

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Amendment No. 3
to
FORM 10-KSB**

- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended May 31, 2005
- ☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

INTELLIGENT LIVING CORP.

(Formerly Elgrande International, Inc.)

(Exact name of small business issuer as specified in its charter)

Nevada

000-25335

88-0409024

(State or other jurisdiction of incorporation)

(Commission File Number)

(IRS Employer Identification No.)

1450 Kootenay Street, Vancouver, B.C., Canada

V5K 4R1

(Address of principal executive offices)

(Zip Code)

604-689-0808

Issuer's telephone number, including area code

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 per share

(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and 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 10-KSB or any amendment to this Form 10-KSB. ☒

State issuer's revenues for its most recent fiscal year. \$1,040,306

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

The aggregate market value of the Common Stock held by non-affiliates (based upon the last reported price on the bid-ask average on the OTC Bulletin Board) on August 26, 2005 was approximately \$826,540. As of August 26, 2005, there were 30,612,479 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Transitional Small Business Disclosure Format (Check one): Yes ☐ No ☒

AS A PART OF THE REVIEW BY THE SECURITIES AND EXCHANGE COMMISSION OF THE COMPANY'S PAST FILINGS UNDER THE SECURITIES EXCHANGE ACT OF 1934, WE ARE FILING THIS AMENDMENT NO. 3 TO OUR FORM 10-KSB FOR THE YEAR ENDED MAY 31, 2005 (THE "2005 FORM 10-KSB") THIS AMENDMENT NO. 3 AMENDS THE FORM OF SIGNATURES OF OFFICERS OF THE COMPANY AND INCLUDES THE CONSENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO INCORPORATION BY REFERENCE OF CERTAIN OF THEIR AUDIT REPORTS AND AUDITED FINANCIALS FOR OUR COMPANY IN SPECIFIED REGISTRATION STATEMENTS ON FORM S-8 FILED BY US. IN ORDER TO PRESERVE THE NATURE AND CHARACTER OF THE DISCLOSURES SET FORTH IN THE 2005 FORM 10-KSB AS OF JULY 18, 2008, THE DATE ON WHICH AMENDMENT NO. 2 TO THE 2005 FORM 10-KSB WAS FILED, NO ATTEMPT HAS BEEN MADE IN THIS AMENDMENT NO. 3 TO MODIFY OR UPDATE DISCLOSURES EXCEPT AS DESCRIBED ABOVE.

FORWARD LOOKING STATEMENTS

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on the Company's current expectations as to future events. In the light of the uncertainties in the potential markets for the Company's planned products, the forward-looking events and circumstances discussed in this document might not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

Intelligent Living Corp. (formerly known as Elgrande International, Inc.) ("Elgrande", the "Company", "we" or "us") was incorporated in April 1998 under the laws of the State of Nevada. Through the year ended May 31, 2001, the Company was primarily involved in developing on-line transaction software and on-line marketing and sales of books, software, audio and video media, and computer games. In June, 1999 the Company began selling books, media and computer hardware and software direct to consumers through the Elgrande.com web site. This web site was subsequently terminated and replaced with the Company's Shopengine.net web site in November of 2001. The Shopengine.net web site sold handcrafted products from international artists and craftsmen direct to consumers.

The Shopengine.net web site was terminated in May 2002 as planning began for the Company's giftware and home décor wholesale operations. During the year ended May 31, 2003, the Company completed its change of focus to sourcing, manufacturing, importing and distributing European designed giftware and home decor products.

To accelerate entry into the wholesale sector and assist in financing, the Company acquired Biscayne Bay Trading Corporation of Miami Florida in November 2003 and entered into an inventory support agreement with Walther Glas GmbH & Co KG of Bad Driburg Germany (supplier of the Company's primary product "Love Plates") in October 2004.

Elgrande International, Inc. specializes in designing, sourcing, importing, marketing and distributing products for the North American giftware, and home décor sectors. The Company sources product from small and mid-sized European based "export ready" manufacturers and sells to independent retailers, designers and key accounts. Sales are made through the Company's trade name European Sources Direct (ESD).

In addition to representing established product lines Elgrande actively works with artists and manufacturers to design and produce limited edition products for sale through ESD's customer base. Elgrande currently represents products produced by Walther-Glas (Germany), Almas d'Areosa Ceramicas (Portugal). Elgrande is also working with Honza Galek a master glassblower in the Czech Republic to produce a line of limited edition glasses designed by Ginger Kelly and marketed under the name Ginger Kelly Glassware. Ginger Kelly is a well known US glass artist. The Company's products are presented on-line at www.EuropeanSourcesDirect.com.

The Company accesses the North American market through presentations at trade shows, customer direct sales and through independent sales agencies in selected cities across North America. Orders are received by phone, fax or through tradeshow activities. No sales are currently made by the Company directly through on-line commerce. The Company is working with sales agencies located in Atlanta, Chicago, Dallas, Annapolis, Los Angeles, San Francisco, and Rhode Island. The Company's products are displayed in sales agency showrooms in Atlanta, Chicago, Dallas, Los Angeles, NYC, and San Francisco. The Company's offices and warehouse are located in Vancouver, British Columbia, Canada.

RISK FACTORS

In evaluating us, the following risk factors should be carefully considered.

Risks Factors Associated with the Company

We have only a limited operating history.

We were founded in April 1998 and began operating our Elgrande.com web site on June 2, 1999. This web site sold books, media and computer hardware and software direct to consumers. This web site was subsequently terminated and replaced with the Company's Shopengine.net web site in November of 2001. The Shopengine.net web site sold handcrafted products from international artists and craftsmen direct to consumers. This web site was terminated in May 2002 as planning began for the Company's giftware and home décor wholesale operations. We commenced operation of our wholesale business in January 2003. Accordingly, we have a limited operating history on which to base an evaluation of our business and prospects. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development.

To address these risks, we must, among other things, increase our supplier and customer base, implement and successfully execute our business and marketing strategy, continue to develop and upgrade our technology and transaction-processing systems, provide superior customer service and order fulfillment, respond to competitive developments, and attract, retain and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business, prospects, financial condition and results of operations.

Through the early stages of development and until our wholesale business is fully deployed, expenses will exceed revenues generated. We expect to use funding options to offset operating losses. If such net proceeds, together with cash generated by operations, are insufficient to fund future operating losses, we will be required to raise additional funds. There can be no assurance that such financing will be available in amounts or on terms acceptable to us, if at all.

We will be required to raise substantial amounts of capital.

We will be required to raise substantial amounts of capital to continue development and commercialization of our wholesale business, and there is no assurance that we will be able to raise this additional required capital.

Our future revenues are unpredictable.

As a result of our limited operating history and the emerging nature of the markets in which we compete, we are unable to accurately forecast revenues. Our current and future expense levels are based largely on our investment plans. Operating results will, to a large measure, depend on the volume and timing of orders the ability to support orders. We will be substantially dependent on raising equity capital for the foreseeable future and, without access to additional equity capital, we may be forced to cease business operations.

Our systems may fail.

Our success depends on the efficient and uninterrupted operation of our computer based inventory and customer management systems and third party communications systems. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, break-ins, earthquake and similar events.

We do not presently have redundant systems and do not carry business interruption insurance to compensate for losses that may occur as a consequence of complete system failure. Despite the implementation of network security measures, our servers are vulnerable to computer viruses, electronic break-ins and similar disruptions, which could lead to interruptions, delays, and loss of data or the temporary inability to accept and fulfill orders. The occurrence of any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition and results of operations.

Management of future operations.

There can be no assurance that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations or that management will be able to hire, train, retain, motivate and manage required personnel.

We are subject to risks of international business.

There are inherent risks of conducting business internationally. Language barriers, foreign laws and customs, import and export duties, and fluctuating foreign exchange rates all have a potential negative effect on our ability to transact business with citizens of foreign countries. We may be subject to the jurisdiction of the government and/or private litigants in foreign countries where we transact business, and we may be forced to expend funds to contest legal matters in those countries in disputes with those governments or with customers or suppliers.

Risk Factor Associated with the Industry

Dependence on acceptance of product in the wholesale market,

The Company's future growth and success will substantially depend on its success in introducing and selling product in the North American giftware and home décor wholesale markets. While the Company has enjoyed strong initial success, there is no guarantee that it can continue to source and introduce new products that have strong market appeal and sufficient margins and sales to support and grow the business. The resources required to support product development are not insignificant and their availability will depend on the ongoing success of the business. There can be no guarantee or assurance that the Company will be able to sustain this activity or that the activity will provide the products necessary to advance the Company.

EMPLOYEES

We currently have a staff of eleven consisting of nine employees: one Controller, two sales staff, four administrative clerks, one warehouse handlers, one database manager; and two consultants, consisting of the President and the warehouse consultant.

ITEM 2. PROPERTIES

Our executive headquarters is located at 1450 Kootenay Street Vancouver, B.C. We have entered into a lease for our premises of approximately 5,400 square feet, with a term commencing August 1, 2003 and expiring on July 31, 2006. The lease provides for a base rent of \$3,300 per month. Pursuant to the lease, we are also responsible for additional rents for building operating costs. We believe that the premises are adequately insured.

