LEATT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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CONTENTS	**PAGE**

FITZGERALD & CO., CPAs, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Leatt Corporation

We have audited the consolidated balance sheets of **LEATT CORPORATION** as of December 31, 2010 and 2009 and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **LEATT CORPORATION** as of December 31, 2010 and 2009, and the results of operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Fitzgerald & Co., CPAs, P.C.

McLean, Virginia
March 31, 2011

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LEATT CORPORATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	$ 1,235,107	$ 2,021,101
Short-term investments	309,235	307,466
Accounts receivable	2,847,813	1,091,622
Inventory	2,757,196	3,012,961
Payments in advance	120,150	98,177
Income tax refunds receivable	40,300	377,443
Due from related party	-	7,273
Deferred tax asset	54,300	32,700
Prepaid expenses and other current assets	811,803	212,805
Total current assets	8,175,904	7,161,548
Property and equipment, net	1,496,308	1,294,722
Other Assets		
Deposits	32,556	7,896
Intangible assets	99,682	127,456
Total other assets	132,238	135,352
Total Assets	$ 9,804,450	$ 8,591,622

LIABILITIES AND STOCKHOLDERS' EQUITY

	2010	2009
Current Liabilities		
Accounts payable and accrued expenses	$ 1,741,013	$ 1,020,329
Customer deposits	69,988	124,662
Short term loan, net of finance charges	631,430	121,674
Total current liabilities	2,442,431	1,266,665
Deferred tax liabilities	112,400	12,800
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $.001 par value, 28,000,000 shares authorized, 3,000,000 shares issued and outstanding	3,000	3,000
Common stock, $.001 par value, 700,000,000 shares authorized, 131,167,225 and 131,922,336 shares issued and outstanding in 2010 and 2009	131,167	131,922
Additional paid - in capital	7,367,123	7,395,943
Accumulated other comprehensive income	526,281	350,682
Accumulated deficit	(777,952)	(569,390)
Total stockholders' equity	7,249,619	7,312,157
Total Liabilities and Stockholders' Equity	$ 9,804,450	$ 8,591,622

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

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Revenues	$ 14,330,072	$ 13,743,107
Cost of Revenues	5,606,502	4,622,532
Gross Profit	8,723,570	9,120,575
Operating Expenses		
Salaries and wages	2,710,054	2,896,930
Commissions and consulting expenses	519,851	543,218
Professional fees	1,140,562	1,389,224
Advertising and marketing	1,265,655	1,557,603
Office rent and expenses	211,713	224,832
Research and development costs	1,083,635	863,737
Bad debt expense	8,664	16,103
General and administrative expenses	1,616,811	1,304,949
Depreciation	344,746	428,626
Total operating expenses	8,901,691	9,225,222
Loss from Operations	(178,121)	(104,647)
Other Income		
Interest and other income, net	25,674	47,074
Total other income	25,674	47,074
Loss Before Income Taxes	(152,447)	(57,573)
Income Taxes	56,115	71,996
Net Loss Available to Common Shareholders	$ (208,562)	$ (129,569)
Net Loss per Common Share		
Basic	$ 0.00	$ 0.00
Diluted	$ 0.00	$ 0.00
Weighted Average Number of Common Shares Outstanding		
Basic	132,119,614	131,922,336
Diluted	131,119,614	131,922,336
Comprehensive Income		
Net Loss	$ (208,562)	$ (129,569)
Other comprehensive income, net of $-0- deferred income taxes in 2010 and 2009		
Foreign currency translation	175,599	454,776
Total comprehensive income (loss)	$ (32,963)	$ 325,207

