorized; 2,141,553 shares issued and outstanding	2,142
Additional Paid-In Capital	10,422,738
Accumulated Other Comprehensive Income	67,847
Accumulated Deficit	<u>(5,736,603)</u>
Total Stockholders' Equity	<u>4,756,124</u>
Total Liabilities and Stockholders' Equity	<u>\$5,506,775</u>

See accompanying notes.

Central American Equity Corp. and Subsidiaries
Statements of Operations
Years Ended December 31,

	<u>2005</u>	<u>2004</u>
Revenues	\$1,412,393	\$1,196,630
Cost of Services	<u>405,237</u>	<u>374,525</u>
Gross Profit	1,007,156	822,105
Operating Expenses		
General and Administrative Expenses	929,533	801,202
Depreciation Expense	<u>170,474</u>	<u>171,720</u>
Total Operating Expenses	<u>1,100,007</u>	<u>972,922</u>
Loss from Operations	(92,851)	(150,817)
Other Income (Expense)		
Interest Expense	(92,905)	(27,647)
Penalties & Interest on Property Taxes	(181,398)	-
Net Sale of Asset	<u>-</u>	<u>(59,703)</u>
Loss from Continuing Operations	(367,154)	(238,167)
Provision for Income Taxes	<u>-</u>	<u>-</u>
Net Loss	<u><u>\$ (367,154)</u></u>	<u><u>\$ (238,167)</u></u>
Net Loss per Share	<u><u>\$ (0.17)</u></u>	<u><u>\$ (0.12)</u></u>
Weighted Average Shares Outstanding	<u><u>2,101,553</u></u>	<u><u>1,976,427</u></u>

See accompanying notes.

Central American Equity Corp and Subsidiaries
Statements of Stockholders' Equity
For the Years Ended December 31, 2005 and 2004

	<u>Common Stock</u>		<u>Preferred Stock</u>		<u>Additional</u>	<u>Accum.</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Other</u>	<u>Accum.</u>	<u>Stockholder</u>
					<u>Capital</u>	<u>Compre-</u>	<u>Deficit</u>	<u>Equity</u>
						<u>hensive</u>		
						<u>Income</u>		
December 31, 2003, as Previously Reported	19,739,268	\$19,739	1,000,000	\$1,000	\$10,377,016	\$81,186	\$(5,131,282)	\$5,347,659
Reverse Split- Common 10 for 1	(17,765,215)	(17,765)	-	-	17,765	-	-	-
December 31, 2003, As Restated	1,974,053	1,974	1,000,000	1,000	10,394,781	81,186	(5,131,282)	5,347,659
Stock Issued for Services	12,500	13	-	-	3,112	-	-	3,125
Comprehensive Income Other	-	-	-	-	-	(25,422)	-	(25,422)
Net Loss	-	-	-	-	-	-	(238,167)	(238,167)
December 31, 2004	1,986,553	1,987	1,000,000	1,000	10,397,893	55,764	(5,369,449)	5,087,195
Conversion of preferred stock to common stock	100,000	100	(1,000,000)	(1,000)	900	-	-	-
Issuance of common stock from the exercise of options for cash at \$.04 per share	50,000	50	-	-	19,950	-	-	20,000
Issuance of common stock for services at \$.08 per share	5,000	5	-	-	3,995	-	-	4,000
Comprehensive Income Other	-	-	-	-	-	12,083	-	12,083
Net Loss	-	-	-	-	-	-	(367,154)	(367,154)
December 31, 2005	<u>\$2,141,553</u>	<u>\$2,142</u>	<u>-</u>	<u>\$-</u>	<u>\$10,422,738</u>	<u>\$67,847</u>	<u>\$(5,736,603)</u>	<u>\$4,756,124</u>

See accompanying notes.

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities		
Net Loss	\$(367,154)	\$(238,167)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	170,474	171,722
Stock Issued for services	4,000	3,125
Unrealized gain on foreign exchange	12,083	(25,422)
Loss on sale of facilities	-	38,356
(Increase) decrease in accts receivable	(37,121)	(23,505)
(Increase) decrease in inventory	(8,280)	6,789
(Increase) decrease in prepaid expense	6,082	(2,663)
Increase (decrease) in accounts payable	43,154	29,376
Increase (decrease) in accrued expenses	52,678	(54,326)
Net Cash (Used) by Operating Activities	<u>(124,084)</u>	<u>(94,515)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	-	(53,000)
Proceeds from sale of facilities	-	635,000
Net Cash Provided (Used) by Investing Act.	<u>-</u>	<u>582,000</u>
Cash Flows from Financing Activities		
Cash recvd from issuance of common stock	20,000	-
Advances from officers	68,100	(342,708)
Payments on loans	(88,000)	(87,999)
Net Cash Provided by Financing Activities	<u>100</u>	<u>(430,707)</u>
Net Increase in Cash and Cash Equivalents	(123,984)	56,778
Cash & cash equivalents at beginning of yr	142,733	85,955
Cash & Cash Equivalents at End of yr	<u>\$18,749</u>	<u>\$142,733</u>
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 22,870</u>	<u>\$ 27,647</u>
Non-cash transaction:		
Shares issued for service	<u>\$ 4,000</u>	<u>\$ 3,125</u>

See accompanying notes.