ITEM 3. LEGAL PROCEEDINGS

We are not currently involved in any litigation, nor do we know of any threatened litigation against us that would have a material effect on our financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Our Common Stock has traded on the OTC Bulletin Board since October 5, 1999. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or Commissions and may not represent actual transactions. Prior to August 11, 2003 our trading symbol was "EGND". Effective August 11, 2003, we implemented a 10-for-1 reverse split of our common stock. The new trading symbol effective August 11, 2003 is "EGDE". The following sets forth the range of high and low bid information for the quarterly periods indicated of our last two fiscal years as reported by the National Quotation Bureau:

	BID	
	LOW	HIGH
<u>2004</u>		
First Quarter	\$0.01	\$0.13
Second Quarter	\$0.20	\$0.55
Third Quarter	\$0.11	\$0.41
Fourth Quarter	\$0.13	\$0.40
<u>2005</u>		
First Quarter	\$0.03	\$0.20
Second Quarter	\$0.04	\$0.07
Third Quarter	\$0.04	\$0.10
Fourth Quarter	\$0.04	\$0.09

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information with respect to our common stock issued and available to be issued under outstanding options, warrants and rights.

Plan category	A Number of securities to be issued upon exercise of outstanding options, warrants and rights	B Weighted-average exercise price of outstanding options, warrants and rights	C Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	NA	NA	NA
Equity compensation plans not approved by security holders	2,521,000	\$0.83	4,674,172
Total	2,521,000	\$0.83	4,674,172

HOLDERS

As of August 26, 2005, the number of holders of record of shares of common stock, excluding the number of beneficial owners whose securities are held in street name, was approximately 177.

DIVIDEND POLICY

We do not anticipate paying any cash dividends on our common stock in the foreseeable future because we intend to retain our earnings to finance the expansion of our business. Thereafter, declaration of dividends will be determined by the Board of Directors in light of conditions then existing, including without limitation our financial condition, capital requirements and business condition.

RECENT SALES OF UNREGISTERED SECURITIES

The following table sets forth the information with respect to all securities of the Company sold in its fiscal years ended May 31, 2004 and 2005, without registration of the securities under the Securities Act of 1933. The information includes the names of purchasers, date of issue, number of shares issued or shares into which warrants are convertible, the exercise price and expiration date of warrants, and the consideration received by the Company for the issuance of the shares or warrants. The securities so sold are believed by the Company to be exempt from registration under either Regulation S or Rule 506 under the Securities Act of 1933.

If we indicate in the following table that we relied on Section 4(2) of the Securities Act, we relied on the following factors in determining the availability of the exemption: (a) the issuance was an isolated private transaction by us which did not involve a public offering; (b) there were only a very limited number of offerees; (c) there were no subsequent or contemporaneous public offerings of the stock; (d) the stock was not broken down into smaller denominations; and (e) the negotiations for the sale of the stock took place directly between the offerees and us.

If we indicate in the following table that we relied on Regulation S, (a) the subscriber was neither a U.S. person nor acquiring the shares for the account or benefit of any U.S. person, (b) the subscriber agreed not to offer or sell the shares (including any pre-arrangement for a purchase by a U.S. person or other person in the U.S.) directly or indirectly, in the United States or to any natural person who is a resident of the United States or to any other U.S. person as defined in Regulation S unless registered under the Securities Act and all applicable

state laws or an exemption from the registration requirements of the Securities Act and similar state laws is available, (c) the subscriber made his, her or its subscription from the subscriber's residence or offices at an address outside of the U.S. and (d) the subscriber or the subscriber's advisor has such knowledge and experience in financial and business matters that the subscriber is capable of evaluating the merits and risks of, and protecting his interests in connection with an investment in the Company.

If we indicate in the following table that we relied on Regulation D, we relied upon Rule 506 and (a) the subscriber was an Accredited Investor (as defined in Regulation D), (b) the subscriber invested in the Company for his own account for investment and not for the account of any other person and not with a view to or for distribution, assignment or resale in connection with any distribution within the meaning of the Securities Act, (c) the subscriber agreed not to sell or otherwise transfer the purchased shares unless they are registered under the Securities Act and any applicable state securities laws, or an exemption or exemptions from such registration are available, (d) the subscriber represented that he had knowledge and experience in financial and business matters such that he is capable of evaluating the merits and risks of an investment in the Company, (e) the subscriber had access to all documents, records, and books of the Company pertaining to the investment and was provided the opportunity ask questions and receive answers regarding the terms and conditions of the offering and to obtain any additional information which the Company possessed or was able to acquire without unreasonable effort and expense, and (f) the subscriber had no need for the liquidity in his investment in the Company and could afford the complete loss of the investment.

Name	Date of Issue	Type of Security ¹	Purchase or Exercise Price (USD Per Share)	Number of Shares Purchased or Purchasable Upon Exercise or Conversion	Expiration Date (WTS) or Due date (DEB)	Exemption ²
Maureen. Morford	2/02	CS	0.026	357,692		S
Maureen Morford	4/02	CS	0.06	66,666		S
D P Martin & Assoc	3/02	CS	0.070	1,000,000		506
S. Jackson	3/02	CS	0.045	1,111,111		S
Charles Van Musscher	4/02	CS	0.040	250,000		S
Jennifer Morford	5/02	CS	0.0253	84,615		S
Stockreporter Ltd.	5/02	CS	0.060	650,000		S
Ernest Perich	5/02	CS	0.065	461,538		4(2)
Maureen Morford	7/02	CS	0.032	424,358		S
Carol Murphy	8/03	CS	0.0414	74,517		S
Robert Issac	8/03	CS	0.0414	74,517		S
T. Simons	9/03	CS	0.38	2,282,486		S
Dataway Systems	9/03	CS	0.30	31,400		S
S. Jackson	9/03	CS	0.30	167,000		S
M. Holloran	9/03	CS	0.18	1,014,616		S
Fisherman's Wharf Market	9/03	CS	0.30	83,333		S
C. Goddard	9/03	CS	0.30	25,000		506
Nicholas Moore	12/03	CS	0.50	35,000		4(2)
Maggie Ramsay	12/03	CS	0.20	11,344		S
Miggs Consulting	12/03	CS	0.40	8,066		S
Glen Boehm	12/03	CS	0.22	29,162		S
T. Simons	1/04	CS	0.30	947,917		S
Perich & Partners	1/04	CS	0.22	45,813		4(2)
T. Simons	2/04	CS	0.28	681,101		S
M. Holloran	2/04	CS	0.23	83,912		S
G. Madeya	3/04	CS	0.10	100,000		506

M. Langert	3/04	CS	0.10	100,000		506
Nicholas, Moore & Associates	9/04	CS	0.06	122,000		4(2)
R. Somerville	1/05	CS	0.07	27,935		S
V. Davidson	2/02	DEB		500,000	Feb, 2005	S
M. Holloran	9/02	DEB		830,414	Sept, 2004	S
M. Holloran	11/03	DEB		2,310,871	Jun, 2005	S

(1) CS – Common Stock, DEB - Debenture

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Cautionary Statement Regarding Forward-Looking Statements

This annual report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. Some discussions in this report may contain forward-looking statements that involve risk and uncertainty. A number of important factors could cause our actual results to differ materially from those expressed in any forward-looking statements made by us in this report. Forward-looking statements are often identified by words like: "believe", "expect", "estimate", "anticipate", "intend", "project" and similar expressions or words which, by their nature, refer to future events.

In some cases, you can also identify forward-looking statements by terminology such as "may", "will", "should", "plans", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

RESULTS OF OPERATIONS

Comparison of the Years Ended May 31, 2005 and May 31, 2004.

In January 2002 we launched our wholesale operations through the trade name European Sources Direct (ESD). Since then, we have established wholesale sales representation in key U.S. and Canadian regional giftware and home décor wholesale centers. The Company has invested in product inventory to fulfill sales, to stock showrooms established in key market centers in the USA and Canada, and provide a minimum level of safety stock. On May 31, 2005 we had inventory on hand of \$256,898.

For the year ended May 31, 2005, we had revenues of \$1,040,306 versus \$1,080,907 for the same period ending last year. These revenues are primarily due to Elgrande's inaugural product-line, the "Love Plates" from Walther Glas. Revenue for the year ending May 31, 2005 has decreased by approximately 4% compared to the same period in the prior year. This has been due largely to production start-up delays with the Ginger Kelly glassware line in the Czech Republic and to the Company's limited liquidity which has delayed the purchasing of inventory required for to fulfill pending sales (pending sales are orders booked but not yet shipped). Our purchasing supply chain has a time delay of approximately 3 months between recognition of the need for product, ordering, manufacturing, shipping and delivery to customers. Terms of payment are FOB the

supplier's warehouses or net 30 from the shipment date. There are no practical solutions available to shortening the supply chain time delay or improving payment terms. As a result, our limited liquidity has a direct impact on our ability to obtain inventory and supply customers in a timely manner. We have implemented a customer resource management system to better anticipate inventory requirements and sales trends; however, our limited liquidity and the length of our supply chain remain limiting factors. Limited liquidity also negatively impacts our ability to expand inventory and diversify the range of products offered to our customers. Until and unless we are successful in addressing short term liquidity our ability to respond to customer demand and convert demand into revenue will remain.

Gross Profit for the year ending May 31, 2005 was \$370,445 versus \$367,397 as at May 31, 2004. The current gross profit of 35.6 percent of revenue is due entirely to the Company's wholesale activity. The net loss for the year ending May 31, 2005 was \$936,000 versus \$1,231,777 for the prior year. We generated negative cash flow from operating activities for the period from inception (April 8, 1998) through May 31, 2005.

