

RadNet, Inc.
Form SC 13D/A
November 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D/A
Under the Securities Exchange Act of 1934
(Amendment No. 5)*

RADNET, INC.

(Name of Issuer)

Common Stock, par value \$0.0001 per share

(Title of Class of Securities)

750491102

(CUSIP Number)

Red Mountain Capital Partners LLC

Attn: Willem Mesdag

10100 Santa Monica Boulevard, Suite 925

Los Angeles, California 90067

Telephone (310) 432-0200

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

November 7, 2013

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box. "

Note. Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Red Mountain Capital Partners LLC 73-1726370
2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF (See Item 3)
5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) "

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 1,903,918 shares (See Item 5)

8 SHARED VOTING POWER

OWNED BY

EACH REPORTING

None (See Item 5)

PERSON 9 SOLE DISPOSITIVE POWER

WITH

1,903,918 shares (See Item 5)

10 SHARED DISPOSITIVE POWER

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,903,918 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ..

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

4.7% (See Item 5)

14 TYPE OF REPORTING PERSON*

OO Limited Liability Company

* See Instructions

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

**2 RMCP GP LLC 20-4442412
CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP***

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF (See Item 3)
**5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO
ITEMS 2(d) or 2(e)**

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 1,903,918 shares (See Item 5)

8 SHARED VOTING POWER

OWNED BY

EACH REPORTING

None (See Item 5)

PERSON 9 SOLE DISPOSITIVE POWER

WITH

1,903,918 shares (See Item 5)

10 SHARED DISPOSITIVE POWER

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,903,918 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ..

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

4.7% (See Item 5)

14 TYPE OF REPORTING PERSON*

OO Limited Liability Company

* See Instructions

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Red Mountain Capital Management, Inc. 13-4057186
2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF (See Item 3)
5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 1,903,918 shares (See Item 5)

8 SHARED VOTING POWER

OWNED BY

EACH REPORTING

None (See Item 5)

PERSON 9 SOLE DISPOSITIVE POWER

WITH

1,903,918 shares (See Item 5)

10 SHARED DISPOSITIVE POWER

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,903,918 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ..

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

4.7% (See Item 5)

14 TYPE OF REPORTING PERSON*

CO Corporation

* See Instructions

1 NAME OF REPORTING PERSONS**I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)**

Red Mountain Partners, L.P. 20-4117349
2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY**4 SOURCE OF FUNDS***

WC (See Item 3)
5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 1,903,918 shares (See Item 5)

8 SHARED VOTING POWER

OWNED BY

EACH REPORTING

PERSON None (See Item 5)

9 SOLE DISPOSITIVE POWER

WITH

1,903,918 shares (See Item 5)
10 SHARED DISPOSITIVE POWER

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,903,918 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ..

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

4.7% (See Item 5)

14 TYPE OF REPORTING PERSON*

PN Limited Partnership

* See Instructions

1 NAME OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Willem Mesdag
2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF (See Item 3)
5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S. Citizen

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 1,903,918 shares (See Item 5)

8 SHARED VOTING POWER

OWNED BY

EACH REPORTING

None (See Item 5)

PERSON 9 SOLE DISPOSITIVE POWER

WITH

1,903,918 shares (See Item 5)

10 SHARED DISPOSITIVE POWER

None (See Item 5)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,903,918 shares (See Item 5)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* ..

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

4.7% (See Item 5)

14 TYPE OF REPORTING PERSON*

IN Individual

* See Instructions

This Amendment No. 5 amends and supplements the Schedule 13D filed with the Securities and Exchange Commission (the SEC) on February 22, 2011, as amended by Amendment No. 1 thereto, filed with the SEC on September 1, 2011, and Amendment No. 2 thereto, filed with the SEC on September 19, 2011, and Amendment No. 3 thereto, filed with the SEC on April 15, 2013, and Amendment No. 4 thereto, filed with the SEC on May 10, 2013, by (i) Red Mountain Capital Partners LLC, a Delaware limited liability company (RMCP LLC), (ii) Red Mountain Capital Partners II, L.P., a Delaware limited partnership, (iii) RMCP GP LLC, a Delaware limited liability company (RMCP GP), (iv) Red Mountain Capital Management, Inc., a Delaware corporation (RMCM), (v) Red Mountain Partners, L.P., a Delaware limited partnership (RMP), and (vi) Willem Mesdag, a natural person and citizen of the United States of America, with respect to the common stock, par value \$0.0001 per share (the Common Stock), of RadNet, Inc., a Delaware corporation (RadNet). The filing of any amendment to this Schedule 13D (including the filing of this Amendment No. 5) shall not be construed to be an admission by the Reporting Persons that a material change has occurred in the facts set forth in this Schedule 13D or that such amendment is required under Rule 13d-2 of the Securities Exchange Act of 1934, as amended.

RMCP LLC, RMP, and RMCP GP are sometimes collectively referred to herein as Red Mountain. Red Mountain, RMCM and Mr. Mesdag are sometimes collectively referred to herein as the Reporting Persons.

This Amendment No. 5 will constitute an exit filing with respect to this Schedule 13D filed by the Reporting Persons.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

Items 5(a) and 5(b) of this Schedule 13D are hereby amended and restated as follows:

- (a)-(b)** RMP beneficially owns, in the aggregate, 1,903,918 shares of Common Stock, which represent approximately 4.7% of the outstanding Common Stock.⁽¹⁾ RMP has the sole power to vote or direct the vote of, and the sole power to dispose or direct the disposition of, all such 1,903,918 shares of Common Stock.

Because each of RMCP GP, RMCP LLC, RMCM and Mr. Mesdag may be deemed to control RMP, each of RMCP GP, RMCP LLC, RMCM and Mr. Mesdag may be deemed to beneficially own, and to have the power to vote or direct the vote of, or dispose or direct the disposition of, all of the Common Stock beneficially owned by RMP.

Other than shares of Common Stock beneficially owned by RMP, none of the Reporting Persons, or Mr. Teets or Jack Watkinson, who is a Partner of Red Mountain, may be deemed to beneficially own any shares of Common Stock.

Each of RMCP LLC, RMP and RMCP GP affirms membership in a group with each other but disclaims membership in a group with RMCM or Mr. Mesdag. Each of RMCM and Mr. Mesdag disclaims membership in a group with any person.

The filing of this Schedule 13D shall not be construed as an admission that any Reporting Person is the beneficial owner of any of the shares of Common Stock that such Reporting Person may be deemed to beneficially own. Without limiting the foregoing sentence, each of RMCM and Mr. Mesdag disclaims beneficial ownership of all shares of Common Stock reported in this Schedule 13D. In addition, the filing of this Schedule 13D shall not be construed as an admission

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that any partner, member, director, officer or affiliate of any Reporting Person is the beneficial owner of any of the shares of Common Stock that such partner, member, director, officer or affiliate may be deemed to beneficially own. Without limiting the foregoing sentence, each of Mr. Teets and Mr. Watkinson disclaims beneficial ownership of all shares of Common Stock reported in this Schedule 13D.

- (1) All calculations of percentage ownership in this Schedule 13D are based on approximately 40,089,196 shares of Common Stock outstanding as of August 5, 2013, as reported in the Form 10-Q, which was filed by RadNet with the Securities and Exchange Commission on August 9, 2013.

Item 5(c) of this Schedule 13D is hereby amended to include the following information:

- (c) On October 14, 2013, RMP sold 12,400 shares of Common Stock on the open market at an average price of \$2.4928 per share.

On October 16, 2013, RMP sold 25,100 shares of Common Stock on the open market at an average price of \$2.4567 per share.

On October 17, 2013, RMP sold 8,000 shares of Common Stock on the open market at an average price of \$2.4828 per share.

On October 18, 2013, RMP sold 13,500 shares of Common Stock on the open market at an average price of \$2.4476 per share.

On October 21, 2013, RMP sold 27,000 shares of Common Stock on the open market at an average price of \$2.4680 per share.

On October 22, 2013, RMP sold 33,400 shares of Common Stock on the open market at an average price of \$2.4788 per share.

On October 23, 2013, RMP sold 6,500 shares of Common Stock on the open market at an average price of \$2.4787 per share.

On October 24, 2013, RMP sold 21,000 shares of Common Stock on the open market at an average price of \$2.4558 per share.

On October 25, 2013, RMP sold 25,100 shares of Common Stock on the open market at an average price of \$2.4469 per share.

On November 7, 2013, RMP sold 38,200 shares of Common Stock on the open market at an average price of \$2.4694 per share.

On November 8, 2013, RMP sold 150,000 shares of Common Stock on the open market at an average price of \$2.3735 per share.

On November 11, 2013, RMP sold 175,000 shares of Common Stock on the open market at an average price of \$2.0078 per share.

Item 5(e) of this Schedule 13D is hereby amended to include the following information:

- (e) Each of the Reporting Persons ceased to be a beneficial owner of more than 5% of the outstanding Common Stock as of November 11, 2013. Therefore, this Amendment No. 5 will constitute the final amendment to this Schedule 13D and an exit filing for each of the Reporting Persons, and will terminate the obligations of the Reporting Persons to further amend this Schedule 13D.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: November 12, 2013

**RED MOUNTAIN CAPITAL PARTNERS
LLC**

/s/ Willem Mesdag
By: Willem Mesdag
Title: Authorized Signatory

RED MOUNTAIN PARTNERS, L.P.