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Summary of Accounting Policies

Nature of Business

Central American Equities Corp. and Subsidiaries (the "Company") was incorporated under the laws of the State of Florida on January 23, 1996. The Company provides an integrated eco-vacation experience in Costa Rica, and is in the business of owning and operating hotels and real property in Costa Rica.

In December of 1996, the Company entered into an agreement for the exchange of common stock ("Exchange Agreement") with Cal Tico, L.P., Ecolodge Partners, L.P. and Marine Lodge Partners, L.P. (Partnership). Pursuant to the exchange agreement, the company issued 7,756,885 and 3,099,392 shares of common stock to limited partners and the general partners, respectively, of the partnerships. In exchange for the shares, the partnership transferred all of their interests (i.e. 100% of the outstanding common stock) in the following Costa Rican corporations: Hotelaria Cal Tico, S.A.; Bandirma, S.A.; Sociedad Protectora De La Fauna y Flora Maritima De Mal Pais, S.F.; Ecoproyecto San Luis, S.A. and Confluencia, S.A.

Cal Tico, L.P. was a California limited partnership that was formed in July 1992 to raise \$2 million to purchase the land and construct Hotel Alta. Cal Tico, L.P. owns 100% of the stock in Hotelaria Cal Tico, S.A., a Costa Rican corporation. Hotelaria Cal Tico, S.A. owns the land and buildings at Hotel Alta.

Ecolodge Partners, L.P. was formed in July 1993 to raise a total of \$1.3 million in a private placement offering to purchase the land and construct the Ecolodge San Luis and Biological Station. Ecolodge Partners was a California limited partnership that owned all of the stock in Ecoproyecto San Luis, S.A. and Confluencia San Luis, S.A., the two Costa Rican companies that own the Ecolodge land and buildings.

Marine Lodge Partners L.P. was formed in March 1995 to raise \$1 million for the purchase and renovation of the Sunset Reef. MarineLodge Partners was a California limited partnership. Marine Lodge Partners owned 100% of the stock in Bandirma, S.A. Bandirma owned: a) 90% of the Sociedad Protectora De La Fauna y Flora Maritima de Mal Pais S.A., a Costa Rican corporation which owns the land and buildings at Sunset Reef, and b) 100% of

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Summary of Accounting Policies (continued)

Muxia, S.A. which owns 100% of the land and buildings at Playa Carmen.

Basis of Consolidation

The consolidated financial statements include the consolidated accounts of Central American Equities Corp. and its subsidiaries. Hotelaria Cal Tico, S.A., Sociedad Protectora De La Fuana y Flora Marintima De Mal Pais, S.F., Ecoproyecto San Luis, S.A. and Confluencia, S.A. are held 100% by the Company. All intercompany transactions and accounts have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the statement of cash flows all certificates of deposits with maturities of 90 days or less, were deemed to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed provided using the straight-line method over the estimated useful lives of five for equipment, seven years for furniture and fixtures and forty years for buildings and improvements.

Repairs and maintenance costs are expensed as incurred while additions and betterments are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gain or losses are reflected in earnings.

Inventories

Inventories are stated at the lower of cost (principally first-in, first-out) or market and include food, beverages, kitchen, restaurant and bar supplies, stationery, paper, and office supplies, in-room supplies and other miscellaneous items.

Asset Impairment

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Summary of Accounting Policies (continued)

of assets to be held and used is determined by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by an asset. If such assets are considered to be impaired, the impairment to be recognized is measured by an amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of cost or carrying amount or fair value less costs to sell.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Adoption of Statement of Accounting Standard No. 123

In 1997, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 encourages, but does not require companies to record at fair value compensation cost for stock-based compensation plans. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. The difference between the fair value method of SFAS-123 and APB 25 is immaterial.

Adoption of Statement of Accounting Standard No. 128

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). SFAS 128 changes the standards for computing and presenting earnings per share (EPS)

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Summary of Accounting Policies (continued)

and supersedes Accounting Principles Board Opinion No. 15, "Earnings per Share." SFAS 128 replaces the presentation of primary EPS with a presentation of basic EPS. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. This Statement requires restatement of all prior period EPS data presented.