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Preferred Stock A		Common Stock		Additional	Accumulated Other Comprensive	(Accumulated	
	Shares	Amount	Shares	Amount	Paid - In Capital	Loss	Deficit)	Total
Balance, January 1, 2009	3,000,000	$ 3,000	131,589,002	$ 131,589	$ 7,346,276	$ (104,094)	$ (439,821)	$ 6,936,950
Shares issued to satisfy obligation	-	-	333,334	333	49,667	-	-	50,000
Net loss	-	-	-	-	-	-	(129,569)	(129,569)
Foreign currency translation adjustment	-	-	-	-	-	454,776	-	454,776
Balance, December 31, 2009	3,000,000	$ 3,000	131,922,336	$ 131,922	$ 7,395,943	$ 350,682	$ (569,390)	$ 7,312,157
Shares issued to satisfy obligation			333,333	333	49,667	-	-	50,000
Repurchase of common stock	-	-	(1,088,444)	(1,088)	(78,487)	-	-	(79,575)
Net loss	-	-	-	-	-	-	(208,562)	(208,562)
Foreign currency translation adjustment	-	-	-	-	-	175,599	-	175,599
Balance, December 31, 2010	3,000,000	$ 3,000	131,167,225	$ 131,167	$ 7,367,123	$ 526,281	$ (777,952)	$ 7,249,619

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

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash flows from operating activities		
Net loss	$ (208,562)	$ (129,569)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	344,746	428,626
Deferred income taxes	78,000	(12,750)
Stock-based compensation	50,000	50,000
Bad debts	7,723	13,018
Loss on abandonment of leasehold improvements	21,011	-
(Increase) decrease in:		
Accounts receivable	(1,763,914)	(500,323)
Inventory	255,765	114,556
Payments in advance	(21,973)	108,298
Prepaid expenses and other current assets	(598,998)	71,377
Income tax refunds receivable	337,143	586,763
Deposits	(24,660)	(3,263)
Increase (decrease) in:		
Accounts payable and accrued expenses	720,684	(189,724)
Income taxes payable	-	(123,597)
Customer deposits	(54,674)	(102,232)
Net cash provided by (used in) operating activities	(857,709)	311,180
Cash flows from investing activities		
Capital expenditures	(459,904)	(643,672)
Payments from related party, net	7,273	92,376
Increase in short-term investments, net	(1,769)	(4,921)
Net cash used in investing activities	(454,400)	(556,217)
Cash flows from financing activities		
Repurchase of common stock	(79,575)	-
Proceeds from (repayments of) short-term loan, net	509,756	(19,246)
Net cash provided by (used in) financing activities	430,181	(19,246)
Effect of exchange rates on cash and cash equivalents	95,934	226,013
Net decrease in cash and cash equivalents	(785,994)	(38,270)
Cash and cash equivalents - beginning of year	2,021,101	2,059,371
Cash and cash equivalents - end of year	$ 1,235,107	$ 2,021,101
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 124	$ 489
Cash paid for income taxes	$ 2,400	$ 585,600
Other noncash investing and financing activities		
Common stock issued for services	$ 50,000	$ 50,000

NOTE 1 - DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Leatt Corporation (the "Company") was incorporated in the State of Nevada on March 11, 2005, under the name Treadzone, Inc. On June 17, 2005, the Company changed its name to Leatt Corporation in connection with the Company's acquisition of rights to use the Leatt neck brace patents and trademarks. The Company designs, manufactures and markets personal protective equipment for all forms of motor sports, based on the Leatt-Brace ® system, a patented neck protection system for all helmeted sports. The Company's products are manufactured in China and sold to customers worldwide through a global network of distributors and retailers. The Company's revenues are generated solely from the sale of Leatt-Brace ® products.

The Company conducts business in South Africa as a foreign registered branch, and in the United States through the Company's wholly-owned subsidiary, Two Eleven Distribution, LLC ("Two Eleven") a California limited liability company. Two Eleven acts as a distributor of the Leatt-Brace ® in the United States. Research and development efforts, global sales and marketing are managed out of the Company's foreign registered branch located in Cape Town, South Africa. United States sales are managed by Two Eleven located in Santa Clarita, California. The Company also has a wholly-owned subsidiary, Three Eleven Distribution ("Three Eleven") which was an inactive South African incorporated company until December 2008, when it acquired South African registered patents relating to products unrelated to the Leatt-Brace ® from Xceed Holdings CC ("Holdings"), a South African incorporated company controlled by the Company's founder. The Company established a new wholly-owned subsidiary, Leatt New Zealand Limited during the first quarter of 2009. This Company acts as the distributor of the Leatt-Brace ® in New Zealand.

