CORNERSTONE STRATEGIC VALUE FUND INC
Form N-2
August 19, 2010

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

FORM N-2
(Check appropriate box or boxes)

[X]	REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
[ ]	Pre-Effective Amendment No. ___
[ ]	Post-Effective Amendment No. ___

and/or

[X]	REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940
[X]	Amendment No. 2

Cornerstone Strategic Value Fund, Inc.

Exact Name of Registrant as Specified in Charter

260 Madison Avenue, 8th Floor, New York, NY 10016

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

Registrant's Telephone Number, including Area Code (646) 881-4985

Frank Maresca – c/o Ultimus Fund Solutions, LLC, 260 Madison Avenue, 8th Floor, New York, NY 10016

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

Copies of Communications to:
Mary K. Stokes, Esq.
Blank Rome LLP
One Logan Square 130 North 18th Street
Philadelphia, PA 19103-6998

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box …. [ ]

It is proposed that this filing will become effective (check appropriate box)

[X] when declared effective pursuant to section 8(c)

SEC1716 (2-10)	Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price1	Amount of Registration Fee
Common Stock	92,166	$10.85	1,000,001	71.30

1.Estimated solely for the purpose of calculating fee as required by Rule 457(c) under the Securities Act of 1933 based upon the closing price reported on the New York Stock Exchange consolidated reporting system of $10.85 on August 17, 2010.

Cornerstone Strategic Value Fund, Inc.
[ ] Rights for [ ] Shares of Common Stock

Cornerstone Strategic Value Fund, Inc. (the "Fund") is issuing non-transferable rights ("Rights") to its holders of record of shares ("Shares") of common stock ("Common Stock") (such holders herein defined as, "Stockholders"). These Rights will allow Stockholders to subscribe for new Shares of Common Stock. For every three (3) Rights a Stockholder receives, such Stockholder will be entitled to buy one (1) new Share. Each Stockholder will receive one Right for each outstanding Share it owns on ________, 2010 (the "Record Date"). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Stockholder on the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Stockholders on the Record Date may purchase Shares not acquired by other Stockholders in this Rights offering (the "Offering"), subject to certain limitations discussed in this Prospectus. Additionally, if there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its sole discretion, issue additional Shares up to 100% of the Shares available in the Offering to honor oversubscription requests. See "The Offering" below.

The Rights are non-transferable, and may not be purchased or sold. Rights will expire without residual value at the Expiration Date (defined below). The Rights will not be listed for trading on the NYSE Amex, and there will not be any market for trading Rights. The Shares to be issued pursuant to the Offering will be listed for trading on the NYSE Amex, subject to the NYSE Amex being officially notified of the issuance of those Shares. On _________, 2010, the last reported net asset value ("NAV") per Share was $______ and the last reported sales price per Share on the NYSE Amex was $____, which represents a ____% premium to the Fund's NAV per Share. The subscription price per Share (the "Subscription Price") will be the greater of (i) 102% of NAV per Share as calculated at the close of trading on the date of expiration of the Offering and (ii) 90% of the market price per Share at such time.

STOCKHOLDERS WHO CHOOSE TO EXERCISE THEIR RIGHTS WILL NOT KNOW THE SUBSCRIPTION PRICE PER SHARE AT THE TIME THEY EXERCISE SUCH RIGHTS BECAUSE THE OFFERING WILL EXPIRE (i.e., CLOSE) PRIOR TO THE AVAILABILITY OF THE FUND'S NAV AND OTHER RELEVANT MARKET INFORMATION ON THE EXPIRATION DATE. ONCE A STOCKHOLDER SUBSCRIBES FOR SHARES AND THE FUND RECEIVES PAYMENT OR GUARANTEE OF PAYMENT, SUCH STOCKHOLDER WILL NOT BE ABLE TO CHANGE HIS OR HER DECISION. THE OFFERING WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON _______, 2010 (THE "EXPIRATION DATE"), UNLESS THE OFFERING IS EXTENDED, AS DISCUSSED IN THIS PROSPECTUS.

The Fund is a diversified, closed-end management investment company. The Fund’s investment objective is to seek long-term capital appreciation through investing primarily in the equity securities of U.S. and non-U.S. companies. There can be no assurance that the Fund’s objective will be achieved.

For more information, please call The Altman Group (the "Information Agent") toll free at ________.

(continued on following page)

Investing in the Fund involves risks. See “Risk Factors” on page [ ] of this prospectus.

	Estimated Subscription Price(1)	Estimated Sales Load	Estimated Proceeds to the Fund
Per Share		None	
Total		None	

(1) Because the Subscription Price will not be determined until after printing and distribution of this Prospectus, the "Estimated Subscription Price" above is an estimate of the subscription price based on the Fund's per-Share NAV and market price at the close of trading on ______, 2010. See "The Offering - Subscription Price" and "The Offering - Payment for Shares."

(2) Proceeds to the Fund are before deduction of expenses incurred by the Fund in connection with the Offering, estimated to be approximately $_______. Funds received prior to the final due date of this Offering will be deposited in a segregated account pending allocation and distribution of Shares. Interest, if any, on subscription monies will be paid to the Fund regardless of whether Shares are issued by the Fund; interest will not be used as credit toward the purchase of Shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _________, 2010.

(continued from previous page)

The Fund’s Shares are listed on the NYSE Amex under the ticker symbol “CLM.”

Investment Adviser. Cornerstone Advisors, Inc. (the “Adviser”) acts as the Fund's investment adviser. See “Management of the Fund.” As of ______, 2010, the Adviser managed two other closed-end funds with net assets of approximately $_______. The Adviser's address is 1075 Hendersonville Road, Suite 250, Asheville, North Carolina, 28803.

This prospectus sets forth concisely the information about the Fund that you should know before deciding whether to invest in the Fund . A Statement of Additional Information, dated _____, 2010 (the “Statement of Additional Information”), and other materials, containing additional information about the Fund, have been filed with the Securities and Exchange Commission (the “SEC”). The Statement of Additional Information is incorporated by reference in its entirety into this prospectus, which means it is considered to be part of this prospectus. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page ___ of this prospectus, and other information filed with the SEC, by calling collect (513)326-3597 or by writing to the Fund c/o Ultimus Fund Solutions LLC, 260 Madison Avenue, 8th Floor, New York, New York, 10016. The Fund files annual and semi-annual stockholder reports, proxy statements and other information with the SEC. The Fund does not have an Internet website. You can obtain this information or the Fund’s Statement of Additional Information or any information regarding the Fund filed with the SEC from the SEC’s web site (http://www.sec.gov).

The Fund’s Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any governmental agency.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus. The Fund will amend this prospectus if, during the period this prospectus is required to be delivered, there are any material changes to the facts stated in this prospectus subsequent to the date of this prospectus.

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SUMMARY

This summary does not contain all of the information that you should consider before investing in the Fund. You should review the more detailed information contained or incorporated by reference in this prospectus and in the Statement of Additional Information, particularly the information set forth under the heading "Risk Factors."

The Fund	Cornerstone Strategic Value Fund, Inc. is a diversified, closed-end management investment company. It was incorporated in Maryland on May 1, 1987 and commenced investment operations on June 30, 1987. The Fund' s Shares of Common Stock are traded on the NYSE Amex under the ticker symbol "CLM.". As of December 31, 2009, the Fund had 6,969,408 Shares issued and outstanding.
The Offering	The Fund is offering non-transferable rights to its Stockholders as of the close of business on ______. These Rights will allow Stockholders to subscribe for an aggregate of ________ Shares of Common Stock. For every three (3) Rights a Stockholder receives, such Stockholder will be entitled to buy one (1) new Share at a subscription price equal to the greater of (i) 102% of NAV of the Common Stock as calculated on ________ and (ii) 90% of the market price at the close of trading on such date. Each Stockholder will receive one Right for each outstanding Share he or she owns on the Record Date (the "Basic Subscription"). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, the number of Rights to be issued to a Stockholder as of the Record Date will be rounded up to the nearest whole number of Rights evenly divisible by three. Common Stockholders as of the Record Date may purchase Shares not acquired by other Stockholders in this Rights offering (the "Offering"), subject to certain limitations discussed in this Prospectus. Additionally, if there are not enough unsubscribed Shares to honor all over-subscription requests, the Fund may, in its discretion, issue additional Shares up to 100% of the Shares available in the Offering to honor oversubscription requests. Shares will be issued within the 15-day period immediately following the record date of the Fund's monthly's distribution and stockholders exercising rights will not be entitled to receive such dividend with respect to the shares issued pursuant to such exercise.
Purpose of the Offering	The Board of Directors has determined that it would be in the best interests of the Fund and its Stockholders to increase the assets of the Fund. The primary reasons include: · The Basic Subscription will provide existing Stockholders an opportunity to purchase additional Shares at a price that is potentially below market value without incurring any commission or transaction charges. · Raising more cash will better position the Fund to take advantage of investment opportunities

that exist or may arise.

- Increasing the Fund's assets will provide the Fund additional flexibility in maintaining the Distribution Policy (see discussion below). This policy permits Stockholders to realize a predictable level of cash flow and some liquidity periodically with respect to their Common Stock without having to sell Shares.

- Increasing Fund assets may lower the Fund's expenses as a proportion of net assets because the Fund's fixed costs would be spread over a larger asset base. There can be no assurance that by increasing the size of the Fund, the Fund's expense ratio will be lowered.

- Because the Offering will increase the Fund's outstanding Shares, it may increase the number of Stockholders over the long term, which could increase the level of market interest in and visibility of the Fund and improve the trading liquidity of the Shares on the NYSE Amex.

- The Offering is expected to be anti-dilutive to all Stockholders, including those electing not to participate, because the estimated expenses incurred for the Offering will be more than offset by the increase in the net assets of the Fund such that non-participating Stockholders will receive an increase in their net asset value, so long as the number of Shares issued to participating Stockholders is not materially less than a full exercise of the Basic Subscription amount.

Investment Objective and Policies

The Fund’s investment objective is to seek long-term capital appreciation through investment in equity securities of U.S. and non-U.S. companies.

There is no assurance that the Fund will achieve its investment objective. The Fund’s investment objective and some of its investment policies are considered fundamental policies and may not be changed without Stockholder approval. The Statement of Additional Information contains a list of the fundamental and non-fundamental investment policies of the Fund under the heading “Investment Restrictions.”

During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its net assets in cash or cash equivalents.

Investment Strategies

Under normal circumstances, the Fund's portfolio will consist principally of the equity securities of U.S. and non-U.S. companies. The Fund invests in common stocks and may also invest in preferred stocks, rights, warrants and securities convertible into common stocks that are listed on stock exchanges or traded over the counter.

Although the Fund has the ability to invest a significant portion of its assets in non-U.S. companies, the Fund has consistently maintained the investment of at least 95% of its assets in U.S. listed companies since June 30, 2001.

The Fund may invest without limitation in ETFs and other closed-end investment companies, provided that the Fund limits its investment in securities issued by other investment companies so that not more than 3% of the outstanding voting stock of any one investment company will be owned by the Fund. As a stockholder in any investment company, the Fund will bear its ratable share of the investment company's expenses and would remain subject to payment of the Fund's advisory and administrative fees with respect to the assets so invested.

The Fund may invest up to 15% of its assets in illiquid U.S. and non-U.S. securities, provided that the Fund may not invest more than 3% of the Fund's assets in the securities of companies that, at the time of investment, had less than a year of operations, including operations of predecessor companies. The Fund will invest only in such illiquid securities that, in the opinion of Fund management, present opportunities for substantial growth over a period of two to five years.

The Fund may, without limitation, hold cash or invest in assets in money market instruments, including U.S. and non-U.S. government securities, high grade commercial paper and certificates of deposit and bankers' acceptances issued by U.S. and non-U.S. banks having deposits of at least $500 million.

The Fund's investment policies emphasize long-term investment in the securities of companies, therefore, the Fund's annual portfolio turnover rate is expected to continue to be relatively low, ranging between 10% and 90%.

Investment Adviser and Fee

Cornerstone Advisors, Inc. (the “Adviser”), the investment adviser of the Fund, is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended. As of ____________, the Adviser managed two other closed-end funds with approximately $____ million of net assets under management.

The Adviser is entitled to receive a monthly fee at the annual rate of 1.00% of the Fund's average weekly net assets. See “Management of the Fund.”

Administrator and Fund Accounting Agent

Ultimus Fund Solutions LLC (“Ultimus”), 260 Madison Ave, 8th Floor, New York, NY 10016, serves as administrator and accounting agent to the Fund. Under the administration agreement with the Fund, Ultimus is responsible for generally managing the administrative affairs of the Fund and is entitled to receive a monthly fee at the annual rate of 0.10% of the Fund's average weekly net assets, subject to a minimum annual fee of $50,000. Under the Fund Accounting Agreement, Ultimus calculates the net asset value per share and maintains the financial books and records of the Fund and is entitled to receive a base fee of $2,500 per month plus an asset based fee of 0.010% of the First $500 million of average daily net assets and 0.005% of such assets in excess of $500 million. See “Management of the Fund.”

Closed-End Fund Structure

Closed-end funds differ from open-end management investment companies (commonly referred to as mutual funds) in that closed-end funds do not redeem their shares at the option of the stockholder and generally list their shares for trading on a securities exchange. By comparison, mutual funds issue securities that are redeemable daily at net asset value at the option of the stockholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund's investment objectives and policies. In addition, in comparison to open-end funds, closed-end funds have greater flexibility in the employment of financial leverage and in the ability to make certain types of investments, including investments in illiquid securities.

Although the Fund's Common Stock has frequently traded at a premium to its net asset value during the past several years, shares of closed-end funds frequently trade at a discount from their net asset value. In recognition of the possibility that the Fund's Shares might trade at a discount to net asset value and that any such discount may not be in the interest of Stockholders, the Fund's Board of Directors, in consultation with the Adviser, may, from time to time, review possible actions to reduce any such discount, including that the Board of Directors may consider open market repurchases or tender offers for Fund shares. There can be no assurance that the Board of Directors will decide to undertake any of these actions or that, if undertaken, such actions would result in the Fund's shares trading at a price equal to or close to net asset value per share.

In addition, the Fund's distribution policy may continue to be an effective action to counter a trading discount. See "Distribution Policy."

The Board of Directors might also consider the conversion of the Fund to an open-end investment company. The Board of Directors believes, however, that the closed-end structure is desirable, given the Fund's investment objective and policies. Investors should assume, therefore, that it is highly unlikely that the Board of Directors would vote to convert the Fund to an open-end investment company.

Summary of Principal Risks

Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following principal risks that you assume when you invest in the Fund.

Stock Market Volatility. Stock markets can be volatile. In other words, the prices of stocks can rise or fall rapidly in response to developments affecting a specific company or industry, or to changing economic, political or market conditions. The Fund is subject to the general risk that the value of its investments may decline if the stock markets perform poorly. There is also a risk that the Fund's investments will underperform either the securities markets generally or particular segments of the securities markets.

Issuer Specific Changes. Changes in the financial condition of an issuer, changes in the specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can affect the credit quality or value of an issuer’s securities. Lower-quality debt securities tend to be more sensitive to these changes than higher-quality debt securities.

