AMERICAN HOSPITAL RESOURCES INC
Form 10KSB
March 25, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-KSB

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2004

Commission File **Number 0-32195**

American Hospital Resources, Inc.

(Name of small business issuer in its charter)

Utah	**87-0319410**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

5231-A Kuaiwi Place

Honolulu, Hawaii 96821

(Address and Zip Code of principal executive offices)

808-595-8847

Issuer s telephone number, including area code:

(Former address and telephone number)

Securities registered pursuant to Section 12(b) of the Exchange Act:

None

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

No par value, common voting shares

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

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

The issuer s revenue for its most recent fiscal year was: $0.

The aggregate market value of the issuer s common stock held by non-affiliates of the issuer was $10,003,229 based on the market price of the registrant s common stock as of March 21, 2005.

Transitional Small Business Format: Yes [ ] No [X]

Documents incorporated by reference: none

FORM 10-KSB

AMERICAN HOSPITAL RESOURCES, INC.

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(Inapplicable items have been omitted)

PART I

Forward-Looking Statement Notice

When used in this report, the words may, will, expect, anticipate, continue, estimate, project, intend, an expressions are intended to identify forward-looking statements within the meaning of Section 27a of the Securities Act of 1933 and Section 21e of the Securities Exchange Act of 1934 regarding events, conditions, and financial trends that may affect the Company s future plans of operations, business strategy, operating results, and financial position. Persons reviewing this report are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such factors are discussed under the Item 2. Management s Discussion and Analysis of Financial Condition or Plan of Operations, and also include general economic factors and conditions that may directly or indirectly impact the Company s financial condition or results of operations.

Description of Business

General

American Hospital Resources, Inc. or AMHR, originally incorporated in the State of Utah on May 9, 1972, under the name High-Line Investment & Development Company. In 1977, we changed our name to Gayle Industries, Inc. In 1978 we merged into our subsidiary, Swing Bike, and retained the Swing Bike name. In 1979 we changed our name from Swing Bike to Horizon Energy Corp., and in 1992 we changed our name to Millennium Entertainment Corp.

In 1993 we changed our name to New Horizon Education, Inc. and implemented a business plan focusing on marketing computer education programs. Later that year, we formed a new subsidiary, Sunset Horizon, Inc. for the purpose of merging with Ruff Network Marketing, Inc. The subsidiary owned the marketing rights to the computer education programs and Ruff Network Marketing, Inc. provided the marketing network. We were not successful in our marketing activities and in 1995 we sold our assets and suspended operations. In 1997 we sold our subsidiary and remained essentially dormant from 1998 through 2000.

In 2001, we brought our SEC filings current and began seeking business opportunities. In June of 2002, we finalized an Agreement and Plan of Reorganization with American Hospital Resources, Inc (AHR). Under the Agreement, American Hospital Resources Inc. became our wholly owned subsidiary and we changed our name to American

Hospital Resources, Inc. We also authorized a class of 10,000,000 shares of Preferred Stock at no par value and changed our business strategy to focus on providing health care services and management. We were unsuccessful in our attempt to enter the health care services industry and did not generate any revenues during the past two fiscal years ended December 31. We are now considered a blank check company.

Our common stock is quoted on the OTCBB under the symbol AMHR.

Our Business

On December 22, 2003, we discontinued our hospital management consulting business. The Company s board of directors determined that the Company had not realized the expected benefits from the acquisition of AHR subsidiary and made the determination to seek to dispose of the AHR subsidiary. As a result, the Company repurchased 2,131,249 shares of common stock for $85,250 and obtained a court order to cancel the remaining 1,065,624 shares. AHR has since discontinued operations and has been voided by the State of Delaware. All operations of AHR subsidiary have been reclassified to discontinued operations.

AMHR intends to seek, investigate, and if warranted, acquire an interest in a business opportunity. We are not restricting our search to any particular industry or geographical area. We may therefore engage in essentially any business in any industry. Our management has unrestricted discretion in seeking and participating in a business opportunity, subject to the availability of such opportunities, economic conditions and other factors.

The selection of a business opportunity in which to participate is complex and extremely risky and will be made by management in the exercise of its business judgment. There is no assurance that we will be able to identify and acquire any business opportunity which will ultimately prove to be beneficial to our

company and shareholders.

Because we have no specific business plan or expertise, our activities are subject to several significant risks. In particular, any business acquisition or participation we pursue will likely be based on the decision of management without the consent, vote, or approval of our shareholders.

Sources of Opportunities

We anticipate that business opportunities may arise from various sources, including officers and directors, professional advisers, securities broker-dealers, venture capitalists, members of the financial community, and others who may present unsolicited proposals.

We will seek potential business opportunities from all known sources, but will rely principally on the personal contacts of our officers and directors as well as indirect associations between them and other business and professional people. Although we do not anticipate engaging professional firms specializing in business acquisitions or reorganizations, we may retain such firms if management deems it in our best interests. In some instances, we may publish notices or advertisements seeking a potential business opportunity in financial or trade publications.

Criteria

We will not restrict our search to any particular business, industry or geographical location. We may acquire a business opportunity in any stage of development. This includes opportunities involving start up or new companies. In seeking a business venture, management will base their decisions on the business objective of seeking long-term capital appreciation in the real value of our company. We will not be controlled by an attempt to take advantage of an anticipated or perceived appeal of a specific industry, management group, or product.

In analyzing prospective business opportunities, management will consider the following factors:

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available technical, financial and managerial resources;

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working capital and other financial requirements;

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the history of operations, if any;

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prospects for the future;

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the nature of present and expected competition;

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the quality and experience of management services which may be available and the depth of the management;

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the potential for growth and expansion;

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the potential for profit;

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the perceived public recognition or acceptance of products, services, trade or service marks, name identification; and other relevant factors.

Generally, our management will analyze all available factors and make a determination based upon a composite of available facts, without relying on any single factor.

Methods of Participation of Acquisition

Management will review specific business opportunities and then select the most suitable opportunities based on legal structure or method of participation. Such structures and methods may include, but are not limited to, leases, purchase and sale agreements, licenses, joint ventures, other contractual arrangements, and may involve a reorganization, merger or consolidation transaction. Management may act directly or indirectly through an interest in a partnership, corporation, or other form of organization.

Procedures

As part of the our investigation of business opportunities, officers and directors may meet personally with management and key personnel of the firm sponsoring the business opportunity. We may visit and inspect material facilities, obtain independent analysis or verification of certain information provided, check references of management and key personnel, and conduct other reasonable measures.

We will generally ask to be provided with written materials regarding the business opportunity. These materials may include the following:

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descriptions of product, service and company history; management resumes;

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financial information;

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available projections with related assumptions upon which they are based;

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an explanation of proprietary products and services;

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evidence of existing patents, trademarks or service marks or rights thereto;

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present and proposed forms of compensation to management;

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a description of transactions between the prospective entity and its affiliates;

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relevant analysis of risks and competitive conditions;

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a financial plan of operation and estimated capital requirements;

and other information deemed relevant.

Competition

We expect to encounter substantial competition in our efforts to acquire a business opportunity. The primary competition is from other companies organized and funded for similar purposes, small venture capital partnerships and corporations, small business investment companies and wealthy individuals.

Employees

Mark Buck and Antione Gedeon are our only employees. Mr. Buck serves as our Chief Executive Officer, Chief Financial Officer and President. Mr. Gedeon serves as a director for the Company. We have also contracted with outside consultants and subcontractors on a part time, as-needed basis.

Subsequent Event

The Company entered into an Agreement of Purchase and Sale of Stock with HAPS USA, Inc., a Delaware corporation (HAPS) and the shareholders of HAPS whereby the Company would acquire all of the issued and outstanding stock of HAPS making HAPS a wholly owned subsidiary of the Company. HAPS is the parent company of Hikari Systems CO., Ltd., a Japanese company. The transaction requires the Company to increase its authorized capital shares as detailed above and change the Company s name. The Company will issue 116,595,760 shares of Preferred Stock with a new designation to the shareholders of HAPS in exchange for all of the issued and outstanding stock of HAPS.

Hikari Systems Co., Ltd. is one the leading operators within the Japanese Pachinko Industry. Hikari has six operating locations. The Pachinko market is undergoing a period of consolidation and modernization. With its state of the art information technology (IT) infrastructure, Hikari is already taking advantage of the opportunity to increase customer loyalty, increase market share and the competitiveness of its locations. Hikari plans to build upon its success expanding in two main geographic areas. These areas have highly positive market characteristics and demographics for the Pachinko Industry. With the opening of each new establishment greater economies of scale for operations will be achieved.

The acquisition of HAPS USA, Inc. is contingent upon certain terms and conditions including the increase in authorized capital. The complete agreement between the Company and HAPS USA, Inc. may be viewed at the Securities and Exchange Commission website, www.sec.gov.

Item 2. Description of Property.

Since 2003, we have been using office space provided at no cost by our Chief Executive Officer, Mark Buck. Our offices are located at 5231-A Kuaiwi Place Honolulu, Hawaii.

Item 3. Legal Proceedings.

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

None.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

Our common stock is listed on the Over the Counter Bulletin Board under the symbol AMHR. There is no public market for any of our preferred shares, options or warrants. At December 31, 2004 we had approximately 591 shareholders holding 14,740,576 shares of common stock. The following table shows the highs and lows of the closing bid and ask prices on our common stock for 2004 and 2003.

YEAR	CLOSING BID		CLOSING ASK	
2004	*High*	*Low*	*High*	*Low*
First Quarter	1.14	.22	1.15	.25
Second Quarter	.86	.34	.94	.39
Third Quarter	.37	.16	.46	.18
Fourth Quarter	.60	.165	.71	.19
2003	*High*	*Low*	*High*	*Low*
First Quarter	.28	.21	.33	.26
Second Quarter	.77	.15	.82	.19
Third Quarter	.93	.38	.98	.48
Fourth Quarter	.88	.27	.95	.32

The above quotations, as provided by Pink Sheets, LLC, represent prices between dealers and do not include retail markup, markdown or commission. In addition, these quotations do not represent actual transactions.

We have not paid or declared any dividends on our common stock since inception and do not intend to declare any such dividends in the foreseeable future. Our ability to pay dividends is subject to limitations imposed by Utah law. Under Section 16-10a-640 of the Utah Revised Business Corporation Act, dividends maybe paid to the extent that a corporation s assets exceed its liabilities and it is able to pay its debts as they become due in the usual course of business and does not affect preferential shareholders rights upon dissolution.

Recent Sales of Unregistered Securities.

Unless otherwise noted all Securities were sold or offered without registration in reliance on the exemption provided by Section 4(2) and/or Rule 506, Regulation D of the Securities Act. No broker was involved and no commissions were paid in any transaction.

In December 2004 the Company issued a total of 30,000 shares of common stock for services valued at a total of $18,000.

In December 2004 the Company reissued stock it had previously canceled for a total of 2,131,249 shares of common stock valued at a total of $85,250 payment off a liability.

In November 2004, the Company issued a total of 90,000 shares of common stock for services valued at a total of $36,000.

In September 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at $6,300, or $.21 per share.

In August 2004 the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at $9,600 or $.32 per share.

In March, 2004, the Company issued 8,108 shares of Class A preferred stock for cash of $15,000 with a beneficial conversion feature of $14,189 which has been accounted for as a dividend on the day of issue.

In March 2004, the Company issued 20,000 shares of its common stock for $1,000 cash upon the exercise of outstanding options.

In February 2004, the Company issued 1,100,000 shares of its common stock to pay accounts payable of $29,382 and for services valued at $476,618. Of the 1,100,000 shares issued, 250,000 of the shares were registered on Form S-8.

In February 2004, the Company issued 110,000 shares of Class A preferred stock for services valued at $253,000.

In December 2003, the Company cancelled 1,065,624 shares of its common stock due to a court order. In December 2003, the Company repurchased and cancelled 2,131,249 shares of the Company s issued and outstanding common stock for $85,250, or $.04 per share.

In December 2003, the Company issued 2,537,150 shares of its previously authorized but unissued common stock upon the conversion of 353,750 shares of Class A preferred stock and 153,680 shares of Class C preferred stock.

In October 2003, the Company issued 1,200,000 shares of common stock to pay a liability of $290,000 or approximately $.2417 per share.

In September 2003, the Company issued 173,747 shares of Class C preferred stock to a third party in exchange for payment of liabilities totaling $868,735 which were owed to shareholders of the Company.

