

# **ISSUER INFORMATION DISCLOSURE**

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## **HOLLUND INDUSTRIAL MARINE, INC.** (a Washington Corporation)

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**107-417 477 Peace Portal Drive  
Blaine, WA 98230**

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## **2012 ANNUAL REPORT**

**For the period ended December 31, 2012**

**April 15, 2013**

# **HOLLUND INDUSTRIAL MARINE, INC.**

April 15, 2013

**Information required for compliance with the provisions of the  
OTC Markets Group Inc. (f/k/a Pink Sheets, LLC)  
Guidelines for Providing Adequate Current Information  
(Version 10.2 – January 3, 2013)**

The following information specifies forward-looking statements of our management; this Issuer Information Statement (this “Disclosure”) contains certain “forward-looking statements” (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended). These statements reflect our current expectations regarding our possible future results of operations, performance, and achievements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, regulation of the Securities and Exchange Commission, and common law.

Wherever possible, we have tried to identify these forward-looking statements by using words such as “anticipate,” “believe,” “estimate,” “expect,” “plan,” “intend,” and similar expressions. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties and contingencies include, without limitation, the factors set forth under “Item XVI. Management’s Discussion and Analysis or Plan of Operation.” We have no obligation to update or revise any such forward-looking statements that may be made to reflect events or circumstances after the date of this Issuer Information Disclosure.

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet and revenue and expenses in the statement of operations. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the annual periods presented have been reflected herein.

## **Part A General Company Information**

### **Item I      The exact name of the issuer and its predecessor (if any).**

The exact name of the Issuer is HOLLUND INDUSTRIAL MARINE, Inc. (the “Issuer” or “Company”).

Other than listed above, the Issuer has used the following names in the past five years:  
Formerly = Hollund Industrial, Inc. until 8-2008

Formerly = Carver Corp. until 11-07

**Item II            The address of the issuer's principal executive offices.**

107-417 477 Peace Portal Drive  
Blaine, WA 98230  
Phone: (604) 534-8102  
Fax: (604) 534-8118

E-mail: [info@hollundindustrial.com](mailto:info@hollundindustrial.com)  
Website: <http://www.hollundindustrial.com>

**Item III            The jurisdiction(s) and date of the issuer's incorporation or organization.**

We were originally incorporated in Washington on July 29, 1988 as "Carver Corporation." In August 2008, we changed our name to "Hollund Industrial, Inc."

State: Washington  
Date of Incorporation: 1988

**Part B Share Structure**

**Item IV            The exact title and class of securities outstanding.**

The Issuer has authorized four classes of securities: one class of common stock and three classes of preferred stock.

- (1) Common Stock  
The Issuer's CUSIP number is 435730304  
The Issuer's trading symbol is HIMR
- (2) Preferred A Stock
- (3) Preferred B Stock
- (4) Preferred C Stock

**Item V            The par or stated value of each class of security.**

- (1) Common Stock  
The Issuer's CUSIP number is 435730304  
The Issuer's trading symbol is HIMR

A. Par or Stated Value.

The par value for the common stock authorized and issued by the Issuer is \$0.000001.

B. Common Stock.

1. Each share of common stock of the Issuer has one vote, and is entitled to dividends, if and when authorized and issued by the Board of Directors. There are no preemptive rights.
2. There are no provisions in the Company's corporate charter or by-laws that would delay, defer or prevent a change in control of the Company.

(2) Preferred A Stock

A. Par or Stated Value.

The par value for the preferred stock authorized and issued by the Issuer is \$0.001.

B. Preferred A Stock.

Rights of Series a Preferred Stock Stockholders and Rules of Issuance.

If at least one share of Series A Preferred Stock is issued and outstanding, then the total aggregate issued shares of Series A Preferred Stock at any given time, regardless of their number, shall be convertible into the number of shares of Common Stock which equals 75% of the total number of shares of Common Stock which are issued and outstanding at the time of conversion, divided by the total number of shares of Series A Preferred Stock at the time of conversion.

Preferred Stock at the time of conversion.

Shares of Preferred Stock may only be issued in exchange for the partial or full retirement of debt held by Management, employees, consultants, or those creditors that are designated, as voted upon by a majority of the Board of Directors, to receive Series A Preferred Stock. The number of Shares of Preferred Stock to be issued to each qualified person (number of Management, employee, consultant or creditor of the company) holding a Note shall be determined by the following formula: number of U.S. dollars = number of shares of Series A of debt retired Preferred Stock to be issued (E.g.: US\$1 of debt retired = 1 share of Series A Preferred Stock) If at least one share of Series A Preferred Stock is issued and outstanding, then the total aggregate issued shares of Series A Preferred Stock at any given time, regardless of their number, shall have voting rights equal to 75% of the total number of shares of Common Stock issued and outstanding at the time of any vote of shareholders. Each individual share of Series A Preferred Stock shall have the voting rights equal to 75% of the number of shares of Common Stock issued and outstanding at the time of any vote of shareholders, divided by the number of shares of Series A Preferred Shares which are issued and outstanding at the time of the

vote.