The Company has the exclusive global manufacturing and distribution rights to the Leatt-Brace® which is an injection molded neck protection system designed to prevent potentially devastating motor sport injuries to the cervical spine and neck. The patents and all rights for the Leatt-Brace® are held by Holdings except for those patents recently acquired by Three Eleven. There is a license agreement between Holdings and the Company which gives the Company the exclusive worldwide right and license to manufacture, sell and use apparatus embodying, employing and containing the Leatt-Brace® technology.

Market for Common Stock - In order to enhance the ability of the Company's shareholders to trade their common stock, the Company proceeded with efforts to quote its common stock on the Pink Sheets, LLC and, effective August 12, 2009, the Company's common stock commenced quotation on the Pink Sheets (Symbol: Leatt.pk) with Landenburg Thalman & Co. acting as the Company's primary market maker.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Leatt Corporation and its wholly-owned subsidiaries: Two Eleven Distribution, LLC, Three Eleven Distribution and Leatt New Zealand Limited. All significant intercompany transactions have been eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and 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 estimates.

Revenue and Cost Recognition - All manufacturing of the Leatt-Brace ® is performed by third party subcontractors in China.

The Company records its revenue and related cost of revenue for its product sales in the United States upon shipment of the merchandise to the customer.

International sales are generally drop-shipped directly from the third party manufacturer to the Company's customers. Revenue and related cost of revenue is recognized at the time of shipment from the manufacturer's port when shipping terms are Free On Board ("FOB") shipping point as legal title and risk of loss to the product pass to the customer. For FOB destination point arrangements, revenue is recorded upon receipt at the customer's location.

Short-term investments - The Company's short-term investments consists of certificates of deposit with a maturity of greater than three months but less than twelve months.

Accounts Receivable - Accounts receivable consist of amounts due to the Company from normal business activities. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables as well as historical collection information. Credit is granted to substantially all customers on an unsecured basis. In determining the amount of the allowance, management is required to make certain estimates and assumptions. The allowance for doubtful accounts for the years ended December 31, 2010 and 2009 was $21,000 and $13,277, respectively.

Inventory – Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, the Company must make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, the Company utilizes historical experience as well as current market information.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the estimated useful lives of the respective assets.

The estimated useful lives of assets for financial reporting purposes are as follows: moulds and tools, 2 to 5 years; computer equipment and software, 2 to 5 years; office and other equipment, 3 to 6 years; vehicles, 3 to 5 years; leasehold improvements, 3 years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (continued) - The costs of improvements that extend the lives of the assets are capitalized. Repairs and maintenance are expensed as incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Impairment of Long-Lived Assets – The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows to be generated by the assets. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Based on these reviews, no asset impairment charges were made to the carrying value of long-lived assets during the years ended December 31, 2010 and 2009.

Intangible Assets – The Company's intangible assets consist of acquired patents with an indefinite useful life and are thus not amortized. Intangible assets are carried at cost less impairment. Amortization expense for the years ended December 31, 2010 and 2009 was zero. There was no impairment of intangible assets at December 31, 2010 or 2009.

Shipping and Handling Costs – The Company includes shipping and handling fees billed to customers in revenues and shipping and handling costs incurred in cost of revenues.

Advertising - Costs of advertising and marketing are expensed as incurred.

Patent Costs - Legal costs in connection with approved patents (including those owned by Holdings) and patent applications are expensed as incurred and classified as professional fees in the consolidated statements of operations. Patent costs totaled $338,130 and $ 231,876, respectively for the years ended December 31, 2010 and 2009.

Research and Development – Research and development costs are expensed as incurred.