By: RMCP GP LLC, its general partner

/s/ Willem Mesdag
By: Willem Mesdag
Title: Authorized Signatory

RMCP GP LLC

/s/ Willem Mesdag
By: Willem Mesdag
Title: Authorized Signatory

**RED MOUNTAIN CAPITAL
MANAGEMENT, INC.**

/s/ Willem Mesdag
By: Willem Mesdag
Title: President

WILLEM MESDAG

/s/ Willem Mesdag

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
1	Joint Filing Agreement, dated February 22, 2011, by and among certain of the Reporting Persons (incorporated by reference to Exhibit 1 to the Schedule 13D filed by the Reporting Persons with the SEC on February 22, 2011).
2	Standstill Agreement, dated as of August 30, 2011, by and between RadNet and RMCP LLC (incorporated by reference to Exhibit 2 to Amendment No. 1 to this Schedule 13D, filed by the Reporting Persons with the SEC on September 1, 2011).
3	Joint Filing Agreement dated as of April 15, 2013, by and among the Reporting Persons (incorporated by reference to Exhibit 3 to Amendment No. 3 to this Schedule 13D, filed by the Reporting Persons with the SEC on April 15, 2013).
6,158,381 shares of NuWay Medical, Inc. common stock held by Augustine II LLC (12)	10.1 Employment Agreement between the Company and Dennis Calvert dated December 11, 2002 (2) 10.2 Employment Agreement between the Company and Joseph Provenzano dated March 1, 2003 (2) 10.3 License Agreement with Med Wireless Inc. dated August 21, 2002 (2). 10.4 Amendment to License Agreement with Med Wireless Inc. dated September 18, 2002 (2) 10.5 Secured Promissory Note in the face amount of \$1,120,000 issued to Med Wireless (4) 10.6 Secured Term Promissory Note in the face amount of \$900,000 by New Millennium to Camden Holdings (4) 10.7 Agreement to issue warrant dated February 24, 2003 between NuWay Medical, Inc. and Sachi International, Inc. (12) 10.8 Term Loan Agreement dated as of June 10, 2003 between NuWay Medical, Inc. and Augustine II LLC (5) 10.9 Stock Pledge Agreement dated as of June 10, 2003, between New Millennium and Augustine II LLC (5) 10.10 Stock Pledge Agreement dated as of June 10, 2003, between NuWay Medical, Inc. and Augustine II LLC (5) 29 10.11 Promissory Note dated November 20, 2003 between NuWay Medical, Inc. and James Seay, DDS. (12) 10.12 Amendment No. 1 to Promissory Note (dated November 20, 2003 between NuWay Medical, Inc. and James Seay, DDS) dated February 10, 2005 (14) 10.13 Promissory Note by NuWay Medical, Inc. in favor of Augustine II, LLC (5) 10.14 Amendment No. 1 to Term Loan Agreement dated as of March 30, 2004 between NuWay Medical, Inc. and Augustine II LLC (12) 10.15 Amended and Restated Convertible Term Note by NuWay Medical, Inc. in favor of Augustine II, LLC (12) 10.16 Convertible Loan Agreement and Note between NuWay Medical, Inc. and James Burchard (12) 10.17 Conversion Agreement with New Millennium dated October 16, 2003 (6) 10.18 Stock Purchase Agreement with Premium Medical Group, Luis Ruiz and Eduardo Ruiz (7) 10.19 Rescission Agreement with Premium Medical Group, Luis Ruiz and Eduardo Ruiz (8) 10.20 Unsecured Promissory Note dated March 7, 2005 in favor of Dennis Calvert (13) 10.21 Form of Convertible Term Note issued in Second Offering (14) 10.22 Second Amended and Restated Convertible Term Note by NuWay Medical, Inc., in favor of Augustine II, LLC (16) 10.23 Amendment Number 2 to Term Loan Agreement dated as of July 29, 2005 between NuWay Medical, Inc. and Augustine II, LLC (16) 10.24 Warrant Number AG-II to Purchase Common Stock issued July 29, 2005 in favor of Augustine II, LLC (16) 10.25 Marketing and License Agreement (17) 10.26 Form of Promissory Note issued in the Third Offering Note (17) 10.27 Form of Warrant issued in the Third Offering (17) 21.1* List of Subsidiaries of the Registrant 24.1* Power of Attorney (included on Signature Page) 31.1* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13(a)-14 and 15(d)-14 under the Securities Exchange Act of 1934 30 32.1* Certification of Chief Executive Officer and Interim Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
-----	* Filed herewith (1) Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 2001. (2) Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 2002. (3) Incorporated herein by reference from the Form S-8 filed by the Company on

August 8, 2002, and amended on Form S-8 filed by the Company on December 27, 2002. (4) Incorporated herein by reference from the Form 8K filed by the Company on May 1, 2003. (5) Incorporated herein by reference from the 10-QSB filed by the Company for the period ending March 31, 2003. (6) Incorporated herein by reference from the Form 8-K filed by the Company on October 31, 2003. (7) Incorporated herein by reference from the Form 8-K filed by the Company on February 17, 2004. (8) Incorporated herein by reference from the Form 8-K filed by the Company on October 15, 2004. (9) Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 1998 (10) Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 1999 (11) Incorporated herein by reference from the Form S-8 filed by the Company on February 27, 2003. (12) Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 2003 (13) Incorporated herein by reference from the 10-QSB filed by the Company for the period ending March 31, 2004. (14) Incorporated herein by reference from the 10-KSB filed by the Company for the year ended December 31, 2005. (15) Incorporated herein by reference from the Form 8-K filed by the Company on July 8, 2005. (16) Incorporated herein by reference from the 10-QSB filed by the Company for the period ending March 31, 2005. (17) Incorporated herein by reference from the Form 8-K filed by the Company on January 9, 2006. ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES The information required by this section is incorporated by reference from the information in the section entitled "Ratification of Appointment of Independent Auditor" in the Proxy Statement. 31 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. NUWAY MEDICAL, INC. Date: March 31, 2006 By: /s/ Dennis Calvert -----

Dennis Calvert, President, Chief Executive Officer and Interim Chief Financial Officer POWER OF ATTORNEY KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Dennis Calvert and Joseph Provenzano, and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-KSB, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof. 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 Company and in the capacities and on the date indicated:

NAME TITLE DATE ----- /s/Dennis Calvert Chairman of the Board, March 31, 2006 Chief Executive Officer,

----- Dennis Calvert President and Chief Financial Officer /s/Joseph Provenzano Director March 31, 2006

----- Joseph Provenzano /s/Steven V. Harrison II Director March 31, 2006 ----- Steven V. Harrison II

/s/Gary Cox Director March 31, 2006 ----- Gary Cox 32

INDEX TO FINANCIAL STATEMENTS Report of Independent Registered Public Accounting Firm.....F-1
Consolidated Balance Sheets as of December 31, 2005 and December 31, 2004.....F-2
Consolidated Statements of Operations for the years ended December 31, 2005 and 2004.....F-3
Consolidated Statements of Changes in Stockholders' Deficit for the years ended December 31, 2005 and 2004.....F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2005 and 2004.....F-5
Notes to Consolidated Financial Statements.....F-6 - F-28
Report of Independent Registered Public Accounting Firm To the Board of Directors and Stockholders NuWay Medical, Inc. I have audited the consolidated balance sheets of NuWay Medical, Inc. and Subsidiary (the "Company") as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audits in accordance with standards of the Public Company Accounting oversight Board (United States). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the

consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedure 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, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosure in the consolidated 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. I believe my audits provide a reasonable basis for my opinion. In my opinion, the consolidate financial statements referred to above present fairly, in all material respects, the consolidated financial position of NuWay Medical, Inc. and Subsidiary as of December 31, 2005 and 2004 and the results of their operations and their cash flows for the years then ended, in conformity with the accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has limited liquid resources, recurring losses, and is seeking to implement its business plan, which requires the Company to acquire or develop a business. These matters raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 1. The consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty. /s/ Jeffrey S. Gilbert Los Angeles, California March 22, 2006 F-1 NUWAY MEDICAL, INC AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2004 ASSETS December 31, December 31, 2005 2004 -----

----- CURRENT ASSETS	Cash and Cash Equivalents	\$ 283,462	\$ --	-----	Total Current Assets	283,462	--
-----	TOTAL ASSETS	\$ 283,462	\$ --	=====	LIABILITIES		
AND STOCKHOLDERS' EQUITY	CURRENT LIABILITIES	Accounts Payable and Accrued Expenses	\$ 2,312,663				
		\$ 2,054,270	Notes Payable	2,740,570	1,632,100	Debentures Payable, Net	21,151 21,151
				-----	Total		
	Current Liabilities	5,074,384	3,707,521	-----	COMMITMENTS, CONTINGENCIES AND		
				-----	SUBSEQUENT EVENTS		
	SHAREHOLDERS' EQUITY	Convertible Preferred Series A, \$.00067 Par Value,					
		25,000,000 Shares Authorized, 559,322 Shares Issued and Outstanding at December 31, 2005 and December 31, 2004					
		375 375 Common Stock, \$.00067 Par Value, 100,000,000 Shares Authorized, 62,453,501 and 51,981,236 Shares					
		Issued At December 31, 2005 and December 31, 2004, respectively 41,136 34,120					
		Additional Paid-In Capital	23,396,754	23,299,870	Accumulated Deficit	(28,229,187)	(27,041,886)
			-----	-----	Total Shareholders'		
		Equity	(4,790,922)	(3,707,521)	-----	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 283,462
			\$ --	=====	=====	See accompanying notes to consolidated financial statements F-2	
						NUWAY MEDICAL, INC AND SUBSIDIARY STATEMENTS OF OPERATIONS FOR THE YEARS ENDED	
						DECEMBER 31, 2005 AND 2004	2005 2004
						-----	Revenue
						-----	Total Revenues
						-----	-- --
						-----	Costs and Expenses
							Selling, General and Administrative \$ 944,807 \$ 971,944
							Depreciation,
							Depletion and Amortization -- --