In June and July, 2003, the Company issued 8,800 shares of Class C preferred stock for $44,000 cash.

In May 2003, shareholders of the Company converted 505,010 shares of Class A preferred stock into 2,525,050 shares of common stock.

From April through June 2003, the Company issued a total of 388,300 shares of Class A preferred stock with beneficial conversion features totaling $324,775 which have been accounted for as dividends on the day of issue.

In April and May 2003, the Company issued 570,000 shares of common stock for services valued at $131,000.

In February 2003, the Company issued 40,000 shares of common stock for $10,000 cash.

On December 31, 2002, AMHR issued 2,600,000 shares of its previously authorized but unissued Class A preferred stock in exchange for 13,000,000 shares of common stock held by Phase One LLC. The 13,000,000 shares of common stock were then cancelled. The preferred shares have 5 to 1 voting rights and may be converted into five shares of common stock.

In February 2002, the Company issued 11,000,000 shares of common stock for notes payable in the amount of $80,000 and a note receivable in the amount of $30,000. The Company also issued 125,000 shares of common stock for services valued at $2,500 and 450,000 shares of common stock for services valued at $5,000. Additionally, the Company issued 500,000 shares of common stock for a note payable of $20,000 with accrued interest of $1,281.

In February and March 2002, the Company repurchased and canceled 3,198,736 shares of its issued and outstanding common stock for $79,500.

In March 2002, the Company issued 1,600,000 shares of common stock for services valued at $32,000.

In April 2002, the Company issued 2,000,000 shares of common stock for $20,000 cash.

In May of 2002 we issued 500,000 common shares to an accredited investor to convert $40,000 in notes and accrued interest of $789.

In June 2002, the Company issued 3,196,873 shares of common stock to acquire the subsidiary, American Hospital Resources, Inc., a Delaware corporation.

In August 2002, the Company issued 584,000 shares of common stock for services valued at $146,000.

On October 31, 2002, the Company issued 200,000 shares of previously authorized but unissued restricted common stock for cash of $50,000, or $.25 per share to two accredited investors.

Options and Warrants

All Securities are issued without registration in reliance on the exemption provided by Section 4(2) and/or Rule 506, Regulation D of the Securities Act. No broker was involved and no commissions were paid in any transaction.

In December 2004 the Company granted 150,000 warrants to purchase common stock from the 2004 Stock Bonus Pool as payment of $45,000 to officers and directors for compensation. The warrants vested immediately and are exercisable at $0.25 per share for a period of five years. As of December 31, 2004, none of these warrants had been exercised, forfeited or cancelled. Subsequent to the date of this report, these warrants have been cancelled in exchange for shares of restricted common stock of the Company.

In December 2003, the Board of Directors authorized the 2004 Stock Bonus Pool which consists of 1,000,000 warrants to purchase common stock at $0.25 per share. The Company granted 200,000 warrants to purchase common stock from the 2004 Stock Bonus Pool to officers and directors for services rendered valued at $4,000. As of December 31, 2004, none of these warrants had been exercised, forfeited or cancelled. Subsequent to the date of this report, these warrants have been cancelled in exchange for shares of restricted common stock of the Company.

On December 31, 2002, the Board of Directors adopted an Incentive Stock Bonus Plan. The plan allows the company to grant 5-year warrants to purchase shares of common stock to directors, senior management and certain key employees. Awards under this plan are to be determined by the Board of Directors.

On December 31, 2002, AMHR granted 300,000 warrants to purchase common stock to directors and consultants as payment for prior services collectively valued at $19,577 or approximately $.065 per warrant. The warrants vested immediately and are exercisable at $0.25 per share for five years. In 2004, the Company obtained a court order to cancel 75,000 of the warrants. At December 31, 2004, none of the remaining 225,000 warrants had been exercised, forfeited or cancelled. Subsequent to the date of this report, 200,000 of the warrants have been cancelled in exchange for shares of restricted common stock of the Company and 25,000 of the warrants have been cancelled.

In December 2002, AMHR granted 300,000 warrants to purchase common stock to NIPSI directors and personnel in conjunction with the proposed acquisition of NIPSI. The warrants vested immediately and are exercisable at $.25 per share through December 2007. Subsequent to the date of this report, these warrants have been cancelled pursuant to court order.

On November 1, 2002, the Company granted a stock option to Spice Island Products Corp. The option allows Spice Island to purchase up to 2,000,000 shares of the Company s common stock at $0.50 per share at any time between November 1, 2002 and November 1, 2005. As of December 31, 2004, no options have been exercised, forfeited or cancelled. . Subsequent to the date of this report, these warrants have been cancelled in exchange for shares of restricted Preferred A stock of the Company.

In March 2002, AMHR granted 10,000 stock options to Mark Buck and 10,000 stock options to Antione Gedeon, for their services as directors. The options vested immediately and are exercisable at $.05 per share through March of 2004. As of December 31, 2004, all 20,000 options had been exercised.

Convertible Notes

All Securities are issued without registration in reliance on the exemption provided by Section 4(2) and/or Rule 506, Regulation D of the Securities Act. No broker was involved and no commissions were paid in any transaction.

The Company has the following one-year 10% convertible notes payable:

$10,000 note payable due August 2004, convertible into common stock at $.29 per share, secured by 100,000 shares of the Company s common stock, currently in default.

$20,000 note payable due September 2004, convertible into common stock at $.265 per share, secured by 200,000 shares of the Company s common stock, currently in default.

$10,000 note payable due September 2004, convertible into common stock at $.38 per share, secured by 100,000 shares of the Company s common stock, currently in default.

$24,000 note payable due September 2004, convertible into common stock at $.36 per share, secured by 250,000 shares of the Company s common stock, currently in default.

$10,000 note payable due September 2004, convertible into common stock at $.37 per share, secured by 100,000 shares of the Company s common stock, currently in default.

$11,000 note payable due September 2004, convertible into common stock at $.485 per share, secured by 150,000 shares of the Company s common stock, currently in default.

$21,345 note payable due October 2004, convertible into common stock at $.435 per share, secured by 213,345 shares of the Company s common stock, currently in default.

$10,000 note payable due October 2004, convertible into common stock at $.42 per share, secured by 100,000 shares of the Company s common stock, currently in default.

$10,000 note payable due October 2004, convertible into common stock at $.45 per share, secured by 100,000 shares of the Company s common stock, currently in default.

$10,000 note payable due October 2004, convertible into common stock at $.40 per share, secured by 100,000 shares of the Company s common stock, currently in default.

$5,000 note payable due November 2004, convertible into common stock at $.375 per share, secured by 100,000 shares of the Company s common stock, currently in default.

$2,500 note payable due December2004, convertible into common stock at $.18 per share, secured by 100,000 shares of the Company s common stock, currently in default.

$10,000 note payable maturing in February 2005, convertible into common stock at $.23 per share, secured by 100,000 shares of the Company s common stock, net of discount of $833.

$10,000 note payable maturing in February 2005, convertible into common stock at $.27 per share, secured by 100,000 shares of the Company s common stock, net of discount of $833.

$10,000 note payable maturing in February 2005, convertible into common stock at $.325 per share, secured by 100,000 shares of the Company s common stock, net of discount of $833.

$16,000 note payable maturing in March 2005, convertible into common stock at $.51 per share, secured by 160,000 shares of the Company s common stock, net of discount of $2,667.

$10,000 note payable maturing in March 2005, convertible into common stock at $.425 per share, secured by 100,000 shares of the Company s common stock, net of discount of $1,667.

$4,000 note payable maturing in March 2005, convertible into common stock at $.50 per share, secured by 40,000 shares of the Company s common stock, net of discount of $667.

$9,000 note payable maturing in August 2005, convertible into common stock at $.15 per share, secured by 90,000 shares of the Company s common stock, net of discount of $5,250.

$100 note payable maturing in September 2005, convertible into common stock at $.11 per share, secured by 1,000 shares of the Company s common stock, net of discount of $67.

Subsequent to the date of this report, the holders of all of the above convertible notes have negotiated a settlement for restricted common and Preferred A stock of the Company to be issued upon the closing of the HAPS acquisition.

Item 6. Management s Discussion and Analysis or Plan of Operation.

The Management s discussion and analysis should be read in conjunction with the audited consolidated financial statements appearing at the end of this report.

Results of Operations for the periods ended December 31, 2004 and December 31, 2003

The company did not have any revenues for the year ended December 31, 2004. Total expenses consisted solely of general and administrative expenses of $2,084,762 during the year ended December 31, 2004. General and administrative expenses in 2004 consisted mainly of write-off of stock offering costs, consulting expenses, accounting and legal costs associated with preparing and filing our public reports. We also incurred interest expense in the amount of $193,263 in 2004 compared to $51,285 in 2003. In 2003, general and administrative expenses of $575,882 consisted mainly of salaries, accounting and legal costs associated with preparing and filing our public reports. The significantly higher costs in 2004 were primarily due to costs related to the Company s abandoned plans for a stock offering in the amount of $1,084,609. In 2004, the Company had no loss from discontinued operations, compared to a loss from discontinued operations of $93,588 in 2003.

Net loss for 2004 totaled $2,278,025 while the net loss for 2003 was $720,755.

Results of Operations for the periods ended December 31, 2003 and December 31, 2002

The company did not have any revenues for the year ended December 31, 2003. General and administrative expenses were $523,876 during the year ended December 31, 2003. We also recorded expenses of $12,006 relating to our unsuccessful attempt to acquire NIPSI, $40,000 relating to our unsuccessful acquisition of RXS and interest of $51,285. General and administrative expenses were $1,063,337 for the period ended December 31, 2002 with interest expense of $1,122. In 2003, general and administrative expenses consisted mainly of salaries, accounting and legal costs associated with preparing and filing our public reports. The significantly higher costs in 2002 were due to additional legal and auditing costs related to the acquisition of our subsidiary in June and our failed acquisition of NIPSI in December 2002.

As a result of these factors, we realized a net loss of $720,755 for the year ended December 31, 2003 compared to a net loss of $1,247,310 for the year ended December 31, 2002.

Liquidity and Capital Resources

At December 31, 2004, total current assets consisted of $2,120 in cash on hand compared to $5 in cash on hand at December 31, 2003. Also at December 31, 2004, we had $1,329 in deferred loan costs for total assets of $3,449. In 2003, the Company had $10,503 in deferred loan costs and $1,069,609 in deferred stock offering costs totaling $1,080,117 for total assets.

At December 31, 2004, we had total liabilities of $586,475 compared to $292,460 at December 31, 2003. The increase is mainly attributable to accounts payable, dividends payable on our preferred stock, increased accrued interest due on loans and an increase of convertible notes payable. Effective July 1, 2003, each share of Class A preferred stock is entitled to receive a cumulative $.0575 annual dividend payable monthly with no limitation based on earnings. At December 31, 2004, the Company owed $189,859 in dividends payable on Class A preferred stock.

During the next twelve months we hope to reduce liabilities and bring current our outstanding debts. We anticipate that our operating expenses for the next twelve months will be approximately $120,000 consisting mainly of salaries and consulting fees. We will also have legal and auditing expenses relating to our public reports as well as office rental and other expenses. Management anticipates closing the HAPS transaction during the first quarter of 2005 and will continue with the HAPS business plan should the acquisition be successful. Should it become necessary to raise additional capital, we may consider securing loans from officers and directors, selling additional stock or entering into debt financing. We have no material commitments for capital expenditures for the next twelve months.

The Company had entered into an Equity Line of Credit Agreement with Cornell Capital Partners, LP. The agreement required Cornell to purchase up to $10,000,000 of the Company s common stock at approximately 90% of market price. The agreement allowed the Company to make requests for funds in $150,000 increments every seven trading days over the next two years following registration of the underlying securities. The agreement also provided for a commitment fee of approximately $290,000 of the Company s common stock and other provisions. The Company had recorded $1,084,609 in deferred stock offering costs, which were to be offset against the proceeds of the offering. In September 2004, the Company abandoned its plans for a stock offering and expensed the deferred stock offering costs of $1,084,609 as general and administrative expenses.

Item 7. Financial Statements.