As it relates to the Company, the principal differences between the provisions of SFAS 128 and previous authoritative pronouncements are the exclusion of common stock equivalents in the determination of Basic Earnings Per Share and the market price at which common stock equivalents are calculated in the determination of Diluted Earnings Per Share.

Basic earnings per common share are computed using the weighted average number of shares of common stock outstanding for the period. Diluted earnings per common share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares related to stock options and warrants outstanding during the period.

The adoption of SFAS 128 had no effect on previously reported loss per share amounts for the year ended December 31, 1997. For the years ended December 31, 1999 and 1998, primary loss per share was the same as basic loss per share and fully diluted loss per share was the same as diluted loss per share. A net loss was reported in 1998 and 1997, and accordingly, in those years the denominator was equal to the weighted average outstanding shares with no consideration for outstanding options and warrants to purchase shares of the Company's common stock, because to do so would have been anti-dilutive. Stock options for the purchase of 357,500 shares at December 31, 1998 were not included in loss per share calculations, because to do so would have been anti-dilutive.

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Summary of Accounting Policies (continued)

Revenue Recognition

The Company records revenue at the point of service and maintains its corporate records for both financial statement and tax return purposes on the accrual method of accounting.

Foreign Exchange

Assets and liabilities of the Company, which are denominated in foreign currencies, are translated at exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates throughout the year. The unrealized translation gains and losses are accumulated in a separate component of stockholders' equity translation exchange gains and losses are reflected in net earnings.

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, which principally include cash, note receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair value of the Company's debt instruments is based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At December 31, 2005 and 2004, respectively, the carrying value of all financial instruments was not materially different from fair value.

Income Taxes

The Company has net operating loss carryovers of approximately \$6,017,000 as of December 31, 2005, expiring in the years 2012 through 2020. However, based upon present Internal Revenue regulations governing the utilization of net operating loss carryovers where the corporation has issued substantial additional stock, most of this loss carryover may not be available to the Company.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, effective July

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Summary of Accounting Policies (continued)

1993. SFAS No.109 requires the establishment of a deferred tax asset for all deductible temporary differences and operating loss carryforwards. Because of the uncertainties discussed in Note 2, however, any deferred tax asset established for utilization of the Company's tax loss carryforwards would correspondingly require a valuation allowance of the same amount pursuant to SFAS No. 109. Accordingly, no deferred tax asset is reflected in these financial statements.

Recent Accounting Pronouncements

In December 2004, the FASB issued FASB Staff Position No. 109-1 ("FSP FAS No. 109-1"), "Application of FASB Statement No.109, 'Accounting for Income Taxes,' to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." The American Jobs Creation Act of 2004 introduces a special tax deduction of up to 9.0 percent when fully phased in, of the lesser of "qualified production activities income" or taxable income. FSP FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with SFAS No. 109. Although FSP FAS No. 109-1 was effective upon issuance, we are still evaluating the impact FSP FAS No. 109-1 will have on our financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", an amendment of Accounting Research Bulletin No. 43, Chapter 4. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe adoption of SFAS No. 151 will have a material effect on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. APB Opinion No. 29, "Accounting for Non-monetary

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. Summary of Accounting Policies (continued)

Transactions," provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. Under APB Opinion No. 29, an exchange of a productive asset for a similar productive asset was based on the recorded amount of the asset relinquished. SFAS No. 153 eliminates this exception and replaces it with an exception of exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for the Company as of January 1, 2005. The Company will apply the requirements of SFAS No. 153 when such an exchange occurs.

2. Federal Income Tax

The Company has adopted Financial Accounting Standards No. 109, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns.

Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant. At December 31, 2005, the Company has available for federal income tax purposes a net operating loss carry forward of approximately \$6,017,000, expiring in the year 2020, that may be used to offset future taxable income.

The components of the provision for income tax (expense) benefits are as follows:

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
<u>Deferred:</u>		
Federal	\$119,215	\$77,332
State	16,522	10,717
Valuation Allowance	<u>(135,737)</u>	<u>(88,049)</u>
	<u>\$ -</u>	<u>\$ -</u>

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

2. Federal Income Tax (Continued)

The above provision has been calculated based on Federal and State statutory rates in the adjusted rates of 34% for Federal and 4.5% for State tax rates.

The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized.

At December 31, 2005 and 2004 deferred taxes consisted of the following:

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Net operating loss carryforward	\$2,077,881	\$1,953,049
Less valuation allowance	<u>(2,077,881)</u>	<u>(1,953,049)</u>
	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance offsets the net deferred tax asset for which there is no assurance of recovery. The change in the valuation allowance for the years ended December 31, 2005 and 2004 totaled \$124,832 and \$88,049, respectively. The net operating loss carry-forward expires in year 2020. The valuation allowance will be evaluated at the end of each year, considering positive and negative evidence about whether the deferred tax asset will be realized.