							Total Costs and Expenses 944,807 971,944

							Loss from operations (944,807) (971,944)

							Other Income and Expense Interest
							Expense (242,494) (250,704)
							Other Income -- 4,600

							Net Other Expense (246,104) (246,104)

							Net Loss \$ (1,187,301) \$ (1,218,048)
							=====
							Loss Per Common Share - Basic and Diluted Loss per share \$ (0.02) \$ (0.03)
							=====
							Weighted Average Common Share Equivalents Outstanding 54,041,809 45,987,808
							=====
							See accompanying notes to consolidated financial statements F-3
							NUWAY MEDICAL, INC AND
							SUBSIDIARY STATEMENTS OF STOCKHOLDERS' DEFICIT FOR THE YEARS ENDED DECEMBER 31,
							2004 AND 2005
							Preferred Stock
							Common Stock

							Number Par Number
							Par Additional Retained of Value of Value Paid-In Earnings Treasury Shares \$.00067 Shares \$.00067 Capital
							(Deficit) Stock

							BALANCE DECEMBER 31,
							2003 559,322 375 36,386,486 \$ 23,976 \$23,002,818 \$(25,823,838) \$(127,004)
							STOCK ISSUED FOR SERVICES
							9,183,400 6,181 362,885
							CONVERSION OF DEBENTURES 1,100,000 405 34,595
							RETIREMENT OF
							TREASURY STOCK (44,900) (30) (126,974) 127,004
							SALE OF COMMON STOCK 5,156,250 3,454 26,546
							ADJUSTMENT TO COMMON STOCK 200,000 134
							NET LOSS FOR THE YEAR ENDED DECEMBER 31, 2003
							(1,218,048)

							BALANCE DECEMBER 31,
							2004 559,322 375 51,981,236 34,120 23,299,870 (27,041,886) -
							ADJUSTMENT TO COMMON STOCK 82,265 55
							(55) STOCK ISSUED FOR SERVICES 10,390,000 6,961 96,939
							NET LOSS (1,187,301)

----- BALANCE DECEMBER 31, 2005 559,322 \$ 375 62,453,501
 \$ 41,136 \$23,396,754 \$(28,229,187) \$ - =====

===== See accompanying notes to consolidated financial statements
 F-4 NUWAY MEDICAL, INC AND SUBSIDIARY STATEMENTS OF CASH FLOWS FOR THE YEARS
 ENDED DECEMBER 31, 2005 AND 2004 ----- 2005 2004 ----- CASH FLOWS FROM
 OPERATING ACTIVITIES Net Loss \$(1,187,301) \$(1,218,048) Adjustments to Reconcile Net Loss to Net Cash
 Used in Operating Activities: Issuance of Stock for Services 103,900 362,898 Amortization of Discount on Note --
 62,131 Increase in Accounts Payable and Accrued Expenses 258,393 725,248 ----- Net Cash Used In
 Operating Activities (825,008) (67,771) ----- CASH FLOWS FROM INVESTING ACTIVITIES
 ----- No Cash Used In or Provided by Investing Activities -- -- ----- CASH FLOWS
 FROM FINANCING ACTIVITIES Funds from Loan 1,108,470 60,000 Payments to reduce Note Payable -- (22,900)
 Proceeds from Sale of Common Stock -- 30,000 Proceeds from Sale of Preferred Stock -- -- ----- Net
 Cash Provided By Financing Activities 1,108,470 67,100 ----- NET (DECREASE) INCREASE IN
 CASH AND CASH EQUIVALENTS 283,462 (671) CASH AND CASH EQUIVALENTS - BEGINNING -- 671
 ----- CASH AND CASH EQUIVALENTS - ENDING \$ 283,462 \$ -- =====

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION Cash Paid During the Period for: Interest \$
 -- \$ -- ===== Income Taxes \$ -- \$ -- ===== See accompanying notes

to consolidated financial statements F-5 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL
 STATEMENTS NOTE 1. BUSINESS AND ORGANIZATION OUTLOOK The Company had no continuing
 business operations as of December 31, 2005. The Company operated as a public shell during the twelve month period
 ended December 31, 2005, and operations primarily consisted of the Company's president seeking funding,
 maintaining the corporate entity, complying with the requirements of the Securities Exchange Commission (the
 "SEC") and seeking merger and acquisition candidates or new business opportunities. (See discussion of the letter of
 intent with IOWC Technologies, Inc. ("IOWC"), in Note 5.) The Company will need working capital resources to
 maintain the Company's status and to fund other anticipated costs and expenses during the year ending December 31,
 2005 and beyond, as well as to consummate the transactions with IOWC and fund the operations of the Company after
 the transactions are consummated. The Company's ability to continue as a going concern is dependent on the
 Company's ability to raise capital to, at a minimum, meet its corporate maintenance requirements. If the Company is
 able to acquire IOWC or another ongoing business and/or technology that must be exploited, it would need additional
 capital until and unless that prospective operation is able to generate positive working capital sufficient to fund the
 Company's cash flow requirements from operations. Cash and cash equivalents totaled \$283,462 at December 31,
 2005. The Company had no revenues in the twelve-month period ended December 31, 2005 and was forced to
 consume cash on hand to fund operations. The Company will be required to raise additional capital to sustain basic
 operations through the remainder of 2006 and to consummate the transactions with IOWC. While the Company is
 actively seeking investments through private investors and other parties, there is no assurance that the Company will
 be able to raise additional capital for the entire period required. The Company has approximately \$2,740,570
 aggregate principal amount of its promissory notes that mature at various times during 2006. The Company does not
 presently have funds sufficient to repay these obligations as they mature. Even though the terms of all of these notes
 permit the noteholder to convert the notes into shares of our common stock, until the Company's stockholders approve
 an amendment to the Company's charter to increase the number of authorized shares of common stock, the Company
 will be unable to fulfill its obligations to all noteholders to permit the conversion into common stock of amounts due
 pursuant to the terms of the notes. In the event that the Company has not raised further capital prior to the maturity
 dates of the convertible notes, the Company would be in default of those notes if its stockholders have not formally
 approved an increase in the number of authorized common shares, or unless the Company is able to refinance or
 renegotiate the terms of these notes. No financing is in place at present, and it is unknown if any financing will be in
 place in the future, which would permit the Company to repay these notes in full as they mature. F-6 NUWAY
 MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS The financial statements
 accompanying this Annual Report have been prepared on a going concern basis, which contemplates the realization of
 assets and the settlement of liabilities and commitments in the normal course of our business. As reflected in the
 accompanying financial statements, the Company had a net loss of \$1,187,301 for the twelve-month period ended
 December 31, 2005, negative cash flow from operating activities of \$825,008 for the twelve-month period ended

December 31, 2005, and a stockholders' deficiency of \$28,229,187 as of December 31, 2005. Also, as of December 31, 2005, the Company had limited liquid and capital resources. The foregoing factors raise substantial doubt about the Company's ability to continue as a going concern. Ultimately, the Company's ability to continue as a going concern is dependent upon its ability to attract new sources of capital, establish an acquisition or reverse merger candidate with continuing operations, such as IOWC, attain a reasonable threshold of operating efficiencies and achieve profitable operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. During 2005, the Company raised \$1,055,620 gross proceeds (\$1,035,370 net proceeds) in three private offerings. This amount consisted of (i) \$25,000 gross proceeds which was raised in a private offering (the First Offering) of convertible notes that commenced in October 2004 and terminated in January 2005; (ii) \$756,120 gross proceeds (\$735,870 net proceeds) which was raised in a private offering (the Second Offering) of convertible notes that commenced in January 2005 and terminated in August 2005; and (iii) \$299,500 gross and net proceeds which was raised in a private offering (the Third Offering) of convertible notes that commenced in September 2005 and terminated in February 2006. In the First Offering, the Company offered 10% convertible notes (the First Offering Notes) due and payable one year from the date of issuance. The First Offering Notes bear interest at a rate of 10% per annum, payable on the maturity date, and can be converted, in whole or in part, into shares of the Company's preferred stock, on a basis of \$.005 per share, at any time prior to maturity by either the Company or the holder. See Part II, Item 5 "Sales of Unregistered Securities". In the Second Offering, the Company offered 10% convertible notes (the Second Offering Notes) due and payable one year from the date of issuance. The Second Offering Notes bear interest at a rate of 10% per annum, payable on the maturity date, and can be converted, in whole or in part, into shares of the Company's common stock, on a basis of ranging from \$.005 to \$.016 per share, at any time prior to maturity by either the Company or the holder. See Part II, Item 5 "Sales of Unregistered Securities".

F-7 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS In the Third Offering, the Company offered up to \$1 million of its 10% convertible notes due October 31, 2006 (the Third Offering Notes) and stock purchase warrants (the Third Offering Warrants) to purchase up to an aggregate 40,000,000 shares of the Company's common stock. The Third Offering Notes are convertible into shares of common stock at \$.025 per share. The Third Offering Warrants are exercisable at a price of \$.05 per share and expire on October 31, 2007. The Second Offering was made to a limited number of individuals who are "accredited investors" as that term is defined by Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"). The Company amended the terms of the Third Offering to increase the amount of the offering to up to \$2 million, extend the expiration of the offering, extend the maturity date of the Third Offering Notes to January 31, 2007, and extend the expiration of the Third Offering Warrants to January 31, 2008. The Third Offering terminated on February 21, 2006, by which date the Company had raised \$1,102,000 gross and net proceeds. Of this amount, \$299,500 was raised during 2005. Even with the successful completion of the Third Offering, the Company will be required to raise additional capital to sustain its operations and meet its liabilities as they become due for the next twelve months, as well as to consummate the transactions with IOWC, fund the operations of the Company after the transactions are consummated and meet its obligations, including the First Offering Notes, the Second Offering Notes, and the Third Offering Notes, as they mature.