The financial statements appear at the end of this report beginning with the Index to Financial Statements on page 19.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures

(a)

Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the chief executive officer and the chief financial officer, carried out an evaluation of the effectiveness of the Company's "disclosure, controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(3) and 15-d-15(3) as of the end of the period covered by this annual report (the "Evaluation Date"). Based upon that evaluation, the chief executive officer and the chief financial officer concluded that, as of the Evaluation Date, the Company's disclosure, controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b)

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal controls over financial reporting, known to the chief executive officer or the chief financial officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B. Other Information

There are no further disclosures. All information that was required to be disclosed in a Form 8-K during the fourth quarter, 2004 has been disclosed.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

The following table sets forth as of December 31, 2004, the name, age, and position of each executive officer and director and the term of office for each director.

Name	Age	Position	Since
Mark Buck	60	Director, President, Chief Executive Officer and Chief Financial Officer	March 2002
Antione Gedeon	59	Director and Secretary	March 2002

All officers hold their positions at the will of the Board of Directors. All directors hold their positions for one year or until their successors are duly elected and qualified.

The Company has no audit committee financial expert, as defined under Section 228.401, serving on its audit committee because it has no audit committee and is not required to have an audit committee because it is not a listed security as defined in Section 240.10A-3.

The following is a brief biography of the officers and directors.

Mark Buck, President, CEO, CFO and Director. Mr. Buck is a commercial real estate broker specializing in sales and leasing. He has worked for Commercial Real Estate Services in Honolulu, Hawaii since 1986 as Vice President of Marketing and Sales. Mr. Buck has been an owner and partner in three small businesses that he later sold.

Antione Gedeon, Secretary and Director. Mr. Gedeon speaks four languages and has many years of experience in the travel industry. He is currently an instructor with Travel University International in Honolulu, Hawaii where he teaches advanced courses in travel industry management, international trade, and hotel management. He has also worked as a consultant for Private Investment Group since 1999. From 1995 to 1998 Mr. Gedeon was the President and Chief Operating Officer of Mayan Resorts Development Corp. in Belize where he presided over the master plan for Salt Creek Estate, a 31,000 acre beachfront property.

Compliance with Section 16(a) of the Exchange Act

Based solely upon a review of Forms 3, 4 and 5 furnished, we are not aware of any person who at any time during the fiscal year ended December 31, 2004 was a director, officer, or beneficial owner of more than ten percent of the Common Stock of the Company, and who failed to file, on a timely basis, reports required by Section 16(a) of the Securities Exchange Act of 1934 during such fiscal year.

Item 10. Executive Compensation

We have no formal arrangements for the remuneration of our officers and directors, except that they will receive reimbursement for actual, demonstrable out-of-pocket expenses, including travel expenses, if any, made on our behalf.

SUMMARY COMPENSATION TABLE

				Long Term Compensation			
		Annual Compensation		Awards		Payouts	
Name and	Year	Salary	Other Annual Compen-sation ($)	Restricted Stock Awards ($)	Securities Underlying Options/ SARs (#)	LTIP Payouts ($)	All Other Compen-sation

Principal Position	**Ended**	**($)**	**Bonus($)**					**($)**
Christopher Wheeler (1)	12/31/04	-0-	-0-	-0-	-0-	-0-	-0-	-0-
	12/31/03	93,750	-0-	-0-	-0-	-0-	-0-	-0-
Former Chief Executive	12/31/02	67,500	-0-	-0-	-0-	75,000	-0-	-0-
Officer, Chief Financial								
Officer and Director								
Mark S. Buck (2) (4)	12/31/04	-0-	-0-	-0-	-0-	100,000	-0-	-0-
Current Chief Executive	12/31/03	-0-	-0-	-0-	-0-	150,000	-0-	-0-
	12/31/02	-0-	-0-	-0-	-0-	135,000	-0-	-0-
Officer,								
Chief Financial Officer								
And Director								
Antione Gedeon (3) (4)	12/31/04	-0-	-0-	-0-	-0-	50,000	-0-	-0-
	12/31/03	-0-	-0-	-0-	-0-	50,000	-0-	-0-
Current Director and	12/31/02	-0-	-0-	-0-	-0-	85,000	-0-	-0-
Secretary								
Steven L. White (4)	12/31/03	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Former Chief Executive Officer And Director	12/31/02	-0-	-0-	500	22,000	-0-	-0-	-0-

No other officers or directors, past or present meet the requirements set forth in Item 402 of Regulation S-B for reporting executive compensation.

(1)

In December of 2002, Mr. Wheeler received warrants to purchase up to 75,000 shares of common stock for $.25 per share under the company s Incentive Stock Bonus Plan as additional compensation for his services as Chief Executive Officer. These warrants were cancelled in a court order issued February 27, 2004.

14

(2)

In December of 2002, Mr. Buck received warrants to purchase up to 125,000 shares of common stock for $.25 per share under the company s Incentive Stock Bonus Plan as compensation for his services as officer and director. Mr. Buck also received an option to purchase up to 10,000 shares for $.05 per share in March of 2002. Mr. Buck fully exercised the March 2002 options in March 2004 purchasing all 10,000 shares. In December 2004, Mr. Buck received a warrant to purchase up to 100,000 shares for $0.25 per share.

(3)

In December of 2002, Mr. Gedeon received warrants to purchase up to 75,000 shares of common stock for $.25 per share under the company s Incentive Stock Bonus Plan as compensation for his services as an officer and director. Mr. Gedeon also received an option to purchase up to 10,000 shares for $.05 per share in March of 2002. Mr. Gedeon fully exercised the March 2002 options in March 2004 purchasing all 10,000 shares which he then gifted to his adult children. In December 2004, Mr. Gedeon received a warrant to purchase up to 50,000 shares for $0.25 per share.

(4)

Subsequent to the date of this report, all of the above warrants have been cancelled in exchange for restricted shares of the Company as follows:

Mark Buck

337,500 shares of restricted common stock

Antoine Gedeon

157,500 shares of restricted common stock

Therefore, we have eliminated the option table.

(5)

In 2002 our former Directors received a one-time payment of $500 each for their prior services as board members. In March of 2002 we issued 1,100,000 shares of common stock to our former president, Steven White, as compensation for accrued salary of $22,000.

Employment Contracts, Termination of Employment and Change in Control

There are no compensatory plans or arrangements, including payments to be received, with respect to any person which would in any way result in payments to any person because of employment with our company or its subsidiaries, or any change in control of our company, or a change in the person s responsibilities following a change in control of our company.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

At December 31, 2004, there were 14,740,576 shares of no par value common stock, 2,247,648 shares of no par value preferred A stock and 28,867 shares of no par value preferred C stock issued and outstanding. Each share of preferred A stock has the voting rights of five shares of common stock and may be converted to common stock on a 1 to 5 basis. Each share of preferred A stock is entitled to receive a $0.0575 annual dividend, payable monthly with the total annual dividend for all shares of preferred A stock limited to 50% of the Company s earnings before interest, taxes, depreciation and amortization for the year. Each share of preferred C stock has no voting rights and is entitled to receive a cumulative $.475 annual dividend payable quarterly and is convertible to into five shares of common stock after a two-year waiting period following issuance. As a result, there were 25,978,816 voting shares at December 31, 2004.

The following table sets equivalent voting shares based on the number and percentage of outstanding common and preferred stock and which, according to the information supplied to us, were beneficially owned by (i) each person who is currently a director of AMHR, (ii) each executive officer, (iii) all current directors and executive officers of AMHR as a group and (iv) each person who, to our knowledge is the beneficial owner of more than 5% of the outstanding common stock and preferred stock. Unless otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable.

Name and Address of Beneficial Owner (1)	**Title of Class**	**Amount and Nature of Beneficial Ownership**	**Percentage of Class**	**Percentage of Voting Shares**
Mark S. Buck (2)	Common	29,950	0.002%	0.001%
521-A Kuaiwi Place	Pref. A x 5	0	0.0%	
Honolulu, HI 96821				
Antione Gedeon (2)	Common	0	0.0%	0%
521-A Kuaiwi Place	Pref. A x 5	0	0.0%	
Honolulu, HI 96821				
Phase One, LLC (3)	Common	8,830,000	59.90%	40.13%
8 East Broadway	Pref. A x 5	1,595,000		
Suite 609				
Salt Lake City, UT 84111				
CEDE & Co.	Common	5,607,257	38%	21.58%
P. O. Box 20	Pref. A x 5			
Bowling Green Station				
New York, NY 10274				
Officers, Directors and Nominees as a Group:	Common	29,950	0.002%	0.001%
	Pref. A	0	0.0%	
Two People				

(1)

For purposes of this table, a beneficial owner is one who, directly or indirectly, has or shares with others (a) the power to vote or direct the voting of the Voting Stock (b) investment power with respect to the Voting Stock which includes the power to dispose or direct the disposition of the Voting Stock.

(2)

Officer and/or director.

(3)

Phase One LLC is Managed by Mr. Randall Omota who is not a shareholder of the Company. Further, there is no voting agreement or arrangement allowing the Manager to vote the shares. Each member of Phase One LLC votes their shares individually. No single member of Phase One LLC owns sufficient shares to be considered an affiliate of the Company.

Item 12. Certain Relationships and Related Transactions.

The Company currently occupies office space provided at no cost by our Chief Executive Officer, Mark Buck. Our offices are located at 5231-A Kuaiwi Place Honolulu, Hawaii.

In 2004, Mark Buck loaned the Company $100 for operating expenses.

In August 2004, a shareholder of the Company, Property Management Services, Inc. loaned the Company $9,000 The loan was in the form of a convertible note secured by common stock of the Company and maturing August 2005.

The Company also had 18 loans from a shareholder, Spice Island Products, Inc. totaling $203,845. All of the notes were convertible and secured by common stock of the Company. The notes had maturity dates from August 2004 through March 2005. The Company also had issued options to purchase 2,000,000 shares of common stock to Spice Island Products, Inc.

Item 13. Exhibits and Reports on Form 8-K.

The Company has adopted a code of ethics that applies to the Company s principal executive officer, principal financial officer, principal accounting officer or controller which was attached as Exhibit 99.3 to its 2002 Form 10KSB. The Company will provide, at no cost, a copy of the Code of Ethics to any shareholder of the Company upon receiving a written request sent to the Company s address shown on Page 1 of this report.

Exhibit 3(I)

Articles of Incorporation as Amended*

Exhibit 3(ii)

Bylaws*

Exhibit 14

Code of Ethics**

Exhibit 31.1

Certification of the Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1

Certification of the Principal Executive Officer and Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002***

(b) Reports on Form 8-K.

There were no reports filed on Form 8-K during the period covered by this report.

* Incorporated by reference. Filed as exhibit to 10SB12G filed December 29, 2000

**Incorporated by reference. Filed as exhibit to 2002 10KSB filed April 9, 2003

***The Exhibit attached to this Form 10-KSB shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to liability under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 14. Principal Accountant Fees and Services

<u>Audit Fee</u>

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal account for the audit of American Hospital Resources annual financial statement and review of financial statements included American Hospital Resources 10-QSB reports and services normally provided by the accountant in connection with statutory and regulatory filings or engagements were $16,452 for fiscal year ended 2004 and $42,392 for fiscal year ended 2003.

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Audit-Related Fees

There were no fees for other audit related services for fiscal year ended 2004.

Tax Fees

Fees for tax compliance, tax advice and tax planning in the amount of $1,025 and $-0- were billed for the fiscal years 2004 and 2003.

All Other Fees

There were no other aggregate fees billed in either of the last two fiscal years for products and services provided by the principal accountant, other than the services reported above.

We do not have an audit committee currently serving and as a result our board of directors performs the duties of an audit committee. Our board of directors will evaluate and approve in advance, the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services. We do not rely on pre-approval policies and procedures.

SIGNATURES

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

American Hospital Resources, Inc.

/s/ Mark Buck

Date: March 24, 2005

Mark Buck

Chief Executive Officer

Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 24, 2005

/s/ Mark Buck

Mark Buck

Director

Date: March 24, 2005

/s/ Antione Gedeon

Antione Gedeon

Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

AMERICAN HOSPITAL RESOURCES, INC.

Honolulu, Hawaii

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

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Hospital Resources, Inc. as of December 31, 2004 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 11 to the financial statements, the Company has incurred significant losses and has not yet been successful in establishing profitable operations. Further, the Company has current liabilities in excess of current assets. These factors raise substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regards to these matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Pritchett, Siler & Hardy, P.C.

PRITCHETT, SILER & HARDY, P.C.

Salt Lake City, Utah

February 9, 2005, except for Note 15,

as to which the date is February 18, 2005

AMERICAN HOSPITAL RESOURCES, INC.