Common Stock Risk. The Fund will invest a significant portion of its net assets in common stocks. Common stocks represent an ownership interest in a company. The Fund may also invest in securities that can be exercised for or converted into common stocks (such as convertible preferred stock). Common stocks and similar equity securities are more volatile and more risky than some other forms of investment. Therefore, the value of your investment in the Fund may sometimes decrease instead of increase. Common stock prices fluctuate for many reasons, including changes in investors' perceptions of the financial condition of an issuer, the general condition of the relevant stock market or when political or economic events affecting the issuers occur. In addition, common stock prices may be sensitive to rising interest rates, as the costs of capital rise for issuers. Because convertible securities can be converted into equity securities, their values will normally increase or decrease as the values of the underlying equity securities increase or decrease. The common stocks in which the Fund will invest are structurally subordinated to preferred securities, bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and assets and, therefore, will be subject to greater risk than the preferred securities or debt instruments of such issuers.

Foreign Securities Risk. Investments in securities of non-U.S. issuers involve special risks not presented by investments in securities of U.S. issuers, including the following: less publicly available information about companies due to less rigorous disclosure or accounting standards or regulatory practices; the impact of political, social or diplomatic events, including war; possible seizure, expropriation or nationalization of the company or its assets; and possible imposition of currency exchange controls. These risks are more pronounced to the extent that the Fund invests a significant amount of its investments in companies located in one region. These risks may be greater in emerging markets and in less developed countries. For example, prior governmental approval for foreign investments may be required in some emerging market countries, and the extent of foreign investment may be subject to limitation in other emerging countries.

Other Investment Company Securities Risk. The Fund invests in the securities of other closed-end investment companies and in ETFs. Investing in other investment companies and ETFs involves substantially the same risks as investing directly in the underlying instruments, but the total return on such investments at the investment company level may be reduced by the operating expenses and fees of such other investment companies, including advisory fees. To the extent the Fund invests a portion of its assets in investment company securities, those assets will be subject to the risks of the purchased investment company's portfolio securities, and a stockholder in the Fund will bear not only his proportionate share of the expenses of the Fund, but also, indirectly, the expenses of the purchased investment company. There can be no assurance that the investment objective of any investment company or ETF in which the Fund invests will be achieved.

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Defensive Positions. During periods of adverse market or economic conditions, the Fund may temporarily invest all or a substantial portion of its net assets in cash or cash equivalents. The Fund would not be pursuing its investment objective in these circumstances and could miss favorable market developments.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The Fund’s successful pursuit of its investment objective depends upon the Adviser’s ability to find and exploit market inefficiencies with respect to undervalued securities. Such situations occur infrequently and sporadically and may be difficult to predict, and may not result in a favorable pricing opportunity that allows the Adviser to fulfill the Fund’s investment objective. The Adviser’s security selections and other investment decisions might produce losses or cause the Fund to underperform when compared to other funds with similar investment goals. If one or more key individuals leave the employ of the Adviser, the Adviser may not be able to hire qualified replacements, or may require an extended time to do so. This could prevent the Fund from achieving its investment objective.

Managed Distribution Risk. Under the managed distribution policy, the Fund makes monthly distributions to Stockholders at a rate that may include periodic distributions of its net income and net capital gains, ("Net Earnings"), or from return-of-capital. For any fiscal year where total cash distributions exceeded Net Earnings (the "Excess"), the Excess would decrease the Fund's total assets and, as a result, would have the likely effect of increasing the Fund's expense ratio. There is a risk that the total Net Earnings from the Fund's portfolio would not be great enough to offset the amount of cash distributions paid to Fund Stockholders. If this were to be the case, the Fund's assets would be depleted, and there is no guarantee that the Fund would be able to replace the assets. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action. Furthermore, such assets used to make distributions will not be available for investment pursuant to the Fund's investment objective.

Preferred Securities Risk. Investment in preferred securities carries risks including credit risk, deferral risk, redemption risk, limited voting rights, risk of subordination and lack of liquidity. Fully taxable or hybrid preferred securities typically contain provisions that allow an issuer, at its discretion, to defer distributions for up to 20 consecutive quarters. Traditional preferreds also contain provisions that allow an issuer, under certain conditions to skip (in the case of “noncumulative preferreds") or defer (in the case of "cumulative preferreds"), dividend payments. If the Fund owns a preferred security that is deferring its distributions, the Fund may be required to report income for tax purposes while it is not receiving any distributions. Preferred securities typically contain provisions that allow for redemption in the event of tax or security law changes in addition to call features at the option of the issuer. In the event of a redemption, the Fund may not be able to reinvest the proceeds at comparable rates of return. Preferred securities typically do not provide any voting rights, except in cases when dividends are in arrears beyond a certain time period, which varies by issue. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt instruments. Preferred securities may be substantially less liquid than many other securities, such as U.S. government securities, corporate debt or common stocks. Dividends paid on preferred securities will generally not qualify for the reduced federal income tax rates applicable to qualified dividends under the Code. See "Federal Income Tax Matters."

Convertible Securities Risk. The value of a convertible security, including, for example, a warrant, is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. Generally, the conversion value decreases as the convertible security approaches maturity. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on the Fund's ability to achieve its investment objective.

Securities Lending Risk. Securities lending is subject to the risk that loaned securities may not be available to the Fund on a timely basis and the Fund may, therefore, lose the opportunity to sell the securities at a desirable price. Any loss in the market price of securities loaned by the Fund that occurs during the term of the loan would be borne by the Fund and would adversely affect the Fund’s performance. Also, there may be delays in recovery, or no recovery, of securities loaned or even a loss of rights in the collateral should the borrower of the securities fail financially while the loan is outstanding. The Fund would not have the right to vote any securities having voting rights during the existence of the loan.

Repurchase Agreement Risk. The Fund could suffer a loss if the proceeds from a sale of the securities underlying a repurchase agreement to which it is a party turns out to be less than the repurchase price stated in the agreement. In addition, repurchase agreements may involve risks in the event of default or insolvency of the seller, including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities.

Managed Distribution Policy

Effective June 25, 2002, the Fund initiated a fixed, monthly distribution to Stockholders. On November 29, 2006, this distribution policy was updated to provide for the annual resetting of the monthly distribution amount per share based on the Fund's net asset value on the last business day in each October. The terms of the distribution policy will be reviewed and approved at least annually by the Fund's Board of Directors and can be modified at their discretion. To the extent that these distributions exceed the current earnings of the Fund, the balance will be generated from sales of portfolio securities held by the Fund, and will be distributed as either short-term or long-term capital gains or a tax-free return-of-capital. To the extent these distributions are not represented by net investment income and capital gains, they will not represent yield or investment return on the Fund's investment portfolio. A return-of-capital distribution reduces the tax basis of an investor’s Shares. The Fund plans to maintain this distribution policy even if a return-of-capital distribution would exceed an investor’s tax basis and therefore be a taxable distribution. Although it has no current intention to do so, the Board may terminate this distribution policy at any time, and such termination may have an adverse effect on the market price for the Fund's Shares. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. To the extent that the Fund's taxable income in any calendar year exceeds the aggregate amount distributed pursuant to this distribution policy, an additional distribution may be made to avoid the payment of a 4% U.S. federal excise tax, and to the extent that the aggregate amount distributed in any calendar year exceeds the Fund's taxable income, the amount of that excess may constitute a return-of-capital for tax purposes. A return-of-capital distribution reduces the cost basis of an investor's shares in the Fund. Dividends and distributions to Stockholders are recorded by the Fund on the ex-dividend date. Presently, the Fund makes regular distributions at the rate of $0.1398 per Share per month. As of ________, 2010 the monthly dividend is equivalent to ___% of the Fund’s per Share market price of $___ and ____% of the Fund’s NAV of $____, both on an annualized basis.

Dividend Reinvestment Plan	Unless a Stockholder elects otherwise, the Stockholder’s distributions will be reinvested in additional Shares under the Fund’s dividend reinvestment plan. Stockholders who elect not to participate in the Fund’s dividend reinvestment plan will receive all distributions in cash paid to the Stockholder of record (or, if the Shares are held in street or other nominee name, then to such nominee). See “Dividend Reinvestment Plan.”
Stock Purchases and Tenders	The Board of Directors may consider repurchasing the Fund’s Shares in the open market or in private transactions, or tendering for Shares, in an attempt to reduce or eliminate a market value discount from net asset value, if one should occur. There can be no assurance that the Board of Directors will determine to effect any such repurchase or tender or that it would be effective in reducing or eliminating any market value discount.
Custodian and Transfer Agent	JPMorgan Chase Bank, N.A. serves as the Fund's custodian and American Stock Transfer and Trust Company serves as the Fund’s transfer agent. See “Management of the Fund”.

SUMMARY OF FUND EXPENSES

The following table shows Fund expenses as a percentage of net assets attributable to common shares.

Stockholder Transaction Expenses	
Sales load	None
Dividend Reinvestment Plan fees	None
Annual Expenses (as a percentage of net assets attributable to common shares)	
Management fees	1.00%
Other expenses (1)	0.77%
Acquired Fund fees and expenses (2)	0.16%
Total Annual Expenses	1.93%

Example (3)

The following example illustrates the hypothetical expenses that you would pay on a $10,000 investment in common shares, assuming (i) annual expenses of 1.93% of net assets attributable to common shares and (ii) a 5% annual return:

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a $10,000 investment, assuming a 5% annual return	$179.86	$590.65	$1027.06	$2,240.84

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(1) “Other Expenses” are based upon estimated amounts for the current fiscal year and i100%" align="left">

EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31, 2008	2007
Revenues	$ -	$ -
Cost of revenues	-	-
Operating expenses		
Compensation and related costs	76,101	81,188
Consulting, professional and directors fees	2,641,649	209,071
Other selling, general and administrative expenses	285,311	75,162
Total operating expenses	3,003,060	365,421
Operating loss	(3,003,060)	(365,421)
Interest income	196,343	618,405
Interest expense	(104,491)	(56,851)
Other Income from securities net	---	6,378
Net (loss) income before minority interest	(2,911,208)	202,511
Less minority interest in loss of consolidated subsidiary	69,419	---
Net (loss) income	(2,841,789)	202,511
Other comprehensive income (loss)	427,022	-
Comprehensive income (loss)	(2,414,767)	202,511
Net income (loss) per share, basic and diluted	$ (0.59)	$ 0.04
Weighted average number of shares outstanding, basic and diluted	4,797,055	5,083,950

See accompanying notes to condensed consolidated financial statements.

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EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Number of shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balances, January 1, 2006	**5,784,099**	**$ 5,784**	**$ 51,558,123**	**$ (34,302,431)**	**$ 99,681**	**-**	**$ 17,361,157**
Foreign currency translation loss	-	-	-	-	(94,142)	-	(94,142)
Compensation charge on share options and warrants issued to employees, directors and consultants	-	-	341,206				341,206
Issuance of shares to the President	104,975	105	325,500	-	-	-	325,605
Treasury stock	(476,804)	(476)	-	-	-	(994,884)	(995,360)
Net income for the year	-	-	-	6,912,591	-	-	6,912,591
Balances, December 31, 2006	**5,412,270**	**$ 5,413**	**$ 52,224,829**	**$ (27,389,840)**	**$ 5,539**	**$ (994,884)**	**$ 23,851,057**
Foreign currency translation loss					(7,765)		(7,765)
Compensation charge on share options and warrants issued to consultants			80,233				80,233
Treasury stock - Open Market	(180,558)	(181)	**-**	**-**	**-**	(288,636)	(288,817)
Treasury stock - Navigator Sale	(622,531)	(623)	**-**	**-**	**-**	(834,191)	(834,814)
Discount on Appswing Note Payable			976,334				
Net loss for the period	**-**	**-**	**-**	(10,899,790)	**-**	**-**	(10,899,790)
Balances, December 31, 2007	**4,609,181**	**$ 4,609**	**$ 53,281,396**	**$ (38,289,630)**	**$ (2,226)**	**$ (2,117,711)**	**$ 12,876,438**
Foreign currency translation loss					427,022		427,022
			9,136				9,136

Compensation charge on share options and warrants issued to consultants							
Treasury stock - Open Market	(500)					(508)	(508)
Issuance of shares	500,000	500	499,500				500,000
Net loss for the period				(2,841,789)			(2,841,789)
Balances, March 31, 2008	**5,108,681**	**$ 5,109**	**53,790,032**	(41,131,419)	**424,796**	(2,118,219)	**$ 10,970,299**

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net (loss) income	$ (2,841,789)	$ 202,511
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	52,333	--
Share-based compensation expense	9,136	--
Change in minority interest of subsidiary's net assets	3,293,036	--
Foreign exchange rate adjustment	427,022	--
Accrued interest, net	14,345	--
Net change in assets and liabilities		
Accounts receivable	609	--
Prepaid assets	(765)	15,998
Restricted cash, certificate of deposit (Note 3)	40,016	(102,822)
Construction in progress	(539,844)	--
Accounts payable and accrued expenses	(436,006)	138,911
Other current liabilities	--	(191,475)
Liability for escrow refunds	50,819	--
Fees due on closing	26,720	--
Due to related party	19,532	--
Deferred income taxes	67,296	--
Other long term liabilities	304,688	--
Net cash provided by operating activities	487,148	63,123
Cash flows from investing activities:		
Cash received from sale of discontinued operations - Navigator	--	3,200,000
Loan advances to ERC	(788,510)	(4,918,373)
Advances to affiliate - Micrologic	---	(100,000)
Investment in land development	(2,177,941)	--
Net cash used in investing activities	(2,966,451)	(1,818,373)
Cash flows from financing activities:		
Proceeds from bank loans	39,800	2,755,000
Repayment of bank loans	---	(3,000,000)
Repayment of convertible note	(100,000)	--
Proceeds from Trafalgar note payable	500,000	--
Proceeds from issuance of stock	500,000	--
Payments to acquire treasury stock	(508)	(153,224)
Proceeds from AFG loan	1,660,000	--
Net cash provided by (used in) financing activities	2,599,292	(398,224)
Net decrease in cash and cash equivalents	119,989	(2,153,474)
Cash and cash equivalents, beginning of period	369,576	2,852,620
Cash and cash equivalents, end of period	$ 489,565	$ 699,146

Supplemental disclosure:				
Cash paid for interest	$	17,063	$	56,851
Cash received for interest		108,193		618,405
Summary of non-cash transactions:				
Accrued interest capitalized into Investment in real property	$	212,856	$	--
Treasury shares acquired in sale of subsidiary		--		834,191

See accompanying notes to condensed consolidated financial statements.

EMVELCO CORP.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Business

Emvelco Corp. ("Emvelco"), formerly known as Euroweb International Corp., is a Delaware Corporation, which was incorporated on November 9, 1992. Emvelco and its consolidated subsidiaries are collectively referred to herein as the "Company". The Company's authorized capital stock consists of 35,000,000 shares with a par value of $0.001 per share. As of March 31, 2008, there are 5,108,681 shares issued and outstanding.

The Company invests in real estate development, and in the financing of businesses through Emvelco RE Corp. ("ERC") and its subsidiaries in the United States of America ("US"). The Company commenced operations in the investment real estate industry through the acquisition of an empty, non-operational, wholly-owned subsidiary, ERC, which was acquired in June 2006. Primary activity of ERC includes investment, development and subsequent sale of real estate, as well as investment in the form of loans provided to, or ownership acquired in, property development companies, directly or via majority or minority owned affiliates. The Company's headquarters are located in West Hollywood, California.

On February 16, 2007, the Company entered into a Sale and Purchase Agreement (the "Navigator Agreement") to sell a 100% of Navigator Informatika Rt. ("Navigator"), a wholly-owned subsidiary of the Company. For the year ended December 31, 2006, the operations of Navigator have been presented as discontinued operations in the Company's consolidated financial statements (see Note 10). In 2006, the Navigator assets were examined for impairment and the net assets of Navigator were written down to fair value of $4,034,191. The resulting impairment charge was $5,598,438, which is presented in the financial statements in the income from discontinued operations in 2006.