ORGANIZATION The Company was initially organized as Repossession Auction, Inc. under the laws of the State of Florida in 1989. In 1991, the Company merged into a Delaware corporation bearing the same name. In 1994, the Company's name was changed to Latin American Casinos, Inc. to reflect its focus on the gaming and casino business in South and Central America, and in 2001 the Company changed its name to NuWay Energy, Inc. to reflect its new emphasis on the oil and gas development industry. During October 2002, the Company's name was changed to NuWay Medical, Inc. coincident with the divestiture of its non-medical assets and the retention of new management.

PROPOSED ACQUISITION OF IOWC ASSETS On July 25, 2005, the Company executed a letter of intent ("LOI") with IOWC, pursuant to which the Company will acquire certain of BioLargo's assets (the "Purchased Assets"), consisting of certain intellectual property, including two United States patents (collectively, the "BioLargo Technology"), and two license and/or distributor agreements pursuant to which IOWC has licensed the BioLargo Technology for use in products designed for distribution in the food, medical and biohazardous material transportation industries. All assets not constituting the Purchased Assets will remain the property of BioLargo following the closing. The Company will not assume any liabilities of BioLargo.

F-8 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS The parties also agreed that on or prior to the closing, they would enter into a definitive asset purchase agreement (the "Asset Purchase Agreement"),

and other agreements, including a research and development agreement (the "R&D Agreement"), to effect the transactions on or prior to the closing. Pursuant to the R&D Agreement, the Company will pay BioLargo a monthly fee to conduct research to further develop the existing BioLargo Technology and products based on the existing and new technologies. The letter of intent also requires the Company to raise sufficient funds to (i) cover the costs of the transactions, (ii) three months post-closing operating expenses, the latter of which is estimated at approximately \$300,000 and (iii) provide interim funding to BioLargo on a best efforts basis and in amounts agreed between the parties in an aggregate amount not to exceed \$1,000,000. The letter of intent further provides that, at the Closing, the Company and Dennis Calvert will enter into an employment agreement for a term of five years, providing Mr. Calvert with a monthly salary of \$15,400 for 2006, and a 10% increase in his monthly salary for each calendar year thereafter. It is anticipated that the present management of the Company will remain in place after the closing and that Mr. Code will become the Company's Chief Technology Officer. In connection therewith, Mr. Code will enter into an employment agreement with the Company (the "Code Employment Agreement"). In connection with the previously described transactions and in partial implementation thereof, on December 31, 2005, the Company executed a Marketing and Licensing Agreement ("M&L Agreement") with BioLargo. Pursuant to the M&L Agreement, the Company, through its wholly-owned subsidiary BioLargo Life Technologies, Inc., a California corporation formed January 3, 2006 ("BLTI"), acquired certain rights ("Rights") from BioLargo to develop, market, sell and distribute products that were developed, and are in development, by BioLargo using the BioLargo Technology. BioLargo also assigned to BLTI its rights and obligations under two license agreements, including BioLargo, LLC, in which BioLargo has a 20% interest, as well as its rights set forth in a letter of intent with another entity (collectively, the "Assigned Agreements"). The M&L Agreement provides that the Company is to receive any and all royalties, payments, license fees, and other consideration generated by the Assigned Agreements. As part of the M&L Agreement, IOWC has agreed to transfer its 20% interest in BioLargo, LLC to the Company. In consideration of the Rights and the Assigned Agreements, the Company has agreed to issue IOWC a total of 38% of its common stock.

F-9 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS The parties further agreed to enter into additional agreements in furtherance of the July 2005 letter of intent between the Company and IOWC, including (i) the Asset Purchase Agreement, whereby the Company would acquire the two U.S. patents held by IOWC; (ii) the R&D Agreement, with a company to be managed and controlled by Mr. Code; and (iii) the Code Employment Agreement. In consideration of the Asset Purchase Agreement, the Company has agreed to issue IOWC an additional one percent of its common stock. In consideration of the R&D Agreement and Code Employment Agreement, the Company has agreed to issue to Code individually 17.6% of its common stock. As a result of the foregoing transactions, the Company will issue a total of 56.6% of its common stock to BioLargo, calculated on January 1, 2006. The parties further agreed that to the extent that the Company issues additional equity in connection with one or more financing transactions after January 1, 2006, then the percentage of equity to be issued to BioLargo would be diluted pro rata. The Code Employment Agreement is anticipated to provide that Mr. Code will be appointed Chief Technology Officer of BLTI, and receive a monthly salary of \$15,400. As explained below, the Company is required to obtain the approval of its stockholders prior to the issuance of the common stock to IOWC required pursuant to the M&L Agreement. The foregoing transactions are subject to approval by IOWC's board of directors and stockholders, approval by the Company's board of directors, and approval by the Company's stockholders of the following matters: o an amendment to the Company's Certificate of Incorporation increasing the number of authorized shares of its common stock; o the issuance of the number of shares of common stock to IOWC required pursuant to the Transactions; o a reverse split of the Company's common stock; and o the election of Mr. Code to the Company's board of directors. In the event that the Company's stockholders do not approve the issuance of stock, the M&L Agreement shall terminate, and all rights granted to the Company shall revert to BioLargo. The closing of the transactions is subject to various conditions, including those described hereinabove, and conditions customary for transactions of this nature.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES a) Principles of Consolidation. The Company has one subsidiary which is inactive called NuWay Sports, LLC. Management has not been able to sell it. There are no other subsidiaries. The consolidated balance sheets include the accounts of NuWay Medical, Inc. and NuWay Sports, LLC. All significant inter-company balances have been eliminated in consolidation.

F-10 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS b) Property and Equipment. On April 1, 2004 the Company closed its offices and has in storage its furniture, fixtures and office equipment. While in use, depreciation was provided on a straight-line basis over the estimated useful life of the

respective asset. Maintenance and repairs was charged to expense as incurred. There were no major renewals or betterments. c) Impairment of Long-Lived Assets. The Company periodically reviews its long-lived assets for potential impairment as required by Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." d) Earnings (Loss) Per Share. The Company reports basic and diluted earnings (loss) per share (EPS) for common and common share equivalents. Basic EPS is computed by dividing reported earnings by the weighted average shares outstanding. Diluted EPS is computed by adding to the weighted average shares the dilutive effect if stock options and warrants were exercised into common stock. For the years ended December 31, 2005 and 2004, the denominator in the diluted EPS computation is the same as the denominator for basic EPS due to the anti-dilutive effect of the warrants and stock options on the Company's net loss. For the years ended December 31, 2005 and 2004, the computation of basic EPS is as follows: 2005 2004

-----	Numerator - net loss	\$ (1,187,301)	\$ (1,218,048)	=====
=====	Denominator - weighted shares outstanding	54,041,809	45,987,808	-----
-----	Loss per share from Continuing Operations	\$ (0.02)	\$ (0.03)	=====

----- e) Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for stock-based transactions, uncollectible accounts receivable, asset depreciation and amortization, and taxes, among others. F-11 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS f) Stock Options and Warrants issued for Services. As permitted under the Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation," the Company accounts for its stock-based compensation to employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company provides the pro forma net earnings, pro forma earnings per share, and stock based compensation plan disclosure requirements set forth in SFAS No. 123. In December 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No.123(R)"). SFAS No. 123(R) replaces SFAS No. 123 "Accounting for Stock-Based Compensation", which supersedes Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees", ("APB 25"), and amends FASB Statement No 95, "Statement of Cash Flows". SFAS No. 123 (R) requires all share-based payments to employees, including grants to employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123(R) is effective for the first annual reporting period beginning after June 15, 2005. The Company does not expect the impact of the adoption of SFAS 123(R) to have a material effect on the Company's results of operations. For stock issued to consultants and other non-employees for services, the Company records the expense based on the fair market value of the securities as of the date of the stock issuance. g) Non-Cash Transactions The Company has established a policy relative to the methodology to determine the value assigned to each intangible acquired with or licensed by the Company and/or services or products received for non-cash consideration of the Company's common stock. The value is based on the market price of the Company's common stock issued as consideration, at the date of the agreement of each transaction or when the service is rendered or product is received, as adjusted for applicable discounts. The methods, estimates and judgments the Company uses in applying these most critical accounting policies have a significant impact on the results of the Company reports in its financial statements. NOTE 3. WARRANTS During 2005, the Company issued warrants purchase total of 19,980,000 shares of the Company's common stock. Warrants to purchase 8,000,000 shares of the Company's common stock were issued to the Augustine Fund as consideration for the extension of the maturity date of the Augustine Loan. (See Note 8.) These warrants allow for the holder to purchase shares of common stock at an exercise price of \$0.005 per share through July 29, 2010. Warrants to purchase 11,980,000 shares of the Company's common stock were issued in a private offering to twelve investors. These warrants allow for the holder to purchase shares of common stock at an exercise price of \$0.05 per share through January 31, 2008. The value of the warrants at the time of issuances were immaterial as the exercise price was equal to or greater than the market price of the common shares at that time. F-12 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS During 2003, the Company issued warrants to purchase a total of 7,011,036 shares of the Company's common stock on the following terms: (i) 120,000 shares to an investor in connection with a purchase of the Company's preferred stock, at a

price of \$0.20 per share, which expires March 7, 2006 (ii) 399,322 shares to investors in connection with a purchase of the Company's preferred stock, at a price of \$0.20 per share, which expires April 15, 2006; (iii) 6,158,381 shares to an investor in connection with a loan to the Company, originally at a price of \$0.16 per share, which price adjusted to \$0.035 per share in connection with an extension of the loan repayment obligation, which expires June 10, 2008; (iv) 333,333 shares to a consultant in connection with consulting services, at a price of \$0.06 per share, which expires August 29, 2008. The compensation expense related to (iv) above is immaterial. In December 2000, the board of directors authorized the issuance of 3,300,000 private five-year stock warrants to acquire common stock at \$1.75 per share. 1,500,000 of these warrants as well as 200,000 shares of restricted stock were issued to the then existing executive officers. In February 2002, 3,000,000 of the 3,300,000 warrants issued in year 2000 were cancelled. The remaining 300,000 warrants expired unexercised in 2005.