Foreign Currency Translation and Foreign Currency Transactions - The U.S. dollar is the Company's reporting currency. Assets and liabilities of the Company's foreign operations, consisting of its South African Branch and Leatt New Zealand Limited, denominated in its local currency, SA RAND and NEW ZEALAND DOLLAR respectively, are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the rate of exchange at the date of the transaction in the applicable period. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income in stockholders' equity. Gains and losses generated by transactions denominated in foreign currencies are recorded in the accompanying statement of operations in the period in which they occur. Net unrealized gains on foreign currency translation adjustments totaled $175,599 and $454,776, respectively, as of December 31, 2010 and 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation - The Company accounts for stock based compensation in accordance with the fair-value-base method set forth in FASB ASC Topic 718-10, Stock-Based Compensation, which require the measurement and recognition of compensation expense for all stock-based awards made to employees and directors, including employees stock options, based on the estimated fair values on the date of grant or the fair value of the services performed.

The Company recognizes these compensation costs, net of an estimated forfeiture rate, on a pro rata basis over the requisite service period of each vesting tranche of each award. The Company considers voluntary termination behavior as well as trends of actual option forfeitures when estimating the forfeiture rate.

Income Taxes - The Company uses the asset and liability approach to account for income taxes. Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the income tax basis of assets and liabilities. A valuation allowance is applied against any net deferred tax asset if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The provision for income taxes included taxes currently payable, if any, plus the net change during the year in deferred tax assets and liabilities recorded by the Company.

The Company applies the provisions of FASB ASC Topic 740-10, Accounting for Uncertainty in Income Taxes ("Standard"), which provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is more likely than not of being sustained upon an examination by tax authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, the standard provides guidance on derecognition, classification, interest and penalties; accounting in interim periods, disclosure and transition, and any amounts when incurred would be recorded under these provisions.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2010 and 2009, the Company has no unrecognized tax benefits and the Company currently has no federal or state tax examinations in progress.

Net income Per Share of Common Stock - Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted–average number of common shares and dilutive potential common shares outstanding during the period. For the years ended December 31, 2010 and 2009, the Company had 3,000,000 potential common shares outstanding that were anti-dilutive and therefore not included in diluted net income per share.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income - Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities. Accumulated comprehensive loss at December 31, 2010 and 2009 represents cumulative translation adjustments related to the Company's foreign registered branch office and subsidiary. The Company presents comprehensive income in the consolidated statements of operations and comprehensive income.

Fair Value of Financial Instruments - The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, short-term investments, accounts receivable, inventory, payments in advance, customer deposits, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments.

Concentration of Credit Risk - The Company maintains cash and cash equivalent balances at several financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 31, 2010 and 2009, the Company's uninsured bank balances totaled $1,247,667 and $1,985,292, respectively. The Company has not experienced any significant losses on its cash and cash equivalents.

The Company's trade receivables are derived from sales to distributors and dealers. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of the Company's end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. The Company maintains allowances for potential credit losses as needed and has not experienced any significant losses related to the collection of its accounts receivable.

The Company has derived, and believes that it will continue to derive, a significant portion of its revenue from a limited number of customers. For the years ended December 31, 2010 and 2009, the Company's US revenue was concentrated in six and five customers that accounted for approximately 36% and 38%, respectively, of annual US revenue. For the years ended December 31, 2010 and 2009, the Company's international revenue was concentrated in five customers that accounted for approximately 41% of annual international revenue for 2010 and 2009. The Company generates revenue both in the United States and internationally. For the years ended December 31, 2010 and 2009, annual revenues associated with international customers were $8,493,593 and $7,480,053, or 59% and 54% of total revenue, respectively.

Statement of Cash Flows - The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less from the date of purchase to be cash equivalents.

Reclassification – Certain items in the 2009 financial statements have been reclassified to conform with the 2010 financial statement presentation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - In April 2010, the FASB issued an accounting standard update, *Milestone Method of Revenue Recognition*. The guidance allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. The guidance provides a definition of substantive milestone, and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. The guidance is limited to transactions involving milestones relating to research and development deliverables. The guidance also includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones, and factors considered in the determination. The guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of this accounting update on its financial disclosures.

In July 2010, the FASB issued an accounting update to provide guidance to enhance disclosures related to the credit quality of a company's financing receivables portfolio and the associated allowance for credit losses. Pursuant to this accounting update, a company is required to provide a greater level of disaggregated information about its allowance for credit loss with the objective of facilitating users' evaluation of the nature of credit risk inherent in the company's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. The revised disclosures as of the end of the reporting period are effective for the Company beginning in 2011. The Company is currently evaluating the impact of this accounting update on its financial disclosures.