On May 14, 2007, the Company entered into a Stock Transfer and Assignment of Contract Rights Agreement (the "TIHG Agreement") with ERC, ERC's principal shareholder TIHG and ERC's wholly owned subsidiary Verge. Pursuant to the TIHG Agreement, the Company transferred and conveyed its 1,000 Shares (representing a 43.33% interest) (the "ERC Shares") in ERC to TIHG to submit to ERC for cancellation and return to Treasury.

Based on series of agreements commencing June 5, 2007 and following by July 23, 2007 (as reported on the Company's Form 8-K filed June 11, 2007), the Company, the Company's chief executive officer Yossi Attia, and Darren Dunckel - CEO of ERC (collectively, the "Investors") entered into an Agreement (the "Upswing Agreement") with a third party, Upswing, Ltd. (also known as Appswing Ltd., hereinafter referred to as "Upswing"). Pursuant to the Upswing Agreement, the Investors invested in an entity listed on the Tel Aviv Stock Exchange - the Atia Group Limited, f/k/a Kidron Industrial Holdings Ltd (herein referred to as AGL). In addition, the Investors transferred rights and control of various real estate projects to AGL. The Investors and AGL then effected a transaction, pursuant to which the Investors and/or the Investors' affiliates acquired about 76% of the AGL in consideration of the transfer of the rights to the various real estate projects (including Verge) to AGL (the "Transaction"). Upswing, among other items, advised the Investors on the steps necessary to effectuate the contemplated transfer of real estate project rights to AGL.

Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, exercised its option (the "Sitnica Option") to purchase ERC's derivative rights and interest in Sitnica d.o.o. through ERC's holdings (one-third (1/3) interest) in AP Holdings Limited ("AP Holdings"), a company organized under the Companies (Jersey) Law 1991, which equates to a one-third interest in Sitnica d.o.o. (excluding ERC's interest in AP Holdings). The Sitnica Option was exercised in the amount of $4,250,000, payable by reducing the outstanding loan amount owing to the Company under the Investment Agreement by $3,550,000 and reducing the Company's deposit with Shalom Atia, Trustee of AP Holdings, by $450,000.

On October 15, 2007, Emvelco delivered that certain Notice of Exercise of Options ("Notice") to ERC, TIHG, Verge and Darren C. Dunckel, individual, President of ERC and/or representative of the foregoing parties. Pursuant to the Notice, Emvelco, subject to performance under the Upswing Agreement, exercised its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Verge Option was exercised in the amount of $5,000,000 payable in cash, but in no event is the option exercisable prior to Verge breaking ground, plus conversion of $10,000,000 loans given to Verge into Equity as consideration for 75,000 shares of Verge.

The transaction was closed on November 2, 2007. Upon closing, Verge and Sitnica became fully owned subsidiaries of AGL. The Company owns 40.2% as of March 31, 2008 and 58.3% as of December 31, 2008 of AGL and consolidates AGL's results in these financial statements.

As a result of the transactions above, the Company's ownership structure at March 31, 2008 was as follows:

- 40.2% of Atia Group Limited
- 10% of Micrologic

- Atia Group Limited owns:
  100% of Verge Living Corporation
  100% of Sitnica

On May 1, 2008, the Company entered into an Agreement and Plan of Exchange (the "DCG Agreement") with Davy Crockett Gas Company, LLC ("DCG") and the members of Davy Crockett Gas Company, LLC ("DCG Members"). Pursuant to the DCG Agreement, the Company acquired and, the DCG Members sold, 100% of the outstanding securities in DCG. DCG is a limited liability company organized under the laws of the State of Nevada and headquartered in Bel Air, California is a newly formed designated LLC which holds certain development rights for gas drilling in Crockett County, Texas. (See Note13 - Subsequent Events)

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis of consolidation

The consolidated financial statements include the accounts of Emvelco, its majority-owned subsidiaries and all variable interest entities for which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated upon consolidation.

The consolidated financial statements include the accounts of Emvelco and the subsidiaries it controls. Control is determined based on ownership rights or, when applicable, whether the Company is considered the primary beneficiary of a variable interest entity. The Company owns 58.3% of AGL as of December 31, 2007 and effective January 1, 2008 and upon full approval of DCG transaction 40.20% of AGL, and consolidates AGL's results in these financial statements for the period from November 2, 2007 through December 31, 2007 and for the three months ended on March 31, 2008).

Unaudited Interim Financial Statements

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principals for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by United States generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to the financial statements for the year ended December 31, 2007 included in the Company's Form 10K filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10K. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

Variable Interest Entities

Under Financial Accounting Standards Board (“FASB”) Interpretation No. 46 (revised December 2003) “Consolidation of Variable Interest Entities” (“FIN 46R”), the Company is required to consolidate variable interest entities (“VIE's”), where it is the entity’s primary beneficiary. VIE's are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The primary beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE.

Based on the transactions, which were closed on November 2, 2007, the Company owned 58.3% of Atia Group Limited (AGL) as of December 31, 2007 and 40.20% as of March 31, 2008 effective since January 1, 2008 per DCG agreement. Since the company is the primary beneficiary, the financial statements of AGL are consolidated into these financial statements.

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Fair value of financial instruments

The carrying values of cash equivalents, notes and loans receivable, accounts payable, loans payable and accrued expenses approximate fair values.

Revenue recognition

The Company applies the provisions of Securities and Exchange Commission’s (“SEC”) Staff Accounting Bulletin ("SAB") No. 104, “Revenue Recognition in Financial Statements” (“SAB 104”), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 104 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. The Company recognizes revenue when persuasive evidence of an arrangement exists, the product or service has been delivered, fees are fixed or determinable, collection is probable and all other significant obligations have been fulfilled.

Revenues from rent income are recognized on a straight-line basis over the term of the lease. Rent income received prior to the due date is deferred.

Revenues from property sales are recognized in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 66, “Accounting for Sales of Real Estate,” when the risks and rewards of ownership are transferred to the buyer, when the consideration received can be reasonably determined and when Emvelco has completed its obligations to perform certain supplementary development activities, if any exist, at the time of the sale. Consideration is reasonably determined and considered likely of collection when Emvelco has signed sales agreements and has determined that the buyer has demonstrated a commitment to pay. The buyer’s commitment to pay is supported by the level of their initial investment, Emvelco’ assessment of the buyer’s credit standing and Emvelco’ assessment of whether the buyer’s stake in the property is sufficient to motivate the buyer to honor their obligation to it.

Revenue from fixed price contracts is recognized on the percentage of completion method. The percentage of completion method is also used for condominium projects in which the Company is a real estate developer and all units have been sold prior to the completion of the preliminary stage and at least 25% of the project has been carried out. Percentage of completion is measured by the percentage of costs incurred to balance sheet date to estimated total costs. Selling, general, and administrative costs are charged to expense as incurred. Profit incentives are included in revenues, when their realization is reasonably assured. Provisions for estimated losses on uncompleted projects are made in the period in which such losses are first determined, in the amount of the estimated loss of the full contract. Differences between estimates and actual costs and revenues are recognized in the year in which such differences are determined. The provision for warranties is provided at certain percentage of revenues, based on the preliminary calculations and best estimates of the Company's management.

Cost of revenues

Cost of revenues includes the cost of real estate sold and rented as well as costs directly attributable to the properties sold such as marketing, selling and depreciation. For the years ended December 31, 2007, the costs of revenues related to sale of the three real estate projects was approximately $6.5 million.

Real estate

Real estate held for development is stated at the lower of cost or market. All direct and indirect costs relating to the Company's development project are capitalized in accordance with SFAS No. 67 "Accounting for Costs and Initial Rental Operations of Real Estate Projects". Such standard requires costs associated with the acquisition, development and construction of real estate and real estate-related projects to be capitalized as part of that project. The realization of these costs is predicated on the ability of the Company to successfully complete and subsequently sell or rent the property.

Treasury Stock

Treasury stock is recorded at cost. Issuance of treasury shares is accounted for on a first-in, first-out basis. Differences between the cost of treasury shares and the re-issuance proceeds are charged to additional paid-in capital.

Foreign currency translation

The Company considers the United States Dollar (“US Dollar” or "$") to be the functional currency of Emvelco and its subsidiaries, the owned subsidiary, AGL, which reports it’s financial statements in New Israeli Sheqel.(N.I.S) The reporting currency of the Company is the US Dollar and accordingly, all amounts included in the consolidated financial statements have been presented or translated into US Dollars.

For non-US subsidiaries that do not utilize the US Dollar as its functional currency, assets and liabilities are translated to US Dollars at period-end exchange rates, and income and expense items are translated at weighted-average rates of exchange prevailing during the period. Translation adjustments are recorded in “Accumulated other comprehensive income” within stockholders’ equity.

Foreign currency transaction gains and losses are included in the consolidated results of operations for the periods presented.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and money market funds with maturities of three months or less at the date of acquisition by the Company.

Marketable securities

The Company determines the appropriate classification of all marketable securities as held-to-maturity, available-for-sale or trading at the time of purchase, and re-evaluates such classification as of each balance sheet date in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS 115”). In accordance with Emerging Issues Task Force (“EITF”) No. 03-01, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investment” (“EITF 03-01”), the Company assesses whether temporary or other-than-temporary gains or losses on its marketable securities have occurred due to increases or declines in fair value or other market conditions.

The Company did not have any marketable securities within continuing operations for the three month period ended March 31, 2008 and the year ended December 31, 2007.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. The Company provides for depreciation of property and equipment using the straight-line method over the following estimated useful lives:

Software	3 years
Computer equipment	3-5 years
Other furniture equipment and fixtures	5-7 years

The Company’s policy is to evaluate the appropriateness of the carrying value of long-lived assets. If such evaluation were to indicate an impairment of assets, such impairment would be recognized by a write-down of the applicable assets to the fair value. Based on the evaluation, no impairment was indicated in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (“SFAS 144”).

Equipment purchased under capital leases is stated at the lower of fair value and the present value of minimum lease payments at the inception of the lease, less accumulated depreciation. The Company provides for depreciation of leased equipment using the straight-line method over the shorter of estimated useful life and the lease term. During the three month period ended March 31, 2008 and the year ended December 31, 2007, the Company did not enter into any capital leases.

Recurring maintenance on property and equipment is expensed as incurred.

Any gain or loss on retirements and disposals is included in the results of operations in the period of the retirement or disposal. No retirements and disposals occurred for the period ended March 31, 2008 and year ended December 31, 2007 for the Company's continuing operations.

Goodwill and intangible assets

Goodwill results from business acquisitions and represents the excess of purchase price over the fair value of identifiable net assets acquired at the acquisition date. There was goodwill recorded in the transaction with AGL totaling $11.4 million in the fourth quarter of 2007.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management evaluates the recoverability of goodwill by comparing the carrying value of the Company's reporting units to their fair value. Fair value is determined based a market approach. For the year ended December 31, 2007, an analysis was performed on the goodwill associated with the investment in AGL, and impairment was charged against the P&L for approximately $10.2 million.

Intangible assets that have finite useful lives, whether or not acquired in a business combination, are amortized over their estimated useful lives, and also reviewed for impairment in accordance with SFAS 144. On July 22, 2007, the Company entered into a $2 million note payable agreement with Appswing, which included an option to convert the debt into equity. Accordingly, the Company recorded in intangible assets related to the discount on the issuance of debt. The estimated value of the conversion feature is approximately $976,334, and will be reported as interest expense over the anticipated repayment period of the debt.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the effect of dilutive potential common shares issuable upon exercise of stock options and warrants. There were no dilutive options and warrants for the three month periods ended March 31, 2008 and 2007.

Comprehensive income

Comprehensive income includes all changes in equity except those resulting from investments by and distributions to owners.

Business segment reporting

Based on the closing of the AGL transaction on November 2, 2007, the Company manages its continuing operations in two geographic locations, however both locations primarily manage the real estate development business and accordingly the Company has concluded that it has one operating segment, investment and real estate development.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Deferred tax assets and liabilities, are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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Stock-based compensation

Effective January 1, 2006, the Company adopted SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"). Under SFAS 123R, the Company is required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The measured cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award. Additionally, if an award of an equity instrument involves a performance condition, the related compensation cost is recognized only if it is probable that the performance condition will be achieved.

Prior to the adoption of SFAS 123R , the Company accounted for stock-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, and chose to adopt the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" ("SFAS 148"). Under APB 25, the Company did not recognize expense related to employee stock options because the exercise price of such options was equal to the quoted market price of the underlying stock at the grant date.

The Company adopted SFAS 123R using the modified prospective method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company's fiscal year 2006. Under this method, compensation cost recognized during the year ended December 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and amortized on an straight-line basis over the requisite service period, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R amortized on a straight-line basis over the requisite service period. Results for prior periods have not been restated.

As a result of adopting SFAS 123R on January 1, 2006, the Company's loss from continuing operations before income taxes and loss from continuing operations are $270,695 higher and net income is $270,695 lower than if it continued to account for share-based compensation under APB 25. Basic and diluted earnings per share are $0.05 lower than if the Company continued to account for share-based compensation under APB 25. The adoption of SFAS 123R had no impact on cash flows.

The Company estimates the fair value of each option award on the date of the grant using the Black-Scholes option valuation model. Expected volatilities are based on the historical volatility of the Company's common stock over a period commensurate with the options' expected term. The expected term represents the period of time that options granted are expected to be outstanding and is calculated in accordance with SEC guidance provided in the SAB 107, using a "simplified" method. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the Company's stock options.

The Company did not grant any share-based payments during the period ended March 31, 2008 and the year ended December 31, 2007.

The following table shows total non-cash stock-based employee compensation expense included in the consolidated statement of operations for the years ended December 31, 2007:

Categories of cost and expenses	Year ended December 31, 2007	Three months ended March 31, 2008
Compensation and related costs	$ 36,817	$ 4,568

Consulting, professional and directors fees		43,416		4,568
Total stock-based compensation expense	$	80,233	$	9,136

There was no expense related to options and warrants granted to consultants recorded in the year ended December 31, 2007 and the three months ended March 31, 2008 .

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Recently Issued but Not Yet Adopted Accounting Standards

In December 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of the expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue to use the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. The Company will continue to use the "simplified" method until it has enough historical experience to provide a reasonable estimate of expected term in accordance with SAB 110.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") 141-R, "Business Combinations." SFAS 141-R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (referred to as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. It also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141-R will apply prospectively to business combinations for which the acquisition date is on or after the Company's fiscal year beginning October 1, 2009. While the Company has not yet evaluated the impact, if any, that SFAS 141-R will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after September 30, 2009.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements." This Statement amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Company has not yet determined the impact, if any, that SFAS 160 will have on its consolidated financial statements. SFAS 160 is effective for the Company's fiscal year beginning October 1, 2009.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the Company on July 1, 2008. The Company is currently assessing the impact of the adoption of this Statement.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities— including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement provides entities the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Management is currently evaluating the impact of adopting this Statement.

3. Lines of Credit and Restricted Cash

The Company's real estate investment operations require substantial up-front expenditures for land development contracts and construction. Accordingly, the Company requires a substantial amount of cash on hand, as well as funds accessible through lines of credit with banks or third parties, to conduct its business. The Company has financed its working capital needs on a project-by-project basis, primarily with loans from banks and debt via the All Inclusive Trust Deed Agreement (AITDA), and with the existing cash of the Company. On August 28, 2006, the Company entered into a $4,000,000 Revolving Line of Credit ("line of credit") with a commercial bank. As security for this credit facility, the Company deposited $4,000,000 into a certificate of deposit ("CD") as collateral for a two year period. The CD earns interest at a rate of 5.25% annually, and any interest earned on the CD is restricted from withdrawal and must remain in the account for the entire term.