NOTE 4. STOCK COMPENSATION PLANS NUWAY MEDICAL, INC. 2004 EQUITY PLAN On March 10, 2004, the board of directors approved the Company's 2004 Equity Plan as a means of providing directors, key employees and consultants additional incentive to provide services for the Company. Both stock options and stock grants may be made under this plan. The Plan sets aside up to 20,000,000 shares of the Company's common stock for these purposes, which were registered with the SEC. Approval of this plan was not submitted to the vote of the shareholders. The Board administers this plan. The plan allows the Board to award grants of common shares or options to purchase common shares. As plan administrator, the board has sole discretion to set the price of the options. The Board may at any time amend or terminate the plan. It does not expire on its terms.

F-13 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS During 2004, the Company issued approximately 9,180,000 shares to 16 consultants, directors, and employees. Of this total 5,680,000 have been registered with the SEC, while the balance, 3,500,000 shares were not registered and are restricted securities. Of the total issued in 2004, 1,580,000 shares relate to services performed in 2003 and 7,600,000 shares relate to 2004. The effect of the shares issued for 2003 services in 2004 was accrued in the Company's financial statements for the year ending December 31, 2003. In 2004 there were \$275,400 of expenses recorded related to the issuance of these shares. Of this amount \$120,000 related to consulting services, \$5,400 related to legal services, \$60,000 related to Board of Directors expense, and \$90,000 related to salary expense. During 2005, the Company issued no shares under the plan.

NOTE 5. SALE OF UNREGISTERED SECURITIES FIRST OFFERING In January 2005, pursuant to a private offering that commenced in October 2004 and terminated in January 2005 (the "First Offering"), the Company received gross and net proceeds of \$25,000 from an outside investor and issued its convertible promissory note (the "First Offering Note") due and payable one year from the date of issuance. The First Offering Note bears interest at a rate of 10% per annum, payable on the maturity date. The First Offering Note can be converted, in whole or in part, into shares of the Company's Series A Preferred stock, on the basis of \$.005 per share, at any time prior to maturity by either the Company or the lender. Each share of Series A Preferred Stock may be converted by the holder into one share of the Company's common stock. If the noteholder converts the First Offering Note into Series A Preferred Stock, on or after the note's original maturity date the noteholder may require the Company to buy back the shares of Series A Preferred Stock for 110% of the principal amount of the note (the "Buy Back Provision"). If the Company is unable to do so, the Company's president, Dennis Calvert, has agreed to buy back the shares on the same terms. If shares of Series A Preferred Stock are converted into common stock, the holder has the right to include (piggyback) the shares of common stock in a registration of securities filed by the Company, other than on Form S-4 or Form S-8. The Company's payment obligations under the First Offering Note may be accelerated upon the following events: (i) the sale of the Company's assets outside the ordinary course of business; (ii) a breach of the representations and warranties contained within the evidencing the loan; (iii) the failure to timely pay the note; (iv) the Company's default in any other loan obligation greater than \$100,000; (v) the Company's dissolution, liquidation, merger, consolidation, bankruptcy, or future insolvency; and (vi) the commencement of any suit that threatens to have a material adverse effect on the Company, including the entry of a final judgment or settlement in excess of \$100,000.

F-14 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS SECOND OFFERING In January 2005, pursuant to a private offering that commenced in that month and terminated in August 2005 (the "Second Offering"), the Company received gross and net proceeds of \$75,000 from two outside investors and issued its convertible promissory note (the "Second Offering Note") due and payable one year from the date of issuance. The Second Offering Note bears interest at a rate of 10% per annum, payable on the maturity date. The Second Offering Note can be converted, in whole or in part, into shares of the Company's common stock, on the basis ranging from \$.005 to \$0.016 per share, at any time prior to maturity by either the Company or the holder. The holder

has the right to include (piggyback) the shares of common stock in a registration of securities filed by the Company, other than on Form S-4 or Form S-8. The Company's payment obligations under the Second Offering Note may be accelerated upon the following events: (i) the sale of the Company's assets outside the ordinary course of business; (ii) a breach of the representations and warranties contained within the evidencing the loan; (iii) the failure to timely pay the note; (iv) the Company's default in any other loan obligation greater than \$100,000; (v) the Company's dissolution, liquidation, merger, consolidation, bankruptcy, or future insolvency; and (vi) the commencement of any suit that threatens to have a material adverse effect on the Company, including the entry of a final judgment or settlement in excess of \$100,000. In February 2005, the Company received gross proceeds of \$51,000 and net proceeds of \$47,000 from four outside investors and issued Second Offering Notes which allow conversion into an aggregate total of 5,558,036 shares of common stock (at a conversion price of approximately \$0.009 per common share). In April 2005, the Company received gross proceeds of \$29,000 and net proceeds of \$23,750 from two outside investors and issued Second Offering Notes which allow conversion into an aggregate total of 2,500,000 shares of common stock (at a conversion price of approximately \$0.009 per common share). In May 2005, the Company received gross and net proceeds of \$50,000 and \$47,500 from an outside investor and issued a Second Offering Note which allows conversion into a total of 7,142,857 shares of common stock (at a conversion price of \$0.007 per common share). In June 2005, the Company received gross and net proceeds of \$256,120 from eleven outside investors and issued Second Offering Notes which allow conversion into an aggregate total of 28,612,000 shares of common stock (at a weighted average conversion price of approximately \$0.009 per common share). Also in July 2005, the Company received gross proceeds of \$10,000 and net proceeds of \$9,500 from an outside investor and issued a Second Offering Note which allows conversion into an aggregate total of 625,000 shares of common stock (at a conversion price of \$0.016 per common share). F-15 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS In August 2005, the Company received gross proceeds of \$260,000 and net proceeds of \$252,000 from five outside investors and issued Second Offering Notes which allow conversion into an aggregate total of 16,250,000 shares of common stock (at a conversion price of \$0.016 per common share). THIRD OFFERING Pursuant to another private offering that commenced in September 2005 and terminated in February 2006, on December 31, 2005, the Company sold an aggregate amount of \$299,500 of its promissory notes (the "Third Offering Notes") due and payable January 31, 2007 to twelve individual investors. Each Third Offering Note bears interest at a rate of 10% per annum, and can be converted, in whole or in part, into shares of the common stock of the Company at an initial conversion price of \$0.025 per share. The Company sold additional notes under this offering subsequent to December 31, 2005 (see Note 15 - Subsequent Events). The Third Offering Notes may not be converted by either the Company or the holder unless and until each of the following events has first occurred: (i) the Company's stockholders have approved an increase in the number of shares of common stock authorized by the Company's Certificate of Incorporation in an amount not less than the amount required to permit all notes and warrants issued in this series to be converted into shares of the Company's Common Stock as provided herein, at a validly held meeting of stockholders at which a quorum is present and acting throughout; and (ii) the Company has filed with the Secretary of State of State of Delaware a Certificate of Amendment to the Company's Certificate of Incorporation to amend its Certificate of Incorporation to increase the number of shares of common stock authorized by the Company's Certificate of Incorporation. Purchasers of the Third Offering Notes received, for no additional consideration, a stock purchase warrant (the "Third Offering Warrant") entitling the holder to purchase a number of Shares of Common Stock equal to the number of Shares of Common Stock into which the Third Offering Note is convertible. The Third Offering Warrant is exercisable at an initial price of \$0.05 per Share and will expire on January 31, 2008. OTHER ISSUANCES In July 2005, the board of directors of the Company approved the issuance of 6,000,000 shares of the Company's common stock to two directors and one officer. An aggregate \$20,000 owed by the Company to two independent directors for unpaid compensation for serving on the board of directors was paid by the issuance of an aggregate 2,000,000 shares of the Company's common stock, at a share price of \$0.01 per share; and \$40,000 owed by the Company to an officer of the Company for accrued and unpaid compensation, was paid by the issuance of an aggregate 4,000,000 shares of the Company's common stock, at a share price of \$0.01 per share. F-16 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS Also in July 2005, the Company's board of directors approved the issuance of an aggregate of 4,390,000 shares of the Company's common stock to two consultants, at a share price of \$0.01 per share. This issuance was in satisfaction of an aggregate of \$43,900 owed by the Company for services previously performed by these individuals. All of these offerings and sales were made in

reliance on the exemption from registration contained in Section 4(2) of the Securities Exchange Act and/or Regulation D promulgated thereunder as not involving a public offering of securities. Until the Company's stockholders approve an amendment to the Company's charter to increase the number of authorized shares of common stock, the Company will be unable to fulfill its obligations to all convertible noteholders to permit the conversion into common stock of amounts due pursuant to the terms of the convertible notes. In the event that the Company has not raised further capital prior to the maturity dates of the convertible notes, the Company would be in default of those notes if its stockholders have not formally approved an increase in the number of authorized common shares. The Company is not, at this time, in default of the convertible notes.