Other recent accounting pronouncements issued by the FASB did not or are not believed by management to have a material impact on the Company's present consolidated financial statements.

NOTE 3 - INVENTORY

Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, the Company must make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products.

In performing such evaluations, the Company utilizes historical experience as well as current market information. All products are manufactured by third parties in China and shipped to either a warehouse in California, the corporate offices in South Africa, a warehouse in New Zealand or to distributors throughout South America, Africa, Europe, Asia and Australia. There was no reserve for obsolescence on the inventory for the years ended December 31, 2010 and 2009.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2010 and 2009 consisted of the following:

	2010	2009
Land	$ 731,694	$ 655,226
Moulds and tools	870,603	802,406
Computer equipment and software	641,743	497,078
Office and other equipment	438,250	251,880
Vehicles	160,293	63,408
Leasehold improvements	161,201	168,022
	3,003,784	2,438,020
Less accumulated depreciation	(1,507,476)	(1,143,298)
Property and equipment, net	$ 1,496,308	$ 1,294,722

NOTE 5 - CUSTOMER DEPOSITS AND PAYMENTS IN ADVANCE

Customer deposits represent payments received from customers prior to completion and shipment of the order. If the customer decides to cancel the order after the deposit has been paid, the Company will return the deposit or apply the deposit to a new order, however, the deposit will not be recorded as revenue. Payments in advance represent upfront payments made to contract manufacturers for the manufacturing of the braces.

Customer deposits totaled $69,988 and $124,662 as of December 31, 2010 and 2009, and are recorded in current liabilities; and payments in advance of $120,150 and $98,177 as of December 31, 2010 and 2009 are recorded in current assets on the consolidated balance sheets.

NOTE 6 - STOCKHOLDERS' EQUITY

As of December 31, 2010, there were 700,000,000 shares authorized, and 131,167,225 shares issued and outstanding of the Company's common stock with a par value of $.001 and 28,000,000 shares authorized, and 3,000,000 shares issued and outstanding of the Company's preferred stock with a par value of $.001.

In connection with a certain asset purchase agreement dated June 17, 2005, in September 2008, the Company entered into a settlement and release agreement, whereby the Company agreed to amend their Articles of Incorporation to establish a Series A Voting Convertible Preferred Stock which authorized 28,000,000 shares, with a par value of $.001. The amended Articles of Incorporation authorized the Company to have the authority to establish additional series of preferred stock with such rights, preferences, and designations as determined by the Board of Directors.

NOTE 6 - STOCKHOLDERS' EQUITY (continued)

Pursuant to these amendments the Company established a Series A Voting Convertible Preferred Stock ("Preferred Stock"), with a par value of $.001, which is convertible on a 1:1 ratio to common stock. The Company issued 3,000,000 shares of this series of Preferred Stock. Each holder of the Preferred Stock is entitled to receive dividends and is entitled to 100 votes for each one share of Preferred Stock.

The Company had an obligation to issue preferred and common stock to the founders of the Company in the amount of $5,996,507 as of December 31, 2007. In September 2008, the Company entered into a settlement agreement to satisfy the obligation, which at the time of settlement was $6,261,246. In accordance with the settlement agreement, 3,000,000 shares of the Preferred Stock and 21,000,000 shares of common stock were issued to the principals to satisfy the Company's obligation. The Company had performed a valuation to determine the fair value of the Company's obligation. The Company recorded a fair value adjustment in the amount of $264,739 for the year ended December 31, 2008.

Pursuant to an employment agreement, an officer received 333,334 shares and 333,333 shares of common stock, respectively in 2010 and 2009. The common stock was valued at $0.15, or $50,000 based on the fair value of the common stock at the date of the grant.