On November 21, 2006, the Company deposited an additional $4,000,000 into another CD with the same restrictions on withdrawal. This CD matures on November 21, 2008 and the deposit bears an interest rate of 5.12% annually.

The interest rate on the line of credit is 5.87% annually.

As of March 31, 2008, the outstanding balance on the line of credit including interest was $8,408,924 and the balance of the related certificate of deposit including interest was $8,428,149.

At March 31, 2008, the outstanding loan balances were as follows:

Project name	Bank name/financial institution		Principal Amount	Annual Interest Rate	Expiration
General financing (line of credit)	EastWestBank	$	8,000,000	5.87%	2008
Total principal amounts of loans		$	8,000,000		
Less current portion			-		
Long term portion of loans		$	8,000,000		

The Company's debt repayment schedule, excluding interest, as of March 31, 2008 is due in full during 2008.

4. Loans to Emvelco RE Corp (ERC)

On June 14, 2006, Emvelco issued a $10 million line of credit to ERC. Outstanding balances bear interest at an annual rate of 12% and the line of credit has a maximum borrowing limit of $10 million. Initially on October 26, 2006 and then again ratified on December 29, 2006, the Board of Directors of Emvelco approved an increase in the borrowing limit of the line of credit to $20 million. The Board also restricted use of the funds to real estate development. On November 2, 2007, the Company exercised the Verge option, thereby reducing the amount outstanding by $10 million. Additionally, the Verge option requires that the Company pays TIGH, the then parent of ERC, another $5 million when construction begins on the Verge Project. As of March 31, 2008, the Company has accrued and recorded that payment as a reduction to this loan receivable balance. As of March 31, 2008, the outstanding loan receivable balance is $5,327,486.

5. Convertible Notes Payable and Debt Discount

The Company recorded an intangible assets related to the discount on the issuance of debt (see Note 9 - Upswing Transaction - Commitments and Contingencies). The estimated value of the conversion feature is approximately $976,334, and will be reported as interest expense over the anticipated repayment period of the debt. As of March 31, 2008, the unamortized debt discount intangible asset is $841,386 to be amortized over the life of the loan. The amount of $195, 266 represents the current portion to be expensed in 2008. As of March 31, 2008, the outstanding balance for the notes payable to the third party is $2,221,066 including interest.

6. Investment in land Developments

As of March 31, 2008, the Company's subsidiary, AGL, owns 100% of the shares of Verge Living Corporation (Verge). Verge holds title to 11 adjacent lots in Las Vegas, Nevada and intends to develop approximately about 296 (number of units may be changed due to realignment of the design) condominiums plus commercial retail in down town Las Vegas. Construction is planned to commence during 2008, subject of obtaining financing and a construction permit from the City of Las Vegas.

Below are the addresses of said lots ("Real Property"):

604 N Main Street, Las Vegas, NV 89101
634 N Main Street, Las Vegas, NV 89101
601 1st Street, Las Vegas, NV 89101
603 1st Street, Las Vegas, NV 89101
605 1st Street, Las Vegas, NV 89101
607 1st Street, Las Vegas, NV 89101
625 1st Street, Las Vegas, NV 89101
617 1st Street, Las Vegas, NV 89101
701 1st Street, Las Vegas, NV 89101
703 1st Street, Las Vegas, NV 89101
705 1st Street, Las Vegas, NV 89101

As of March 31, 2008, the Company's subsidiary, AGL, owns 100% of the shares of Sitnica d.o.o. Sitnica holds title to 25 adjacent plots of land in Samobor, Croatia. The aggregate land is approximately 74.7 thousand square meters and was appraised for $17,299,230. The appraisal was performed by an independent professional appraisal firm in Israel and is based on fair value on July 11, 2007. The fair value was based on comparing market values of similar real estate which have similar characteristics in the Croatia market. Also, there are no lease agreements on the land and the property was evaluated as one lot.

As at 31 March 2008, the contractual rights of the subsidiary in these assets included the following rights in land in Samobor, Croatia:

Detail - Lot Number	**Sq.m.**
3782	1,574
3783	1,965
3780	1,554
3783	1,965
3777	5,927
3778	6,289
3779	6,992
3723	3,257
3724/1	3,227
3724/2	3,007
3722/2	3,420
3732/1	2,454
3743	1,664
3740	2,604
3737	3,038
3738	1,562
3742	1,612
3731	5,224
3744	2,588
3726	899
3727/2	714
3727/1	1,947

3737	3,038
3738	1,562
3776	6,618
	74,701

The following table summarizes the carrying values of the investment in land development as of March 31, 2008:

Investment in Land Development - Verge	$	15,805,895
Investment in Land Development - Sitnica		19,422,098
Investment in Land Development - Total for AGL	$	35,227,993

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7. Accounts payable and accrued expenses

Amounts payable to the sellers of the Sitnica land are included in accounts payable and accrued expense. Pursuant to the Upswing Agreement, AP Holdings, a related party, paid 10% of the agreed amount of the land. The Company paid AP Holdings the amount due from the Upswing agreement, however Sitnica still owes the sellers of the land the remaining 90% as well as 5% of the cost of the land is due to the tax authorities for a purchase land local tax amounting to $13,682,394 as of March 31, 2008.

8. Dispositions

Completed sale of Navigator

On February 16, 2007, the Company entered into a Sale and Purchase Agreement (the “Navigator Agreement”) with third parties: Marivaux Investments Limited (“MIL”) and Fleminghouse Investments Limited (“FIL” and collectively with MIL, the “Buyers”). Pursuant to the Navigator Agreement, the Company sold 100% of the Company’s interest in Navigator (a wholly-owned subsidiary of the Company) for $4,034,191 consisting of $3,200,000 in cash and 622,531 shares of the Company’s common stock, excluding estimated transaction costs, success fees and a guarantee provision of approximately $124,000. The Company shares were valued at $1.34 per share, representing the closing price of the Company on the NASDAQ Capital Market on February 16, 2007, the closing of the sale. The Company canceled the Emvelco common stock acquired during the disposition.

The sale of Euroweb Slovakia, Euroweb Hungary, Euroweb Romania, and Navigator all met the criteria for presentation as a discontinued operation under the provisions of SFAS 144, and therefore amounts relating to Euroweb Slovakia, Euroweb Hungary, Euroweb Romania and Navigator have been reclassified as discontinued operations for all periods presented.

9. Commitments and Contingencies

(a) Employment Agreements

Effective July 1, 2006, the Company entered into a five-year employment agreement with Yossi Attia as the President of ERC which commenced on July 1, 2006 and provides for annual compensation in the amount of $240,000, an annual bonus not less than $120,000 per year, and an annual car allowance. At December 31, 2006, the car allowance expense amounted to $19,220. Mr. Attia is also entitled to a special bonus equal to 10% of the earnings before income tax, depreciation and amortization (“EBITDA”) of ERC, which such bonus is payable in shares of common stock of the Company; provided, however, the special bonus is only payable in the event that Mr. Attia remains continuously employed by ERC, and Mr. Attia shall not have sold shares of common stock of the Company on or before the payment date of the special bonus, unless such shares were received in connection with the exercise of an option that was scheduled to expire within one year of the date of exercise. In addition, on August 14, 2006, the Company amended the agreement to provide that Mr. Attia shall serve as the Chief Executive Officer of the Company for a term of two years commencing August 14, 2006 and granting annual compensation of $250,000 to be paid in the form of Company shares of common stock. The number of shares to be received by Mr. Attia is calculated based on the average closing price 10 days prior to the commencement of each employment year. Mr. Attia will receive 111,458 Emvelco shares of common stock for his first year service. Mr. Attia also agreed to not directly or indirectly compete with the business of the Company or Emvelco RE during his employment and for a period of two years following termination of employment. No shares were issued to Mr. Attia in 2006. The board of directors of AGL approved the employment agreement between AGL and Mr. Yossi Attia, the controlling shareholder and CEO of the Company. The agreement goes into effect on the date that the aforementioned allotments are consummated and stipulates that Mr. Attia will serve as the CEO of AGL in return for a salary that costs AGL an amount of US$ 10 thousand a month. Mr. Attia is also entitled to reimbursement of expenses in connection with the affairs of AGL, in accordance with

AGL policy, as set from time to time. In addition Mr. Attia is entitled to an annual bonus of 2.5% of the net, pre-tax income of the Company in excess of NIS 8 million.

The board of directors of AGL approved an employment agreement between the Company and Mr. Shalom Attia, the controlling shareholder and CEO of AP Holdings Ltd. The agreement goes into effect on the date that the aforementioned allotments are consummated and stipulates that Mr. Shalom Attia will serve as the VP - European Operations of AGL in return for a salary that costs the Company an amount of US$ 10 thousand a month. Mr. Attia is also entitled to reimbursement of expenses in connection with the affairs of the Company, in accordance with Company policy, as set from time to time. In addition, Mr. Shalom Attia is entitled to an annual bonus of 2.5% of the net, pre-tax income of AGL in excess of NIS 8 million.

The aforementioned agreements were ratified by the general shareholders meeting of AGL on 30 October 2007.

Effective July 1, 2006, Verge entered into a non written year employment agreement with Darren C Dunckel as the President of the Company which commenced on July 11, 2006 and provides for annual compensation in the amount of $120,000, the employment expense which was capitalized related to such agreement was $120,000 for the year ended December 31, 2007, and $30,000 was recorded and capitalized into Investment in Land Development for the three month period ended March 31, 2008

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(b) Construction Loans

During 2007, the Company entered into several loan agreements with different financial institutions in connection with the financing of the different real estate projects (see Note 3).

(c) Closing the AGL Transaction:

Based on series of agreements commencing June 5, 2007 and following by July 23, 2007 (as reported on the Company's Form 8-K's - See Disposal of ERC, Verge and Acquisition of AGL), the Company, the Company's chief executive officer Yossi Attia, and Darren Dunckel - CEO of ERC (collectively, the "Investors") entered into an Agreement (the "Upswing Agreement") with a third party, Upswing, Ltd. (also known as Appswing Ltd., hereinafter referred to as "Upswing"). Pursuant to the Upswing Agreement, the Investors intend to invest in an entity listed on the Tel Aviv Stock Exchange - the Atia Group Limited, f/k/a Kidron Industrial Holdings Ltd (herein referred to as AGL). Based on closing of said transaction, on July 23, 2007 the Company issued a straight note to Upswing for the amount of $2,000,000. This Promissory Note is made and entered into based upon a series of agreements by and between Maker and Holder dated as of June 5, 2007, July 20, 2007 and July 23, 2007, wherein the actual Closing of the transactions which are the subject matter of the Appswing Agreements known as the Kidron Industrial Holdings, Ltd. Transaction (the "Kidron Transaction") has taken place and therefore this note is final and earned, as referenced in the Appswing Agreement dated July 20, 2007 (the "Closing") and the Company becoming the majority shareholder of Kidron with a controlling interest of not less than 50.1%. The Unpaid Principal Balance of this note shall bear interest until due and payable at a rate equal to 8 % per annum. The principal hereof shall be due and payable in full in no event sooner than January 22, 2008, (the "Maturity Date"). 51% of the Company holdings in AGL, are pledge to secure said note.

As the Company defaulted on said note, on April 11 2008 the parties amended the note terms, by adding a contingent convertible feature to the note, as well as extend its Maturity Date in no event sooner than January 22, 2013. The outstanding debt represented by this Note (including accrued Interest) may be converted to ordinary common shares of the Company only if The Company issues during any six (6) month period subsequent to the date of this Note, 25,000,000 (twenty five million) or more shares of its common stock. Holder may, at any time after the occurrence of the preceding event, have the right to convert this Note in whole or in part into The Company common shares at a conversion price of $0.08 per share.

As part of the AGL closing, the Company undertook to indemnify the AGL in respect of any tax to be paid by Verge, deriving from the difference between (a) Verge's taxable income from the Las Vegas project, up to an amount of $21.7 million and (b) the book value of the project in Las Vegas for tax purposes on the books of Verge, at the date of the closing of the transfer of the shares of Verge to the Company. Accordingly, the amount of the indemnification is expected to be the amount of the tax in respect of the aforementioned difference, up to a maximum difference of $11 million. The Company believes it as no exposure under said indemnification. Atia Projekt undertook to indemnify AGL in respect of any tax to be paid by Sitnica, deriving from the difference between (a) Verge's taxable income from the Samobor project, up to an amount of $5.14 million and (b) the book value of the project in Samobor for tax purposes on the books of Sitnica, at the date of the closing of the transfer of the shares of Sitnica to the Company. Accordingly, the amount of the indemnification is expected to be the amount of the tax in respect of the aforementioned difference, up to a maximum difference of $0.9 million. The Atia Projekt undertook to bear any additional purchase tax (if any is applicable) that Sitnica would have to pay in respect of the transfer of the contractual rights in investment real estate in Croatia, from the Atia Projekt to Sitnica.

(d) Trafalgar Commitment for Future Equity Facility to AGL:

On January 30, 2008, Atia Group Ltd. f/k/a Kidron Industrial Holdings, Ltd. ("Atia Group"), of which the Company is a principal shareholder, notified the Company that it had entered into two (2) material agreements (wherein the

Company was not a party but will be directly affected by their terms) with Trafalgar Capital Specialized Investment Fund ("Trafalgar"). Specifically, Attia Group and Trafalgar entered into a Committed Equity Facility Agreement ("CEF") in the amount of 45,683,750 New Israeli Shekels (approximately US$12,000,000.00 per the exchange rate at the Closing) and a Loan Agreement ("Loan Agreement") in the amount of US $500,000 (collectively, the "Finance Documents") pursuant to which Trafalgar grants Atia Group financial backing. The Company is not a party to the Finance Documents.

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The CEF sets forth the terms and conditions upon which Trafalgar will advance funds to Atia Group. Trafalgar is committed under the CEF until the earliest to occur of: (i) the date on which Trafalgar has made payments in the aggregate amount of the commitment amount (45,683,750 New Israeli Shekels); (ii) termination of the CEF; and (iii) thirty-six (36) months. In consideration for Trafalgar providing funding under the CEF, the Atia Group will issue Trafalgar ordinary shares, as existing on the dual listing on the Tel Aviv Stock Exchange (TASE) and the London Stock Exchange (LSE) in accordance with the CEF. As a further inducement for Trafalgar entering into the CEF, Trafalgar shall receive that number of ordinary shares as have an aggregate value calculated pursuant to the CEF, of U.S. $1,500,000.

The Loan Agreement provides for a discretionary loan in the amount of $500,000 ("Loan") and bears interest at the rate of eight and one-half percent (8½%) per annum. The Loan is to be used by Atia Group for the sole purpose of investment in its subsidiary Sitnica d.o.o. which controls the Samobor project in Croatia. The security for the Loan shall be a pledge of Atia Group's shareholder equity (75,000 shares) in Verge Living Corporation.

The aforementioned transactions as set forth under a non-binding term sheet were reported on the Company's Form 8K on December 5, 2007.