At that time, the allowance will either be increased or reduced; reduction could resulting the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

3. Going Concern

As shown in the accompanying financial statements, the Company incurred a net loss of approximately \$367,154 during the year ended December 31, 2005 that raise substantial doubt about the entity's ability to continue as a going concern.

The Company has received additional financing through the sale of a non-performing asset, continues to control expenses, and evaluates the ongoing performance of the Company's assets. The ability of the Company to continue as a going concern is dependent on the success of application and techniques. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

4. Buildings and Equipment

As of December 31, 2005 plant and equipment consisted of the following:

Land	\$ 249,547
Buildings	5,995,553
Machinery and equipment	125,535
Furniture and fixtures	286,635
Computer equipment	<u>73,668</u>
Total	6,730,938
Less accumulated depreciation	<u>(1,401,908)</u>
	<u><u>\$5,329,030</u></u>

Depreciation expense in the amount of \$170,474 and \$171,722 has been recorded for the years ended December 31, 2005 and 2004 respectively.

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

5. Common and Preferred Stock

During the year ended 2005 and 2004 a total of 550,000 and 125,000 shares of common stock was issued to directors and employees, respectively. The stock was valued at between \$0.04 and \$0.08 per share in 2005 for a total of \$24,000 and \$.025 per share in 2004 for a total of \$3,125.

In April 2005, the holder of 1,000,000 shares of the Company's Class "A" Convertible Stock converted those shares into the Company's common stock on a one-for-one basis.

In May 2005, the Company's board of directors approved a 1-for-10 reverse split of the Company's common stock effective June 7, 2005.

Common Stock Outstanding Before Reverse Split	21,414,268
Reverse Split 1 for 10	<u>(19,272,715)</u>
Common Stock Outstanding After Reverse Split	<u>2,141,553</u>

A total of 2,141,553 shares of common stock were outstanding as of December 31, 2005.

6. Long Term Debt

The Company has \$188,876 outstanding against a \$500,000 line of credit with Banco BCT, which bears interest at the prime rate plus 3%. In February 2002, the Company restructured the loan. The new terms include a loan term of 70 months; an annual interest rate of prime plus 3.75%, and monthly principal payments that vary with the high and low occupancy periods of Hotel Alta. Monthly principal payments in year one will vary from \$3,000 to \$12,000. The funds advanced under this line of credit were utilized to supplement cash flow for operating expenses and construction costs. The note is collateralized by property of the Company.

Future principal payments on long-term debt at December 31, 2005 are as follows:

2006	\$88,000
2007	100,876

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

7. Notes Payable – Related Parties

Notes payable to related parties consists of the following at December 31, 2005:

Notes payable to stockholders, various dates interest rate 5%, no set terms for repayment, unsecured	<u>\$153,170</u>
Total	<u>\$153,170</u>

8. Leases

The Company has a month-to-month lease for 1 acre of property. Minimum rentals in the years ending December 31, 2005 and 2004 are \$18,000 and \$18,000, respectively.

9. Commitments and Contingencies

Included as a liability on the balance sheet is an accrued expense in the amount of approximately \$181,000 relating to penalties and interests for non-payment of sales taxes for Hotel Alta.

Penalties and interest were not included as the government had an amnesty program that forgave penalties and interest on all past taxes paid by April 30, 2003. The Company planned to have the cash available to pay past taxes by selling a beach property called Tropicana before April 30. Instead, through negotiations with the government the Company offered part of the property to the government in lieu of payment. Before April 30 the government accepted the property and began an appraisal to see how much of the past taxes it would cover. In August 2003, the government reversed course on the offer to accept the property. They demanded full payment of the back taxes including penalties and interest. As of the report date, the Company has paid down the principle tax liability of about \$240,000 and part of the interest and penalties (but is continuing to dispute the interest and penalties.)

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

10. Sale of Asset

On June 15, 2004, the Company sold the property known as "the Tropicana" to unrelated parties for a total of \$635,000. The funds were used to reduce debt and pay the accrued expenses relating to tax owned. The sale resulted in a loss of \$59,703 as recorded in the statement of operations for the year ended December 31, 2004.

11. Subsequent Event

On March 13, 2006 Central American Equities Corp. and its wholly-owned subsidiary, Ostar Acquisition Corp., entered into an Agreement and Plan of Merger with Ostar Pharmaceutical, Inc. Ostar Pharmaceutical owns 60% of Hebei Aoxing Pharmaceutical Group, which is involved in the business of manufacturing and distributing analgesic drugs in the People's Republic of China.