Changes in Financial Condition

A summary of expenses for the year ended May 31, 2005 compared to the same period in 2004 is as follows:

	2005	2004
Consulting	168,018	149,891
Selling expense	270,410	384,012
Legal and other	103,116	87,944
Salaries	428,976	492,684
Depreciation and amortization	28,962	99,241
Office and administration	213,726	398,400
Travel and entertainment	37,309	89,475
	<u>1,250,517</u>	<u>1,701,647</u>

Significant changes in the Company's financial condition that warrant discussion include:

Selling expense

Selling expenses were 30% lower in the year ended May 31, 2005 than in the same period ended 2004. Due to established lines, our need for promotional activity was decreased. We limited our trade show attendance to key shows with guaranteed retailer attendance. In addition, certain of our expenses were reclassified from Selling Expenses to Office and Administration in our third quarter to properly reflect only sales generating expenses.

Depreciation and amortization

Our property and equipment were fully amortized at the start of this fiscal year and accordingly, our depreciation expense had been greatly reduced as the year ended.

Office and Administration

Office and administration costs were lower by 46% in the year ended May 31, 2005 compared to 2004. Investor relations expenses were severely cut back during the year leading to a large drop in costs. In the year ended 2004, we incurred several non-recurring expenses such as the specialized manufacturing of crates for efficient trade show transportation and infrastructure set up costs for our warehouse facilities.

Travel and Entertainment

In the year ended May 31, 2005 we cut our travel and entertainment costs by close to 60% by being selective in the trade shows we attended. We also limited our representation at these trade shows, further cutting back travel costs.

Management is currently investigating other ways to improve its business administration. This may involve additional investments in information technology to create efficiencies.

LIQUIDITY AND CAPITAL RESOURCES

Trends Likely to Have a Material Impact on Short & Long Term Liquidity the Success of the Wholesale Line

In the previous two fiscal years, we established relationships with wholesale sales agencies and independent sales representatives in the North American giftware and home décor market and we secured distribution rights and equity investment in the form of inventory credits from Walther-Glas the supplier who provides the majority of products in our product line. Having established North American sales representation, the strength of our existing product lines, the potential to diversify the current range of products using existing manufacturing, and the opportunity to increase sales to existing customers, Management believes that there is the potential for revenues to increase positioning the Company to be cash flow positive, self-sustaining and ultimately, profitable.

Liquidity

Uncertainties in the supply side and sales side of the marketplace can directly impact our revenue, expenses and liquidity. These uncertainties include, but are not limited to: foreign exchange fluctuations, labor and product shortages, labor disruptions, shipping disruptions, ongoing relationships with our suppliers, continued acceptance of the Company's products within the Company's market and cannot be quantified at this time.

Internal and External Sources of Capital

We have limited assets to sell in order to create short or long term liquidity. Therefore we are dependant on a combination of external sources for funding and the developing trend to increased sales and positive net cash flow to maintain liquidity.

We anticipate the need to develop sufficient inventory to meet sales demand. Short term, we will have to rely on external sources for funding to support immediate inventory requirements. Long-term, inventory build-up is planned to coincide with our ability to generate positive cash flow. Until such time as we have positive cash flow on a monthly basis, the dependence on external capital will remain.

There are no guarantees that we will be able to raise external capital in sufficient amounts or on terms acceptable to us. Our ability to demonstrate a consistent trend towards achieving positive cash flow and profitable quarters may have a beneficial effect on liquidity and our ability to secure external capital.

Investing Activities

Investing activities for the period from inception through May 31, 2005 consisted primarily of the purchase of inventory, property and equipment and soft costs associated with the development of our wholesale activities and supporting infrastructure.

Financing Activities

Since inception, we financed operations through proceeds from the issuance of equity and debt securities and loans from shareholders and others. To date, we raised approximately \$7 million from the sale of common stock and have borrowed approximately \$2 million from investors and shareholders. As at May 31, 2005, approximately \$766,590 remains as debt. Funds from these sources have been used as working capital to fund the on-going development of our wholesale division. Our Board and management remain focused on carefully examining ways and means of continuing to move ahead.

By August 2003, it had become clear that capital restructuring was a necessary step to allow the expansion of its product base, to sign larger customers, to improve its due diligence profile with key account customers and suppliers, and to conclude negotiations for the funding necessary to support and grow the business. Upon reviewing these facts and on the advice of counsel, the Board decided that it was in our long-term best interest and the best interests of our shareholders to effectuate a change in our capital structure, and thereby provide us with a more stable base to build upon. In August 2003 we effected a 10 for 1 reverse split of our common stock.

On October 3, 2003, we entered into a merger agreement with Biscayne Bay Trading Corporation ("Biscayne Bay"), a Florida corporation. Biscayne Bay was created to market and sell leading home décor and office furnishing products throughout the southeast United States. The merger became effective October 30, 2003 after which Biscayne Bay ceased to exist.

We issued 35,000 shares of our common stock in exchange for the outstanding shares of Biscayne Bay which equated the aggregate fair market value of approximately \$8,000 of Biscayne Bay at the time of merger. As part of the merger agreement with Biscayne Bay the rights and obligations of Biscayne Bay under a debenture agreement were assigned to us, so that we would receive any subsequent funding under the debenture agreement. Under the Agreement, we have exercised \$697,000 in convertible debentures.

Our financing activities for the year ended May 31, 2005 provided a net total of \$770,297. Cash at the end of the period was \$7,918. As of August 26, 2005, we had cash of \$5,000.

The timing and amount of future capital requirements will depend on the demand for the Company's products and services, and the availability of expansion opportunities through added products, geographical presence, strategic affiliations and other business relationships.

PLAN OF OPERATION

Elgrande International, Inc. ("Elgrande", the "Company", "we" or "us") specializes in designing, sourcing, importing, marketing and distributing products for the North American giftware, and home décor sectors. The Company sources product from small and mid-sized European based "export ready" manufacturers and sells to independent retailers, designers and key accounts. Sales are made through the Company's trade name European Sources Direct (ESD).

The current principal country of supply is Germany and the principal currency for pricing inventory purchases is the Euro. We have negotiated a currency accommodation with our principal supplier that provides some protection from currency fluctuations and a reduction of exposure to foreign currency fluctuations between the Euro and US dollars.

Until such time we are able to diversify our source of supply and range of product, interruptions in manufacturing capacity and/or supply side logistics will have a negative impact on operations, as would a major reduction in consumer demand for our products or loss of a supplier. Because of our dependence on surface transportation for both the import of inventory and the delivery of product to customers we are exposed to the potential for labor disputes to disrupt our flow of product and to changes in the price for transportation as a result of oil and gas price changes or general increases in the cost of service.

Our product lines are subject to two buying seasons. A Spring/Summer season, which has buying in the period late January through late April of each year, and a Fall/Winter season which has buying in the period late June through late October. There are order lulls in the periods between the two buying seasons, specifically November through January and May through June. The seasonality of the industry therefore has a material effect on the financial condition and results of operations.

We realized negative cash flow of \$774,621 from operating activities for the twelve months ending May 31, 2005 compared to negative cash flow of \$835,544 from operating activities for the year ended May 31, 2004.

Management estimates that an additional \$800,000 in working capital will be required to continue the Company's operations and sustain development through the next fiscal year. Management is actively seeking a combination of equity and debt investment to achieve the required financial support. Collection of accounts receivable and sale of prepaid inventory is estimated to be sufficient to sustain the current level of operations over the first 4 months of the coming fiscal year.

OFF BALANCE-SHEET ARRANGEMENTS

During the year ended May 31, 2005, the Company did not engage in any off-balance sheet arrangements as defined in Item 303(c) of the SEC's Regulation S-B.

ITEM 7. FINANCIAL STATEMENTS

Financial statements for the year ended May 31, 2004 were audited and approved by Williams & Webster, P.S. Certified Public Accountants Spokane Washington.

To the Board of Directors and Stockholders
Elgrande.com
Vancouver, BC
CANADA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheets of Elgrande.com as of May 31, 2004 and 2003 and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 financial statements referred to above present fairly, in all material respects, the financial position of Elgrande.com as of May 31, 2004 and 2003 and the results of its operations, stockholders equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Company has accumulated substantial losses and substantial debt. Realization of a major portion of the assets is dependent upon the Company's ability to meet its future financing requirements, and the success of future operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Williams & Webster, P.S.
Williams & Webster, P.S.
Certified Public Accountants
Spokane, Washington
July 19, 2004

Financial statements for the year ended May 31, 2005 were audited and approved by Chisholm Bierwolf & Nilson, LLC Certified Public Accountants, Bountiful, Utah.