Simultaneously, on the same date as the aforementioned Finance Documents, the Company entered into a Share Exchange Agreement (the "Share Exchange Agreement") with Trafalgar. The Share Exchange Agreement provides that the Company must deliver, from time to time, and at the request of Trafalgar, those shares of Atia Group, in the event that the ordinary shares issued by Atia Group pursuant to the terms of the Finance Documents are not freely tradable on the Tel Aviv Stock Exchange or the London Stock Exchange. In the event that an exchange occurs, the Company will receive from Trafalgar the same amount of shares that were exchanged. The closing and transfer of each increment of the Exchange Shares shall take place as reasonably practicable after receipt by the Company of a written notice from Trafalgar that it wishes to enter into such an exchange transaction. To date, all of the Company's shares in Atia Group are restricted by Israel law for a period of six (6) months since the issuance date, and then such shares may be released in the amount of one percent (1%) (From the total outstanding shares of Atia Group which is the equivalent of approximately 1,250,000 shares per quarter), subject to volume trading restrictions.

Trafalgar is an unrelated third party comprised of a European Euro Fund registered in Luxembourg. The Company, its subsidiaries, officers and directors are not affiliates of Trafalgar.

(d) Lease Agreements

Future minimum payments of obligations under operating leases at March 31, 2008 are as follows:

2008	**2009**	**2010**	**2011**	**2012**	**Thereafter**
$ 92,400	$ 92,400	$ 26,400	$ 13,200	$ ---	$ ---

(e) Legal Proceedings

Except as set forth below, there are no known significant legal procedures that have been filed and are outstanding against the Company.

From time to time, we are a party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not involved currently in legal proceedings other than detailed below that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

On April 26, 2006, a lawsuit was filed in the Delaware Court of Chancery (the "Court") by a stockholder of the Company against the Company, each of the Company's Directors and CORCYRA d.o.o., a stockholder of the Company that beneficially owned 39.81% of the Company's outstanding common stock at the date of the lawsuit. The Complaint is entitled Laurence Paskowitz v. Csaba Toro et al., C.A. No. 2110-N and was brought individually, and as a class action on behalf of certain of the Company's common stockholders, excluding defendants and their affiliates. The parties entered into a stipulation of settlement on April 3, 2007. The settlement will provide for dismissal of the litigation with prejudice and is subject to Court approval. As part of the settlement, the Company has agreed to attorneys' fees and expenses to plaintiff's counsel in the amount of $150,000. Pursuant to the stipulation of settlement, the Company sent out notices to the members of the class on May 3, 2007. A fairness hearing took place on June 8, 2007, and, as stated above, the Order was entered on June 8, 2007.

The Company filed a complaint in the Superior Court for the County of Los Angeles, against a foreign attorney. The case was filed on February 14, 2007, and service of process has been done. In the complaint the Company is seeking judgment against this attorney in the amount of approximately 250,000 Euros (approximately $316,000 as of the date of actual transferring the funds), plus interest, costs and fees. Defendant has not yet appeared in the action. The Company believes that it has a meritorious claim for the return of monies deposited with defendant in a trust capacity, and, from the documents in the Company’s possession, there is no reason to doubt the validity of the claim. During April 2007 defendant returned $92,694 (70,000 Euros at the relevant time) which netted to $72,694 post legal expenses; the Company has granted him a 15-day extension to file his defense. Post the extension and in lieu of not filing a defense, the Company filed for a default judgment. On October 25, 2007 the Company obtained a California Judgment by court after default against the attorney for the sum of $249,340.65. However, management does not have any information on the collectibles of said judgment that entered in court.

Verge, a wholly owned subsidiary of the Company’s subsidiary via AGL, is involved in legal proceedings in connection with the ongoing Chapter 11 bankruptcy proceedings of Prudential Americana LLC of Las Vegas, NV. Through February 29, 2008, Prudential is the broker of record for the condominium project being developed by Verge. Verge currently has approximately $50,000 on deposit as an advanced payment of the brokerage commissions. Verge presently owes, according to Prudential, $70,000 in monthly progress billings and Verge contends that it is entitled to offset the $50,000 against these progress billings. Verge believes Prudential breached fiduciary duties in connection with Prudential’s performance as a broker and has filed a Proof of Claim in Chapter r11 proceedings in excess of $9 million. As of today, the Company does not believe it will have a material liability in relation to these charges.

On November 21, 2007 LM Construction filed a demand for arbitration proceeding against the Company in connection with amounts due for general contracting services provided by them during the construction of the Company Sales Center. The Company agreed to enter into arbitration, deny any wrong doing and counterclaim damages. Amount in dispute are approximately $67,585 and are included in other current liabilities on the balance sheet.

(f) Navigator Acquisition - Registration Rights

The Company entered into a registration rights agreement dated July 21, 2005, whereby it agreed to file a registration statement registering the 441,566 shares of Company common stock issued in connection with the Navigator acquisition within 75 days of the closing of the transaction. The Company also agreed to have such registration statement declared effective within 150 days from the filing thereof. In the event that Company failed to meet its obligations to register the shares, it may have been required to pay a penalty equal to 1% of the value of the shares per month. The Company obtained a written waiver from the seller stating that the seller would not raise any claims in connection with the filing of registration statement through May 30, 2006. The Company since received another waiver extending the registration deadline through May 30, 2007 without penalty. As March 31, 2008, the Company was in default of said agreement and therefore made a provision for compensation for $150,000 to represent agreed upon final compensation to Navigator.

(g) Indemnities Provided Upon Sale of Subsidiaries

On April 15, 2005, the Company sold Euroweb Slovakia. According to the securities purchase contract (the “Contract”); the Company will indemnify the buyer for all damages incurred by the buyer as the result of seller’s breach of certain representations, warranties, or obligations as set in the Contract up to an aggregate amount of $540,000. The buyer shall not be entitled to make any claim under the Contract after the fourth anniversary of the date of the Contract. No claims have been made to-date. At March 31, 2008 the Company accrued $35,000 as the estimated fair value of this indemnity.

On May 23, 2006, the Company sold Euroweb Hungary and Euroweb Romania. According to the share purchase agreement (the "SPA"), the Company will indemnify the buyer for all damages incurred by the buyer as the result of seller's breach of certain representations, warranties or obligations as provided for in the SPA. The Company shall not incur any liability with respect to any claim for breach of representation and warranty or indemnity, and any such claim shall be wholly barred and unenforceable unless notice of such claim is served upon Emvelco by buyer no later than 60 days after the buyer's approval of Euroweb Hungary and Euroweb Romania's statutory financial reports for the fiscal year 2006, but in any event no later than June 1, 2007. In the case of Clause 8.1.6 (Taxes) or Clause 9.2.4 of SPA, the time period is five years from the last day of the calendar year in which the closing date occurs. No claims have been made to date. At March 31, 2008, the Company has accrued $201,020 as the estimated fair value of this indemnity.

(h) Sub-Prime Crisis

The mortgage credit markets in the U.S. have been experiencing difficulties as a result of the fact that many debtors are finding it difficult to obtain financing (hereinafter - the "Sub-prime crisis"). The sub-prime crisis resulted from a number of factors, as follows:

an increase in the volume of repossessions of houses and apartments, an increase in the volume of bankruptcies of mortgage companies, a significant decrease in the available resources for purposes of financing through mortgages, and in the prices of apartments. The financing of the project of the Verge subsidiary is contingent upon the future impact of the sub-prime crisis on the financial institutions operating in the U.S. The sub-prime crisis may have an impact on the ability of the Verge subsidiary to procure the financing required to complete its construction project and on the terms of the financing, if procured, and it may also impact in the ability of the customers of the Company to procure mortgages, if necessary, and on the terms under which the mortgages will be obtained.

(i) Israeli Tax Authority issued a notification

On 10 February 2008, the Israeli Tax Authority issued a notification (hereinafter the - "Notification") of the setting up of a joint forum together with professional organizations, the goal of which is to work out various standard related issues that arose as part of the implementation of IFRS in Israel and the practical application thereof in tax returns. It was also decided by the Tax Authority that taxable income will continue to be computed pursuant to the guidelines that were in effect in Israel prior to the adoption of IFRS (except for Accounting Standard No. 29, Adoption of IFRS). The calculation of taxable income, as above, will be carried out during an interim period until it is decided how to apply IFRS to Israeli tax laws.

(j) Agreement between Owner and Owner's Representative

On January 12, 2008, with effective counterpart signature on February 20, 2008, Verge, the 100% subsidiary of the AGL, of which the Company is a principal shareholder, entered into an Agreement between Owner and Owner's Representative effective as of January 12, 2008 (the "Verge Project Management Agreement") with TWG Consultant, LLC ("TWG") to appoint TWG as Owner Representative in regards to the construction of the Verge Project. Pursuant to the Verge Project Management Agreement, TWG will design and oversee the actual construction of the Verge Project as well as being the onsite manager to supervise and be the liaison with local governmental authorities, general contractor and subcontractors, lenders and vendors as well as preparing the budget and status reports on the Verge Project. As consideration for TWG's services, Verge will pay the following fees: 1. All direct costs associated with the Verge Project, including employment of a construction inspector (superintendent/structural engineer - at an estimated cost of $12,500 per month), a part-time office clerk and office and administrative expenses. Collectively, said costs are estimated at $20,000 per month. 2. Monthly advances of $24,750 for two personnel senior management. 3. A bonus to be paid in the amount of 5% of the earnings before tax depreciation and amortization (EBTDA) of the Verge Project, but not less than $1 million.

10. Stockholders’ Equity

Effective August 14, 2006, the Company entered into a two-year employment agreement with Yossi Attia as the Chief Executive Officer of the Company, which provided for annual compensation in the amount of $250,000 to be paid in the form of Company shares of common stock. The number of shares to be received by Mr. Attia was calculated based on the average closing price 10 days prior to the commencement of each employment year. Mr. Attia will receive 111,458 Emvelco shares of common stock for his first year service. No shares have been issued in connection with his services in 2006.

In June 2006, the Company's Board of Directors approved a program to repurchase, from time to time, at management's discretion, up to 700,000 shares of the Company's common stock in the open market or in private transactions commencing on June 20, 2006 and continuing through December 15, 2006 at prevailing market prices. Repurchases will be made under the program using our own cash resources and will be in accordance with Rule 10b-18 under the Securities Exchange Act of 1934 and other applicable laws, rules and regulations. The Shemano Group acts as agent for our stock repurchase program. As of March 31, 2008, the Company held 657,862 treasury shares.

There were no options or warrants exercised in the three month period ended March 31, 2008 and year ended December 31, 2007

Pursuant to the Sale Agreement of Navigator, the Company received 622,531 shares of the Company's common stock as partial consideration.. The Company shares were valued at $1.34 per share, representing the closing price of the Company on the NASDAQ Capital Market on February 16, 2007, the closing of the sale. The Company canceled the Emvelco common stock acquired during the disposition in the amount of $834,192.

On February 14, 2008, the Company raised Three Hundred Thousand Dollars ($300,000) from the private offering of two (2) Private Placement Memorandums dated as of February 1, 2008 ("PPMs"). One PPM was in the amount of One Hundred Thousand Dollars ($100,000) and the other was in the amount of Two Hundred Thousand Dollars ($200,000). The offering is for Company common stock which shall be "restricted securities" and were sold at $1.00 per share. The money raised from the Private Placement of the Company shares will be used for working capital and business operations of the Company. The PPMs were done pursuant to Rule 506. A Form D has been filed with the Securities and Exchange Commission in compliance with Rule 506 for each Private Placement.

On March 30, 2008, the Company raised $200,000 from the private offering of Private Placement Memorandum ("PPM"). The private placements were for Company common stock which shall be "restricted securities" and were sold at $1.00 per share. The offering included 200,000 warrants to be exercised at $1.50 for two years (for 200,000 Company common stock), and additional 200,000 warrants to be exercised at $2.00 for four years (for 200,000 Company common stock). Said Warrants may be exercised to common shares of the Company only if the Company issues subsequent to the date of this PPM, 25,000,000 (twenty five million) or more shares of its common stock. The money raised from the private placement of the Company's shares will be used for working capital and business operations of the Company. The PPM was done pursuant to Rule 506. A Form D has been filed with the Securities and Exchange Commission in compliance with Rule 506 for each Private Placement. The investor is D'vora Greenwood (Attia), the sister of Mr. Yossi Attia. Mr. Attia did not participate in the board meeting which approved this PPM.

11. Stock Option Plan and Employee Options

a) Stock option plans

In 2004, the Board of Directors established the "2004 Incentive Plan" ("the Plan"), with an aggregate of 800,000 shares of common stock authorized for issuance under the Plan. The Plan was approved by the Company's Annual Meeting of Stockholders in May 2004. In 2005, the Plan was adjusted to increase the number of shares of common stock issuable under such plan from 800,000 shares to 1,200,000 shares. The adjustment was approved at the Company's Annual Meeting of Stockholders in June 2005. The Plan provides that incentive and nonqualified options may be granted to key employees, officers, directors and consultants of the Company for the purpose of providing an incentive to those persons. The Plan may be administered by either the Board of Directors or a committee of two directors appointed by the Board of Directors (the "Committee"). The Board of Directors or Committee determines, among other things, the persons to whom stock options are granted, the number of shares subject to each option, the date or dates upon which each option may be exercised and the exercise price per share.

Options granted under the Plan are generally exercisable for a period of up to ten years from the date of grant. Incentive options granted to stockholders that hold in excess of 10% of the total combined voting power or value of all classes of stock of the Company must have an exercise price of not less than 110% of the fair market value of the underlying stock on the date of the grant. The Company will not grant a nonqualified option with an exercise price less than 85% of the fair market value of the underlying common stock on the date of the grant.

The Company has granted the following options under the Plan:

On April 26, 2004, the Company granted 125,000 options to its Chief Executive Officer, an aggregate of 195,000 options to five employees and an aggregate of 45,000 options to two consultants of the Company (which do not qualify as employees). The stock options granted to the Chief Executive Officer vest at the rate of 31,250 options on November 1, 2004, October 1, 2005, October 1, 2006 and October 1, 2007. The stock options granted to the other employees and consultants vest at the rate of 80,000 options on November 1, 2004, October 1, 2005 and October 1, 2006. The exercise price of the options ($4.78) was equal to the market price on the date of grant. The options granted to the Chief Executive Officer were forfeited/ cancelled in August 2006 due to the termination of his employment. Of the 195,000 options originally granted to employees, 60,000 options were forfeited or cancelled during 2005, while the remaining 135,000 options were forfeited or cancelled in August 2006 due to termination of the five employee contracts. 15,000 options granted to one of the consultants were also forfeited or cancelled in April 2006 due to the termination of the consultant's contract.

Through December 31, 2005, the Company did not recognize compensation expense under APB 25 for the options granted to the Chief Executive Officer and the five employees as the options had a zero intrinsic value at the date of grant. The adoption of SFAS 123R on January 1, 2006 resulted in a compensation charge of $36,817 and $21,241 for the years ended December 31, 2007 and 2006, respectively.

In accordance with SFAS 123, as amended by SFAS 123R, and EITF Issue No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services”, the Company computed total compensation charges of $162,000 for the grants made to the two consultants. Such compensation charges are recognized over the vesting period of three years. Compensation expense for the year ended December 31, 2006 was $9,921.

On March 22, 2005, the Company granted an aggregate of 200,000 options to two of the Company’s Directors. These stock options vest at the rate of 50,000 options on each September 22 of 2005, 2006, 2007 and 2008, respectively. The exercise price of the options ($3.40) was equal to the market price on the date the options were granted. Through December 31, 2005, the Company did not recognize compensation expense under APB 25 as the options had a zero intrinsic value at the date of grant. The adoption of SFAS 123R on January 1, 2006 resulted in a compensation charge of $36,817 and $128,284 for the years ended December 31, 2007 and 2006, respectively. One of the directors was elected as Chief Executive Officer from August 14, 2006.