The Agreement provides that at a closing, which is expected to occur later in April 2006, Ostar Pharmaceutical will be merged into Ostar Acquisition Corp., and become a wholly-owned subsidiary of Central American Equities Corp. In connection with the merger, Central American Equities Corp. will issue to the shareholders of Ostar Pharmaceutical 37,858,447 share of common stock and 300 shares of a new Series C Preferred Stock. The Series C Preferred Stock will be convertible into a total of 120,000,000 shares of common stock. Accordingly, the current shareholders of Ostar Pharmaceutical will own, after the merger, on a fully-diluted basis, 157,858,447 shares of Central American Equities Corp common stock, representing 98.7% of the outstanding, fully-diluted common shares.

On the same date, Michael Caggiano, Richard Wm. Talley, and P. James Voloshin, the principal shareholders of Central American Equities Corp. (the "Principal Shareholders"), entered into a Put and Call Option Agreement with Warner Technology and Investment Corp. The Agreement provides that the Principal Shareholders can require Warner Technology to purchase, or Warner Technology can require the Principal Shareholders to sell, 551,415 shares of Central American Equities Corp. common stock within a specified time period.

CENTRAL AMERICAN EQUITY CORP. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

11. Subsequent Event (continued)

On the same date, Central American Equities Corp. entered into a Subsidiary Purchase Agreement with the Principal Shareholders. The Agreement provides that at any time during the period commencing 90 days after closing of the merger and ending 180 days after closing of the merger, Central American Equities Corp. may require the Principal Shareholders to purchase, or the Principal Shareholders may require Central American Equities Corp. to sell, all of the Costa Rican corporations that are, at present, the subsidiaries of Central American Equities Corp.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

The Company's auditor is Killman, Murrell & Company P.C. At no time have there been any disagreements with our auditor regarding any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Change in Auditors

The 2004 financial statements in this filing were audited by Clyde Bailey, P.C., C.P.A. At a board of directors meeting held on September 15, 2005, the Board of Directors of Central American Equities Corp. accepted the resignation of Clyde Bailey, P.C. as its Certified Accountant for the fiscal years ended December 31, 2002, December 31, 2003 and December 31, 2004.

At no time did Clyde Bailey's financial statements contain an adverse opinion or disclaimer of opinion or was modified as to uncertainty, audit scope, or accounting principles. Nor were there any disagreements with Clyde Bailey, P.C. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

At a board of directors meeting held on September 21, 2005, the Board of Directors engaged Killman, Murrell & Company, P.C. Certified Public Accountants as the principal accountant for the Company. Central American Equities Corp. has authorized Clyde Bailey, P.C. to respond fully to the inquiries of the successor accountant.

The financial statements filed with the Company's 10-QSB for the three-month period ended June 30, 2005 were not reviewed in accordance with Item 310 of Regulation SB. The Company's new auditor (Killman, Murrell & Company, P.C.), reviewed these financial statements and the Company filed an amended 10-QSB for the three-month period ended June 30, 2005.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, AND CONTROL PERSONS

Identification of Directors and Executive Officers

The following table sets forth the names of all directors and executive officers of the Company during 2005. Mr. Talley was elected to the board of directors on 01/20/97. In

September 1998, Mr. Caggiano became the consulting CEO and President of CAE and a board member of CAE.

In April 2004, Dr. P. James Voloshin was elected to serve the remainder of the unfinished term of Mr. W.F.O. Rosenmiller. At a shareholder meeting of the Company held on December 29, 2005. Mr. Talley, Mr. Caggiano, and Dr. Voloshin were re-elected to the board of directors and will serve until the next meeting of the shareholders.

Name	Position Held	Dates	Age
Richard Wm. Talley	Chairman/Director	1/1997 to current	63
Michael Caggiano	President/CEO/Director	9/1998 to current	52
Dr. P. James Voloshin	Secretary/Director	4/2004 to current	64

Business Experience

RICHARD Wm. TALLEY, Chairman and Director of Central American Equities Corp (age 63, time spent on company business: 10 percent). Mr. Talley was (with Mr. King) a representative of Cal TKCo, S.A., the general partner in several of the California Limited Partnerships that raised the seed money for the Costa Rican corporations that built the hotels (see Item 1, Description of Business). As of August 1999, Mr. Talley has been the CEO of Talley and Co., an investment banking and general securities company located in Irvine, California.

Mr. Talley began his finance career with Smith Barney in New York. He opened and managed the Shearson office in Santa Barbara until its sale to American Express in 1983, at which time he founded Talley, McNeil, and Tormey, a regionally focused investment bank and brokerage firm. The firm was merged into a larger Southern California investment banking and brokerage firm in 1989. In 1993, Mr. Talley and Paul D. King founded Talley, King and Co., Inc. ("Talley King") with offices in Irvine, California. Talley, King & Co., Inc. was an investment bank that focused on private placement financing.