BALANCE SHEET

ASSETS

	December 31, 2004
CURRENT ASSETS:	
Cash	$ 2,120
OTHER ASSETS:	
Deferred loan costs	1,329
	$ 3,449

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:

Accounts payable

$

165,892

Dividends payable

196,884

Accrued interest

23,571

Convertible notes payable, net of discounts totaling $12,817

200,128

Total Current Liabilities

586,475

COMMITMENTS AND CONTINGENCIES [*See Note 14*]

-

Total Liabilities

586,475

STOCKHOLDERS' EQUITY (DEFICIT):

Preferred stock, no par value, 10,000,000 shares authorized:

Class A convertible preferred stock, 2,600,000 shares

designated, 2,247,648 shares issued and outstanding

3,441,285

Class B convertible preferred stock, 5,000,000 shares

designated, no shares issued and outstanding

-

Class C convertible preferred stock, 1,200,000 shares

designated, 28,867 shares issued and outstanding

143,496

Common stock, no par value, 100,000,000 shares authorized,

14,740,576 shares issued and outstanding

6,803,447

Additional paid-in capital

1,217,441

Retained earnings (deficit)

(12,188,695)

Total Stockholders' Equity (Deficit)

(583,026)

$

3,449

The accompanying notes are an integral part of this financial statement.

AMERICAN HOSPITAL RESOURCES, INC.

STATEMENTS OF OPERATIONS

For the Year Ended

December 31,

____

2004

2003

____

____

REVENUE

$

-

$

-

____

____

EXPENSES:

General and administrative

2,084,762

523,876

Costs of unsuccessful NIPSI acquisition

-

12,006

Costs of unsuccessful RXS acquisition

-

40,000

____

____

Total Expenses

2,084,762

575,882

____

____

LOSS BEFORE OTHER EXPENSE

(2,084,762)

(575,882)

OTHER EXPENSE:

Interest expense

(193,263)

(51,285)

____

____

LOSS BEFORE INCOME TAXES

(2,278,025)

(627,167)

CURRENT TAX EXPENSE

-

-

DEFERRED TAX EXPENSE

-

-

____

____

LOSS FROM CONTINUING OPERATIONS

(2,278,025)

(627,167)

____

____

DISCONTINUED OPERATIONS:

Loss from operations of discontinued hospital

management consulting business (including gain on

disposal of $0 and $39,524 respectively)

-

(93,588)

Income tax benefit

-

-

____

____

LOSS FROM DISCONTINUED OPERATIONS

-

(93,588)

NET LOSS

$

(2,278,025)

$

(720,755)

BENEFICIAL CONVERSION FEATURE OF

PREFERRED STOCK EQUIVALENT TO A DIVIDEND

(14,189)

(324,775)

DIVIDEND REQUIREMENTS OF PREFERRED STOCK

(142,345)

(68,840)

NET LOSS AVAILABLE TO COMMON

SHAREHOLDERS

$

(2,434,559)

$

(1,114,370)

LOSS PER COMMON SHARE:

Continuing operations

$

(.20)

$

(.10)

Discontinued operations

-

(.01)

Net Loss Per Common Share

$

(.20)

$

(.11)

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

AMERICAN HOSPITAL RESOURCES, INC.

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

Class A Preferred Stock

Class C Preferred Stock

Common Stock

Additional

Retained

____

____

____

Paid-in

Earnings

Shares

Amount

Shares

Amount

Shares

Amount

Capital

(Deficit)

____

____

____

____

____

____

_____

____

BALANCE, December 31, 2002

2,600,000

$

3,900,000

-

$

-

7,614,000

$

3,759,522

$

955,496

$

(8,639,766)

Issued 40,000 shares of common

stock for cash of $10,000, or

$.25 per share, net of offering

costs of $400, February 2003

-

-

-

-

40,000

9,600

-

-

Issued 550,000 shares of

common stock for services of

$121,000, or $.22 per share,

April 2003

-

-

-

-

550,000

121,000

-

-

Issued 383,000 shares of Class A

preferred stock for cash of

$71,500 and services of

$120,000, or $.50 per share, net

of offering costs of $65, issued

with a beneficial conversion

feature of $314,900, April and

May 2003

383,000

506,335

-

-

-

-

-

-

Issued 20,000 shares of common

stock for services of $10,000, or

$.50 per share, May 2003

-

-

-

-

20,000

10,000

-

-

Issued 2,525,050 shares of

common stock to convert

505,010 shares of Class A

preferred stock, May 2003

(505,010)

(740,454)

-

-

2,525,050

740,454

-

-

Issued 5,300 shares of Class A

preferred stock for cash of

$10,000, or approximately

$1.8868 per share, net of

offering costs of $62, issued

with a beneficial conversion

feature of $9,875, June 2003

5,300

19,813

-

-

-

-

-

-

Issued 8,800 shares of Class C
preferred stock for cash of
$44,000, or $5.00 per share, net
of offering costs of $5,303, June
and July 2003

-

-

8,800

38,697

-

-

-

-

Beneficial conversion feature on
notes payable sold from August
through December 2003

-

-

-

-

-

-

143,845

-

Issued 173,747 shares of Class C

preferred stock for payment of

liabilities totaling $868,735, or

$5.00 per share, September 2003

-

-

173,747

868,735

-

-

-

-

Issued 1,200,000 shares of

common stock for payment of

liabilities of $290,000, or

approximately $.2417 per share,

October 2003

-

-

-

-

1,200,000

290,000

-

-

[*Continued*]

AMERICAN HOSPITAL RESOURCES, INC.

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

[*Continued*]

Class A Preferred Stock

Class C Preferred Stock

Common Stock

Additional

Retained

____

____

____

Paid-in

Earnings

Shares

Amount

Shares

Amount

Shares

Amount

Capital

(Deficit)

____

____

____

____

____

____

_____

____

Issued 2,537,150 shares of

common stock to convert

353,750 shares of Class A

preferred stock and to convert

153,680 shares of Class C

preferred stock, October 2003

(353,750)

(525,035)

(153,680)

(763,936)

2,537,150

1,288,971

-

-

Repurchased and cancelled

2,131,249 shares of common

stock for $85,250, or $.04 per

share, December 2003

-

-

-

-

(2,131,249)

(85,250)

-

-

Cancelled 1,065,624 shares of

common stock due to court

order, December 2003

-

-

-

-

(1,065,624)

-

-

-

Granted 200,000 warrants to

purchase common stock,

December 2003

-

-

-

-

-

-

4,000

-

Net loss for year ended

December 31, 2003

-

-

-

-

-

-

-

(720,755)

Beneficial conversion feature of

preferred stock equivalent to a

dividend

-

-

-

-

-

-

-

(324,775)

Dividend requirements of

preferred stock

-

-

-

-

-

-

-

(68,840)

____

____

____

____

____

____

_____

____

BALANCE, December 31, 2003

2,129,540

3,160,659

28,867

143,496

11,289,327

6,134,297

1,103,341

(9,754,136)

Issued 110,000 shares of

Class A Preferred stock for

Services of $253,000, or

$2.30 per share, February 2004

110,000

253,000

-

-

-

-

-

-

Issued 1,100,000 shares of

Common stock for services

of $476,618 and liabilities

of $29,382 or $0.46 per share,

February 2004

-

-

-

-

1,100,000

506,000

-

-

Issued 8,108 shares of
Class A preferred stock for
cash of $15,000, or $1.85 per
share net of offering costs
of $1,563 issued with a beneficial
conversion feature of
$14,189, March 2004.

8,108

27,626

-

-

-

-

-

-

Beneficial conversion feature of
preferred stock equivalent to a

dividend, March 2004.

-

-

-

-

-

-

-

(14,189)

[*Continued*]

AMERICAN HOSPITAL RESOURCES, INC.

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

[*Continued*]

Class A Preferred Stock

Class C Preferred Stock

Common Stock

Additional

Retained

____

____

____

Paid-in

Earnings

Shares

Amount

Shares

Amount

Shares

Amount

Capital

(Deficit)

____

____

____

____

____

____

_____

____

Issued 20,000 shares of

Common stock for cash of $1,000

Upon exercise of options,

or $0.05 per share, March 2004.

-

-

-

-

20,000

1,000

-

-

Beneficial conversion feature of

notes payable signed February

through March 2004.

-

-

-

-

-

-

60,000

-

Issued 30,000 shares of
Common stock for services
of $9,600 or $0.32 per share,
August 2004.

-

-

-

-

30,000

9,600

-

-

Beneficial conversion feature of
notes payable signed in August
and September 2004.

-

-

-

-

-

-

9,100

-

Issued 30,000 shares of

Common stock for services

of $6,300, or $0.21 per share,

September 2004.

-

-

-

-

30,000

6,300

-

-

Issued 90,000 shares of

Common stock for services

of $36,000, or $0.40 per share,

November 2004.

-

-

-

-

90,000

36,000

-

-

Issued 20,000 shares of

Common stock for $7,000

cash or $0.35 per share,

December 2004

.

-

-

-

-

20,000

7,000

-

-

Issued 30,000 shares of

Common stock for services

of $18,000 or $0.60 per share,

December 2004.

-

-

-

-

30,000

18,000

-

-

Issued 2,131,249 shares of

Common stock for liabilities of

$85,250, or $.04 per share,

December 2004.

-

-

-

-

2,131,249

85,250

-

-

Granted 150,000 warrants to

Purchase Common Stock,

December 2004

-

-

-

-

-

-

45,000

-

Net loss for year ended

-

-

-

-

-

-

-

(2,278,025)

December 31, 2004

Dividend requirements of

preferred stock

-

-

-

-

-

-

-

(142,345)

____

____

____

____

____

____

______

____

BALANCE, December 31, 2004

2,247,648

$3,441,285

28,867

$143,496

14,740,576

$6,803,447

$1,217,441

$(12,188,695)

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____

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____

The accompanying notes are an integral part of this financial statement.

AMERICAN HOSPITAL RESOURCES, INC.

STATEMENTS OF CASH FLOWS

For the Year Ended

December 31,

2004

2003

Cash Flows from Operating Activities:

Net loss

$

(2,278,025)

$

(720,755)

Adjustments to reconcile net loss to net cash used

by operating activities:

Amortization of deferred loan costs

16,364

4,485

Amortization of discounts on notes payable

157,083

43,045

Depreciation

-

295

Non-cash services for common stock

799,518

251,000

Non-cash services for common stock warrants

45,000

4,000

Non-cash expense

1,084,609

-

Non-cash gain on disposal of discontinued operations

-

(15,842)

Changes in assets and liabilities:

Decrease in prepaid expense

-

30,075

Increase in accounts payable

103,704

66,518

Increase in accrued expenses

-

64,722

Increase in accrued interest

19,816

3,755

____

____

Net Cash (Used) by Operating Activities

(51,931)

(268,702)

____

____

Cash Flows from Investing Activities:

Proceeds received on advance to NIPSI

-

15,000

Payments for property and equipment

-

(1,414)

____

____

Net Cash Provided by Investing Activities

-

13,586

____

____

Cash Flows from Financing Activities:

Payments of deferred loan costs

(7,190)

(14,988)

Proceeds allocated to beneficial conversion feature

of notes payable

69,100

143,845

Payments of stock offering costs

(16,563)

(16,015)

Proceeds from sale of Class A preferred stock

15,000

81,500

Proceeds from sale of Class C preferred stock

-

44,000

Proceeds from sale of common stock

8,000

10,000

Payments of preferred stock dividends

(14,301)

-

Net Cash Provided by Financing Activities

54,046

248,342

[*Continued*]

AMERICAN HOSPITAL RESOURCES, INC.

STATEMENTS OF CASH FLOWS

[*Continued*]

For the Year Ended

December 31,

____

2004

2003

____

____

Net Increase (Decrease) in Cash

2,115

(6,774)

Cash at Beginning of the Year

5

6,779

____

____

Cash at End of the Year

$

2,120

$

5

Supplemental Disclosures of Cash Flow Information:

Cash paid during the period for:

Interest

$

-

$

-

Income taxes

$

-

$

-

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the year December 31, 2004:

The Company amortized $157,083 of discounts on notes payable and $16,364 of deferred loan costs as interest expense.

The Company recorded dividends payable of $142,345 for the dividend requirements of its preferred stock.