On June 2, 2005, the Company granted 100,000 options to a director of the Company, which vest at the rate of 25,000 options on December 2 of 2005, 2006, 2007, and 2008, respectively. Through December 31, 2005, the Company did not recognize compensation expense under APB 25 as the options had a zero intrinsic value at the date of grant. The adoption of SFAS 123R on January 1, 2006 resulted in a compensation charge of $89,346 for the year ended December 31, 2006. On November 13, 2006, the Director filed his resignation. His options were vested unexercised in February 2007.

(b) Other Options

On October 13, 2003, the Company granted two Directors 100,000 options each, at an exercise price (equal to the market price on that day) of $4.21 per share, with 25,000 options vesting on each April 13, 2004, 2005, 2006 and 2007. There were 100,000 options outstanding as of December 31, 2006. The adoption of SFAS 123R on January 1, 2006 resulted in a compensation charge of $6,599 and $31,824 during the years ended December 31, 2007 and 2006, respectively.

As of March 31, 2008 and December 31, 2007 and 2006, there were 330,000 options outstanding with a weighted average exercise price of $3.77.

No options were exercised during the period ended March 31, 2008 and the year ended December 31, 2007.

The following table summarizes information about shares subject to outstanding options as of December 31, 2007, which was issued to current or former employees, consultants or directors pursuant to the 2004 Incentive Plan and grants to Directors:

Options Outstanding				**Options Exercisable**	
Number Outstanding	**Range of Exercise Prices**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Life in Years**	**Number Exercisable**	**Weighted-Average Exercise Price**
100,000	$ 4.21	$ 4.21	1.79	100,000	$ 4.21
30,000	$ 4.78	$ 4.78	2.32	30,000	$ 4.78
200,000	$ 3.40	$ 3.40	3.31	150,000	$ 3.40
330,000	$ 3.40-4.78	$ 3.77	2.66	280,000	$ 3.84

(c) Warrants

On June 7, 2005, the Company granted 100,000 warrants to a consulting company as compensation for investor relations services at exercise prices as follows: 40,000 warrants at $3.50 per share, 20,000 warrants at $4.25 per share, 20,000 warrants at $4.75 per share and 20,000 warrants at $5 per share. The warrants have a term of five years and increments vest proportionately at a rate of a total 8,333 warrants per month over a one year period. The warrants are being expensed over the performance period of one year. In February 2006, the Company terminated its contract with the consultant company providing investor relation services. The warrants granted under the contract were reduced time-proportionally to 83,330, based on the time in service by the consultant company.

12. Treasury Stock

In June 2006, the Company's Board of Directors approved a program to repurchase, from time to time, at management's discretion, up to 700,000 shares of the Company's common stock in the open market or in private transactions commencing on June 20, 2006 and continuing through December 15, 2006 at prevailing market prices.

Repurchases will be made under the program using our own cash resources and will be in accordance with Rule 10b-18 under the Securities Exchange Act of 1934 and other applicable laws, rules and regulations. The Shemano Group is acting as agent for our stock repurchase program.

As of March 31, 2008, the Company held 1,280,393 treasury shares.

Pursuant to the unanimous consent of the Board of Directors in September 2006, the number of shares that may be purchased under the Repurchase Program was increased from 700,000 to 1,500,000 shares of common stock and the Repurchase Program was extended until October 1, 2007, or until the increased amount of shares is purchased.

Pursuant to the Sale Agreement of Navigator, the Company got on closing (2/16/2007) 622,531 shares of the Company's common stock as partial consideration. The Company shares were valued at $1.34 per share, representing the closing price of the Company on the NASDAQ Capital Market on February 16, 2007, the closing of the sale. The Company intends to cancel the Emvelco common stock acquired during the disposition in the amount of $834,192.

13. Subsequent events

On April 29, 2008, the Company entered into Amendment No. 1 ("Amendment No. 1") to that certain Share Exchange Agreement between the Company and Trafalgar Capital Specialized Investment Fund, ("Trafalgar"). Amendment No. 1 states that due to the fact that the Israeli Securities Authority ("ISA") delayed the issuance of the Implementation Shares issuable from the Atia Group to Trafalgar, that the Share Exchange Agreement shall not apply to 69,375,000 of the Implementation Shares issuable under the CEF. All other terms of the Share Exchange Agreement remain in full force and effect.

On May 1, 2008, Emvelco Corp. (the "Company") entered into an Agreement and Plan of Exchange (the "DCG Agreement") with Davy Crockett Gas Company, LLC (“DCG”) and the members of Davy Crockett Gas Company, LLC (“DCG Members”). Pursuant to the Agreement, the Company acquired and, the DCG Members sold, 100% of the outstanding securities in DCG. DCG is a limited liability company organized under the laws of the State of Nevada and headquartered in Bel Air, California is a newly formed designated LLC which holds certain development rights for gas drilling in Crockett County, Texas.

In consideration for 100% of the outstanding securities in DCG, the Company issued the DCG Members promissory notes in the aggregate amount of $25,000,000 payable together with interest in May 2010 (the “DCG Notes”). Additional $5,000,000 in DCG Notes are issuable upon each of the first through fifth wells going into production. Further, the DCG Members may be entitled to receive additional DCG Notes up to an additional amount of $200,000,000 (the “Additional DCG Notes”) subject to the revenue generated from the land rights held by DCG located in Crockett County, Texas less concession fees and taxes. The principal amount of Additional DCG Convertible Notes to be issued shall be determined by subtracting $50,000,000 from the product of DCG’s gross revenue by .50. The conversion price for the Additional Convertible Notes will be the Company’s market price, which is the 90 day average closing price prior to the anniversary.

The DCG Notes bear interest of 8% and are convertible into shares of common stock, subject to shareholder approval, at $1.00 per share. If the shareholders of the Company do not authorize providing the DCG Members with the ability to convert the DCG Notes or if the DCG Members elect to not convert the DCG Notes, regardless of whether shareholder approval is obtained, the Company will be forced to pay all amounts owed under the DCG Notes in May 2010 in cash.

C. Properties Ltd., a Barbados company (the “Advisor”) shall be paid a fee for rendering consulting services in connection with this transaction (the “Advisor’s Fee”). The Advisor’s Fee is be the greater of (i) five percent (5%) of the dollar value of the DCG Notes and the Additional DCG Notes issued to the DCG Members not to exceed $12,500,000 or (ii) $10,000,000; which is to be paid by the Company. The Advisor has agreed that in lieu of cash payment it will receive shares of stock of the Atia Group Ltd. (the “Atia Shares”) of which 200,000,000 shares were transferred by the Company to the Advisor at Closing effective as of January 1, 2008, 200,000,000 shares were transferred by the Company to the Advisor upon the first DCG well going into production, 200,000,000 shall be transferred by the Company to the Advisor upon the second DCG well going into production and 134,060,505 shares shall be transferred by the Company to the Advisor upon the third DCG well going into production. In addition, upon a fourth DCG well going into production, the Company shall transfer an additional 50,366,671 shares of Atia Group Ltd.

During the first and second quarters of 2008, Sitnica advanced approximately Euro 1.2 million to the Land Sellers, as well as paid in full the purchase tax on said land. Sitnica borrowed the needed funds from Mr. Shalom Atia as a loan which bears no interest.

On April 25, 2008, a certain consultant, who was disengaged by the Company, recorded liens on the property amounting over $1.2 million dollars without submitting documentation to proof his demands. On May 7, 2008, the consultant noticed the Company about his intention to record additional liens amounting to $7.35 million dollars. The

Company position is that said consultant caused damages that might jeopardize the entire project, and therefore the Company may file a complaint against the consultant.

On May 13, 2008, AGL, of which the Company is a principal shareholder, notified the Company that AGL is in the advanced stages of negotiations in entering into an agreement with PORR Solutions, an Austrian company ("PORR"), whereby PORR will acquire half of AGL's ownership interest in Sitnica d.o.o., a Croatian company and currently a 100% wholly owned subsidiary of AGL ("Sitnica"). Sitnica holds title to development properties in Samobor (the "Properties"). PORR will also assist in obtaining financing to pay off certain of Sitnica's purchase financing debt held by the seller of the Properties.

On May 6, 2008 the Company issued 500,000 shares of its common stock, $0.001 par value per share, to Stephen Martin Durante in accordance with the instructions provided by the Company pursuant to the 2004 Employee Stock Incentive Plan registered on Form S-8 Registration

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

As of March 31, 2008, the Company and its subsidiaries have four projects in development as follows:

(a) Verge project

On June 19, 2006, ERC entered into the Investment Agreement with Verge, pursuant to which ERC, within its sole discretion, has agreed to provide secured loans to Verge not to exceed the amount of $10,000,000. The loan is secured via first trust deed as well as Lender ALTA title policy for $10,000,000. Verge is an asset company developing the Verge Property, consisting of real property in downtown Las Vegas, Nevada, where it intends to build up to 296 condominiums (number of units may be changed due to realignment and redesign) plus commercial space. Verge obtained entitlements to the Verge Property, and has advised that it expects to break ground in 2008. Sales commenced during 2007. Each loan provided to Verge is due on demand or upon maturity on January 14, 2008. The Company and Verge agreed to extend the term of the agreement until funds are available for repayment, which is expected in the year ending December 31, 2008. Interest continues to accrue at 12% per annum. All loans are secured by a first deed of trust, assignment of rents and security agreement with respect to the property, along with ALTA (American Land Title Association) title policy. If ERC requests that the funds be paid on demand prior to maturity, then Verge shall be entitled to reduce the amount requested to be prepaid by 10%. The 10% discount will be paid to Verge in the form of shares of common stock of Emvelco, which will be computed by dividing the dollar amount of the 10% discount by the market price of Emvelco' S shares of common stock. The terms of the loans require that ERC to be paid-off the greater of (i) the principal including 12% interest per annum or (ii) 33% of all gross profits derived from the Property. During the first quarter the Company borrowed $1,660,000 from a third party, for the benefit of Verge, and subordinate accordingly the Company security to said third party up too the amount it borrowed.

Said line of credit granted by the Company to Verge was increased via an Amendment to the Investment Agreement up to $20 Million with the same original terms.

Based on series of agreements commencing June 5, 2007 and following by July 23, 2007 (as reported on the Company's Form 8-K filed June 11, 2007), the Company, the Company's chief executive officer Yossi Attia, and Darren Dunckel - CEO of ERC (collectively, the "Investors") entered into an Agreement (the "Upswing Agreement") with a third party, Upswing, Ltd. (also known as Appswing Ltd., hereinafter referred to as "Upswing"). Pursuant to the Upswing Agreement, the Investors intend to invest in an entity listed on the Tel Aviv Stock Exchange - the Atia Group Limited, f/k/a Kidron Industrial Holdings Ltd (herein referred to as AGL). In addition, the Investors intend to transfer rights and control of various real estate projects to AGL. The Investors and AGL then effected a transaction, pursuant to which the Investors and/or the Investors' affiliates acquired about 76% of the AGL in consideration of the transfer of the rights to the various real estate projects (including Verge) to AGL (the "Transaction"). Upswing, among other items, advised the Investors on the steps necessary to effectuate the contemplated transfer of real estate project rights to AGL. Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, further intends to exercise its option (the "Sitnica Option") to purchase ERC's derivative rights and interest in Sitnica d.o.o. through ERC's holdings (one-third (1/3) interest) in AP Holdings Limited ("AP Holdings"), a company organized under the Companies (Jersey) Law 1991, which equates to a one-third interest in Sitnica d.o.o. (excluding ERC's interest in AP Holdings). The Sitnica Option is exercisable in the amount of $4,000,000, payable by reducing the outstanding loan amount owing to the Company under the Investment Agreement by $3,550,000 and reducing the Company's deposit with Shalom Atia, Trustee of AP Holdings, by $450,000.

On October 15, 2007, Emvelco delivered that certain Notice of Exercise of Options ("Notice") to ERC, TIHG, Verge and Darren C. Dunckel, individual, President of ERC and/or representative of the foregoing parties. Pursuant to the Notice, Emvelco, subject to performance under the Upswing Agreement, intends to exercise its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Verge Option is exercisable in the amount of

$5,000,000 payable in cash, but in no event is the option exercisable prior to Verge breaking ground, plus conversion of $10,000,000 loans given to Verge into Equity as consideration for 75,000 shares of Verge.

As of March 31, 2008, Verge is a wholly owned subsidiary of the Company's majority owned subsidiary, the Atia Group Limited ("AGL"). The Company owns 40.20 of the outstanding stock of AGL (50.83% as of December 31, 2007).

(b) Sitnica d.o.o.

The Croatian subsidiary of AGL obtained the rights to 25 consecutive lots (hereinafter - the "Land" or the "Assets") from the Atia Project at the value of these assets on the books of the Atia Project. In view of the fact that these real estate assets are held for an as yet undetermined future use, Sitnica reported this real estate as investment real estate in accordance with Accounting Standard No. 16 of the Israel Accounting Standards Board. The subsidiary elected to measure the investment real estate at fair value as its accounting policy. This treatment is consistent with FAS 141, *Business Combination*. Gains deriving from a change between the cost of the assets and their fair value derive mainly from the consolidation of individual assets into one large lot, the value of which as a single unit is greater than the costs of its parts.

(c) Crescent Heights project

The Company, formed and organized 610 N. crescent Heights, LLC, a California limited liability company (the "CH LLC") on August 13, 2007 as wholly owned subsidiary to purchase and develop that certain property located at 610 North Crescent Heights, Los Angeles, California 90048 (the "CH Property"). The CH Property was acquired for $900,000 not including closing costs. On November 13, 2007 the CH LLC finalized a construction loan with East West Bank of $1,440,000. The CH Property is completed and is listed for sale.

(d) Dickens project

The Company, formed and organized 13059 Dickens LLC, a California limited liability company (the "Dickens LLC") on November 20, 2007 to purchase and develop that certain property located at 13059 Dickens Street, Studio City, California 91604 (the "Dickens Property"). On December 5, 2007, the Dickens LLC entered into an All Inclusive Deed of Trust, All Inclusive Promissory Note in the principal amount of $1,065,652, Escrow Instructions and Grant Deed in connection with the purchase of the Dickens Property. Pursuant to the All Inclusive Deed of Trust and All Inclusive Promissory Note, the Dickens LLC purchased the Dickens Property for the total consideration of $1,065,652 from Kobi Louria ("Seller"), an unrelated third party and fifty percent (50%) owner of the Dickens LLC. The Company and Seller formed the Dickens LLC to own and operate the Dickens Property and to develop a single family residence at the location. The Dickens LLC is owned 50/50 by the Company and Seller. Escrow closed on December 18, 2007. The Dickens Property is under design as exiting house was demolished on February 2008. Development is expected to commence in the second quarter of 2008.

On May 14, 2007, pursuant to the Stock Transfer Agreement, the Company transferred and conveyed its 1,000 Shares (representing a 43.33% interest) in ERC to TIHG to submit to ERC for cancellation and return to Treasury. ERC, TIHG and Verge agreed to assign to the Company all rights in and to the Investment Agreement.

On February 16, 2007, the Company completed the sale of Navigator for $3,200,000 in cash and the transfer to the Company of 622,531 shares of the Company. The closing of the sale of Navigator occurred on February 16, 2007. On May 3, 2007 the Company surrendered said 622,531 stock certificates together with stock powers to American Stock Transfer & Trust Company the Company’s transfer agent for return to Treasury and cancellation.

The Company operates in financial investment and investments in real estate development for subsequent sales, Investment and Financing Activities, directly or through its subsidiaries currently in the USA and Croatia.