NOTE 6. TERMS OF PREFERRED SHARES Each share of the Series A Preferred Stock is convertible into one share of the Company's common stock. In addition, for each share of preferred stock sold, the purchaser received one warrant to purchase one share of common stock at a price of \$0.20 per share. The Series A Preferred Stock may be converted by the holder, at any time after six months from the purchase date and the warrant is exercisable for a period of three years from the purchase date. The Series A Preferred Stock vote with the holders of the outstanding shares of Common Stock and not as a separate class or series, except as may be required by law. The holders of outstanding shares of Series A Preferred Stock (which may be referred to as the "Series A Preferred Stock") shall be entitled to receive in any fiscal year, dividends, if, when and as declared by the Board of Directors, out of any assets at the time legally available therefore in cash at a rate equal to 7% per share, per annum, of the original liquidation preference of \$2.00 per share, subject to adjustment as provided herein. There have been no dividends declared by the Board of Directors of the Company.

NOTE 7. CONVERTIBLE DEBENTURES In December 2000, the Company, through a private placement, issued \$3,500,000 principal amount of 6 percent Convertible Debentures to several investors. These debentures were originally due June 13, 2001 and their maturity date was subsequently extended to December 13, 2001. They are convertible into common stock at a price of \$1.75 per share. The interest on the debentures is payable either in cash or shares of common stock, at the discretion of the Company. During 2001, \$1,100,000 of the debentures plus accrued interest was converted into 666,283 shares of the Company's common stock. During 2002, \$2,250,000 of the remaining debentures plus accrued interest was converted into 1,332,570 shares of common stock.

F-17 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS In December 2002 the Company received a notice from the remaining two debenture holders (the "Remaining Debenture Holders") requesting conversion of the remaining outstanding \$150,000 of debentures. The notice provided that, as a condition to conversion, the certificates representing the shares issuable upon conversion of the debentures would need to be delivered to the Remaining Debenture Holders prior to the end of 2002. Pursuant to the request, and to complete the conversion, the Company issued to the Remaining Debenture Holders 96,006 shares of common stock and promptly notified the Remaining Debenture Holders' counsel and the Company's transfer agent of the approval and ratification of the issuance. However, the actual certificates representing the shares were not delivered to the Remaining Debenture Holders until the first quarter of 2003. The Remaining Debenture Holders then refused acceptance of the shares, claiming that because the actual certificates representing the shares were not delivered in 2002 as specified in the conversion notice, the conversion was invalid and the debentures would therefore remaining outstanding and continue to accrue interest until repaid in full. The Remaining Debenture Holders then demanded full payment on their \$150,000 of debentures (plus accrued interest). In June 2003, the Remaining Debenture Holders filed suit in the Orange County Superior Court against the Company claiming it breached the debenture agreement by failing to honor the terms of the notice of conversion. The Company and the Remaining Debenture Holders then entered into a settlement agreement in which the Remaining Debenture holders would convert the debentures into common stock equal to approximately \$70,000. The settlement agreement called for conversion into stock over a period of three months. The Company had partially satisfied the obligations under this agreement as of December 31, 2003, and further satisfied its obligations in 2004. As of December 31, 2005, approximately \$21,000 remains outstanding.

NOTE 8. LOAN AGREEMENT - AUGUSTINE LOAN On June 10, 2003 the Company entered into a Term Loan Agreement ("Loan Agreement") with Augustine II, LLC ("Augustine Fund"), pursuant to which Augustine Fund agreed to loan the Company \$420,000, payable in installments of \$250,000, \$100,000, and \$70,000 (the "Augustine Loan"). The Company received all scheduled installments, and principal and interest (at an annual rate of 10%) were originally due in full on February 29, 2004. As additional consideration for making the Augustine Loan, Augustine Fund received five year warrants to purchase up to 6,158,381 shares of the Company's common stock at an exercise price of \$0.16 per share. The Company can require that the warrants be exercised if the Company's shares trade at or above \$0.60 per share for each trading day within

the 30 calendar days prior to the maturity date of the Augustine Loan, trading volume of the shares equals or exceeds 100,000 shares per day during such period, and the shares of the Company's common stock underlying the warrants have been included on a registration statement filed with and declared effective by the SEC prior to the maturity date. If these conditions are not fully satisfied by the maturity date, then Augustine Fund may, at any time following the maturity date and so long as the warrants remain exercisable, elect to exercise all or any portion of the warrants pursuant to the "cashless exercise" provisions of the warrants. F-18 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS In March 2004, Augustine Fund agreed to extend the maturity date of the Loan Agreement to August 2004. In consideration of the extension, Augustine Fund was given the option of having the Augustine Loan satisfied in cash or by the conversion of any remaining principal balance and any accrued interest on the Augustine Loan to shares of the Company's common stock at a 15% discount to market, so long as Augustine Fund's holdings do not exceed 4.9% of the total issued and outstanding shares of the Company's common stock at any time. In addition, the warrants held by the Augustine Fund to purchase 6,158,381 shares of the Company's common stock were re-priced to an exercise price of \$.035 per share. Exercise of the warrants is also subject to the limit that the Augustine Fund does not hold more than 4.9% of the issued and outstanding shares of the Company's common stock. On March 7, 2005, the Company and the Augustine Fund agreed to extend the maturity date of the Augustine Loan to May 2006 in exchange for the issuance of a warrant that gives the Augustine Fund the right to purchase 8,000,000 shares of the Company's common stock at \$0.005 per share for a period of five years. On July 29, 2005, the Company and the Augustine Fund finalized the terms of this amendment to the Augustine Loan and executed formal documentation. The Loan Agreement is subject to certain requirements that the Company make mandatory prepayments of the Augustine Loan from the proceeds of any asset sales outside of the ordinary course of business, and, on a quarterly basis, from positive cash flow. In addition, the Company may prepay all or any portion of the Augustine Loan at any time without premium or penalty. The proceeds of the Augustine Loan were used by the Company for working capital. As security for the Augustine Loan, New Millennium (an affiliate of Mr. Calvert) pledged 2.5 million shares of the Company's common stock owned by New Millennium, and the Company has granted Augustine Fund a security interest in its ownership interest in the Company's subsidiary, NuWay Sports, LLC. The Company recorded interest expense of \$72,478 for the year ended December 31, 2005 and \$69,445 for the year ended December 31, 2004. F-19 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS Using the Black-Scholes pricing model, the Company allocated approximately \$245,000 of the Augustine Loan proceeds to the warrants and \$175,000 to the note payable, which allocations were made on a pro rata basis based on the fair value of the warrants. The Black Scholes calculation assumed a discount rate of approximately four percent, volatility of 257 percent and no dividends. Given that the warrants were issued in conjunction with Loan Agreement, such fair value represents an effective discount on the debt and will be amortized over the term of the loan. Amortization of this discount for the year ended December 31, 2005 was approximately \$0 and \$61,500 for the years ended December 31, 2005 and 2004 and is recorded as additional interest expense in the accompanying consolidated statement of operations. In conjunction with the extension of the maturity date of the Augustine Loan from February 2004 to August 2004, the warrants held by Augustine Fund to purchase 6,158,381 shares of the Company's common stock were re-priced to an exercise price of \$.035 per share. As of December 31, 2005, the principal amount of the loan of \$420,000, together with approximately \$165,256 in accrued but unpaid interest, had not been repaid. NOTE 9. OTHER LOAN On November 20, 2003, the Company received \$50,000 in exchange for a promissory note in which it agreed to pay \$65,000 to Dr. James Seay 90 days from the date of the loan. The Company's president personally guaranteed the note. The note matured on February 18, 2004. The Company has paid Dr. Seay \$30,000 and the balance of \$35,000 remains outstanding. On February 10, 2005, the Company amended its obligations to Dr. Seay, which amendment (i) extends the maturity date of the note to February 3, 2006, (ii) provides for interest to accrue at a rate of 10% per annum (15% upon default), and (iii) allows for the conversion of the note into 7,000,000 shares of the Company's common stock, or \$.005 per share. In February 2006, this note has been further extended to the sooner of June 30, 2006, or the date the Company's stockholders approve an amended to the Company's charter increasing the number of authorized shares of common stock. NOTE 10. RELATED PARTY TRANSACTIONS NEW MILLENNIUM In conjunction with the acquisition from Med Wireless of the license for the Med Wireless and PRLS technologies on August 21, 2002, the Company assumed a \$1,120,000 note (the "Med Wireless Note") with interest at 10% per annum payable by Med Wireless to Summitt Ventures, Inc. ("Summitt Ventures"). Summitt Ventures is controlled by Mark Anderson, a former consultant and principal stockholder of the