NOTE 7 - INCOME TAXES

The Company's income tax expense (benefit) for the year's ended December 31, 2010 and 2009 consists of the following components:

	2010	2009
Current		
Federal	$ 132,515	$ 83,146
State	1,600	1,600
	134,115	84,746
Deferred		
Federal	(78,000)	(12,750)
	(78,000)	(12,750)
Income tax expense	$ 56,115	$ 71,996

NOTE 7 - INCOME TAXES (continued)

The Company's effective income tax expense (benefit) differs from the federal statutory amount because of the effect of the following items:

	2010	2009
Federal tax statutory rate	0.00%	0.00%
Effect of prior year (over) under provision	-110.00%	105.00%
Timing and permanent differences	73.00%	-230.00%
Effect of fair value adjustment	0.00%	0.00%
Utilization of foreign exchange loss	0.00%	0.00%
	-37.00%	-125.00%

Deferred income taxes (benefit) reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and the tax effects of net operating losses that are available to offset future taxable income. Significant components of the Company's deferred tax assets (liabilities) at December 31, 2010 and 2009 consist of the following:

	2010	2009
Deferred tax assets:		
Accounts receivable	$ 9,000	$ 5,700
Vacation accrual	32,000	27,000
Net operating loss carryforwards	363,900	219,900
Less valuation allowance	(350,600)	(219,900)
Deferred tax assets, net	$ 54,300	$ 32,700
Deferred tax liabilities:		
Depreciation	112,400	12,800
Deferred tax liabilites, net	$ 112,400	$ 12,800

In assessing the ultimate realization of deferred tax assets and liabilities, management considers whether it is more likely than not that some or all of them will not be realized. Based on the Company's anticipation of fluctuations in the Company's net earnings for state tax purposes, the Company has established a valuation allowance due to the uncertainty as to the realization of the net operating loss carryforwards. As of December 31, 2010 and 2009, the Company has approximately $4,100,000 and $2,500,000 of net operating loss carryforwards to offset certain future state taxable income, expiring in 2028.

The Company files a consolidated federal and separate company state income tax returns in the United States. The Company is not presently undergoing any significant tax audits. As of December 31, 2010, the tax years that remain subject to examination are 2007 to 2010 for federal and 2008 to 2010 for state tax purposes.

NOTE 7 - INCOME TAXES (continued)

The Company has reviewed its open tax positions and determined that no exposures exist that require an adjustment as of December 31, 2010 or 2009. While the Company believes that it has performed adequate procedures to identify all reasonably identifiable exposures, it is possible that exposures exist and that these exposures will need to be assessed and may potentially have a material impact on the Company's consolidated financial statements.

NOTE 8 - RELATED PARTY TRANSACTIONS

Royalty fees associated with sales of Leatt-Brace ® products are paid to Holdings, a company owned by a director, and a related individual who is a shareholder. Royalties are based on 5% of the net sales of braces worldwide and totaled $639,662 and $693,387 for the years ended December 31, 2010 and 2009. The term of the royalty agreement is for the life of the intellectual property. As of December 31, 2010 and 2009, accrued royalties totaled $89,232 and $100,135.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Office / Warehouse Lease

The Company's California entity is leasing office and warehouse space in Santa Clarita, California. The lease commenced on April 1, 2010 and continues through March 31, 2013. The lease agreement calls for monthly base rent in the amount of $3,883 that will increase to $4,401 on April 1, 2011 and $5,126 on April 1, 2012.

In addition, the Company's South African branch leases space in South Africa. The lease commenced on December 15, 2008 and continues through December 15, 2011. The lease agreement calls for an initial monthly rent of $5,195 with an annual escalation percentage of 10%. Effective August 1, 2010 the South African branch sub-leased a portion of their office space to Holdings, a related entity, initially for one year. Monthly rent is $145 plus its share of expenses. Sublease income totaled $676 for the year ended December 31, 2010.

The Company's New Zealand entity leases premises in New Zealand. The lease commenced on May 1, 2010 and continues through April 31, 2015. The initial monthly rent amount in terms of the lease agreement is $1,691 with an annual escalation percentage of 8%. This lease agreement cannot be terminated by notice.

All other operating leases are on a month-to-month basis.

Minimum lease payments under operating leases in each of the years subsequent to December 31, 2010 are as follows:

2011	$ 138,347
2012	$ 82,417
2013	$ 40,298
2014	$ 26,908
2015	$ 9,196

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

Office / Warehouse Lease (continued)

Rent expense totaled $211,713 and $224,832, respectively, for the years ended December 31, 2010 and 2009.