Todd D. Chisholm, Audit Partner
Nephi J. Bierwolf, Tax Partner
Troy F. Nilson, Audit Partner

533 West 2600 South, Suite 25 • Bountiful, Utah 84010 • Phone (801) 292-8756 • Fax (801) 292-8809 • www.cbncpa.com

The Board of Directors
Elgrande International, Inc. and Subsidiaries
San Diego, California

We have audited the accompanying balance sheets of Elgrande International, Inc. as of May 31, 2005, and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the PCAOB (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, audits of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elgrande International, Inc. as of May 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.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has a working capital deficit, is dependent on financing to continue operations, and has suffered recurring losses to date, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Chisholm, Bierwolf & Nilson

Chisholm Bierwolf & Nilson, LLC
Bountiful, Utah
August 4, 2006

Member of AICPA, UACPA & Registered with PCAOB

ELGRANDE INTERNATIONAL, INC.
(Formerly known as Elgrande.com, Inc.)
CONSOLIDATED BALANCE SHEETS

ASSETS	May 31, 2005	May 31, 2004
CURRENT ASSETS		
Cash	\$ 7,918	\$ 96,874
Accounts receivable	163,671	198,195
Prepaid inventory	-	7,845
Inventory	256,898	293,714
Employee expense advances	2,884	2,365
GST tax refundable	6,999	33,992
TOTAL CURRENT ASSETS	438,370	632,985
PROPERTY AND EQUIPMENT, NET	1,950	22,769
OTHER ASSETS		
Software, net	46,596	48,457
Deposits	33,062	31,421
TOTAL OTHER ASSETS	79,658	79,878
TOTAL ASSETS	\$ 519,978	\$ 735,632
LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 282,740	\$ 222,010
Accrued liabilities	240,759	791,473
Accrued interest	35,142	37,277
Debentures	35,000	55,727
Loans payable	766,590	18,359
Debentures and loans payable, related parties	249,839	178,262
TOTAL CURRENT LIABILITIES	1,610,070	1,303,108
LONG-TERM LIABILITIES		
Accounts payable	126,710	170,992
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, 500,000,000 shares authorized, \$.001 par value; 23,439,667 and 16,959,600 shares issued and outstanding, respectively	23,439	16,959
Additional paid-in capital	9,270,158	8,831,216
Accumulated deficit	(10,513,395)	(9,577,395)
Accumulated other comprehensive income (loss)	2,996	(9,248)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(1,216,802)	(738,468)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 519,978	\$ 735,632

The accompanying notes are an integral part of these financial statements

ELGRANDE INTERNATIONAL, INC.
(Formerly known as Elgrande.com, Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Year Ended May 31, <u>2005</u>	Year Ended May 31, <u>2004</u>
REVENUES	\$ 1,040,306	\$ 1,080,907
COST OF REVENUES	<u>669,861</u>	<u>713,510</u>
GROSS PROFIT	<u>370,445</u>	<u>367,397</u>
EXPENSES		
Consulting fees	168,018	149,891
Legal and professional fees	103,116	87,944
Salaries	428,976	492,684
Depreciation and amortization	28,962	99,241
Office and administration	123,107	316,655
Travel and entertainment	37,309	89,475
Selling expense	270,410	384,012
Rent	79,969	69,808
Foreign exchange transactions (gain) loss	<u>10,650</u>	<u>11,937</u>
TOTAL OPERATING EXPENSES	<u>1,250,517</u>	<u>1,701,647</u>
LOSS FROM OPERATIONS	(880,072)	(1,334,250)
OTHER INCOME (EXPENSE)		
Debt forgiveness	29,777	236,770
Interest income	38	77
Interest expense	<u>(85,743)</u>	<u>(134,374)</u>
TOTAL OTHER INCOME (EXPENSE)	<u>(55,928)</u>	<u>102,473</u>
NET LOSS	(936,000)	(1,231,777)
OTHER COMPREHENSIVE LOSS		
Foreign currency translation gain (loss)	<u>12,244</u>	<u>(3,253)</u>
COMPREHENSIVE LOSS	\$ <u><u>(923,756)</u></u>	\$ <u><u>(1,235,030)</u></u>
BASIC AND DILUTED NET LOSS PER COMMON SHARE	\$ <u><u>(0.05)</u></u>	\$ <u><u>(0.12)</u></u>
WEIGHTED AVERAGE NUMBER OF COMMON STOCK SHARES OUTSTANDING, BASIC AND DILUTED	<u><u>17,675,422</u></u>	<u><u>10,500,640</u></u>

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

ELGRANDE INTERNATIONAL, INC.
(Formerly known as Elgrande.com, Inc.)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Number of Shares	Amount				
Balance, May 31, 2003	3,540,283	\$ 3,540	\$ 6,608,089	\$ (8,345,618)	\$ (5,995)	\$ (1,739,984)
Stock issued for debt and interest at an average of \$0.31 per share	4,354,181	4,354	1,366,991	-	-	1,371,345
Stock issued for accrued expenses at an average of \$0.16 per share	1,480,489	1,480	239,280	-	-	240,760
Stock issued for conversion of debentures at an average of \$.14 per share	308,333	308	42,192	-	-	42,500
Stock issued for services at an average of \$0.31 per	122,184	122	37,210	-	-	37,332
Stock rescinded	(35,000)	(35)	35	-	-	-
Stock issued for cash at \$0.08 per share less \$233,386 for issuance costs	7,189,089	7,190	537,420	-	-	544,610
Warrants expired	-	-	-	-	-	-
Options expired	-	-	-	-	-	-
Miscellaneous stock adjustment for reverse split	41	-	-	-	-	-
Net loss for the year ended May 31, 2004	-	-	-	(1,231,777)	-	(1,231,777)
Foreign currency translation gain (loss)	-	-	-	-	(3,253)	(3,253)
Balance, May 31, 2004	16,959,600	16,959	8,831,216	(9,577,395)	(9,248)	(738,468)
Stock issued for services at an average of \$0.07 per share	136,143	136	9,607	-	-	9,743
Stock issued for compensation at an average of \$0.05 per share	138,125	138	6,996	-	-	7,134
Stock issued for debt and interest at an average of \$0.07 per share	6,205,799	6,205	422,339	-	-	428,544
Net loss for the year ended May 31, 2005	-	-	-	(936,000)	-	(936,000)
Foreign currency translation gain (loss)	-	-	-	-	12,244	12,244
Balance, May 31, 2005	<u>23,439,667</u>	<u>\$ 23,439</u>	<u>\$ 9,270,158</u>	<u>\$ (10,513,395)</u>	<u>\$ 2,996</u>	<u>\$ (1,216,803)</u>

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

ELGRANDE INTERNATIONAL, INC.
(Formerly known as Elgrande.com, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOW

	Year Ended May 31, 2005	Year Ended May 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (936,000)	\$ (1,231,777)
Adjustments to reconcile net loss to net cash used by operating activities:		
Services paid by issuance of common stock	9,743	37,332
Compensation paid by issuance of common stock	7,134	-
Stock issued for interest expense	9,123	-
Depreciation	20,819	22,086
Amortization	8,143	77,155
Forgiveness of debt	(29,777)	(236,770)
Decrease (increase) in:		
Accounts receivable	34,524	(104,277)
Prepaid expenses	7,845	5,987
Prepaid inventory	-	54,244
Inventory	36,816	(258,376)
Other assets	26,993	(19,912)
Accrued liabilities	(70,068)	649,879
Accounts payable	46,225	139,386
Commitments and contingencies	24,596	(3,548)
Increase (decrease) in:		
Employee advance receivable	(519)	5,055
Accrued interest	29,782	27,992
Net cash used in operating activities	(774,621)	(835,544)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits	(1,641)	(19,973)
Software acquisition	(54,740)	(48,457)
Purchase of property and equipment	-	(27,193)
Net cash used in investing activities	(56,381)	(95,623)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans, related party	142,837	244,834
Repayment of loans, related party	(137,167)	(106,545)
Proceeds from loans	752,108	357,748
Repayment of loans	(18,359)	(29,956)
Issuance of common stock for cash	-	544,610
Net cash provided by financing activities	739,419	1,010,691
Net increase (decrease) in cash	(91,583)	79,524
Foreign currency translation gain (loss)	2,627	(3,252)
Cash, beginning of period	96,874	20,602
Cash, end of period	\$ 7,918	\$ 96,874
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest and income taxes:		
Interest	\$ 16,410	\$ 18,828
Income taxes	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Accrued liabilities paid with stock	\$ 400,000	\$ 240,760
Common stock issued for debt and interest	\$ 19,421	\$ 1,423,845
Services paid by issuance of stock and options	\$ 9,743	\$ 337,332

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

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Elgrande International, Inc., (formerly known as Elgrande.com, Inc.) (hereinafter, “the Company”), was incorporated in April 1998 under the laws of the State of Nevada. Through the year ended May 31, 2001, the Company was primarily involved in developing and marketing internet applications, specifically for books, software, audio and video media, and computer games and the on-line sales of media and computer equipment. The Company began operating the Elgrande.com web site on June 2, 1999. This web site sold books, media and computer hardware and software direct to consumers. This web site was subsequently terminated and replaced with the Company’s Shopengine.net web site in November of 2001. The Shopengine.net web site sold handcrafted products from international artists and craftsmen direct to consumers. This web site was terminated in May 2002 as planning began for the Company’s giftware and home décor wholesale operations. We commenced operation of our wholesale business in January 2003.

During the year ended May 31, 2003, the Company completed its change of focus to sourcing, manufacturing, importing and distributing European designed giftware and home products. The Company is doing business under the trade name “European Sources Direct”.

The Company maintains an office in Vancouver, British Columbia, Canada. The Company imports and warehouses inventory in Vancouver for sale to customers across North America. The Company and its operating subsidiary have common management and management structure, does not manage or distinguish its markets, products and activities based on geography, political boundaries or currency. Accordingly, management believes the Company operates with one segment as defined by SFAS 131.

Elgrande International, Inc. formed a wholly owned subsidiary, Yaletown Marketing Corp., a British Columbia Corporation, to provide management and administrative services for the Company. Yaletown Marketing was incorporated February 23, 1999 in Victoria, British Columbia, Canada.

In June 2002, the Company incorporated a German subsidiary, Elgrande Europe AG, to provide an operating presence in Europe. The appropriate utilization of this subsidiary by the Company is still being determined.