Acquisitions

Acquisition of AGL

Based on series of agreements commencing June 5, 2007 and following by July 23, 2007 (as reported on the Company's Form 8-K filed June 11, 2007), the Company, the Company's chief executive officer Yossi Attia, and Darren Dunckel - CEO of ERC (collectively, the "Investors") entered into an Agreement (the "Upswing Agreement") with a third party, Upswing, Ltd. (also known as Appswing Ltd., hereinafter referred to as "Upswing"). Pursuant to the Upswing Agreement, the Investors intend to invest in an entity listed on the Tel Aviv Stock Exchange - the Atia Group Limited, f/k/a Kidron Industrial Holdings Ltd (herein referred to as AGL). In addition, the Investors intend to transfer rights and control of various real estate projects to AGL. The Investors and AGL then effected a transaction, pursuant to which the Investors and/or the Investors' affiliates acquired about 76% of the AGL in consideration of the transfer of the rights to the various real estate projects (including Verge) to AGL (the "Transaction"). Upswing, among other items, advised the Investors on the steps necessary to effectuate the contemplated transfer of real estate project rights to AGL. Pursuant to the Notice, the Company, subject to performance under the Upswing Agreement, further intends to exercise its option (the "Sitnica Option") to purchase ERC's derivative rights and interest in Sitnica d.o.o.

through ERC's holdings (one-third (1/3) interest) in AP Holdings Limited ("AP Holdings"), a company organized under the Companies (Jersey) Law 1991, which equates to a one-third interest in Sitnica d.o.o. (excluding ERC's interest in AP Holdings). The Sitnica Option is exercisable in the amount of $4,000,000, payable by reducing the outstanding loan amount owing to the Company under the Investment Agreement by $3,550,000 and reducing the Company's deposit with Shalom Atia, Trustee of AP Holdings, by $450,000.

On October 15, 2007, Emvelco delivered that certain Notice of Exercise of Options ("Notice") to ERC, TIHG, Verge and Darren C. Dunckel, individual, President of ERC and/or representative of the foregoing parties. Pursuant to the Notice, Emvelco, subject to performance under the Upswing Agreement, intends to exercise its option (the "Verge Option") to purchase a multi-use condominium and commercial property in Las Vegas, Nevada, via the purchase and acquisition of all outstanding shares of common stock of Verge. The Verge Option is exercisable in the amount of $5,000,000 payable in cash, but in no event is the option exercisable prior to Verge breaking ground, plus conversion of $10,000,000 loans given to Verge into Equity as consideration for 75,000 shares of Verge.

Said transaction was closed on November 2, 2007. Upon closing, Verge became a fully owned subsidiary of AGL and the Company owns 40.20% of AGL and consolidates AGL's results in the financial statements.

Plan of operation

The Company's plan of operation for the next 12 months will include the following components:

We plan to finance and invest in development of existing projects (Verge, Sitnica, Dickens, and Crescent Heights projects), including obtaining financing of Verge Living for the purpose of commencing or continuing the projects in 2008. Our plan is to proceed with financial investment in real estate developments in the US and Croatia. This phase of development will include the following elements:

(a) Attempting to raise bond or debt financing through Verge and AGL if possible. Any cash receipt from financing will be utilized partly by the Company's financial investment in real estate developments in the US and partly by further real estate developments in Croatia. In connection with Verge financing, the Company anticipates spending approximately $1,000,000 on professional fees over the next 12 months in order to facilitate our financial investment, by creating more strength to the financial investments of the Company.

(b) The Company anticipates spending approximately $250,000 on professional fees over the next 12 months in order to file the requirements under the Securities Laws.

(c) On May 1, 2008, the Company entered into the DCG Agreement with DCG and the DCG Members. Pursuant to the DCG Agreement, the Company acquired and, the DCG Members sold, 100% of the outstanding securities in DCG. DCG is a limited liability company organized under the laws of the State of Nevada and headquartered in Bel Air, California is a newly formed designated LLC which holds certain development rights for gas drilling in Crockett County, Texas..

(d) Subject to obtaining adequate financing and actual consuming of DCG transaction, the Company anticipates that it will be spending approximately $20,000,000 over the next 12 month period pursuing its stated plan of investment operation, subject of obtaining financing on acceptable terms. The Company's present cash reserves are not sufficient for it to carry out its plan of operation without substantial additional financing. The Company is currently attempting to arrange for financing through mezzanine arrangements, debt or equity that would enable it to proceed with its plan of investment operation.

The Company's actual expenditures and business plan may differ from the one stated above. Its board of directors may decide not to pursue this plan as a whole or part of it. In addition, the Company may modify the plan based on available financing.

The US real estate market trends are toward a soft market in the last year. Management believes that the "softer market" is due to the Federal Reserve Bank Policy of major fluctuations in interest rates (in order to depress inflation trends). Such fluctuations in interest rates make financing more expensive, and more difficult to obtain. The Company anticipates that it will be spending approximately $20 million over the next 12 month period pursuing its stated plan of investment operation. The Company believes that its liquidity will not be enough for implementing its plan, and the Company has confidence that subject to actual pre-sales, it will obtain financing to complete its projects in the short-term as well as in the long-term. If actual sales will not be adequate, the Company will not continue spending its existing cash, and therefore it can avoid liquidity problems.

The Company's primary source of liquidity came from divesting its ISP business in Central Eastern Europe, which was concluded on May 2006, when it completed the disposal of Euroweb Hungary and Euroweb Romania to Invitel. In February 2007, the Company closed the disposal of Navigator, which added approximately $3.2 million net of cash to its internal source of liquidity.

Our external source of liquidity is based on a project by project basis. The Company intends to obtain financial investment in land and construction loans from commercial lenders for its development activities, as well as financial suit for DCG.

The residential real estate market in Southern California, Nevada and Croatia is more active during spring and summer. It is the Company's desire to complete its financial development during the summer, to increase the potential for a fast sale. In some markets, such as Nevada, regulations allow for the sale of units from plans. As a result, these seasonal factors should not affect the financial condition or results of operation, though they may have a moderate effect on the liquidity position of the Company.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements that have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). This preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. US GAAP provides the framework from which to make these estimates, assumptions and disclosures. We choose accounting policies within US GAAP that management believes are appropriate to accurately and fairly report our operating results and financial position in a consistent manner. Management regularly assesses these policies in light of current and forecasted economic conditions. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions for a number of reasons. Our accounting policies are stated in Note 2 to the 2007 Consolidated Financial Statements. We identified the following accounting policies as critical to understanding the results of operations and representative of the more significant judgments and estimates used in the preparation of the consolidated financial statements: impairment of goodwill, allowance for doubtful accounts, acquisition related assets and liabilities, accounting of income taxes and analysis of FIN46R as well as FASB 67.

- Investment in Real Estate and Commercial Leasing Assets. Real estate held for sale and construction in progress is stated at the lower of cost or fair value less costs to sell and includes acreage, development, construction and carrying costs and other related costs through the development stage. Commercial leasing assets, which are held for use, are stated at cost. When events or circumstances indicate than an asset’s carrying amount may not be recoverable, an impairment test is performed in accordance with the provisions of SFAS 144. For properties held for sale, if estimated fair value less costs to sell is less than the related carrying amount, then a reduction of the assets carrying value to fair value less costs to sell is required. For properties held for use, if the projected undiscounted cash flow from the asset is less than the related carrying amount, then a reduction of the carrying amount of the asset to fair value is required. Measurement of the impairment loss is based on the fair value of the asset. Generally, we determine fair value using valuation techniques such as discounted expected future cash flows.

Our expected future cash flows are affected by many factors including:

a) The economic condition of the Las Vegas, Nevada and Los Angeles, California market, and the Croatian market;

b) The performance of the real estate industry in the markets where our properties are located;

c) Our financial condition, which may influence our ability to develop our real estate; and

d) Governmental regulations.

Because any one of these factors could substantially affect our estimate of future cash flows, this is a critical accounting policy because these estimates could result in us either recording or not recording an impairment loss based on different assumptions. Impairment losses are generally substantial charges. We are currently in the beginning state of development of real estates, therefore no impairment is required. Any impairment charge would more likely than not have a material effect on our results of operations.

The estimate of our future revenues is also important because it is the basis of our development plans and also a factor in our ability to obtain the financing necessary to complete our development plans. If our estimates of future cash flows from our properties differ from expectations, then our financial and liquidity position may be compromised, which could result in our default under certain debt instruments or result in our suspending some or all of our development activities.

- Allocation of Overhead Costs. We periodically capitalize a portion of our overhead costs and also allocate a portion of these overhead costs to cost of sales based on the activities of our employees that are directly engaged in these activities. In order to accomplish this procedure, we periodically evaluate our “corporate” personnel activities to see what, if any, time is associated with activities that would normally be capitalized or considered part of cost of sales. After determining the appropriate aggregate allocation rates, we apply these factors to our overhead costs to determine the appropriate allocations. This is a critical accounting policy because it affects our net results of operations for that portion which is capitalized. In accordance with paragraph 7 of SFAS No. 67, we only capitalize direct and indirect project costs associated with the acquisition, development and construction of a real estate project. Indirect costs include allocated costs associated with certain pooled resources (such as office supplies, telephone and postage) which are used to support our development projects, as well as general and administrative functions. Allocations of pooled resources are based only on those employees directly responsible for development (i.e. project manager and subordinates). We charge to expense indirect costs that do not clearly relate to a real estate project such as salaries and allocated expenses related to the Chief Executive Officer and Chief Financial Officer.

- Revenue Recognition. In accordance with SFAS No. 66, “Accounting for Sales of Real Estate,” we recognize revenues from property sales when the risks and rewards of ownership are transferred to the buyer, when the consideration received can be reasonably determined and when we have completed our obligations to perform certain supplementary development activities, if any exist, at the time of the sale. Consideration is reasonably determined and considered likely of collection when we have signed sales agreements and have determined that the buyer has demonstrated a commitment to pay. The buyer’s commitment to pay is supported by the level of their initial investment, our assessment of the buyer’s credit standing and our assessment of whether the buyer’s stake in the property is sufficient to motivate the buyer to honor its obligation to us. This is a critical accounting policy because for certain sales, we use our judgment to determine the buyer’s commitment to pay us and thus determine when it is proper to recognize revenues.

We recognize our rental income based on the terms of our signed leases with tenants on a straight-line basis. We recognize sales commissions and management and development fees when earned, as lots or acreages are sold or when the services are performed.

- Accounting for Income Taxes: We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. In addition, tax reserves are based on significant estimates and assumptions as to the relative filing positions and potential audit and litigation exposures related thereto. To the extent the Company establishes a valuation allowance or increases this allowance in a period, the impact will be included in the tax provision in the statement of operations.

Commitments and contingencies

Effective July 1, 2006, the Company entered into a five-year employment agreement with Yossi Attia as the President of ERC which commenced on July 1, 2006 and provides for annual compensation of $240,000 and an annual bonus of not less than $120,000 per year, as well as an annual car allowance for the same period. Mr. Attia will be entitled to a special bonus equal to 10% of the earnings before interest, depreciation and amortization (“EBITDA”) of ERC, which such bonus is payable in shares of common stock of the Company; provided, however, the special bonus is only payable in the event that Mr. Attia remains continuously employed by ERC and Mr. Attia shall not have sold shares of common stock of the Company on or before the payment date of the Special Bonus unless such shares were received in connection with the exercise of an option that was scheduled to expire within one year of the date of exercise. In addition, on August 14, 2006, the Company amended the Agreement to provide that Mr. Attia shall serve as the Chief Executive Officer of the Company for a term of two years commencing August 14, 2006 and granting annual compensation of $250,000 to be paid in the form of Company shares of common stock. The number of shares to be received by Mr. Attia was calculated based on the average closing price 10 days prior to the commencement of each employment year. Mr. Attia will receive 111,458 shares of the Company’s common stock for his first year service. No shares have been issued to date. The financial statements accrued the liability toward Mr. Attia employment agreements. The board of directors of AGL approved the employment agreement between AGL and Mr. Yossi Attia, the controlling shareholder and CEO of the Company. The agreement goes into effect on the date that the aforementioned allotments are consummated and stipulates that Mr. Attia will serve as the CEO of AGL in return for a salary that costs AGL an amount of US$ 10 thousand a month. Mr. Attia is also entitled to reimbursement of expenses in connection with the affairs of AGL, in accordance with AGL policy, as set from time to time. In addition, Mr. Attia is entitled to an annual bonus of 2.5% of the net, pre-tax income of the Company in excess of NIS 8 million.

The board of directors of AGL approved an employment agreement between the Company and Mr. Shalom Attia, the controlling shareholder and CEO of AP Holdings Ltd. The agreement goes into effect on the date that the aforementioned allotments are consummated and stipulates that Mr. Shalom Attia will serve as the VP - European Operations of AGL in return for a salary that costs the Company an amount of US$10 thousand a month. Mr. Attia is also entitled to reimbursement of expenses in connection with the affairs of the Company, in accordance with Company policy, as set from time to time. In addition, Mr. Shalom Attia is entitled to an annual bonus of 2.5% of the net, pre-tax income of AGL in excess of NIS 8 million.

The aforementioned agreements were ratified by the general shareholders meeting of AGL on 30 October 2007.

Effective July 1, 2006, Verge entered into a non written year employment agreement with Darren C Dunckel as the President of the Company which commenced on July 11, 2006 and provides for annual compensation in the amount of $120,000, the employment expense which was capitalized related to such agreement was $120,000 for the year ended December 31, 2007, and $30,000 was recorded and capitalized into Investment in Land Development for the three month period ended March 31, 2008.

During 2007 the Company and ERC entered into several loan agreements with different financial institutions in connection with the financing of the different real estate projects.

Based on series of agreements commencing June 5, 2007 and following by July 23, 2007 (as reported on the Company's Form 8-K's - See Disposal of ERC, Verge and Acquisition of AGL), the Company, the Company's chief executive officer Yossi Attia, and Darren Dunckel - CEO of ERC (collectively, the "Investors") entered into an Agreement (the "Upswing Agreement") with a third party, Upswing, Ltd. (also known as Appswing Ltd., hereinafter referred to as "Upswing"). Pursuant to the Upswing Agreement, the Investors intend to invest in an entity listed on the Tel Aviv Stock Exchange - the Atia Group Limited, f/k/a Kidron Industrial Holdings Ltd (herein referred to as AGL). Based on closing of said transaction, on July 23, 2007 the Company issued a straight note to Upswing for the amount of $2,000,000. This promissory note is made and entered into based upon a series of agreements by and between Maker and Holder dated as of June 5, 2007, July 20, 2007 and July 23, 2007, wherein the actual Closing of the transactions which are the subject matter of the Appswing Agreements known as the Kidron Industrial Holdings, Ltd. Transaction (the “Kidron Transaction”) has taken place and therefore this note is final and earned, as referenced in the Appswing Agreement dated July 20, 2007 (the “Closing”) and the Company becoming the majority shareholder of Kidron with a controlling interest of not less than 50.1%. The Unpaid Principal Balance of this note shall bear interest until due and payable at a rate equal to 8 % per annum. The principal hereof shall be due and payable in full in no event sooner than January 22, 2008, (the "Maturity Date"). 51% of the Company holdings in AGL, are pledge to secure said note.

As the Company defaulted on said note, on April 11, 2008 the parties amended the note terms, by adding a contingent convertible feature to the note, as well as extend its Maturity Date in no event sooner than January 22, 2013. The outstanding debt represented by this Note (including accrued Interest) may be converted to ordinary common shares of the Company only if The Company issues during any six (6) month period subsequent to the date of this Note, 25,000,000 (twenty five million) or more shares of its common stock. Holder may, at any time after the occurrence of the preceding event, have the right to convert this note in whole or in part into The Company common shares at a conversion price of $0.08 per share.