Company. The Med Wireless Note is secured by the Company's assets and was originally due on June 15, 2003. F-20 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS As part of a series of transactions that the Company undertook to separate itself completely from Mr. Anderson, on March 26, 2003, Summitt Ventures sold the Med Wireless Note, together with 4,182,107 shares of the Company's common stock owned by Mr. Anderson's affiliates, Camden Holdings and Summit Healthcare, to New Millennium, in exchange for a \$900,000 promissory note issued by New Millennium in favor of Summitt Ventures, Camden Holdings, and Summit Healthcare (the "New Millennium Note"). The New Millennium Note is secured by all of the stock of the Company owned by New Millennium and Mr. Calvert. (See "Augustine Fund Note" above.) Other than Mr. Calvert, no individual, entity or party presently or previously associated with the Company has ever had any ownership interest in New Millennium. Mr. Anderson, a principal of those companies that sold and/or licensed the technologies to the Company, conditioned the transaction with New Millennium on the Company's agreeing to convert the Note to common stock. Since New Millennium purchased the Med Wireless Note, the Company has attempted multiple times to convert the note, but has been unable to obtain the required stockholder vote, due to a lack of quorum, to do so. The three attempts are described below. On March 26, 2003, the Company's board of directors voted to convert the Med Wireless Note into 22,400,000 shares of common stock of the Company, at a conversion price discounted 37.5% from the then market price of \$0.08. New Millennium agreed to this conversion. In arriving at a conversion price, the board of directors determined that a 37.5% discount to market price was appropriate based on a number of factors, including that (i) with the quantity of the shares that would be issued, a block of shares that size could not be liquidated without affecting the market price of the shares, and (ii) the shares would be "restricted shares" and could therefore not be sold by New Millennium in the public markets prior to two years from the date of the conversion, and thereafter would be subject to the volume and manner of sale limitations of Rule 144 under the Securities Act of 1933. Subsequent to the vote by the board to convert the Med Wireless Note, the Company received notification from NASDAQ's Listing Qualifications Department that converting the Note without stockholder approval violated certain NASDAQ Marketplace Rules. In response to this notification, the board, with the concurrence of New Millennium, voted to amend its resolution and delay conversion of the Note until the Company's stockholders approved the conversion. At the Company's June 6, 2003 board meeting, Mr. Calvert, on behalf of New Millennium, and the Company, through the unanimous action of the board (with Mr. Calvert abstaining), agreed that, in light of current market conditions (namely the significant increase in the trading price of the Company's common stock since March 26, 2003, the date on which the conversion of the Med Wireless Note was originally approved by the board, from \$0.08 to \$0.28 as of June 6, 2003), it would be inequitable for New Millennium to convert the note at the originally agreed to \$0.05 per share price. Mr. Calvert, on behalf of New Millennium, and the Company orally agreed to rescind the agreement to convert the note. F-21 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS In addition, New Millennium orally agreed with the Company to extend the maturity date of the Med Wireless Note to a first payment due October 1, 2003 in the amount of \$100,000 and the balance of the principal due on April 1, 2004, with interest due according to the original terms of the note (to correspond to the payment terms of the New Millennium Note), and furthermore to reduce the Company's obligation on the note to the extent that New Millennium might be able to reduce its obligation on the New Millennium Note. While the prior holder of the Med Wireless Note, Summitt Ventures, purported to condition New Millennium's purchase on the conversion of the Med Wireless Note, Mr. Calvert has represented to the Company that due to Mr. Anderson's failure to honor his obligations in the purchase agreement, Mr. Calvert now believes that conversion of the Med Wireless Note is no longer a required term of the agreement between New Millennium and Summitt Ventures. The Company was unable to make the \$100,000 payment on the Med Wireless Note on the extended due date of October 1, 2003. At a board meeting on October 15, 2003, the board decided to put the issue of conversion of the note to the Company's stockholders at a special meeting of the stockholders scheduled for December 9, 2003. The stockholders meeting was held on December 9, 2003, but adjourned without a vote, because not enough shares to constitute a quorum were represented. The stockholders meeting was rescheduled for December 30, 2003, at which a quorum was also not present. Because this was the second attempt to obtain a quorum, and more than 4,000,000 additional shares were required to be voted to obtain a quorum, the board adjourned the meeting indefinitely. As a result, the Med Wireless Note was not converted into stock and the outstanding principal amount, together with accrued and unpaid interest, remains as a liability of the Company. In conjunction with the Company's January 31, 2004 purchase of Premium Medical Group, Inc., a Florida corporation ("PMG"), later rescinded in October 2004, (see Note 13), and as a condition to that transaction (the "PMG

Transaction"), the Premium Medical Group shareholders (the "PMG Shareholders") required the Company to convert the Med Wireless Note so as to eliminate the obligation from the Company's balance sheet. At a meeting on February 10, 2004, the board of directors voted to convert the note into 30,869,992 shares of its common stock, at a conversion price of \$0.04, discounted 20% from the then market price of \$0.05. New Millennium agreed to this conversion. In arriving at a conversion price, the board of directors determined that a 20% discount to market price was appropriate based on a number of factors, including (i) the holding period of the stock will be two years, and thus is not liquid until that point, and (ii) the amount of the stock issued would make it impossible to liquidate the stock at the current market price. This discount was equal to the discount proposed to the stockholders in December 2003 at the abandoned stockholders meeting, and less than the discount used by the board at the first conversion attempt in April 2003. F-22 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS The board approved the conversion knowing that, since its conversion was a condition imposed by the PMG Shareholders, they (who would hold 45% of the Company's common stock at the time of such meeting) would provide the additional shares necessary to obtain a quorum and formal stockholder approval. Stockholder approval was also necessary to increase the number of authorized shares necessary to convert the Med Wireless Note. However, due to lack of operational capital, the Company was unable to remain current in its SEC filings, and thus was unable to hold the required stockholder meeting. In October 2004, the Company, PMG and the PMG Shareholders rescinded the PMG Transaction. Because the board of director's decision to convert the Med Wireless Note was based in part on the requirements of the PMG Shareholders, the board on October 28, 2004, determined not to convert the Note. Considering that the Company at the time was a shell corporation with no operations, Mr. Calvert also agreed to extend the maturity of the Med Wireless Note indefinitely until the Company's status changed. Accordingly, as of December 31, 2005, the principal amount of the Med Wireless Note, together with \$317,956 in accrued but unpaid interest, had not been repaid. Under the terms of the New Millennium Note, it is possible that Summitt Ventures, Camden Holdings and Summit Healthcare may have a claim to reacquire the shares of the Company's common stock that were sold to New Millennium. The New Millennium Note is purportedly secured by the purchased shares of the Company's common stock; however, New Millennium and Mr. Calvert believe that Mr. Anderson and his affiliates have not perfected their security interest in those shares. In addition, the Augustine Fund is the pledgee of 2,500,000 of these shares and has physical possession of those shares. Mr. Calvert has proposed to the Board of Directors a plan to amend the New Millennium Note to extend the due date to January 15, 2008; waive any cash payments of interest until the New Millennium Note becomes due; reduce the principal amount of the New Millennium Note from \$1,120,000 to \$900,000, equal to a 19.6% reduction; and comparably reduce the accrued but unpaid interest due under the terms of the New Millennium Note from \$317,956 to \$255,636, also equal to a 19.6% reduction. The proposal is currently under consideration by the Board of Directors. OBLIGATIONS TO DENNIS CALVERT In 2003 and 2004, the Company's President, Dennis Calvert, loaned money to the Company by paying from his personal funds certain of the Company's expenses. A significant portion of these personal funds was obtained by Mr. Calvert by refinancing his primary residence and cashing out equity thereon. On March 7, 2005, the Company and Mr. Calvert agreed that the \$101,770 still outstanding and owed by the Company to Mr. Calvert would be repaid under the terms of a promissory note bearing interest of 10% per annum, requiring monthly payments and maturing on January 15, 2006. As of December 31, 2005, the Company had repaid approximately \$92,800 of this loan; approximately \$9,000 principle remained outstanding. Subsequent to the end of the fiscal year ended December 31, 2005, the balance of this obligation was repaid by the Company. F-23 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS As of December 31, 2005, the Company had accrued an expense related to the unpaid accrued compensation due Mr. Calvert in the amount of \$328,821. The Company currently occupies space from a consultant at no cost to the Company. NOTE 11. PROVISION FOR INCOME TAXES Any deferred tax assets have been subjected to a 100% valuation allowance, as management is unable to determine that it is more likely than not that such will be realized. Due to changes in the Company's ownership through various issuance of common stock during 2002 and 2003, the utilization of net operating loss carryforwards may be subjected to annual limitations under provisions of the Internal Revenue Code. Such limitations could result in the permanent loss of a portion of the net operating loss carry forwards. The Company has not yet evaluated the status of its net operating loss carry forwards and may not do so until such time as the Company expects operating profits. The Company has not filed its 2002, 2003 and 2004 Federal and State Income tax returns. Management of the Company does not feel that it will have a material impact on the financial condition of the Company. NOTE 12. COMMITMENTS AND CONTINGENCIES