The Company’s year-end is May 31.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Elgrande International, Inc. is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Accounting for Stock Options and Warrants Granted to Employees and Nonemployees

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123R, “Accounting for Stock Based Compensations.” This statement supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. This statement does not address

the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." The Company has not yet determined the impact to its financial statements from the adoption of this statement.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", defines a fair value-based method of accounting for stock options and other equity instruments. The Company has adopted this method, which measures compensation costs based on the estimated fair value of the award and recognizes that cost over the service period.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (hereinafter "SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of the statement are effective for financial statements for fiscal years ending after December 15, 2002. As the Company accounts for stock-based compensation using the method prescribed in SFAS No. 123, the adoption of SFAS No. 148 has no impact on the Company's financial condition or results of operations.

Accounting Method

The Company's financial statements are prepared using the accrual method of accounting.

Advertising and Marketing Expenses

Advertising expenses consist primarily of costs incurred in the design, development, and printing of Company literature and marketing materials. It also includes expenses related to trade shows and display racks supplied to customers. The Company expenses all advertising expenditures as incurred. The Company's advertising expenses were \$270,410 and \$384,012, for the years ended May 31, 2005 and 2004, respectively.

Bad Debts

The Company estimates bad debts utilizing the allowance method, based upon past experience and current market conditions. At May 31, 2005 and 2004, there was no allowance for doubtful accounts. For the years ended May 31, 2005 and 2004 the Company did not record any bad debt expense.

Comprehensive Income

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (hereinafter "SFAS No. 130"). SFAS No. 130 established standards for reporting and displaying comprehensive income, its components and accumulated balances. SFAS No. 130 is effective for periods beginning after December 15, 1997. The Company adopted this accounting standard.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. At May 31, 2005 and 2004, the Company did not have cash equivalents.

Compensated Absences

Employees of the Company are entitled to paid vacation, sick, and personal days off, depending on job classification, length of service, and other factors. The Company accrues vacation expense throughout the

year. Accrued compensated absences as of May 31, 2005 and 2004 were approximately \$27,177 and \$12,000, respectively.

Costs Associated with Exit or Disposal Activities

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (hereinafter "SFAS No. 146"). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 was issued in June 2002 and is effective for activities after December 31, 2002. There has been no impact on the Company's financial position or results of operations from adopting SFAS No. 146.

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (hereinafter "SFAS No. 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

Historically, the Company has not entered into derivatives contracts to hedge existing risks or for speculative purposes.

At May 31, 2005, management and the Company's auditors believe that the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

Earnings per Share

The Company has adopted Statement of Financial Accounting Standards Statement No. 128, "Earnings Per Share". Basic loss per share is computed using the weighted average number of common shares outstanding. Diluted net loss per share is the same as basic net loss per share, as the inclusion of common stock equivalents would be antidilutive under the Company's current and historical record of Net and Comprehensive Loss.

As at May 31, 2004, the Company had outstanding convertible debenture debt of \$234,019 which is included in debentures and related party loans payable and is considered to be antidilutive under the Company's then current and historical record of Net and Comprehensive Loss. As at May 31, 2005, the Company had outstanding convertible debenture debt of \$185,762, convertible notes of \$455,862 and un-issued equity of \$289,246, which are included in debentures, loans and related party loans payable and are considered to be antidilutive under the Company's current and historical record of Net and Comprehensive Loss. Potential

dilution stock equivalents as at May 31, 2004 was 3,324,043 shares of common stock and at May 31, 2005 was 26,710,129 shares of common stock

Fair Value of Financial Instruments

The carrying amounts for cash, deposits, prepaid expenses, receivables, accounts payable, loans payable, accrued liabilities, and convertible debt approximate their fair value.

Foreign Currency Translation Gains/Losses

The Company has adopted Financial Accounting Standard No. 52. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date. Gains or losses are included in income for the year, except gains or losses relating to long-term debt, which are deferred and amortized over the remaining term of the debt. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction. All debt instruments are classified as current and no amortization has been recorded.

Assets and liabilities of the Company's foreign operations are translated into U.S. Dollars at the period-end exchange rates, and revenue and expenses are translated at the average exchange rates during the period. Exchange differences arising on translation are disclosed as a separate component of shareholders' equity. Realized gains and losses from foreign currency transactions are reflected in the Company's results of operation.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

As shown in the accompanying financial statements, at May 31, 2005 the Company has an accumulated deficit of \$10,513,395, and current liabilities in excess of current assets by \$1,171,701. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

An estimated \$800,000 in cash is believed necessary to continue the Company's operations and increase development through the next fiscal year. The timing and amount of capital requirements will depend on a number of factors, including demand for products and services and the availability of opportunities for international expansion through affiliations and other business relationships. Management intends to seek new capital from new equity securities issuances to provide funds needed to increase liquidity, fund internal growth, and fully implement its business plan.

Inventory

Inventories, consisting of products available for sale, are recorded using the first-in first-out method and valued at the lower of cost or market value. Inventory at May 31, 2005 and 2004 consists of tableware for resale with a recorded cost of \$256,898 and \$293,714, respectively.

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, "Inventory Costs— an amendment of ARB No. 43, Chapter 4". This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires that those items be recognized as current-period charges regardless

of whether they meet the criterion of “so abnormal.” In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe the adoption of this statement will have any immediate material impact on the Company.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation. References herein to the Company include the Company and its subsidiaries, unless the context otherwise requires.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. See Note 3.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (hereinafter “SFAS No. 109”). Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the “more likely than not” standard imposed by SFAS No. 109 to allow recognition of such an asset.

At May 31, 2005, the Company had net deferred tax assets calculated at an expected rate of 34% of approximately \$2,900,000 principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been established at May 31, 2005. The significant components of the deferred tax asset at May 31, 2005 and May 31, 2004 were as follows:

	May 31, 2005	May 31, 2004
Net operating loss carry forward	\$ 8,600,000	\$ 7,800,000
Deferred tax asset	\$ 2,900,000	\$ 2,650,000
Deferred tax asset valuation allowance	(2,900,000)	(2,650,000)
Net deferred tax asset	\$ -	\$ -

At May 31, 2005, the Company has net operating loss carryforwards of approximately \$8,600,000, which expire in the years 2019 through 2023. The Company recognized approximately \$65,232 of losses from issuance of restricted common stock and stock options for services in fiscal 2005 and 2004, which are not deductible for tax purposes and are not included in the above calculation of deferred tax assets. The change in the allowance account from May 31, 2004 to May 31, 2005 was \$250,000.

Reclassification

Certain amounts from prior periods have been reclassified to conform to the current period presentation. This reclassification principally consists of the reclassification of the fair market value of all outstanding options and warrants as paid-in capital instead of a separate caption on the balance sheets and statements of stockholders equity. The reclassification has resulted in no changes to the Company’s accumulated deficit or net losses presented.

Revenue and Cost Recognition

Revenues and costs from direct selling of merchandise are recognized at the time of sale of the Company's products. The Company recognizes revenue for product sales when the products are shipped F.O.B. and title passed to customers. Outbound shipping charges are included in net sales collected by the Company. The Company currently provides no allowance for sales returns based on historical experience.

Cost of sales consists of the purchase price of products sold, inbound and outbound shipping charges and packaging supplies.

In November 2001, the Emerging Issues Task Force reached a consensus on Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer". EITF 01-9 addresses the recognition, measurement and income statement classification for sales incentives offered to customers. Sales incentives include discounts, coupons, free products and generally any other offers that entitle a customer to receive a reduction in the price of a product. Under EITF 01-9, the reduction in the selling price of the product resulting from any sales incentives should be classified as a reduction of revenue. The Company adopted EITF 01-9 in fiscal 2002. The Company does not offer sales incentives to its customers.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153 (hereinafter "SFAS No. 109"). This statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion; however, included certain exceptions to that principle. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. During the year ended May 31, 2005, the Company adopted SFAS No. 153. The Company has determined that there was no financial impact from the adoption of this statement.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (hereinafter "SFAS No. 150"). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has determined that there was no financial impact from the adoption of this statement.

Short-term Deposits

The Company's principal product supplier required prepayment for products ordered. The amount of \$7,845 represents inventory ordered and prepaid but not received at May 31, 2004.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The useful lives of property and equipment for purposes of computing depreciation are three to seven years. The following is a summary of property, equipment, and accumulated depreciation:

	May 31, 2005	May 31, 2004
Computer hardware	\$109,740	\$109,740
Furniture and fixtures	78,016	78,016
Subtotal	187,756	187,756
Less accumulated depreciation	(185,806)	(164,987)
Property and equipment - net	<u>\$1,950</u>	<u>\$22,769</u>

Depreciation expense for the year ended May 31, 2005 and 2004 was \$20,819 and \$22,086, respectively. The Company evaluates the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by these assets to their respective carrying amounts. Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.

NOTE 4 – INTANGIBLE ASSETS

The Company adopted SOP 98-1 as amplified by EITF 00-2, “Accounting for Web Site Development Costs.” In accordance with the adoption, the Company capitalized \$545,645 in web site development costs, which is the contractual cost of data base software purchased from an independent software supplier. No portion of this software was internally developed and, accordingly, there are no internal costs associated with this software which were charged to research and development. Consistent with SOP 98-1, the costs of this software—which was purchased solely for internal use and will not be marketed externally—have been capitalized. Capitalized costs are amortized on the straight line basis over five years. Amortization expense for the years ended May 31 2004 was \$77,155. At May 31, 2004, this software was fully amortized.

At May 31, 2005, the Company has capitalized an additional \$54,740 for the development of an Enterprise Resource Planning (ERP) system designed to integrate all departments and functions across the Company into a single computer system database, thereby allowing various departments to share information. Amortization expense for the year ended May 31, 2005 was \$8,143. The Company amortizes this system using the straight line method over three years.