Off Balance Sheet Arrangements

There are no material off balance sheet arrangements.

Results of Operations

Three Months Period Ended March 31, 2008 Compared to Three Months Period Ended March 31, 2007

The consolidated statements of operations for the periods ended March 31, 2008 and 2007 are compared in the sections below :

Three months ended March 31,	**2008**	**2007**
Total revenues	$ --	$ --

The Company did not recognize revenues as based on its accounting policy sales did not occurred during these first quarters. The Company closed all sales of three properties during the third quarter of 2007.

Cost of revenues (excluding depreciation and amortization)

The following table summarizes cost of revenues (excluding depreciation and amortization) for the three months ended March 31, 2008 and 2007:

Three months ended March 31,		**2008**		**2007**
Total cost of revenues	$	--	$	--

The Company did not recognize costs of sales as based on its accounting policy sales did not occurred during these first quarters. The Company closed all sales of three properties during the third quarter of 2007.

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Compensation and related costs

The following table summarizes compensation and related costs for the three months ended March 31, 2008 and 2007:

Three months ended March 31,		2008		2007
Compensation and related costs	$	76,101	$	81,188

Overall compensation and related costs decreased by 6.26%, or $5,087 primarily due to the sales of our European activities decrease materially our compensation and related costs.

Consulting, director and professional fees

The following table summarizes consulting and professional fees for the three months ended March 31, 2008 and 2007:

Three months ended March 31,		2008		2007
Consulting, director and professional fees	$	2,641,649	$	209,071

Overall consulting, professional and director fees increased by 126.35%, or $2,432,578, primarily as the result of a fee charge of $2,342,812 to C. Properties - as a fee associate with DCG transaction and increase in relation to the cost of several consultants, investment bankers, advisors, accounting and lawyers fee over last period.

Other selling, general and administrative expenses

The following table summarizes other selling, general and administrative expenses for the three months ended March 31, 2008 and 2007:

Three months ended March 31,		2008		2007
Other selling, general and administrative expenses	$	285,311	$	75,162

Overall, other selling, general and administrative expenses increased by 379.59%, or $210,149, primarily attributable to the acquisition of AGL and incurring costs in lieu overall expenses of AGL.

Interest income and expense

The following table summarizes interest income and expense for the three months ended March 31, 2008 and 2007:

Three months ended March 31,		2008		2007
Interest income	$	196,344	$	618,405
Interest expense	$	(104,491)	$	(56,851

The decrease in interest income is attributable to the Company investing strategy pending establishment of the real estate development business, as well as loans Verge, together with capitalized 10 million dollars into Verge equity as part of the AGL transaction, which reduced materially the amounts entitled to interest income. The increase in interest expense is due to the increase line of credits as well as short time borrowing outstanding during the three months ended March 31, 2008.

Liquidity and Capital Resources

The Company currently anticipates that its available cash resources will be sufficient to meet its presently anticipated working capital requirements for at least the next 12 months.

As of March 31, 2008, our cash, cash equivalents and marketable securities were $489,565, an increase of approximately $119,989 from the end of fiscal year 2007. The increase in our cash, cash equivalents and marketable securities is the result of our investment policy.

Cash flow provided by/(used in) operating activities for the three months ended March 31, 2008 and 2007 was $487,148 and $63,123, respectively. The change is primarily due to a large net loss in the three month period ended March 31, 2008 of approximately $2.8 million, which was offset by $3.3 million representing a change in minority interest of a subsidiary's net assets.

Cash flow provided by/(used in) investing activities for the three months ended March 31, 2008 and 2007 was $(3.0) million and $(1.8) million, respectively. The change was primarily due to the investment in land development in 2008 of approximately $2.1 million as well as a reduction in loan advances to ERC.

Cash provided by/(used in) financing activities was approximately $2.6 million for the three months ended March 31, 2008 and $(0.4) million for the three months ended March 31, 2007. This increase is due to increased funding from AFG loans for approximately $1.7 million, Trafalgar loans for approximately $0.5 million, and stock issuance for $0.5 million.

The Company currently anticipates that its available cash resources will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for at least the next 12 months.

The Company holds restricted Certificates of Deposit (CD's) with the Bank to access a revolving line of credit. These deposits are interest bearing and approximated $8.4 million as of March 31, 2008. On November 8, 2007, the lines of credits were increased and extended as the following: $4,180,000 until October 16, 2008 and $4,229,000 until September 1, 2008. Both lines bear interest of 5.87% and are secured by restricted cash deposited in CD's with the bank.

In the event the Company makes future acquisitions or investments, additional bank loans or fund raising may be used to finance such future acquisitions. The Company may consider the sale of non-strategic assets.

Inflation and Foreign Currency

The Company maintains its books in local currency: Kuna for Sitnica, N.I.S for AGL and US Dollars for the Parent Company registered in the State of Delaware.

The Company's operations are primarily in the United States through its wholly owned subsidiaries. Some of the Company's customers are in Croatia. As a result, fluctuations in currency exchange rates may significantly affect the Company's sales, profitability and financial position when the foreign currencies, primarily the Croatian Kuna, of its international operations are translated into U.S. dollars for financial reporting. In additional, we are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. Although the Company cannot predict the extent to which currency fluctuations may or will affect the Company's business and financial position, there is a risk that such fluctuations will have an adverse impact on the Company's sales, profits and financial position. Because differing portions of our revenues and costs are denominated in foreign currency, movements could impact our margins by, for example, decreasing our foreign revenues when the dollar strengthens and not correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure. In the future, we may engage in hedging transactions to mitigate foreign exchange risk.

Effect of Recent Accounting Pronouncements

In December 2007, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 amends and replaces Question 6 of Section D.2 of Topic 14, "Share-Based Payment," of the Staff Accounting Bulletin series. Question 6 of Section D.2 of Topic 14 expresses the views of the staff regarding the use of the "simplified" method in developing an estimate of the expected term of "plain vanilla" share options and allows usage of the "simplified" method for share option grants prior to December 31, 2007. SAB 110 allows public companies which do not have historically sufficient experience to provide a reasonable estimate to continue to use the "simplified" method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. The Company will continue to use the "simplified" method until it has enough historical experience to provide a reasonable estimate of expected term in accordance with SAB 110.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") 141-R, "Business Combinations." SFAS 141-R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (referred to as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. It also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141-R will apply prospectively to business combinations for which the acquisition date is on or after the Company's fiscal year beginning October 1, 2009. While the Company has not yet evaluated the impact, if any, that SFAS 141-R will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after September 30, 2009.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements." This Statement amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Company has not yet determined the impact, if any, that SFAS 160 will have on its consolidated financial statements. SFAS 160 is effective for the Company's fiscal year beginning October 1, 2009.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the Company on July 1, 2008. Management is currently assessing the impact of the adoption of this Statement.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement provides entities the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Management is currently evaluating the impact of adopting this Statement.

Forward-Looking Statements

When used in this Form, in other filings by the Company with the SEC, in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer of the Company, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," " continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, are based on certain assumptions and expectations which may or may not be valid or actually occur, and which involve various risks and uncertainties, including but not limited to the risks set forth above. See "Risk Factors." In addition, sales and other revenues may not commence and/or continue as anticipated due to delays or otherwise. As a result, the Company's actual results for future periods could differ materially from those anticipated or projected.

Unless otherwise required by applicable law, the Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Smaller reporting companies are not required to provide the information required by Item 305.

Item 4. Controls and Procedures

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

Item 4T. Controls and Procedures

The term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act (15 U.S.C. 78a, *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in all control systems, internal control over financial reporting may not prevent or detect misstatements, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the registrant have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Evaluation of Disclosure and Controls and Procedures. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with our accounting personnel. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are currently effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As we develop new business or if we engage in an extraordinary transaction, we will review our disclosure controls and procedures and make sure that they remain adequate.

Changes in Internal Controls over Financial Reporting. There were no changes in the internal controls over our financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This report does not include an attestation report of the registrant's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the registrant's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the registrant to provide only management's report in this report.

PART II

ITEM 1. LEGAL PROCEEDINGS

Except as set forth below, there are no known significant legal procedures that have been filed and are outstanding against the Company.

From time to time, we are a party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not involved currently in legal proceedings other than detailed below that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future**.**

On April 26, 2006, a lawsuit was filed in the Delaware Court of Chancery (the "Court") by a stockholder of the Company against the Company, each of the Company's Directors and CORCYRA d.o.o., a stockholder of the Company that beneficially owned 39.81% of the Company's outstanding common stock at the date of the lawsuit. The Complaint is entitled Laurence Paskowitz v. Csaba Toro et al., C.A. No. 2110-N and was brought individually, and as a class action on behalf of certain of the Company's common stockholders, excluding defendants and their affiliates. The parties entered into a stipulation of settlement on April 3, 2007. The settlement will provide for dismissal of the litigation with prejudice and is subject to Court approval. As part of the settlement, the Company has agreed to attorneys' fees and expenses to plaintiff's counsel in the amount of $150,000. Pursuant to the stipulation of settlement, the Company sent out notices to the members of the class on May 3, 2007. A fairness hearing took place on June 8, 2007, and, as stated above, the Order was entered on June 8, 2007.

The Company filed a complaint in the Superior Court for the County of Los Angeles, against a foreign attorney. The case was filed on February 14, 2007, and service of process has been done. In the complaint the Company is seeking judgment against this attorney in the amount of approximately 250,000 Euros (approximately $316,000 as of the date of actual transferring the funds), plus interest, costs and fees. Defendant has not yet appeared in the action. The Company believes that it has a meritorious claim for the return of monies deposited with defendant in a trust capacity, and, from the documents in the Company’s possession, there is no reason to doubt the validity of the claim. During April 2007 defendant returned $92,694 (70,000 Euros at the relevant time) which netted to $72,694 post legal expenses; the Company has granted him a 15-day extension to file his defense. Post the extension and in lieu of not filing a defense, the Company filed for a default judgment. On October 25, 2007 the Company obtained a California Judgment by court after default against the attorney for the sum of $249,340.65. However, management does not have any information on the collectibles of said judgment that entered in court.

Verge, a wholly owned subsidiary of the Company’s subsidiary via AGL, is involved in legal proceedings in connection with the ongoing Chapter 11 bankruptcy proceedings of Prudential Americana LLC of Las Vegas, NV. Through February 29, 2008, Prudential is the broker of record for the condominium project being developed by Verge. Verge currently has approximately $50,000 on deposit as an advanced payment of the brokerage commissions. Verge presently owes, according to Prudential, $70,000 in monthly progress billings and Verge contends that it is entitled to offset the $50,000 against these progress billings. Verge believes Prudential breached fiduciary duties in connection with Prudential’s performance as a broker and has filed a Proof of Claim in Chapter r11 proceedings in excess of $9 million. As of today, the Company does not believe it will have a material liability in relation to these charges.

On November 21, 2007 LM Construction filed a demand for arbitration proceeding against the Company in connection with amounts due for general contracting services provided by them during the construction of the Company Sales Center. The Company agreed to enter into arbitration, deny any wrong doing and counterclaim damages. Amount in dispute are approximately $67,585 and are included in other current liabilities on the balance sheet.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In June 2006, the Company's Board of Directors approved a program to repurchase (the “Repurchase Program”), from time to time, at management's discretion, up to 700,000 shares of the Company's common stock in the open market or in private transactions commencing on June 20, 2006 and continuing through December 15, 2006 at prevailing market prices. Repurchases will be made under the program using our own cash resources and will be in accordance with Rule 10b-18 under the Securities Exchange Act of 1934 and other applicable laws, rules and regulations. The Shemano Group is acting as agent for our stock repurchase program. As of March 31, 2008, the Company acquired 1,280,693 shares of its common stock at a cost of $2,118,219.

Pursuant to the unanimous consent of the Board of Directors in September 2006, the number of shares that may be purchased under the Repurchase Program was increased from 700,000 to 1,500,000 shares of common stock and the Repurchase Program was extended until October 1, 2007, or until the increased amount of shares is purchased.

Pursuant to the Sale and Purchase Agreement of Navigator, the Company received 622,531 shares of the Company's common stock as partial consideration on February 16, 2007, the closing date. The Company shares were valued at $1.34 per share, representing the closing price of the Company on the NASDAQ Capital Market on February 16, 2007. The Company canceled the Emvelco common stock acquired during the disposition in the amount of $834,192.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits (numbers below reference Regulation S-B, Item 601)

(3) 1.1	Certificate of Incorporation filed November 9, 1992[(1)]
2	Amendment to Certificate of Incorporation filed July 9, 1997[(2)]
3	Restated Certificate of Incorporation filed May 29, 2003
4.4	Restated By-laws (filed as an exhibit to the Form 10-QSB for the quarter ended September 30, 2004)
(10) 1	Shares Purchase Agreement between PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company, and Emvelco Corp., a Delaware corporation (3)
(10) 2	Guaranty by Emvelco International Corp., a Delaware corporation, in favor of PanTel Tavkozlesi es Kommunikacios rt., a Hungarian company (3)
(10) 3	Shares Purchase Agreement between Vitonas Investments Limited, a Hungarian corporation, Certus Kft., a Hungarian corporation, Rumed 2000 Kft., a Hungarian corporation and Emvelco International Corp., a Delaware corporation, dated as of February 23, 2004. (4)
(10) 4	Share Purchase Agreement by and between Emvelco International Corp. and Invitel Tavkozlesi Szolgaltato Rt. (5)
(10) 5	Investment Agreement, dated as of June 19, 2006, by and between EWEB RE Corp. and AO Bonanza Las Vegas, Inc. (6)
(10) 6	Sale and Purchase Agreement, dated as of February 16, 2007, by and between Emvelco Corp. and Marivaux Investments Limited (7)
(10) 7	Stock Transfer and Assignment of Contract Rights Agreement, dated as of May 14, 2007 among Emvelco Corp., Emvelco RE Corp., The International Holdings Group Ltd., and Verge Living Corporation (8)
(10) 8	Memorandum of Understanding, dated as of May 31, 2007, among Emvelco Corp., Emvelco RE Corp., and Yossi Attia
(10).9	Agreement and Plan of Exchange with Davy Crockett Gas Company, LLC and the members of Davy Crockett Gas Company, LLC dated May 1, 2008 (9)
(10).10	Form of Convertible Note dated May 1, 2008 (9)
(31) 1	Certification of the Chief Executive Officer, Principal Accounting Officer and Principal Financial Officer of EMVELCO Corp. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32) 2	Certification of the Chief Executive Officer, Principal Accounting Officer and Principal Financial Officer of EMVELCO Corp. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Exhibits are incorporated by reference to Registrant's Registration Statement on Form SB-2 dated May 12, 1993 (Registration No. 33-62672-NY, as amended)

(2) Filed with Form 10-QSB for quarter ended June 30, 1998.

(3) Filed as an exhibit to Form 8-K on February 27, 2004.

(4) Filed as an exhibit to Form 8-K on March 9, 2004.

(5) Filed as an exhibit to Form 8-K on December 21, 2005.

(6) Filed as an exhibit to Form 8-K on June 23, 2006

(7) Filed as an exhibit to Form 8-K on February 20, 2007

(8) Filed as an exhibit to Form 8-K on May 16, 2007

(9) Filed as an exhibit to the Form 8K Current Report filed May 7, 2008

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, California, on May 20, 2008.

EMVELCO CORP.

By: /s/ Yossi Attia

Yossi Attia
Chief Executive Officer and Principal
Financial Officer