In February 2004, the Company issued 110,000 shares of Class A preferred stock for services valued at $253,000.

In February 2004, the Company issued 1,100,000 shares of common stock to pay accounts payable of $29,382 and for services valued at $476,618.

In February and March 2004, the Company sold convertible notes payable totaling $60,000 and recorded discounts totaling $60,000 for the beneficial conversion features of the notes.

In March 2004, the Company issued 8,108 shares of Class A preferred stock with a beneficial conversion feature of $14,189 which has been accounted for as a dividend on the day of issue.

In August and September 2004, the Company sold convertible notes payable totaling $9,100 and recorded discounts totaling $9,100 for the beneficial conversion feature of the notes.

In August and September 2004, the Company issued a total of 60,000 shares of common stock for services valued at a total of $15,900.

In September 2004, the Company abandoned its proposed stock offering [*See Note 14*] and wrote off the deferred stock offering costs of $1,084,609 directly to general and administrative expense.

In November 2004, the Company issued 90,000 shares of common stock for services valued at $36,000.

In December 2004 the Company issued 30,000 shares of common stock for services valued at $18,000.

[*Continued*]

AMERICAN HOSPITAL RESOURCES, INC.

STATEMENTS OF CASH FLOWS

[*Continued*]

In December 2004, the Company issued 2,131,249 shares of common stock in payment of liabilities of $85,250.

In December 2004, the Company granted 150,000 warrants to purchase common stock as payment of $45,000 of directors services.

For the year ended December 31, 2003:

The Company amortized $43,045 of discounts on notes payable and $4,485 of deferred loan costs as interest expense.

In April 2003, the Company issued 240,000 shares of Class A preferred stock for services valued at $120,000.

In April and May 2003, the Company issued 570,000 shares of common stock for services valued at $131,000.

From April through June 2003, the Company issued a total of 388,300 shares of Class A preferred stock with beneficial conversion features totaling $324,775 which have been accounted for as dividends on the day of issue.

In May 2003, shareholders of the Company converted 505,010 shares of Class A preferred stock into 2,525,050 shares of common stock.

From August through December 2003, the Company sold convertible notes payable totaling $143,845 and recorded discounts totaling $143,845 for the beneficial conversion feature of the notes.

In September 2003, the Company issued 173,747 shares of Class C preferred stock to a third party in exchange for payment of liabilities totaling $868,735 which were owed to shareholders of the Company.

In October 2003, the Company issued 1,200,000 shares of common stock in payment of a liability of $290,000.

In December 2003, shareholders of the Company converted 353,750 shares of Class A preferred stock and 153,680 shares of Class C preferred stock into 2,537,150 shares of common stock.

In December 2003, the Company repurchased 2,131,249 shares of common stock at $.04 per share. At December 31, 2003, the Company had recorded a liability of $85,250 for the stock repurchase because the former shareholders had not yet received payment.

In December 2003, the Company cancelled 1,065,624 shares of common stock due to a court order.

In December 2003, the Company disposed of its discontinued hospital management consulting business including all of the assets and liabilities of the Company s former AHR Subsidiary.

In December 2003, the Company granted 200,000 warrants to purchase common stock as payment of $4,000 of director services.

The Company recorded dividends payable of $68,840 for the dividend requirements of its preferred stock.

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

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - American Hospital Resources, Inc. (the Company) was organized under the laws of the State of Utah on May 9, 1972 as High-Line Investment & Development Company. In 1977, the Company changed its name to Gayle Industries, Inc. In 1978, the Company merged into Swing Bike. In 1979, the Company changed its name to Horizon Energy Corporation. In 1992, the Company changed its name to Millennium Entertainment Corp. In 1993, the Company changed its name to New Horizon Education, Inc. In 1993, the Company also organized a wholly owned subsidiary with the sole purpose of merging with Ruff Network Marketing, Inc. In 1997, the Company sold its wholly owned subsidiary to Phoenix Ink, LLC. On June 17, 2002, the Company changed its name to American Hospital Resources, Inc. The Company plans to manage foreign casinos. The Company plans to acquire businesses already operating as casinos in foreign countries. The Company has, at the present time, not paid any cash dividends on its common stock and any dividends that may be paid in the future on its common stock will depend upon the financial requirements of the Company and other relevant factors.

American Hospital Resources, Inc. (AHR Subsidiary) was organized under the laws of the State of Delaware on August 27, 1999 as Frozen Enterprises, Inc. In February 2002, AHR Subsidiary changed its name to American Hospital Resources, Inc. AHR Subsidiary provided hospital management consulting. On June 17, 2002, the Company issued 3,196,873 shares of its common stock to acquire AHR Subsidiary. In December 2003, the Company s Board of Directors determined that the Company had not realized the expected benefits from the acquisition of AHR Subsidiary and determined to seek to dispose of AHR Subsidiary. Accordingly, the Company repurchased 2,131,249 shares of common stock for $85,250 and obtained a court order to cancel the remaining 1,065,624 shares previously issued to acquire AHR Subsidiary [*See Note 14*]. AHR Subsidiary discontinued its operations and has been dissolved by the State of Delaware. The financial statements reflect the operations of AHR Subsidiary from June 17, 2002 through December 22, 2003. All operations of AHR Subsidiary have been reclassified to discontinued operations.

Consolidation - The financial statements include the accounts of the Company and the accounts of the Company s formerly wholly owned AHR Subsidiary for the period from June 17, 2002 through December 22, 2003. All significant intercompany transactions were eliminated in consolidation.

Discontinued Operations - The Company has adopted Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets . SFAS No. 144 modifies previous disclosures and requires additional disclosures for discontinued operations and the assets associated with discontinued operations.

Cash and Cash Equivalents - The Company considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [*Continued*]

Accounts and Loans Receivable - The Company records accounts and loans receivable at the lower of cost or fair value. The Company determines the lower of cost or fair value of non-mortgage loans on an individual asset basis. The Company recognizes interest income on an account receivable based on the stated interest rate for past-due accounts over the period that the account is past due. The Company recognizes interest income on a loan receivable based on the stated interest rate over the term of the loan. The Company accumulates and defers fees and costs associated with establishing a receivable to be amortized over the estimated life of the related receivable. The Company estimates allowances for doubtful accounts and loan losses based on the aged receivable balances and historical losses. The Company records interest income on delinquent accounts and loans receivable only when payment is received. The Company first applies payments received on delinquent accounts and loans receivable to eliminate the outstanding principal. The Company charges off uncollectible accounts and loans receivable when management estimates no possibility of collecting the related receivable. The Company considers accounts and loans receivable to be past due or delinquent based on contractual terms.

Property and Equipment - Property and equipment are stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five to ten years. In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company periodically reviews its property and equipment for impairment. Depreciation expense for the years ended December 31, 2004 and 2003 was $0 and $295, respectively.

Website Costs - The Company has adopted the provisions of Emerging Issues Task Force 00-2, Accounting for Web Site Development Costs. Costs incurred in the planning stage of a website are expensed as research and development while costs incurred in the development stage are capitalized and amortized over the life of the asset, estimated to be five years. The Company had capitalized a total of $2,955 of website costs which were written off in the disposal of AHR Subsidiary. The Company did not incur any planning costs and did not record any research and development costs for the years ended December 31, 2004 and 2003.

Intangible Assets - The Company accounts for its intangible assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets . SFAS No. 142 establishes three classifications for intangible assets including definite-life intangible assets, indefinite-life intangible assets and goodwill and requires different accounting treatment and disclosures for each classification. In accordance with SFAS No. 142, the Company periodically reviews its intangible assets for impairment.

Stock Offering Costs - Costs related to proposed stock offerings are deferred and will be offset against the proceeds of the offering. In the event a stock offering is unsuccessful, the costs related to the offering are written off to expense.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [*Continued*]

Revenue Recognition - The Company plans to generate revenue from management of foreign casinos. AHR Subsidiary generated revenue from hospital management consulting. Revenue from consulting and managing hospitals was recognized over the term of the underlying agreement. A portion of the consulting services was subcontracted out by the Company to third party vendors. These direct costs were recorded by the Company as general and administrative expenses. Revenue from facilitating the sale of hospital property was recorded when property was sold. AHR Subsidiary had purchased the right to receive a portion of the revenues from a consulting and asset sale agreement. Revenue derived from the purchased contract rights was recorded as received on a net basis. On a net basis, only the share of revenue belonging to AHR Subsidiary was recorded as revenue.

Stock-Based Compensation - The Company has two stock-based employee compensation plans [*See Note 9*]. The Company accounts for its plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations. The following table illustrates the effect on net income and loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation , to the Company s stock-based employee compensation.

For the Year Ended

December 31,

____

2004

2003

____

____

Net loss, as reported

$

(2,278,025)

$

(720,755)

Add: Stock-based employee compensation

expense included in reported net loss

45,000

4,000

Deduct: Total stock-based employee

compensation expense determined under

fair value based method

(81,195)

(53,380)

Pro forma net loss

$

(2,314,220)

$

(770,135)

Loss per common share, as reported

$

(.20)

$

(.11)

Loss per common share, pro forma

$

(.20)

$

(.11)

Income Taxes - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes [*See Note 10*].

Loss Per Share - The computation of loss per share of common stock is based on the weighted average number of shares outstanding during the periods presented, in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share [*See Note 13*].

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [*Continued*]

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated by management.

Recently Enacted Accounting Standards - Statement of Financial Accounting Standards (SFAS) No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4 , SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions an amendment of FASB Statements No. 66 and 67 , SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 , and SFAS No. 123 (revised 2004), Share-based Payment , were recently issued. SFAS No. 151, 152, and 153 have no current applicability to the Company or their effect on the financial statements would have been significant. If SFAS No. 123 (revised 2004) had been applied to all periods presented, it would have had the same effects as disclosed above under the caption Stock-Based Compensation.

Reclassification - The financial statements for periods prior to December 31, 2004 have been reclassified to conform to the headings and classifications used in the December 31, 2004 financial statements.

NOTE 2 - ACQUISITION AND CANCELLATION OF ACQUISITION OF RXS

On May 8, 2003, the Company signed a Stock Purchase Agreement with RX Solutions, Inc. (RXS). The agreement provided for the Company to issue 720,000 shares of Class B Preferred Stock and to sign $900,000 of notes payable to the shareholders of RXS for 100% of the outstanding shares of RXS s common stock. As part of the agreement, the Company entered into a three-year Employment Agreement with the shareholders of RXS. In July 2003, the Company defaulted on the notes payable and employment agreement underlying the acquisition. In August 2003, the Company entered into an agreement to extend the maturity of a $300,000 90-day non-interest-bearing note payable to September 29, 2003. The extension required the Company to pay $40,000 in August and September 2003 in lieu of the interest and salary payments required by the Stock Purchase Agreement. In September 2003, the Company renegotiated the notes payable underlying the acquisition so that the Company would pay $25,000 by October 31, 2003 against the $300,000 90-day non-interest-bearing note payable and pay $200,000 by November 29, 2003 as payment in full of a $294,000 five-year 7% note payable, a $306,000 five-year 7% note payable and related accrued interest. In November 2003, the Company defaulted on the notes payable underlying the acquisition and the owners of RXS called for the acquisition to be cancelled. The financial statements reflect the acquisition as having never closed and any expenses associated with the cancelled acquisition have been classified as a cost of the unsuccessful RXS acquisition.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - ACQUISITION AND VOIDING OF ACQUISITION OF NIPSI

On December 13, 2002, Parent signed an asset purchase agreement with NIPSI Healthcare of Houston Limited Partnership (NIPSI) and NIPSI of Houston, Inc. (NIPSI General Partner). The agreement provided for the Company to assume certain liabilities of NIPSI and to sign an unsecured 18-month $150,000 note payable to NIPSI for most of the operating assets of NIPSI. The agreement also included a non-compete covenant from NIPSI and NIPSI General Partner. The acquisition closed December 16, 2002; however, in April 2003, the court entered a default judgment against NIPSI [*See Note 14*]. The court found that NIPSI had fraudulently transferred assets to the Company to avoid the claims of AmeriSource. The court voided and nullified the transfer of assets from NIPSI to the Company and ordered NIPSI to pay $551,264 to AmeriSource. As a result of these proceedings, the asset purchase agreement between the Company, NIPSI and NIPSI General Partner was voided and the Company was released as a defendant. Also, NIPSI General Partner sent a demand letter to the Company to rescind the asset purchase agreement and claiming damages of $120,000 against the Company [*See Note 14*]. The financial statements reflect the acquisition as having been voided or rescinded and any expenses associated with the voided acquisition have been classified as costs of the unsuccessful NIPSI acquisition.