NOTE 5 – COMMON STOCK AND WARRANTS

During the year ended May 31, 2005, the Company issued 6,205,799 shares of common stock in payment of debt and interest of \$428,544; 136,143 shares of common stock for services valued at \$9,743 and 138,125 shares of common stock for compensation valued at \$7,134.

During the year ended May 31, 2004, the Company issued 4,354,181 shares of common stock in payment of debt and interest of \$1,371,345; 1,480,489 shares of common stock for payment of accrued expenses of \$240,760; 308,333 shares of common stock for the conversion of debentures of \$42,500 and 122,184 shares of

common stock for services valued at \$37,332. In addition, the Company rescinded 35,000 share of common stock from a former employee. The Company issued 7,189,089 shares of common stock for \$544,610 cash net of issuance costs of \$233,386.

During the year ended May 31, 2004, 2,222,343 warrants valued at \$307,367 and 1,119,000 options valued at \$228,172 expired

During the years ended May 31, 2005 and 2004, all stock issued for other than cash was valued at the fair market value of the stock at the date of grant.

NOTE 6 – COMMON STOCK OPTIONS

During the year ended May 31, 2003 the Company's board of directors approved the Elgrande.com Inc. 2003 Stock Option Plan. This plan allows the Company to distribute up to 5,000,000 shares of common stock at a maximum offering price of \$0.05 per share.

During the years ended May 31, 2005 and 2004, the Company did not issue any new common stock options. Additionally, no options were exercised, and 30,000 options that were issued in 2002 vested during 2004.

During the year ended May 31, 2002, the Company issued 380,000 stock options for professional services valued at \$18,676. The fair value of the options issued was estimated using the Black Scholes Option Price Calculator assuming risk free interest of 5%, volatility ranging from 160% to 319%, a term of 5 years and an equity price of \$0.05. Of the 380,000 options, 350,000 were fully vested at May 31, 2003. The remaining 30,000 options are vested at May 31, 2004.

The Company has adopted the Elgrande.com Inc. 1998 Directors and Officers Stock Option Plan and the Elgrande.com Inc. 1999 Stock Option Plan and the 2001 Stock Option Plan. These plans allow the Company to distribute up to 9,000,000 shares of common stock. Options issued under the 1999 plan increased to 220,000 shares exercisable at \$3.00 per share before June 2000.

Options issued under the 1998 plan amount to 850,000 valued at \$50,000 for services. The total outstanding options issued from these plans is 3,655,000.

The fair value of each of the above options granted was estimated on the grant date using the Black-Scholes Option Price Calculation. The following assumptions were made to estimate fair value: the risk-free interest rate is 5%, volatility is 50%, and the expected life of the options is five years.

The following is a summary of stock option activity:

	Number of Shares	Weighted Average Exercise Price
Outstanding June 1, 2003	3,640,000	\$ 0.61
Expired	<u>(1,119,000)</u>	<u>(0.11)</u>
Options outstanding and exercisable at May 31, 2004	<u>2,521,000</u>	<u>\$ 0.83</u>
Options outstanding and exercisable at May 31, 2005	<u>2,521,000</u>	<u>\$ 0.83</u>

The Company has four stock option plans entitled the Elgrande.com Inc. 1998 Stock Option Plan, Elgrande.com Inc. 1999 Stock Option Plan, Elgrande.com Inc. 2000 Stock Option Plan, and Elgrande.com Inc. 2003 Stock Option Plan (hereinafter “the Plans”). Their purpose is to advance the business and development of the Company and its shareholders by enabling employees, officers, directors and independent contractors or consultants of the Company the opportunity to acquire a proprietary interest in the Company from the grant of options to such persons under the Plans' terms. The Plans provide that the Company's board of directors may exercise its discretion in awarding options under the Plan, not to exceed 14,000,000 for the 1998, 1999, 2000 and 2003 Plans. The Board determines the per share option price for the stock subject to each option. All options authorized by each plan must be granted within ten years from the effective date of the Plan.

There is no express termination date for the options, although the Board may vote to terminate the Plan. The exercise price of the options will be determined at the date of grant. The following is a summary of the Company's stock option plans:

Equity compensation plans not approved by security holders	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
1998, 1999 and 2000 stock option plan	2,521,000	\$0.83	224,145
2003 stock option plan	-	-	5,000,000
Total	2,521,000	\$0.83	5,224,145

NOTE 7 – RELATED PARTIES

During the year ended May 31, 2005, one of the Company's officers loaned the Company \$142,837, which is uncollateralized, due on demand and bears no interest. The Company repaid \$109,677 of loan principal, \$27,500 of debenture principal and \$16,410 of accrued interest to its officer in cash during 2005.

During the year ended May 31, 2004, the Company combined \$3,500 of accrued liabilities with a short term loan of \$158,262 and issued a 12% convertible debenture to one of its officers in the amount of \$161,762. This debenture is convertible on or before the maturity date of 1 June, 2006 at the per share value determined as the average closing price for the five (5) trading days immediately prior to the conversion date. There are no other stated terms of conversion and repayment. In addition, this same officer loaned the Company \$86,572. This amount was added to the existing \$103,586 short term note which is uncollateralized, due on demand and bears no interest. The Company repaid the short term note \$106,545 in cash and \$88,000 in stock and paid \$12,030 of accrued debenture interest in cash during 2004. See Note 5, and Note 10.

Certain consultants who received common stock under the Company's non-qualified stock option plan are related to the Company's directors and stockholders. Of the 850,000 shares issued to consultants in 1999, 187,500 shares were issued to family members of directors who provided services to the Company. See Note 6.

During the years ending May 31, 2005 and 2004, the Company paid in cash its officers and directors \$9,720 and \$18,660, respectively, in consulting fees.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company rented office space in Vancouver, B.C., Canada for \$2,925 per month under a lease which was effective from January 1, 2002 to July 30, 2003. The Company signed a new five-year lease for different warehouse and office space in Vancouver, B.C. beginning August 1, 2003. The rent for the first two years of the current lease is approximately \$3,500 per month, for the next two years is approximately \$3,600 per month, and for the final year is approximately \$3,900 per month.

Effective August 1, 2006 the Company can terminate the lease with 6 months notice and management intends to exercise this right. Lease payments are charged as an expense as payments become due. Future minimum lease payments under this operating lease at May 31, 2005 for each of the next two years up to the termination date are:

2006 –[minimum 12mo]	\$42,950
2007 –[minimum 3 mo]	\$32,708

Commitments

In July 2003, the Company agreed to sell up to \$600,000 of common stock to Walther-Glas payment to be in the form of \$400,000 in inventory credit plus \$200,000 cash. There were no other considerations. The inventory credit was calculated as the number of items of inventory received times the prevailing purchase price of each item as set from time-to-time by Walther-Glas to a maximum of \$400,000. The inventory was received by the Company during the period October 2003 through May 2004. The expense was recorded as an adjustment to accrued liabilities as inventory was received. The number of shares to be issued was based on the fair market value per share average over the six month period ended April 2005. The number of shares to be issued for the additional \$200,000 of equity, if placed, is based on \$0.10 per share equal to 1.5 times the fair market price per share determined for the \$400,000 of inventory credits. The accrued liability of \$400,000 plus accrued interest of \$28,544 was converted to 6,026,299 shares of common stock in the year ended May 31, 2005 (see Note 5 and Exhibit 10.16).

Disputed Accounts

In May 2002, litigation initiated by the Company's former advertising agent, was settled. The settlement amount of \$40,000 to be paid in a combination of cash and stock was agreed upon. In accordance with this settlement the Company issued 461,538 shares of its common stock and agreed to make a cash payment of \$10,000. The Company paid this \$10,000 commitment during the year ended May 31, 2004.

NOTE 9 – CONCENTRATION OF CREDIT RISK

Cash

The Company maintains cash balances at two banks. Accounts at each institution are insured by the Canadian Depository Insurance up to \$60,000 in Canadian funds. At May 31, 2005 and 2004, no account exceeded this limit.

Economic Dependency

During the fiscal year ended May 31, 2004, the Company expanded its product line but each individual product is supplied by its own supplier. The Company currently purchases approximately 90% of its product line from one supplier.

NOTE 10 – NOTES AND DEBENTURES PAYABLE

During the years ended May 31, 2001 and 2002 the Company issued 12%, subordinated convertible debentures for a total of \$172,042, of which \$32,030 was to related parties. The debentures matured on various dates

beginning January 1, 2002 through May 2002 and paid simple interest quarterly. During the year ended May 31, 2002, all debenture holders signed an agreement to extend the terms of their debentures for one year. During the year ended May 31, 2003, \$11,135 was repaid in cash. Subsequent to May 31, 2003, the Company negotiated the extension of all the debentures outstanding.

During the year ended May 31, 2004, a subordinated convertible debenture in the amount of \$161,762 was issued to a related party, \$86,572 in related party short term loans were received, \$106,545 of related party short term loans were repaid in cash, \$12,030 of accrued debenture interest was paid in cash to a related party and stock valued at 88,000 was issued for repayment of related party loans (See Note 7). \$71,691 of third party debentures and accrued interest was paid with stock. Third party loans of \$357,748 (unsecured with a 12% rate of interest, convertible into common stock at fair market price) were received, \$29,956 of third party debt, of which \$14,574 was accrued interest, was repaid in cash, and stock valued at \$1,254,154 was issued at fair market value for repayment of third party debt.