LITIGATION In June 2002, Geraldine Lyons, the Company's former Chief Financial Officer, sued the Company and the Company's former president Todd Sanders, for breach of her employment contract. The lawsuit was brought in the Circuit Court of the 11th Judicial Circuit in Miami-Dade County in Florida. Ms. Lyons seeks approximately \$25,000 due under the contract and the issuance of 100,000 shares of common stock, with a guarantee that the stock could be sold by Ms. Lyons for \$300,000. Ms. Lyons alleges that additional funds are due under her employment contract; that the contract requires the Company guarantee that she can sell for \$300,000 the 100,000 shares of stock the Company is required to issue her; and, that Mr. Sanders promised to purchase from her 100,000 shares of Company common stock held by her at the price of \$4.00 per share. F-24 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS The Company has counter-sued Ms. Lyons for breach of fiduciary duty, fraud, violation of Section 12(a)(2) of the Securities Act of 1933, violation of Section 517.301 of the Florida Statutes, negligent misrepresentation, conversion and unjust enrichment resulting from the required restatement of the Company's financial statements for the years ended December 31, 2000 and December 31, 1999. The restatements corrected the previous omission of certain material expenses related primarily to compensation expense arising from warrants issued and repriced stock options, as well as other errors. The case is ongoing at this time, although it has not been vigorously prosecuted by Ms. Lyons or the Company, in the Company's case primarily because the Company had lacked the resources to do so. The Company entered into an agreement ("Legal Defense Agreement") in December 2004 such that Augustine Fund would pay for the legal expenses associated with the Company's defense and affirmative claims in this lawsuit (with the right to withdraw funding at any time), and in exchange would share any net proceeds awarded to the Company pursuant to a settlement or judgment. The sharing arrangement provides that Augustine Fund will recover first, out of any money available from recovery, its legal and out of pocket expenses related to the lawsuit; second, 85% of any additional amounts recovered up to \$500,000; and third, 50% of amounts recovered beyond \$500,000. While the Company believes that it has meritorious positions in this litigation, given the inherent nature of litigation, it is not possible to predict the outcome of this litigation or the impact it would have on the Company. In May 2004, the Company was sued by Flight Options, Inc. ("Flight Options"), a jet plane leasing company, in the Superior Court of Orange County California. The lawsuit alleges that the Company owes Flight Options approximately \$418,300, pursuant to a five-year lease assigned to the Company by the Company's former president Todd Sanders, from his corporation, Devenshire Management Corporation ("Devenshire"). Management of the Company believes that the assignment of the lease was not properly authorized or approved by the Company, and that by Mr. Sander's failure to identify the lease in a December 2002 settlement agreement with the Company, he breached the terms of that settlement agreement and, pursuant to the settlement agreement, must indemnify the Company for any losses owed to Flight Options. The Company filed a cross-complaint against Mr. Sanders and Devenshire seeking indemnity and alleging Mr. Sander's breached his fiduciary duties in connection with the assignment of the lease. The Company's Legal Defense Agreement with the Augustine Fund applies also to the Flight Options litigation. On March 17, 2005, the Company settled with Flight Options pursuant to a stipulation that would have allowed the Company to pay Flight Options \$100,000 on or before August 5, 2005; if \$100,000 was not paid by August 5, 2005, Flight Options could file a judgment against the Company for \$163,310. The Company did not make a payment on or before August 5, 2005. Subsequently, the parties agreed that the Company would pay Flight Options a total of \$116,000, which amount was paid. In exchange, Flight Options dismissed the case. F-25 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS At about the time of the settlement with Flight Options, the Company, Mr. Sanders and Devenshire agreed to submit the matters in the cross-complaint, including the indemnity claim, to binding arbitration. On March 7, 2006, an arbitrator issued an binding award in favor of the Company and against Mr. Sanders for \$120,000. Legal Fees in the matter have been paid by Augustine, pursuant to the Legal Defense Agreement between Augustine and the Company. In January 2006, Augustine and the Company agreed to modify the terms of the Legal Defense Agreement to allow for both parties to share in any amounts which might be recovered from Sanders, on a percentage basis equal to the respective costs incurred by each party. Legal Fees incurred by Augustine are estimated to be approximately \$81,000 as of February 2006, but will likely increase. On December 4, 2004, the Company was sued by the law firm of Enenstein Russell and Saltz, LLP to collect fees that had been billed to the Company in the amount of \$15,233, which had been disputed by the Company. In August of 2005, the Company settled the lawsuit for \$9,000. The Company paid the settlement and the law firm dismissed the lawsuit. The Company is party to various other claims, legal actions and complaints arising periodically in the ordinary course of business. In the opinion of management, no such matters will have a material adverse effect

on the Company's financial position or results of operations. EMPLOYMENT AGREEMENTS In January 1997, the Company entered into a five year employment agreement with Lloyd Lyons, which provided in part that in the event of a merger, consolidation, sale or conveyance of substantially all the assets of the Company which resulted in the discharge of Mr. Lyons, he would be entitled to 200 percent of the balance of payments remaining under the contract. The contract provided salary continuation for a period of two years after his death. In January 2000, Mr. Lyons passed away and effective August 2, 2000 the Company amended its employment contract with his widow and primary beneficiary of his estate, whereby the salary continuation clause included in his contract was replaced with a severance arrangement that requires the Company to pay Mrs. Lyons \$100,000 over a one year period commencing on the first month following the termination of her employment with the Company. Furthermore, upon her termination she is to receive 100,000 shares of common stock pursuant to an amendment to her employment agreement. The amended employment agreement will obligate the Company to register these shares and reimburse her for the difference in the gross proceeds upon the sale of such shares and \$300,000; regardless of the time she holds such shares. Effective October 29, 2001 Mrs. Lyons tendered her resignation and based upon the terms of her severance agreement, expenses of \$350,000 had been recorded of which \$308,000 is included in accounts payable and accrued expenses at December 31, 2004 and 2005. F-26 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS In December of 2002, The Company entered into a five-year employment agreement with the Company's current president, Dennis Calvert. His agreement calls for a base monthly income of \$14,000 plus performance bonuses and employee related benefits. He serves as president, Chief Executive Officer, Interim CFO and Chairman of the Board. In March 2003, the Company entered into a five-year employment agreement with Joseph Provenzano. Mr. Provenzano serves the Company as Secretary, Board Member and Senior Executive reporting to Mr. Calvert. His agreement calls for him to receive not less than \$10,900 per month in salary plus incentive bonuses, stock ownership participation and employee related benefits. At the Company's discretion, the Company may choose to pay up to \$4,900 of this monthly salary with stock in lieu of cash. In 2005, the Company and Mr. Provenzano agreed that he would work for the Company on an as needed basis. In 2005, the Company accrued and paid Mr. Provenzano \$39,900 for services performed. STOCK-BASED COMMITMENTS The Company has utilized the services of a number of consultants who were compensated with shares of common stock. While each agreement can generally be terminated with a 15-day notice, the Company may be obligated to issue additional shares to the consultants. NOTE 13. ABANDONED ACQUISITION On January 31, 2004, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with PMG and the PMG Shareholders. Prior to this transaction, there was no business or other relationship between the Company and its affiliates and PMG or the PMG Shareholders. Pursuant to the Stock Purchase Agreement, the Company agreed to acquire 100% of the shares of PMG from the PMG Shareholders in exchange for 30,000,000 shares of the Company's common stock, subject to certain adjustments. The exact number of Company Shares to be issued to the PMG Shareholders was subject to adjustment in the event certain revenue was generated by PMG during one year following the closing of the transaction. PMG had been organized in June 2003 to provide medical products to hospitals and medical clinics in South America, primarily Venezuela. One of the PMG Shareholders (Luis A. Ruiz) became a director of the Company in connection with the transaction. The parties had a difference in expectations regarding who would be ultimately responsible for paying for the audit of PMG that was required in order for the Company to complete its disclosure obligations under the Securities Exchange Act. Additionally, the Company did not have a sufficient number of authorized and unissued shares of its common stock to both satisfy its obligations to the PMG Shareholders and to issue shares of common stock in a meaningful financing transaction, given the low price per share at which the Company's common stock trades. The Company lacked the financial resources to schedule a stockholders' meeting, prepare a proxy statement and solicit proxies for the purpose of amending its Certificate of Incorporation to increase its authorized capital stock. As a result of these and other factors, the Company and PMG never consolidated their operations, the Company never exercised control over PMG or its operations and the parties never exchanged stock certificates evidencing their ownership in each other. F-27 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS Therefore, the parties entered into discussions and concluded amicably that it was in the mutual best interest of the respective companies and their respective stockholders, to rescind the transactions provided for in the Stock Purchase Agreement and return all parties to their respective positions prior to the transactions contemplated in the Stock Purchase Agreement. The parties entered into a Rescission Agreement on October 14, 2004 that provides, in relevant part, that (i) all transactions contemplated by the Stock Purchase Agreement shall be rescinded as if the Stock Purchase Agreement had never been

executed and delivered; (ii) the parties forever waive all rights to receive stock in PMG and the Company, as the case may be; (iii) Luis A. Ruiz shall resign as a director of the Company; and (iv) the Company and PMG shall file appropriate documents with the Secretary of State of the State of Florida with respect to the rescission of the exchange of shares provided for in the Stock Purchase Agreement.

NOTE 14. RETIREMENT OF TREASURY STOCK During 2004, the Company determined that based on reconciliations of its stock records and its stock transfer agent that 200,000 shares of the Company's common stock has been issued in prior years but not recorded in the Company's books. An adjustment was made as of December 31, 2004 to give effect to this non-material error. In addition, the shares included in treasury stock were determined to have been formally cancelled and an adjustment was made at December 31, 2004 to reflect this cancellation.

NOTE 15. SUBSEQUENT EVENTS SALES OF UNREGISTERED SECURITIES On March 6, 2006, the Company issued its Third Offering Notes in the aggregate principal amount of \$797,500, due and payable January 31, 2007, to 44 individual investors. Each Third Offering Note bears interest at a rate of 10% per annum, and can be converted, in whole or in part, into shares of the common stock of the Company at an initial conversion price of \$0.025 per share. Purchasers of the Third Offering Notes also received, for no additional consideration, a Third Offering Warrant entitling the holder to purchase a number of Shares of the Company's Common Stock equal to the number of Shares of Common Stock into which the Third Offering Note is convertible. The Third Offering Warrant is exercisable at an initial exercise price of \$0.05 per Share and expires on January 31, 2008.

F-28 NUWAY MEDICAL, INC. AND SUBSIDIARY NOTES TO FINANCIAL STATEMENTS The Notes may not be converted by either the Company or the holder unless and until each of the following events has first occurred: (i) the Company's stockholders have approved an increase in the number of shares of common stock authorized by the Company's Certificate of Incorporation in an amount not less than the amount required to permit all the Notes and Warrants issued in this series to be converted into shares of the Company's Common Stock and (ii) the Company has filed with the Secretary of State of State of Delaware a Certificate of Amendment to the Company's Certificate of Incorporation to amend its Certificate of Incorporation to increase the number of shares of common stock authorized by the Company's Certificate of Incorporation. This offering and the sales thereunder were made in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933 and/or Regulation D promulgated thereunder as not involving a public offering of securities. Until the Company's stockholders approve an amendment to the Company's charter to increase the number of authorized shares of common stock, the Company will be unable to fulfill its obligations to all convertible noteholders to permit the conversion into common stock of amounts due pursuant to the terms of the convertible notes. In the event that the Company has not raised further capital prior to the maturity dates of the convertible notes, the Company would be in default of those notes if its stockholders have not formally approved an increase in the number of authorized common shares. The Company is not, at this time, in default of the convertible notes.

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