Mr. Talley has been actively involved in Costa Rica for the last decade. Mr. Talley holds a bachelor of arts degree in European History from the University of California, Santa

Barbara and an MBA in Finance from Cornell University, Ithaca, New York.

MICHAEL N. CAGGIANO, Ph.D. President, Consulting Chief Executive Officer, and Director of Central American Equities (age: 52, time spent on company business: ninety percent). Dr. Caggiano is also a officer and owner of Talley & Co. During 2000, Dr. Caggiano was also a Director of Café Britt, a roaster and distributor of premium Costa Rican coffee.

Prior to joining CAE, as a private consultant, Dr. Caggiano specialized in furnishing advice to management regarding economic performance, corporate strategy, obtaining financing (business plans, prospectuses, SEC and NASD filings), mergers and acquisitions, and organizational change. His clients have included health care, real estate, hospitality, international exporting, electronics, and manufacturing companies. Dr. Caggiano has also provided public policy and litigation analysis for local governments and private entities.

Prior to establishing his own company, Dr. Caggiano was Executive Vice President in Charge of Consulting Operations at Robert Charles Lesser & Co. (RCLCo) a 50-person, 5-office, national consulting firm based in Los Angeles. While at RCLCo, he oversaw the management of more than 300 consulting engagements annually.

In 1990, Dr. Caggiano was elected to the first City Council of Malibu and later served as its Mayor Pro Tem. Before serving as an elected official, he was a Fellow and Policy Analyst with The RAND Corporation. While at RAND, he specialized in solving state and local government financial and criminal justice problems.

Dr. Caggiano holds a Ph.D. and M.Ph. in Public Policy Analysis from the RAND Graduate School of The RAND Corporation, an M.P.A. from the University of Southern California, and a B.A. in Government from Pomona College.

P. JAMES VOLOSHIN, M.D., Secretary and Director of Central American Equities Corp (age 64, time spent on Company business: one percent). Dr. Voloshin, was selected to replace Mr. Rosenmiller on the board of directors in April 2004 and was elected to the board at the shareholder's meeting in May 2004. Dr. Voloshin has been a director of MedPlus Inc., a public company since January 1996. Dr. Voloshin is a plastic surgeon and has been President of the Newport Surgery

Institute, located in Newport Beach, California, since 1986. Dr. Voloshin co-founded Surgical Funding Group, Inc. in 1992 and was its President until the company was acquired by MedPlus Inc. in November 1995. Dr. Voloshin is or has been a member of ten medical societies including the American Society of Plastic Surgery.

Dr. Voloshin has been a shareholder of Central American Equities since 1997. The nomination committee nominated him to increase shareholder representation and because of his experience in other public companies especially in the area of audits and the sale of public shells. Dr. Voloshin holds a medical degree from the University of Alberta, Canada in 1966, and Board Certification in Plastic Surgery since 1972. He is a resident of Dana Point, California.

Family Relationships

There are no family relationships between the directors or executive officers of the Company, either by blood or by marriage.

Involvement in Certain Legal Proceedings

During the past five years, no present director, executive officer or person nominated to become a director or an executive officer of the Company was:

1. A general partner or executive officer of any business against which any bankruptcy petition was filed, either at the time of the bankruptcy or two years prior to that time;
2. Convicted in a criminal proceeding or named subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. Subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. Found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity futures trading Commission to have violated

a commodities law, and the judgment has not been reversed, suspended or vacated.

ITEM 10. EXECUTIVE COMPENSATION

The Company has no stock option or stock appreciation rights, long-term or other incentive compensation plans, deferred compensation plans, stock bonus plans, pension plans, or any other type of compensation plan in place for its executive officers, or directors except as noted in the table and footnotes listed below.

The following table sets forth the total compensation of current officers and directors during the fiscal years ended December 31, 2002 through 2005. The footnotes are an integral part of the table. No officer or director of the Company earned more than \$100,000 from the Company during such fiscal years. The Company granted no stock options in fiscal year 2004 and no stock options were exercised in 2004. The Company granted 500,000 stock options at \$0.04 in 2005 and they were exercised immediately.