During the year ended May 31, 2005 the Company secured an additional \$142,837 in related party short term loans (non interest bearing, convertible into common stock at fair market value per share), and repaid in cash \$153,577 of related party debt and interest [\$109,667 of short term note principal, \$27,500 of debenture principal and \$16,410 of accrued interest].

During the year ended May 31, 2005 the Company borrowed \$7,000 from a private investor, due on demand, no interest. Another private investor made loans to the Company in the aggregate amount of \$745,108. The \$745,108 loans have an interest rate of 8% per annum and \$455,862 is collateralized by the Company's inventory and accounts receivable and convertible in whole or in part, at the note holder's sole discretion, at a fixed rate per share into a maximum of 9,000,000 shares of common stock.

At May 31, 2005, the Company accrued interest of \$8,560 on the \$745,108 principal. In addition, the Company repaid third party loan balances of \$18,359 in cash and \$19,421 of third party debentures and accrued interest in shares of common stock.

Holders of the above noted subordinated convertible debentures may, at any time during the term of the debenture, elect to convert outstanding debenture principal in whole or in part into fully paid restricted shares of common stock. The price at which shares of common stock shall be delivered upon conversion (conversion price) is specified as the average of the 5 days closing prices prior to the date of conversion.

As at May 31, 2004 and 2005 the Company was in compliance with its debt covenants.

NOTE 11 – MERGER AGREEMENT

On October 31, 2003 the Company and Biscayne Bay Trading Corporation ("Biscayne Bay", a Florida corporation, entered into a merger agreement. Biscayne Bay was created to market and sell leading home décor and office furnishing products throughout the southeast United States. The merger became effective October 31, 2003 and Biscayne Bay ceased to exist.

The Company issued 35,000 shares of its common stock in exchange for the outstanding shares of Biscayne Bay which equated to the aggregate fair market value of approximately \$8,000 of Biscayne Bay at the time of merger. This investment has been subsequently impaired and has no value.

Debenture Agreement

As part of the merger agreement with Biscayne Bay, the rights and obligations of Biscayne Bay under a debenture agreement inured to the benefit of and became binding upon the Company, so that any subsequent funding under the debenture agreement would be received by the Company.

Biscayne Bay entered into a debenture agreement with three Colorado accredited investors whereby Biscayne Bay committed to sell \$1,000,000 in convertible debentures, together with underlying authorized but unissued shares of common stock of Biscayne Bay into which the Biscayne Bay debenture maybe converted to by those accredited investors.

Subsequent to the merger, the Company deposited 2,000,000 shares of the Company's common stock with an escrow agent as security for its performance under the Biscayne Bay agreement. An additional 6,500,000 shares were placed in escrow during the year ended May 31, 2004. For the year ended May 31, 2004 the Company received \$544,610 in cash for the issuance of debentures. The debentures were immediately converted to 7,189,089 shares of common stock.

These debentures bear an 8% interest rate, are convertible based on the lowest closing bid price on the day a conversion notice is received by the Company or on any of the prior 3 consecutive trading days and are discounted 11.5%. The discount of \$80,154 has been recorded as interest expense since the debentures were immediately converted to common stock.

NOTE 12 – DEBT FORGIVENESS

During the years ended May 31, 2005 and 2004, the Company recorded income of \$29,777 and \$236,770, respectively, from the Company's vendors forgiving old accounts payable. In accordance with Financial Accounting Standards Board No. 145, these gains are included in other income in the Company's statement of operations.

NOTE 13 – SUBSEQUENT EVENTS

In June 2005, the Company issued a warrant to Walther-Glas for 2,000,000 shares of common stock. The warrant is exercisable at any time up to October 10, 2007 at \$0.10 per share. The fair market value of these warrants is approximately \$43,000.

ITEM 8. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

ITEM 8A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods and that all such information required to be disclosed is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

As of the end of the period covered by this report, the Company's Chief Executive and Principal Financial Officer evaluated, with the participation of Company's management, the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, which disclosed no significant deficiencies or material weaknesses, the Company's Chief Executive and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no changes in our internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the Company's most recent fiscal year, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 8B. OTHER INFORMATION.

Not applicable

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Our executive officers and directors and their ages as of August 26, 2005 are as follows:

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>
Michael F. Holloran	58	President, CEO and Director
Murat Erbatur	55	Director

MICHAEL F. HOLLORAN, PRESIDENT AND CEO

Michael Holloran was elected a director effective August of 2000 and accepted the position of President & CEO of Elgrande on August 4, 2000. He brings to Elgrande a wealth of senior management experience spanning 28 years, including 22 years with the Beak International Group and long-term involvement spearheading strategic corporate expansion into key international markets, primarily within Southeast Asia. He has served as a technical advisor to the Asian Development Bank, the governments of Indonesia, Malaysia and the Philippines. He holds outside Directorships, Advisory Board and committee memberships at several prominent North American institutions. He has a Masters of Chemical Engineering degree from McMaster University, a Bachelor of Science (Honors) degree in Applied Mathematics and Chemistry from the University of Waterloo and a Management Studies diploma from Sheridan College.

MURAT ERBATUR, DIRECTOR

Murat F. Erbaturo was appointed a director effective January 2004. He founded and is currently President and CEO of MCM Integrated Technologies Ltd and ScanTech Imaging Corp. MCM is a leading providers of information technology products and services within the Greater Vancouver and lower mainland of British Columbia. ScanTech Imaging Corp. is a market leader in fillable and linkable forms for the Canadian mutual fund industry. Mr. Erbaturo has held these positions for the past 10 years and 8 years respectively. Mr. Erbaturo has spent most of his 32-year professional career in computers and their applications in technical and business environments. His career includes 11 years with Swan Wooster Engineering, three years as Vice President of Engineering Software Development Corp, two years as Director of Marketing with REBIS Industrial Work Group Software and six years with Simons International as Manager, Computer Applications. Mr. Erbaturo received a B.Sc. degree in Civil Engineering from Robert College (Istanbul, Turkey) in 1972 and a Masters degree in Engineering from University of British Columbia in 1973.

Our directors are elected by the stockholders and our officers are appointed by our board of directors. Our officers hold office until their successors are elected and qualified. Vacancies in our board are filled by the board itself. There are currently two vacancies on our board of directors.

We currently do not have a formal audit committee separate from the board of directors. All financial information is reviewed by the collective senior management and board of directors of the Company. It is the goal of the Company to establish a formal audit committee to include an independent "financial expert" member as defined in the rules of the Securities and Exchange Commission. However, our efforts-to-date to include an independent expert have been significantly impaired by the small size of the Company and its limited ability to attract and secure participation of an independent "financial expert".

We are continuing to review proposed corporate code of conduct, which would provide for internal procedures concerning the reporting and disclosure of corporate matters that are material to our business and to our stockholders. The corporate code of conduct would include a code of ethics for our officers and employees as to workplace conduct, dealings with customers, compliance with laws, improper payments, conflicts of interest, insider trading, company confidential information, and behavior with honesty and integrity.

Corporate Code of Conduct

We are reviewing a proposed corporate code of conduct, which would provide for internal procedures concerning the reporting and disclosure of corporate matters that are material to our business and to our stockholders. The corporate code of conduct would include a code of ethics for our officers and employees as to workplace conduct, dealings with customers, compliance with laws, improper payments, conflicts of interest, insider trading, company confidential information, and behavior with honesty and integrity. We expect our management and legal review of the proposed code of conduct to be completed shortly.

There are no family relationships between any of our executive officers and/or directors.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

We believe that during the fiscal year ended May 31, 2005, Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were satisfied.

Name and principal position	Number Of late Reports	Transactions Not Timely Reported	Known Failures To File a Required Form
Michael F. Holloran, President & CEO	0	0	0
Murat Erbaturo Director	0	0	0
Thomas A. Simons	0	0	0

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain information regarding the annual compensation for services in all capacities to us for the years ended May 31, 2005 and May 31, 2004:

SUMMARY COMPENSATION TABLE

Annual Compensation					Long-Term Compensation			
(a)	(b)	(c)	(d)	(e)	Awards		Payouts	
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Other Annual Comp. (\$)	Restricted Stock Awards (\$)	Securities Underlying Options/SARS(#)	LTIP Payouts (\$)	All Other Comp. (\$)
Michael F. Holloran(1)	2005	\$9,720	\$0	\$0	\$0	-0-	\$0	\$0
President and Director	2004	\$20,395	\$0	\$0	\$58,731	-0-	\$0	\$0

(1) Mr. Holloran's annual contract amount of \$120,000 is paid in combination of cash and stock. The amount of stock due is calculated monthly based on the amount of unpaid compensation and the lowest closing price of the Company's shares within the month. The amount indicated under Salary is the cash paid during the year ended May 31, 2005. The unpaid balance of salary (\$110,280) was recorded as an accrued liability for future payment in cash or restricted stock.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

No options/SARs were granted in the fiscal year ended May 31, 2005.

We have four Stock Option Plans. The 1998 Directors and Officers Stock Option Plan was adopted on September 23, 1998 and the 1999 Stock Option Plan was adopted on June 11, 1999. The purpose of the Plans is to advance the business and development of the Company and its shareholders by affording to our employees, directors and officers the opportunity to acquire a proprietary interest in the Company by the grant of Options to such persons under the Plan's terms. The 1998 Plan reserved 1,000,000 shares for grant or issuance upon the exercise of options granted under the plan. The 1999 Plan reserved 5,000,000 shares for grant or issuance upon the exercise of options granted under the plan. On January 11, 2002, the Board of Directors adopted the 2001 Stock Option Plan pursuant to which 3,000,000 shares are reserved for issuance to management and consultants. On July 26, 2005, the Board adopted the 2005 Stock Option Plan, under which 6,000,000 shares of common stock are reserved for issuance to management and consultants.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

No officer or Director exercised any options in the fiscal year ended May 31, 2005.