Litigation/Potential Litigation

In the normal course of business, the Company is subject to lawsuits and other claims and proceedings. Such matters are subject to uncertainty and outcomes are often not predictable with assurance. Such disputes are only reported in detail in the financial statements or footnotes when the Company believes that they may possibly have a material impact on the business or financial condition or performance of the Company. "Material" typically means an impact that exceeds ten percent of a company's net worth or gross annual revenues. Such a determination is often subjective and influenced by many factors, which factors are subject to change or are beyond the ability of the Company to control or foresee. The following summary speaks only as of the date of this financial report. In general, the Company reports on any litigation even if the Company believes that the lawsuit or lawsuits are without merit and do not warrant any contingent liability provision.

Pending Lawsuits: There is no liability accrued for potential losses for the following civil lawsuits as the Company believes the claims are without merit and will vigorously defend against this action. Legal counsel appointed by the Company's insurance company is handling each of the following claims. The Company does not believe that any of the following civil lawsuits has any merit and the Company intends to vigorously defend each civil lawsuit.

On October 28, 2009, the Company was named a defendant in a civil lawsuit filed in the Yuba County Superior Court. The claim is for alleged product defects and breach of product warranties. This case has been set for trial on September 20, 2011.

On March 11, 2009, the Company was named a Defendant in a lawsuit filed in the United States District Court for the Eastern District of Kentucky. The claim is for alleged defective product design and breach of product warranties. This case has been set for trial for July 25, 2011.

The Company has also been named as a defendant in a lawsuit in the U.S. District Court for the Western District of Kentucky, filed on October 1, 2010. The claim is for alleged strict liability and breach of product warranties. This case has been set for trial on October 9, 2012.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

Litigation/Potential Litigation

The Company's insurer initially filed a declaratory judgment in federal court to seek a court declaratory judgment that the insurer did not have to provide any coverage for the lawsuit in the U.S. District Court for the Western District of Kentucky. This matter has been settled between the parties. The settlement results in the insurer providing coverage and legal defense coverage for the pending product-personal injury liability lawsuit in the U.S. District Court for the Western District of Kentucky.

The Company filed a lawsuit in the United States District Court, Southern District of California on the 16th of June 2009 against a California Company and other related parties to temporarily restrain the parties from exploitation of a neck brace which the Company alleged is based on the Company's misappropriated confidential information and trade secrets. The Company was awarded default judgment against

the California Company. The Court awarded a money judgment of $200,000 and enjoined the California Company "from any further misappropriation, use, disclosure, manufacture, importation, marketing, sales, or offers for sale of products containing Leatt's trade secrets for a period of two years after entry of this default judgment". The Company settled the matter with the rest of the aforementioned parties and is contemplating collection action for the $200,000 award.

The Company cannot predict at this time the outcome of any current litigation and as of the date hereof intends to defend these legal actions.

Intellectual Property Rights Claims and Patent Proceedings: In order to protect its intellectual property rights, the Company files patent applications in various nation states. The application process allows third parties to file objections to the Company's patent application or granted patent, which objections can be for a variety of reasons but are typically based on a claim of any existing, competing patent or patent application. The patent authority resolves any such contested patent applications as part of the application process. The Company does not report any third party objections to patent applications until and unless such objections are granted in whole or in part by the patent authority. Such objections are not unusual in the patent application process in general and often such objections are denied or circumvented by changes in the patent application.

From time to time, the Company sends legal letters to third parties regarding possible infringement of the Company's Intellectual Property rights. Such matters are not reported until litigation is probable or resources spent warrant creating a contingent liability.

Insurance: The Company has product liability insurance and director-officer liability insurance and believes that such insurance coverage is adequate to meet anticipated claims. The limits of such coverage is reviewed from time to time to make any adjustments deemed warranted by increased claims or expanded business.

NOTE 10 – SUBSEQUENT EVENT

The Company has evaluated all subsequent events through March 31, 2011, the date the financial statements were released.