NOTE 4 - ACQUISITION OF AMERICAN HOSPITAL RESOURCES, INC.

On April 3, 2002, the Company signed an agreement and plan of reorganization with Phase One, LLC and AHR Subsidiary. The agreement provided for the Company to issue 3,196,873 shares of its common stock for all 1,500 shares of AHR Subsidiary s common stock. In connection with the proposed agreement, the Company previously issued a total of 13,000,000 shares of its common stock to Phase One, LLC for $130,000 in financing. The agreement called for former shareholders of AHR Subsidiary to receive up to 12,870,000 shares of the common stock issued to Phase One, LLC based on the performance of the Company. In connection with the agreement, the Company amended its articles of incorporation to authorize 10,000,000 shares of preferred stock and to change its name to American Hospital Resources, Inc. Also in connection with the agreement, the Company and AHR Subsidiary entered into three-year consulting agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. [*See Note 14*]. As a result of the acquisition, the former officers and directors of the Company resigned and new officers and directors were appointed. The acquisition closed June 17, 2002 and has been accounted for as a purchase of AHR Subsidiary. The Company recorded goodwill of $60,321 as a result of the acquisition.

On December 31, 2002, the agreement and plan of reorganization was amended to exchange the 13,000,000 shares of the Company s common stock that had been issued to Phase One, LLC for 2,600,000 shares of the Company s Class A preferred stock. The transaction was valued at the market value of the common stock of $3,900,000.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - DISCONTINUED OPERATIONS

On December 22, 2003, the Company discontinued its hospital management consulting business. The Company has accounted for this disposal in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . At December 31, 2004, the Company has no assets or liabilities associated with its discontinued hospital management consulting business. The Company effected the disposal of its discontinued operations by repurchasing 2,131,249 shares of common stock for $85,250 and obtained a court order to cancel the remaining 1,065,624 shares previously issued to acquire AHR Subsidiary.

The following is a summary of the results of operations of the Company s discontinued hospital management consulting business:

For the Year Ended

December 31,

2004

2003

Revenue

$

-

$

-

General and administrative

-

(133,112)

Gain on disposal

-

39,524

____

____

Net loss

$

-

$

(93,588)

____

____

NOTE 6 - GOODWILL

The Company has no indefinite-life or definite-life intangible assets. The following is a summary of the transactions affecting the Company s goodwill.

For the Year Ended

December 31,

____

2004

2003

Goodwill at beginning of period	$	-	$	60,321
Goodwill eliminated in the disposal of AHR Subsidiary		-		(60,321)
Goodwill at end of period	$	-	$	-

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CONVERTIBLE NOTES PAYABLE

The Company has the following one-year 10% convertible notes payable at:

December 31,

2004

____

$10,000 note payable due August 2004, convertible into

common stock at $.29 per share, secured by 100,000 shares of the

Company s common stock, currently in default

$

10,000

$20,000 note payable due September 2004, convertible into

common stock at $.265 per share, secured by 200,000 shares of the

Company s common stock, currently in default

20,000

$10,000 note payable due September 2004, convertible into common stock at $.38 per share, secured by 100,000 shares of the

Company s common stock, currently in default

10,000

$24,000 note payable due September 2004, convertible into

common stock at $.36 per share, secured by 250,000 shares of the

Company s common stock, currently in default

24,000

$10,000 note payable due September 2004, convertible into

common stock at $.37 per share, secured by 100,000 shares of the

Company s common stock, currently in default

10,000

$11,000 note payable due September 2004, convertible into

common stock at $.485 per share, secured by 150,000 shares of the

Company s common stock, currently in default

11,000

$21,345 note payable due October 2004, convertible into

common stock at $.435 per share, secured by 213,345 shares of the

Company s common stock, currently in default

21,345

$10,000 note payable due October 2004, convertible into

common stock at $.42 per share, secured by 100,000 shares of the

Company s common stock, currently in default

10,000

$10,000 note payable due October 2004, convertible into

common stock at $.45 per share, secured by 100,000 shares of the

Company s common stock, currently in default

10,000

$10,000 note payable due October 2004, convertible into

common stock at $.40 per share, secured by 100,000 shares of the

Company s common stock, currently in default

10,000

$5,000 note payable due November 2004, convertible into

common stock at $.375 per share, secured by 100,000 shares of the

Company s common stock, currently in default

5,000

$2,500 note payable due December 2004, convertible into

common stock at $.18 per share, secured by 100,000 shares of the

Company s common stock, currently in default

2,500

[Continued]

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AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CONVERTIBLE NOTES PAYABLE [*Continued*]

December 31,

2004

____

$10,000 note payable maturing in February 2005, convertible into

common stock at $.23 per share, secured by 100,000 shares of the

Company s common stock, net of discount of $833.

9,167

$10,000 note payable maturing in February 2005, convertible into

common stock at $.27 per share, secured by 100,000 shares of the

Company s common stock, net of discount of $833.

9,167

$10,000 note payable maturing in February 2005, convertible into

common stock at $.325 per share, secured by 100,000 shares of the

Company s common stock, net of discount of $833.

9,167

$16,000 note payable maturing in March 2005, convertible into

common stock at $.51 per share, secured by 160,000 shares of the

Company s common stock, net of discount of $2,667.

13,333

$10,000 note payable maturing in March 2005, convertible into

common stock at $.425 per share, secured by 100,000 shares of the

Company s common stock, net of discount of $1,667.

8,333

$4,000 note payable maturing in March 2005, convertible into

common stock at $.50 per share, secured by 40,000 shares of the

Company s common stock, net of discount of $667.

3,333

$9,000 note payable maturing in August 2005, convertible into

common stock at $.15 per share, secured by 90,000 shares of the

Company s common stock, net of discount of $5,250.

3,750

$100 note payable maturing in September 2005, convertible into

common stock at $.11 per share, secured by 1,000 shares of the

Company s common stock, net of discount of $67.

33

200,128

Less current portion

(200,128)

____

$

-

The Company has sold convertible notes payable totaling $212,945 and recorded discounts totaling $212,945 due to the beneficial conversion feature of the notes. The discounts are being amortized over the term of the respective note. During the years ended December 31, 2004 and 2003, the Company amortized $157,083 and $43,045, respectively, of the discounts on notes payable as interest expense.

The Company has paid a total of $22,178 to consultants for negotiating the notes payable. These costs have been deferred and are being amortized over the term of the respective notes. During the years ended December 31, 2004 and 2003, the Company amortized $16,364 and $4,485, respectively, of the deferred loan costs as interest expense.

For the years ended December 31, 2004 and 2003, interest expense on notes payable amounted to $193,263 and $8,240, respectively.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PREFERRED STOCK

The Company has authorized 10,000,000 shares of preferred stock, no par value, with such rights, preferences and designations and to be issued in such classes and series as determined by the Company s Board of Directors. In December 2002, the Company s Board of Directors designated 5,000,000 shares as Class A and 5,000,000 shares as Class B. In June 2003, the Company s Board of Directors modified the preferred stock distributions to designate 2,600,000 shares as Class A, 5,000,000 shares as Class B and 1,200,000 as Class C. The Class C preferred stock dividends rank senior to the Class A and B preferred stock dividends in liquidation preference and the Class B preferred stock dividends rank senior to the Class A preferred stock dividends in liquidation preference. In liquidation, Class A, B and C preferred stock have no preferential rights to any distributions other than payment of accrued dividends.

Class A Preferred Stock - Class A preferred stock is only available to the Company s management, directors and existing shareholders. Each share of Class A preferred stock has the voting rights of five shares of common stock and is convertible at the shareholder s option into five shares of common stock. If shares of the Class A preferred stock are required to be converted as part of a sale or merger of the Company, then each share of Class A preferred stock was convertible into 5.5 shares of common stock. Each share of Class A preferred stock was entitled to receive a $.0575 annual dividend payable monthly. The total annual dividend for all shares of Class A preferred stock was limited to 50% of the Company s earnings before interest, taxes, depreciation and amortization for the year and the monthly payments were adjusted accordingly. For the six months ended June 30, 2003, the Company had negative earnings before interest, taxes, depreciation and amortization; therefore, no dividends were due on the Class A preferred stock through June 30, 2003. In June 2003, the Company s Board of Directors modified the mandatory conversion and dividend provisions of the Class A preferred stock. Effective July 1, 2003, if there is a merger, reorganization, recapitalization or similar event in which the Company is not the surviving entity, then each share of Class A preferred stock will be converted into 5.5 shares of common stock. Effective July 1, 2003, each share of Class A preferred stock is entitled to receive a cumulative $.0575 annual dividend payable monthly with no limitation based on earnings. For the year ended December 31, 2004, the Company has recorded $128,635 in dividends payable on Class A preferred stock. At December 31, 2004, the Company owed $189,859 in dividends payable on Class A preferred stock.

In March 2004, the Company issued 8,108 shares of its previously authorized but unissued Class A preferred stock to a shareholder for cash of $15,000, or approximately $1.85 per share. Due to the beneficial conversion feature of the shares, the Company recorded a dividend of $14,189 upon the issuance of the shares. Stock offering costs of $1,563 were netted against the proceeds.

In February 2004, the Company issued 110,000 shares of its previously authorized but unissued Class A preferred stock for services valued at $253,000, or $2.30 per share.

In October 2003, shareholders of the Company converted 353,750 shares of Class A preferred stock into 1,768,750 shares of common stock.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PREFERRED STOCK [*Continued*]

In June 2003, the Company issued 5,300 shares of its previously authorized but unissued Class A preferred stock for cash of $10,000, or approximately $1.887 per share. Due to the beneficial conversion feature of the shares, the Company recorded a dividend of $9,875 upon the issuance of the shares. Stock offering costs of $62 were netted against the proceeds.

In May 2003, shareholders of the Company converted 505,010 shares of Class A preferred stock into 2,525,050 shares of common stock.

In April and May 2003, the Company issued 383,000 shares of its previously authorized but unissued Class A preferred stock for cash of $71,500 and services valued at $120,000, or $.50 per share. Due to the beneficial conversion feature of the shares, the Company recorded a dividend of $314,900 upon the issuance of the shares. Stock offering costs of $65 were netted against the proceeds.

Class B Preferred Stock - Class B preferred stock is only available to parties who sell a business to the Company. Each share of Class B preferred stock has no voting rights and is convertible into five shares of common stock. Each share of Class B preferred stock is entitled to receive a cumulative 6% annual dividend payable quarterly based on the purchase price paid to the Company or the consideration received by the Company. Class B preferred stock may not be transferred without the express written consent of the Company. At December 31, 2004, no shares of Class B preferred stock had been issued.

Class C Preferred Stock - Each share of Class C preferred stock has no voting rights and is entitled to receive a cumulative $.475 annual dividend payable quarterly. Each share of Class C preferred stock is convertible at the shareholder s option into five shares of common stock after a two-year waiting period following issuance. If there is a merger, reorganization, recapitalization or similar event in which the Company is not the surviving entity, then each share of Class C preferred stock will be converted into five shares of common stock. Class C preferred stock may not be transferred without the express written consent of the Company. For the year ended December 31, 2004, the Company has recorded $13,710 in dividends payable on Class C preferred stock. At December 31, 2004, the Company owed $7,025 in dividends payable on Class C preferred stock.

In October 2003, shareholders of the Company converted 153,680 shares of Class C preferred stock into 768,400 shares of common stock.

In September 2003, the Company issued 173,747 shares of its previously authorized but unissued Class C preferred stock to a third party in exchange for payment of liabilities totaling $868,735 which were then owed to shareholders of the Company, or $5.00 per share.

In June and July 2003, the Company sold 8,800 shares of its previously authorized but unissued Class C preferred stock for cash of 44,000, or $5.00 per share. Stock offering costs of $5,303 were netted against the proceeds.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - COMMON STOCK, OPTIONS AND WARRANTS

Common Stock - The Company has authorized 100,000,000 shares of common stock with no par value.

In December 2004, the Company issued 2,131,249 shares of its previously authorized but unissued common stock to pay liabilities of $85,250, or $.04 per share.

In December 2004, the Company issued 20,000 shares of its previously authorized but unissued common stock for cash of $7,000 or $.35 per share.