LONG TERM INCENTIVE PLANS - AWARDS IN LAST FISCAL YEAR

We have not otherwise awarded any stock options, stock appreciation rights or other form of derivative security or common stock or cash bonuses to our executive officers and directors.

COMPENSATION OF DIRECTORS

The members of our Board of Directors are reimbursed for actual expenses incurred in attending Board meetings.

EMPLOYMENT CONTRACTS

Our current CEO and President, Michael F. Holloran, is party to a consulting contract at a salary of \$120,000 per annum payable in a combination of cash and shares at the discretion of the board of directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of August 26, 2005, information concerning the beneficial ownership of the our Common Stock by (i) each person who is known by us to own beneficially more than 5% of our Common Stock, (ii) each of our directors and officers, and (iii) all of our directors and executive officers as a group.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership		% of Class
Common Stock	Michael F. Holloran (1) c/o 1450 Kootenay St. Vancouver, B.C. V5K 4R1	2,585,117	Direct	8.31%
	Thomas A. Simons (2) 3685 Cameron Street Vancouver, B.C. V6R 1A1	13,335,864	Direct	33.67%
All officers and directors as a Group (2 persons)		2,585,117	shares	8.31%

(1) In addition to 2,085,117 shares owned directly, Mr. Holloran holds presently exercisable options to purchase 500,000 shares, at an exercise price of \$0.10 per share, expiring July 2006.

(2) In addition to 4,335,864 shares owned directly, Mr. Simons holds a note presently convertible into 9,000,000 shares of common stock.

CHANGES IN CONTROL

There are no arrangements that may result in a change in control of the Registrant.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our By-Laws include a provision regarding related party transactions which requires that each participant to such transaction identify all direct and indirect interests to be derived as a result of the Company's entering into the related transaction. A majority of the disinterested members of the board of directors must approve any related party transaction. We have an employment contract with Michael F. Holloran, our Chairman and CEO, providing for annual compensation of \$120,000 expiring on January 31, 2006. Mr. Holloran has provided short term funding to the Company on terms less favorable than offered to non-related parties. During the year ended May 31, 2005 Mr. Holloran loaned the Company \$142,837, which is uncollateralized, due on demand and bears no interest. The Company repaid in cash \$109,677 of the \$142,837, \$27,500 of debenture principal and \$16,410 of expense accounts and accrued interest; no stock was issued.

ITEM 13. EXHIBITS

The following Exhibits are filed by attachment to this Annual Report on Form 10-KSB/A:

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
Ex 23.1	Consent of Chisholm Bierwolf & Nilson, LLC
Ex 23.2	Consent of Chisholm Bierwolf & Nilson, LLC
Ex 31	Certification of Michael F. Holloran Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
Ex 32	Certification of Michael F. Holloran Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

In addition to those Exhibits shown above, the Company incorporates the following Exhibits by reference to the filings set forth below:

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>	
Ex 3.1	Articles of Incorporation	3.1 in Form 10-SB dated Feb 2, 1999
Ex 3.11	By-Laws	3.11 in Form 10-SB dated Feb 2, 1999
Ex 4.2	Form of 12% Convertible debenture	4.2 in Form 10-KSB dated Aug 21, 2001
Ex 4.3	Form of Stock Purchase Warrant	4.3 in Form 10-KSB dated Aug 21, 2001
Ex 4.4	Stock Purchase Agreement, between Company and IFG Private Equity LLC	4.4 in Form SB-2 dated May 17, 2002
Ex 4.5	Commitment Warrant to IFG Private Equity LLC	4.5 in Form SB-2 dated May 17, 2002
Ex 4.6	Registration Rights Agreement, between Company and IFG Private Equity LLC	4.6 in Form SB-2 dated May 17, 2002
Ex 4.7	1998 Directors' & Officers' Stock Option Plan	99.1 in Form S-8 dated Feb 29, 1999
Ex 4.8	1999 Stock Option Plan	99.2 in Form S-8 dated Feb 29, 1999
Ex 4.9	2001 Stock Option Plan	4.7 in Form S-8 filed November 27, 2001
Ex 4.10	2003 Stock Option Plan	4.8 in Form S-8 filed October 25, 2002
Ex 4.11	2005 Stock Option Plan	4.8 in Form S-8 filed July 28, 2005
Ex 10.3	M. Page-Consulting Agreement	10.3 in Form 10-SB dated Feb 2, 1999
Ex 10.4	C. Parfitt-Consulting Agreement	10.4 in Form 10-SB dated Feb 2, 1999
Ex 10.6	Office lease dated Aug 27, 1998	10.6 in Form 10-SB dated Apr 21, 1999
Ex 10.7	Office lease dated Dec 22, 1998	10.7 in Form 10-SB dated Apr 21, 1999
Ex 10.8	Wolnosc International-Consulting Agreement	10.8 in Form 10-SB dated Aug 29, 2000
Ex 10.9	Office lease dated Jan 1, 2000	10.9 in Form 10-SB dated Aug 29, 2000
Ex 10.10	Capital Lease Agreement	10.10 in Form 10-SB dated Aug 29, 2000
Ex 10.11	Michael F. Holloran - Consulting Agreement	10.11 in Form 10-KSB dated Aug 21, 2001
Ex 10.12	Sublease Agreement of Company's offices dated August 7, 2001	10.12 in Form 10-QSB dated Oct 15, 2001
Ex 10.13	Addendum to the Sublease dated August 22, 2001	10.13 in Form 10-QSB dated Oct 15, 2001
Ex 10.14	Paul Morford Consulting Agreement	10.14 in Form 10-QSB dated Oct 15, 2001
Ex 10.15	8% Secured Convertible Promissory Note	4.7 in Form 8K dated January 5, 2005
Ex 10.16	Walther-Glas Investment Agreement	10.16 Form 10-KSB/A2 dated July 18, 2008
Ex 21	List of Subsidiaries	21 in Form 10-SB dated Aug 29, 2000

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

- (1) Audit related fees for 2004: \$30,013
- (2) Audit related fees for 2005: \$20,115
- (3) Tax fees for 2004: \$0.00
- (4) Tax fees for 2005: \$3,012
- (5) All other fees: NA
- (6) Audit committee pre-approval processes, percentages of services approved by audit committee, percentage of hours spent on audit engagement by persons other than principal accountant's full time employees: NA

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf the undersigned, thereto duly authorized.

Dated: August 6, 2008

Intelligent Living Corp. formerly Elgrande International, Inc.

By: /s/ Michael F. Holloran

Michael F. Holloran

President, Chief Executive Officer and Principal Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the small business issuer and in the capacities indicated on August 6, 2008.

SIGNATURE

CAPACITY

/s/ Michael F. Holloran
Michael F. Holloran

President, Chief Executive Officer, Principal Financial Officer and Director

/s/ Murat Erbatur

Director

Murat Erbatur



Todd D. Chisholm, Audit Partner
Nephi J. Bierwolf, Tax Partner
Troy F. Nilson, Audit Partner

533 West 2600 South, Suite 25 • Bountiful, Utah 84010 • Phone (801) 292-8756 • Fax (801) 292-8809 • www.cbncpa.com

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the use of our report dated August 4, 2006 with exceptions to January 17, 2007, with respect to the consolidated financial statements of Intelligent Living Corp. for the fiscal years ended May 31, 2006 and 2005 incorporated by reference in the filings of the Registration Statements on Form S-8 of Intelligent Living Corp. for its 2005 Stock Option Plan and 2006 Stock Option Plan, respectively, filed with the Securities and Exchange Commission on July 28, 2005 and May 3, 2006.

/s/ CHISHOLM, BIERWOLF & NILSON
Chisholm, Bierwolf & Nilson, LLC

August 6, 2008



Todd D. Chisholm, Audit Partner
Nephi J. Bierwolf, Tax Partner
Troy F. Nilson, Audit Partner

533 West 2600 South, Suite 25 • Bountiful, Utah 84010 • Phone (801) 292-8756 • Fax (801) 292-8809 • www.cbncpa.com

CON

SENT OF INDEPENDENT AUDITORS

We hereby consent to the use of our report dated September 7, 2007, with respect to the consolidated financial statements of Intelligent Living Corp. for the fiscal years ended May 31, 2007 and 2006 incorporated by reference in the filings of the Registration Statement on Form S-8 of Intelligent Living Corp. for its 2006 Stock Option Plan, filed with the Securities and Exchange Commission on May 3, 2006.

/s/ CHISHOLM, BIERWOLF & NILSON
Chisholm, Bierwolf & Nilson, LLC

Dated: August 6, 2008

CERTIFICATION

I, Michael F. Holloran, certify that:

1. I have reviewed this amended annual report on Form 10-KSB/A of Intelligent Living Corp., (formerly Elgrande international, Inc.), (the “small business issuer”);
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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers and I are 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 small business issuer 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 small business issuer, 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 small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

DATE: August 6, 2008

/s/ Michael F. Holloran

Michael F. Holloran, Chief Executive Officer
and Principal Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the amended Annual Report of Intelligent Living Corp. formerly Elgrande.com, Inc. (the "Company") on Form 10-KSB for the period ended May 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael F. Holloran, Chief Executive Officer and Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge: (1) The Report 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 Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Michael F. Holloran

Michael F. Holloran;
Chief Executive Officer and
Principal Financial Officer

August 6 , 2008