Name & Title	Year	Salary	Restricted Stock	Securities Underlying Options/SARs	Other Compensation
Michael Caggiano					
President & CEO	2002	\$75,000	700,000	300,000 (1)	(2)
	2003	\$75,000	700,000		(2)
	2004	\$75,000	25,000 (3)		(2)
	2005	\$80,000		500,000 (5)	(2)
Richard Talley					
Chairman	2002	0	0	0	0
	2003	0	0	0	\$19,800 (4)
	2004	\$500	25,000 (3)	0	0
	2005	\$500	0	0	0
P. James Voloshin					
Director	2004	\$500	25,000 (3)	0	0
	2005	\$500		0	0

NOTES:

(1) In the fourth quarter of 2002 the board granted options to Mr. Caggiano as follows: 100,000 shares @ \$0.10; 100,000 shares @ \$0.15; and 100,000 shares @ \$0.20 (all to expire in 2007).

(2) In addition to salary, the board compensates Mr. Caggiano with a room, food and laundry in the hotels when needed and motor vehicle (receipt pending cash for purchase).

(3) At the shareholder meeting on May 15, 2004, the Company granted board directors (Talley, Voloshin, Caggiano) each 25,000 shares of common stock as compensation for board services. To defer board expenses, the board also approved a \$500 payment per non-telephonic board meeting for non-employee board members (Talley and Voloshin).

(4) During the fourth quarter of 2003, the Company raised cash by selling securities. The Company paid Richard Wm. Talley, a director of the Company, \$19,800 (10% of gross proceeds) in commission on the sale of the stock.

(5) In the second quarter of 2005 the board granted options to Mr. Caggiano as follows: 500,000 shares @ \$0.04.

ITEM 11. SECURITY OWNERSHIP OF MANAGEMENT & CERTAIN BENEFICIAL OWNERS

Security Ownership of Certain Beneficial Owners

The following table sets forth the shareholdings of those persons who owned more than five percent of the Company's total common stock as of December 31, 2005:

Name	Number of Shares Beneficially Owned	Percent of Total	Class of Stock
Richard Wm. Talley Hotel Alta, Alto de las Palomas, Santa Ana, Costa Rica	174,443	8.2%	Common
Michael Caggiano Hotel Alta, Alto de las Palomas, Santa Ana, Costa Rica	212,120	9.9%	Common
P. James Voloshin 360 San Miguel Dr. Suite 406 Newport Beach, CA	164,852	7.7%	Common
Total Held by Board	551,415	25.7%	Common
Total Outstanding	2,141,553	100.0%	Common

Shares of P. James Voloshin are held in P.J. Voloshin MD Inc. Pension Fund and PJ Voloshin.

Security Ownership of Management

The following sets forth the shareholdings of the Company's directors and executive officers as of December 31, 2005:

Name	Number of Shares Beneficially Owned	Percent of Total	Class of Stock
Richard Wm. Talley Hotel Alta, Alto de las Palomas, Santa Ana, Costa Rica	174,443	8.2%	Common
Michael Caggiano Hotel Alta, Alto de las Palomas, Santa Ana, Costa Rica	212,120	9.9%	Common
P. James Voloshin 360 San Miguel Dr. Suite 406 Newport Beach, CA	164,852	7.7%	Common
Total Held by Board	551,415	25.7%	Common
Total Outstanding	2,141,553	100.0%	Common

Shares of P. James Voloshin are held in P.J. Voloshin MD Inc. Pension Fund and PJ Voloshin.

In early April 2005, Medical Ventures Group, the holder of 1,000,000 shares of Class "A" Convertible Preferred Stock elected to convert those shares to Common Stock. At the time of conversion, board director P. James Voloshin held controlling interest in Medical Ventures Group. Subsequent to the conversion, Mr. Voloshin sold the shares of Common Stock to Richard Wm. Talley, a board director of the Company. In March 2005, the board awarded Michael Caggiano, the CEO of the Company 500,000 options to purchase common stock at \$0.04 per share. Mr. Caggiano has exercised these options. As such, as of May 6, 2005 there were 21,364,268 shares of Common Stock at \$.001 par value and no (0) shares of Class "A" Convertible Preferred Stock issued and outstanding.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In early April 2005, Medical Ventures Group, the holder of 1,000,000 shares of Class "A" Convertible Preferred stock elected to convert those shares to Common Stock. At the time of conversion, board director P. James Voloshin held controlling interest in Medical Ventures Group. Subsequent to the conversion, Mr. Voloshin sold the shares of Common Stock to Richard Wm. Talley, a board director of the Company. In March 2005, the board awarded Michael Caggiano, the CEO of the Company 500,000 options to purchase common stock at \$0.04 per share. Mr. Caggiano exercised those options. As such, as of May 6, 2005 there were 21,864,268 Shares of Common Stock at \$.001 par value and no (0) shares of Class "A" Convertible Preferred stock issued and outstanding.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

No exhibits are filed with this Form 10-KSB. Additional information may be found in the Annual Report on Form 10-KSB of the Registrant for the year ended December 31, 1998, 1999, 2000, 2001, 2002, 2003 and 2004.