In November and December 2004, the Company issued 90,000 and 30,000 shares of its previously authorized but unissued common stock for services rendered valued at $36,000 and $18,000, respectively, or $.40 and $.60 per share, respectively.

In September 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at $6,300, or $.21 per share.

In August 2004, the Company issued 30,000 shares of its previously authorized but unissued common stock for services rendered valued at $9,600, or $.32 per share.

In March 2004, the Company issued 20,000 shares of its previously authorized but unissued common stock for cash of $1,000, or $.05 per share, upon the exercise of options.

In February 2004, the Company issued 1,100,000 shares of its previously authorized but unissued common stock to pay accounts payable of $29,382 and for services valued at $476,618, or $.46 per share.

In December 2003, the Company cancelled 1,065,624 shares of its common stock due to a court order.

In December 2003, the Company repurchased and cancelled 2,131,249 shares of the Company s issued and outstanding common stock for $85,250, or $.04 per share.

In October 2003, the Company issued 2,537,150 shares of its previously authorized but unissued common stock upon the conversion of 353,750 shares of Class A preferred stock and 153,680 shares of Class C preferred stock.

In October 2003, the Company issued 1,200,000 shares of its previously authorized but unissued common stock to pay a liability of $290,000, or approximately $.2417 per share.

In May 2003, the Company issued 2,525,050 shares of its previously authorized but unissued common stock upon the conversion of 505,010 shares of Class A preferred stock.

In May 2003, the Company issued 20,000 shares of its previously authorized but unissued common stock for services rendered valued at $10,000, or $.50 per share.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - COMMON STOCK, OPTIONS AND WARRANTS [*Continued*]

In April 2003, the Company issued 550,000 shares of its previously authorized but unissued common stock for services rendered valued at $121,000, or $.22 per share.

In February 2003, the Company issued 40,000 shares of its previously authorized but unissued common stock for cash of $10,000, or $.25 per share. Stock offering costs of $400 were netted against the proceeds.

Proposed Stock Offering - The Company was proposing to sell up to $10,000,000 of its previously authorized but unissued common stock through an Equity Line of Credit Agreement (see Note 14). The Company has recorded $1,084,609 in deferred stock offering costs which were to be offset against the proceeds of the offering. In September 2004, the Company abandoned its plan for a stock offering and expensed the deferred stock offerings of $1,084,609 as general and administrative expense.

Stock Options - In November 2002, the Company granted 2,000,000 options to purchase common stock at $.50 per share for services rendered valued at $882,400. The options vested immediately and are exercisable for three years. At December 31, 2004, none of these options had been exercised, forfeited or cancelled.

In March 2002, the Company granted 20,000 options to purchase common stock at $.05 per share to attract new directors to Company. The options vested immediately and were exercisable for two years. In March 2004, all 20,000 options were exercised.

A summary of the status of the options is presented below.

For the Year Ended December 31,

2004

2003

Weighted

Weighted

Average

Average

Exercise

Exercise

Shares

Price

Shares

Price

Outstanding at beginning of period

2,020,000

$

.50

2,020,000

$ .50

Granted

-

-

-

-

Exercised

20,000

.05

-

-

Forfeited

-

-

-

-

Expired

-

-

-

-

Outstanding at end of period

2,000,000

$

.50

2,020,000

$

.50

____

______

______

______

Weighted average fair value of options

granted during the period

-

$

-

-

$

-

____

______

______

______

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - COMMON STOCK, OPTIONS AND WARRANTS [*Continued*]

A summary of the status of the options outstanding at December 31, 2004 is presented below:

Options Outstanding

Options Exercisable

____

____

Range of

Weighted-Average

Weighted-Average

Weighted-Average

Exercise

Number

Remaining

Exercise

Number

Exercise

Prices

Outstanding

Contractual Life

Price

Exercisable

Price

____

____

____

____

____

____

$

.50

2,000,000

0.8 years

$

.50

2,000,000

$

.50

____

____

____

____

____

____

Incentive Stock Bonus Plan - On December 31, 2002, the Company s Board of Directors adopted the Incentive Stock Bonus Plan (the Plan). The Plan provides for the granting of 5-year warrants to purchase shares of common stock to directors, senior management and certain key employees. Awards under the Plan will be granted as determined by the Company s Board of Directors.

In December 2003, the Company s Board of Directors authorized the 2004 Stock Bonus Pool which consists of 1,000,000 warrants to purchase common stock at $.25 per share. Further, the Company granted 200,000 warrants to purchase common stock from the 2004 Stock Bonus Pool to directors for services rendered valued at $4,000. The warrants vested immediately and are exercisable at $.25 per share for five years. At December 31, 2004, none of these warrants had been exercised, forfeited or cancelled.

In December 2004, the Company granted 150,000 warrants to purchase common stock from the 2004 Stock Bonus Pool to directors for services rendered valued at $45,000. The warrants vested immediately and are exercisable at $.25 per share for five years. At December 31, 2004, none of these warrants had been exercised, forfeited or cancelled.

In December 2002, the Company s Board of Directors authorized the 2003 Stock Bonus Pool which consisted of 1,000,000 warrants to purchase common stock at $.25 per share. Further, the Company granted 300,000 warrants to purchase common stock from the 2003 Stock Bonus Pool to directors and NIPSI personnel for services rendered valued at $19,577. The warrants vested immediately and are exercisable at $.25 per share for five years. In 2004, the Company obtained a court order to cancel 75,000 of the warrants [*See Note 14*]. At December 31, 2004, none of the remaining 225,000 warrants had been exercised, forfeited or cancelled.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - COMMON STOCK, OPTIONS AND WARRANTS [*Continued*]

A summary of the status of the warrants granted under the Company s Incentive Stock Bonus Plan is presented below.

For the Year Ended December 31,

2004

2003

Weighted

Weighted

Average

Average

Exercise

Exercise

Shares

Price

Shares

Price

____

______

______

______

Outstanding at beginning of period

425,000

$

.25

300,000

$ .25

Granted

150,000

$

.25

200,000

$

.25

Exercised

-

$

-

-

$

-

Forfeited

$

75,000

$ .25

Expired

-

$

-

-

$

-

____

______

______

______

Outstanding at end of period

575,000

$

.25

425,000

$

.25

____

______

______

______

Weighted average fair value of warrants

granted during the period

150,000

$

.54

200,000

$

.27

The fair value of each warrant granted is estimated on the date granted using the Black-Scholes option pricing model, with the following assumptions used for the grants on December 31, 2003: risk-free interest rate of 3.25%, expected dividend yield of zero, expected lives of 5 years and expected volatility of 222%. The following assumptions were used for the warrants granted on December 15, 2004: risk-free interest rate of 3.48%, expected dividend yield of zero, expected lives of 5 years and expected volatility of 199%.

A summary of the status of the warrants outstanding under the Company s Incentive Stock Bonus Plan at December 31, 2004 is presented below:

Options Outstanding

Options Exercisable

Range of

Weighted-Average

Weighted-Average

Weighted-Average

Exercise

Number

Remaining

Exercise

Number

Exercise

Prices

Outstanding

Contractual Life

Price

Exercisable

Price

____

____

____

____

____

____

$

.25

225,000

3.0 years

$

.25

225,000

$

.25

$

.25

200,000

4.0 years

$

.25

200,000

$

.25

$

.25

150,000

5.0 years

$

.25

150,000

$

.25

____

____

____

____

____

____

$

.25

575,000

3.9 years

$

.25

575,000

$

.25

____

____

____

____

____

____

41

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes . SFAS No. 109 requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. At December 31, 2004, the Company has available unused net operating and capital loss carryforwards of approximately $2,847,000 and 294,000, respectively, which may be applied against future taxable income and which expire in various years through 2024 and 2008, respectively. If certain substantial changes in the Company s ownership should occur, there will be an annual limitation on the amount of net operating loss carryforwards which can be utilized.

At December 31, 2004, the total of all deferred tax assets is approximately $1,251,000 and the total of all deferred tax liabilities is $0. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the loss carryforwards, the Company has established a valuation allowance of approximately $1,251,000 and $417,000 at December 31, 2004 and 2003, respectively. The change in the valuation allowance for the year ended December 31, 2004 is approximately $834,000.

The temporary differences, tax credits and carryforwards gave rise to the following deferred tax asset (liability) at:

December 31,

2004

____

Net operating loss carryover

$

1,134,162

Capital loss carryover

117,253

Total deferred tax asset

$

1,251,415

42

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - INCOME TAXES [*Continued*]

The components of income tax expense from continuing operations consisted of the following for the year ended:

December 31,

December 31,

2004

2003

____

____

Current income tax expense:

Federal

$

-

$

-

State

-

-

____

____

Current tax expense

$

-

$

-

____

____

Deferred tax expense (benefit) arising from:

Excess of tax over financial

accounting depreciation

$

-

$

126

Accrued compensation

-

43,794

Capital loss carryover

-

(104,308)

Allowance for bad debts

-

40,751

Net operating loss carryover

834,509

(192,253)

Valuation allowance

(834,509)

211,890

____

____

Net deferred tax expense

$

-

$

-

____

____

Deferred income tax expense results primarily from the reversal of temporary timing differences between tax and financial statement income.

The reconciliation of income tax expense from continuing operations computed at the U.S. federal statutory tax rate to the Company s effective rate is as follows for the year ended:

December 31,

December 31,

2004

2003

____

____

Computed tax at the expected

federal statutory rate	34.00%	34.00%
State income taxes, net of federal benefit	5.83	5.83
Compensation due to issue of options	(.45)	-
Disposition of subsidiary	-	(8.07)
Other	(2.75)	(2.36)
Valuation allowance	(36.63)	(29.40)
Effective income tax rates	0.00%	0.00%

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has incurred significant losses and has not yet been successful in establishing profitable operations. Further, the Company has current liabilities in excess of current assets. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through sales of its stock or through a possible business combination with another company. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

NOTE 12 - RELATED PARTY TRANSACTIONS

Deposit from NIPSI - In January and February 2003, during the period that the Company operated the assets of NIPSI pursuant to an asset purchase agreement [*See Notes 3 and 14*], the Company received $70,000 from NIPSI as reimbursement of costs incurred as part of the unsuccessful NIPSI acquisition. At December 31, 2004, the Company has completely used the deposit to offset expenses of the unsuccessful NIPSI acquisition.

Notes Payable In September 2004, the Company sold a note payable for $100 to its Chief Executive Officer [*See Note 7*].

Stock Issuances - In March 2004, the Company issued 8,108 shares of Class A preferred stock to a shareholder of the Company for cash of $15,000 [*See Note 8*].

In September 2003, the Company issued 173,747 shares of Class C preferred stock to a third party in exchange for payment of liabilities totaling $868,735 which were then owed to shareholders of the Company [*See Note 8*].

In April 2003, the Company issued 240,000 shares of Class A preferred stock to shareholders of the Company for services valued at $120,000 [*See Note 8*].

Exercise of Options - In March 2004, the Company issued 20,000 shares of common stock to the directors upon the exercise of options [*See Note 9*].

Warrants - In December 2004, the Company granted 150,000 warrants to purchase common stock to directors of the Company for services rendered valued at $45,000 [*See Note 9*].

In December 2003, the Company granted 200,000 warrants to purchase common stock to directors of the Company for services rendered valued at $4,000 [*See Note 9*].

Management Compensation During the years ended December 31, 2004 and 2003, respectively, the Company expensed $ -0- and $93,750 as compensation to its former Chief Executive Officer.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 12 - RELATED PARTY TRANSACTIONS [*Continued*]

Office Space - The Company rents office space from its Chief Executive Officer on an as-needed, month-to-month basis. Total rents to the Chief Executive Officer amounted to $500 and $0 for the years ended December 31, 2004 and 2003, respectively.

Beginning October 1, 2002, the Company paid its former Chief Executive Officer $500 per month on a month-to-month basis for use of his office space. Total rents to the former Chief Executive Officer amounted to $0 and $4,500 for the years ended December 31, 2004 and 2003, respectively.

Purchase and Sale Agreement - In September 2002, the Company signed a Purchase and Sale Agreement with Gaelic Capital Group (Gaelic), an entity controlled by the former Chief Executive Officer. The agreement called for the Company to pay $94,500 to Gaelic for the right to receive all of the receipts that were then owed to Gaelic as part of a February 11, 2002 agreement (February Agreement) between Gaelic and Parkview Community Hospital Medical Center (Parkview). The Company had made advances totaling $94,500 in anticipation of the agreement. Under the February Agreement, the Company would receive 6% of the sales price for the sale of the peripheral assets of Parkview. In 2004, the Company obtained a court order to cancel the Purchase and Sale Agreement [*See Note 14*].

NOTE 13 - LOSS PER SHARE

The following data show the amounts used in computing loss per share for the periods:

For the Year Ended

December 31,

____

2004

2003

____

____

Net loss from continuing operations available to common

shareholders (numerator)

$

(2,434,559)

$

(1,020,782)

Net loss from discontinued operations (numerator)

-

(93,588)

____

____

Net loss available to common shareholders (numerator)

$

(2,434,559)

$

(1,114,370)

____

____

Weighted average number of common shares

outstanding used in loss per common share for the

period (denominator)

12,382,712

10,404,569

At December 31, 2004, the Company had 2,000,000 outstanding options, 575,000 outstanding warrants, notes payable convertible into 702,800 shares, 2,304,345 shares issuable as collateral on notes payable and preferred stock convertible into 11,382,575 shares of common stock which were not used in the computation of dilutive loss per share because their effect would be anti-dilutive. At December 31, 2003, the Company had 2,020,000 outstanding options, 425,000 outstanding warrants, notes payable convertible into 410,250 shares, 1,613,345 shares issuable as collateral on notes payable and preferred stock convertible into 10,792,035 shares of common stock which were not used in the computation of dilutive loss per share because their effect would be anti-dilutive. Dilutive loss per share was not presented, as the Company had no common stock equivalent shares for all periods presented that would effect the computation of diluted loss per share.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Potential Stock Issuances - The Company has signed notes payable totaling $212,945 which call for the Company to issue 2,304,345 shares of common stock as collateral; however, none of the shares had been issued at December 31, 2004.

Advertising and Promotional Services Agreement - In August 2004, the Company signed a one-year agreement with Hobson, Lorenze, Bowersock & Associates (HLB). The agreement called for the Company to issue up to 500,000 shares of common stock and up to 50,000 shares of Class A preferred stock for HLB s assistance in raising capital. The shares were to be issued as follows: 30,000 shares of common stock each month, 100,000 shares of common stock if HLB assists in raising at least $100,000 and all the remaining shares of common and preferred stock if HLB assists in raising at least $1,100,000. In October 2004, the Company amended its agreement with HLB so that the Company will issue 600,000 shares of common stock and 50,000 shares of Class A preferred stock for HLB s assistance in raising capital. The shares will be issued as follows: 50,000 shares of common stock each month, 100,000 shares of common stock if HLB assists in raising at least $100,000 and 50,000 shares of Class A preferred stock during the last month of the agreement. During the years ended December 31, 2004 and 2003, the services rendered by HLB under this agreement amounted to $69,900 and $0, respectively.

Consulting Agreements - In April 2002, the Company signed three-year consulting agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. (collectively Consultants). The agreements call for the Company to pay $10,000 per month for consulting services. During the years ended December 31, 2004 and 2003, the services rendered by Consultants under these agreements amounted to $90,000 and $180,000, respectively.

Equity Line of Credit Agreement - In November 2002, the Company signed an Equity Line of Credit Agreement with Cornell Capital Partners, LP (Cornell). The agreement called for the Company to sell up to $10,000,000 of common stock to Cornell at 95% of the closing bid price for the five preceding trading days. The agreement required that the shares of common stock be registered with the Securities and Exchange Commission and that the shares be sold in intervals over a two-year period commencing after such registration was effective. The agreement also stated that, at the time of each stock sale transaction, the Company would pay $500 in legal fees and pay Cornell 7% of the proceeds received. In 2003, the Company issued 1,200,000 shares of common stock as payment of a commitment fee of $290,000 and paid $10,000 in legal fees which were classified as deferred stock offering costs. The Company also paid $757,000 to consultants who negotiated the agreement which were also classified as deferred stock offering costs

[*See Below*]. In September 2004 the Company abandoned its plan for a stock offering and expensed the deferred stock offering costs of $1,084,609 as general and administrative expense.

Financing Agreements - In March 2003, the Company retained Douglas A. Jackson to negotiate a 5-year $6,000,000 loan for the Company. The Company agreed to pay $12,500 plus 5% of the proceeds received by the Company. During the years ended December 31, 2004 and 2003, the Company paid $ -0- and $12,500 for services rendered by Douglas A. Jackson under this agreement.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS AND CONTINGENCIES [*Continued*]

In February 2003, the Company retained Douglas A. Jackson to negotiate a line of credit for the Company. The Company agreed to pay $5,000 plus 5% of the proceeds received by the Company. During the years ended December 31, 2004 and 2003, the Company paid $ -0- and $5,000 for services rendered by Douglas A. Jackson under this agreement.

Finder Agreements - In April 2002, the Company signed three-year finder agreements with both Synergistic Connections, Inc. and Corporate Dynamics, Inc. (collectively Consultants). The agreements call for the Company to pay finders fees of 10% of the first $3,000,000, 8% of the next $3,000,000, 6% of the next $3,000,000, and 4% of any additional funding provided through the efforts of Consultants. In December 2002, the Company signed a $10,000,000 Equity Line of Credit Agreement which was negotiated by Consultants and the Company recorded stock offering costs of $757,000 which were classified as deferred stock offering costs [*See above*]. In February 2003, the Company sold 40,000 shares of common stock for cash of $10,000 which was negotiated by Consultants and the Company recorded stock offering costs of $400 which were offset against the proceeds [*See Note 9*]. From August 2003 through August 2004, the Company signed notes payable with proceeds totaling $212,845 which were negotiated by Consultants and the Company recorded loan costs totaling $22,178 which have been deferred and are being amortized over the lives of the related notes [*See Note 7*]. In March 2004, the Company sold 8,108 shares of Class A preferred stock for cash of $15,000 which was negotiated by Consultants and the Company recorded stock offering costs of $1,563 which were offset against the proceeds [see Note 8].

In March 2004, the Company signed an agreement with GunnAllen Financial (GAF) wherein the Company agreed to pay GAF 1-7% of any proceeds received by the Company depending upon the nature of the financing. The agreement also provides for the issuance of warrants to GAF with similar terms as those issued in financing transactions.

Judgment and Share Cancellation - In February 2004, a shareholder of the Company filed a written stipulation for final judgment in which the shareholder sought to have certificates representing the following shares cancelled for lack of consideration: 6,250,000 shares of common stock for an anticipated financing agreement, 600,000 shares of Class B preferred stock for the proposed acquisition of RXS, 1,000,000 shares of common stock for the proposed acquisition of Coastalmed and 671,824 shares of common stock and 78,760 shares of Class A preferred stock for the acquisition of AHR Subsidiary. The shareholder also sought to cancel the Purchase and Sale Agreement with Gaelic and to cancel 75,000 warrants to purchase common stock which had been issued to the Company s former Chief

Executive Officer. In February 2004, the court entered a judgment against the Company and ordered that the Company cancel all the shares, the agreement and all the warrants listed in the filing. As a result of these proceedings, the Company cancelled certificates representing 7,921,824 shares of common stock, certificates representing 78,760 shares of Class A preferred stock, certificates representing 600,000 shares of Class B preferred stock and 75,000 warrants to purchase common stock, and the Company was released as a defendant. The financial statements reflect the stock, agreement and warrants as having been cancelled in 2003.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS AND CONTINGENCIES [*Continued*]

Possible Legal Action - In March 2003, the Company was notified that Pre-Employment Screening, Inc., Lawrence J. Altman, Gateway Legal Services, Inc. and Fun Services of Kansas City plan to file suit to seek $12,000 for alleged violations of the Telephone Consumer Protection Act. As of December 31, 2004, the Company has not been formally served and no legal actions have commenced. The Company denies the allegations and intends to vigorously defend itself in this matter. No accrual for possible losses or settlements has been recorded in the accompanying financial statements.

Judgment and Voiding of NIPSI Acquisition - In March 2003, the Company was notified that it was to be joined as defendants in a suit brought by AmeriSource Bergen Corporation (AmeriSource) against NIPSI. The original suit by AmeriSource sought to recover $480,335 from NIPSI for failing to honor a contract. In March 2003, AmeriSource filed a supplemental petition to enjoin any transfer of assets from NIPSI to the Company. In April 2003, the court entered a default judgment against NIPSI. The court found that NIPSI had fraudulently transferred assets to the Company to avoid the claims of AmeriSource. The court voided and nullified the transfer of assets from NIPSI to the Company and ordered NIPSI to pay $551,264 to AmeriSource. As a result of these proceedings, the asset purchase agreement between the Company, NIPSI and NIPSI General Partner was voided and the Company was released as a defendant. The financial statements reflect the acquisition as having been voided or rescinded and any expenses associated with the voided acquisition have been classified as costs of the unsuccessful NIPSI acquisition.

NIPSI Demand Letter - In March 2003, NIPSI and NIPSI General Partner sent a demand letter to the Company to rescind the asset purchase agreement with the Company because certain conditions of the agreement were not satisfied. NIPSI General Partner claimed damages of $120,000 against the Company. The financial statements reflect the acquisition as having been voided or rescinded and the expenses associated with the voided acquisition have been classified as costs of the unsuccessful NIPSI acquisition. The Company is not currently named in, nor is it aware of, any such suit or legal action against the Company. No accrual for possible losses or settlements, including the $120,000 in damages claimed by NIPSI General Partner, has been recorded in the accompanying financial statements. The Company s management believes that the Company would be successful in defending against any such claims.

Possible NIPSI Claims - For approximately three months, the Company operated the assets of NIPSI pursuant to an asset purchase agreement [*See Note 3 and above*]. The Company s management believes that the Company is not responsible for any liabilities of NIPSI, but the possibility exists that creditors and others seeking relief from NIPSI may also include the Company in claims and suits based on the previous relationship. The Company is not currently named in, nor is it aware of, any such claims or suits against NIPSI. The Company s management believes that the Company would be successful in defending against any such claims. No accrual for possible losses or settlements has been recorded in the accompanying financial statements. As further disclosed above, NIPSI General Partner claimed damages of $120,000 against the Company.

AMERICAN HOSPITAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS AND CONTINGENCIES [*Continued*]

Management Agreement - In March 2004, the Company signed a Management Agreement with Judah Feigenbaum (JF) to act as an agent of the Company through July 15, 2004. The agreement called for the Company to pay $24,000 plus 3% of the consideration of any pharmacy acquisitions completed through March 2005. During the year ended December 31, 2004, the services rendered by JF under the agreement amounted to $24,000.

NOTE 15 - SUBSEQUENT EVENTS

Proposed Acquisition - In January 2005, the Company entered into a preliminary, non-binding letter of intent regarding the proposed acquisition of HAPS USA, Inc. Completion of the proposed acquisition is subject to the negotiation and execution of a definitive agreement, the completion of due diligence, and necessary corporate approvals. In addition, the letter of intent contemplates that immediately prior to the closing of the transaction, the Company would change its name and complete a quasi-reorganization. Final consummation of the proposed acquisition is not guaranteed.

Common Stock Issuances - In January 2005, the Company issued 495,000 shares of common stock to directors of the Company for cancellation of 550,000 warrants to purchase common stock

In January 2005, the Company issued 10,000 shares of common stock for consulting services.

In January 2005, the Company issued 36,000 shares of common stock to pay a liability of $18,000.

In February 2005, the Company issued 70,000 shares of common stock for consulting services.

In February 2005, the Company issued 1,000,000 shares of common stock for consulting services.

In February 2005, the Company issued 372,000 shares of common stock for cash of $93,000.

In February 2005, the Company issued 40,000 shares of common stock for consulting services.

In January and February 2005, the Company issued a total of 463,453 shares of common stock to pay Class A preferred stock dividends totaling $189,859.

Class C Preferred Stock Conversions - In February 2005, shareholders of the Company converted 8,800 shares of Class C preferred stock into 44,000 shares of common stock.

Class A Preferred Stockholder Rights - In February 2005, the Company eliminated the dividend provision of the Class A preferred stock effective December 31, 2004 and eliminated the provision for 5.5 shares of common stock to be issued for each share of Class A preferred stock if there is a merger, reorganization , recapitalization or similar event.

Cancellation of Warrants In January 2005, the Company cancelled 25,000 warrants to purchase common stock.