No reports were filed on Form 8-K during the last quarter of the period covered by this report. However a proxy report (DEF Proxy statement Schedule 14A) was filed on November 21, 2005.

Several additional reports have been filed during 2006:

- Report on Form 8K (January 6, 2005)
- Report on Form 8K of February 14, 2006
- Report on Form 8K (Entry into a Material Definitive Agreement) of March 15, 2006
- Form SC 14F-1 (Report of Change in Majority of Directors) March 28, 2006

The January 6 report announces the results of the shareholder meeting of December 29, 2005. The remaining reports are announcements related to the Ostar merger agreements. AS brief summary is below.

Entry Into A Material Definitive Agreement

On March 13, 2006 Central American Equities Corp. and its wholly-owned subsidiary, Ostar Acquisition Corp., entered into an Agreement and Plan of Merger with Ostar Pharmaceutical, Inc. Ostar Pharmaceutical owns 60% of Hebei

Aoxing Pharmaceutical Group, which is involved in the business of manufacturing and distributing analgesic drugs in the People's Republic of China.

The Agreement provides that at a closing, which is expected to occur later in April 2006, Ostar Pharmaceutical will be merged into Ostar Acquisition Corp., and become a wholly-owned subsidiary of Central American Equities Corp. In connection with the merger, Central American Equities Corp. will issue to the shareholders of Ostar Pharmaceutical 37,858,447 share of common stock and 300 shares of a new Series C Preferred Stock. The Series C Preferred Stock will be convertible into a total of 120,000,000 shares of common stock. Accordingly, the current shareholders of Ostar Pharmaceutical will own, after the merger, on a fully-diluted basis, 157,858,447 shares of Central American Equities Corp common stock, representing 98.7% of the outstanding, fully-diluted common shares.

On the same date, Michael Caggiano, Richard Wm. Talley, and P. James Voloshin, the principal shareholders of Central American Equities Corp. (the "Principal Shareholders"), entered into a Put and Call Option Agreement with Warner Technology and Investment Corp. The Agreement provides that the Principal Shareholders can require Warner Technology to purchase, or Warner Technology can require the Principal Shareholders to sell, 551,415 shares of Central American Equities Corp. common stock within a specified time period.

On the same date, Central American Equities Corp. entered into a Subsidiary Purchase Agreement with the Principal Shareholders. The Agreement provides that at any time during the period commencing 90 days after closing of the merger and ending 180 days after closing of the merger, Central American Equities Corp. may require the Principal Shareholders to purchase, or the Principal Shareholders may require Central American Equities Corp. to sell, all of the Costa Rican corporations that are, at present, the subsidiaries of Central American Equities Corp.

Three agreements were filed with the 8K including:

- 10-a Agreement and Plan of Merger dated March 13, 2006 among Ostar Pharmaceutical, Inc., Ostar Acquisition Corp. and Central American Equities Corp.
- 10-b Put and Call Option Agreement dated March 13, 2006 among Warner Technology and Investment Corp. and Richard Wm. Talley, Michael Caggiano and P. James Voloshin.

10-c Subsidiary Purchase Agreement dated March 13, 2006 among Central American Equities Corp. and Richard Wm. Talley, Michael Caggiano and P. James Voloshin.

VERIFICATION SIGNATURES

In accordance with Section 12 of the Securities and Exchange Act of 1934, the registrant caused this registration to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL AMERICAN EQUITIES CORP.

/s/ Michael N. Caggiano

Name: Michael N. Caggiano
Title: President, Chief Executive Officer and Chief Financial Officer
Date: March 31, 2006

CENTRAL AMERICAN EQUITIES CORP.

/s/ Richard Wm. Talley

Name: Richard Wm. Talley
Title: Chairman and Director
Date: March 31, 2006

CENTRAL AMERICAN EQUITIES CORP.

/s/ P. James Voloshin

Name: P. James Voloshin
Title: Director
Date: March 31, 2006

SARBANES-OXLEY ACT Section 302 CERTIFICATIONS

I, Michael Caggiano, certify that:

1. I have reviewed this annual report on Form 10-KSB of Central American Equities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures; and

(d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael N. Caggiano

Michael N. Caggiano
President, Chief Executive Officer and Chief
Financial Officer
March 31, 2006

SARBANES-OXLEY ACT SECTION 906 CERTIFICATIONS

I Michael N. Caggiano, hereby certify that:

1. The annual report of the registrant on Form 10-KSB for the year ended December 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the registrant as of the dates and for the periods expressed in the quarterly report.

/s/ Michael N. Caggiano

Name: Michael N. Caggiano

Title: President, Chief Executive Officer and Chief
Financial Officer

Date: March 31, 2006