### (3) Preferred B Stock

#### A. Par or Stated Value.

The par value for the preferred stock authorized and issued by the Issuer is \$0.001.

#### B. Preferred B Stock.

**DIVIDENDS.** The holders of Series B Preferred Stock shall be entitled to receive dividends when, as and if declared by the Board of Directors, in its sole discretion.

**LIQUIDATION RIGHTS.** Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any stock ranking junior to the Series B Preferred Stock, the holders of the Series B Preferred Stock shall be entitled to be paid out of the assets of the Corporation an amount equal to \$1.00 per share or, in the event of an aggregate subscription by a single subscriber for Series B Preferred Stock in excess of \$100,000, \$0.997 per share (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares) (the "Preference Value"), plus all declared but unpaid dividends, for each share of Series B Preferred Stock held by them after the payment of the full applicable Preference Value of each share of the Series B Preferred Stock as set forth herein, the remaining assets of the Corporation legally available for distribution, if any, shall be distributed ratably to the holders of the Corporation's Common Stock.

**CONVERSION AND ANTI-DILUTION.** Each share of Series B Preferred Stock shall be convertible, at any time, and/or from time to time, into the number of shares of the Corporation's common stock, par value \$0.001 per share (the "Common Stock") equal to the price of the Series B Preferred Stock as stated in 11.6 of the Bylaws, divided by the par value of the Common Stock, subject to adjustment as may be determined by the Board of Directors from time to time (the "Conversion Rate"). For example, assuming a \$2 price per share of Series B Preferred Stock, and a par value of \$0.001 per share for Common Stock, each share of Series B Preferred Stock would be convertible into 2,000 shares of Common Stock. Such conversion shall be deemed to be effective on the business day (the "Conversion Date") following the receipt by the Corporation of written notice from the holder of the Series B Preferred Stock of the holders intention to convert the shares of Series B Stock, together with the holders stock certificate or certificates evidencing the Series B Preferred Stock to be converted.

Promptly after the Conversion Date, the Corporation shall issue and deliver to such holder a certificate or certificates for the number of full shares of Common Stock issuable to the holder pursuant to the holder's conversion of Series B Preferred Shares in accordance with the provisions of this Section. The stock certificate(s) evidencing the Common Stock shall be issued with a restrictive legend indicating that it was issued in a

transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and that it cannot be transferred unless it is so registered, or an exemption from registration is available, in the opinion of counsel to the Corporation. The Common Stock shall be issued in the same name as the person who is the holder of the Series B Preferred Stock unless, in the opinion of counsel to the Corporation, such transfer can be made in compliance with applicable securities laws. The person in whose name the certificate(s) of Common Stock are so registered shall be treated as a holder of shares of Common Stock of the Corporation on the date the Common Stock certificate(s) are so issued.

All shares of Common Stock delivered upon conversion of the Series B Preferred Shares as provided herein shall be duly and validly issued and fully paid and non-assessable. Effective as of the Conversion Date, such converted Series B Preferred Shares shall no longer be deemed to be outstanding and all rights of the holder with respect to such shares shall immediately terminate except the right to receive the shares of Common Stock issuable upon such conversion,

The Corporation covenants that it will at all times reserve and keep available out of its authorized but unissued shares of Common Stock, for the purpose of effecting conversions of the Series B Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of the Series B Preferred Stock not converted. For purposes of this Section, the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of the Series B Preferred Stock shall be computed as if at the time of computation all the outstanding shares were held by a single holder.

Shares of Series B Preferred Stock are anti-dilutive to reverse splits, and therefore in the case of a reverse split, are convertible to the number of Common Shares after the reverse split as would have been equal to the ratio established prior to the reverse split. Shares of Series B Preferred Stock, however, would participate in forward splits, and may not be diluted by a reverse split following a forward split

**VOTING RIGHTS.** Each share of Series B Preferred Stock shall have one vote for any election or other vote placed before the shareholders of the Company.

**PRICE.** The initial price of each share of Series B Preferred Stock shall be \$2.00

The price of each share of Series B Preferred Stock may be changed either through a majority vote of the Board of Directors through a resolution at a meeting of the Board, or through a resolution passed at an Action Without Meeting of the unanimous Board, until such time as a listed secondary and/or listed public market develops for the Shares.

**LOCK-UP RESTRICTIONS ON CONVERSION.** Shares of Series B Preferred Stock may not be converted into shares of Common Stock for a period of a) six (6) months after purchase, if the Company voluntarily or involuntarily files public reports pursuant to Section 12 or 15 of the Securities Exchange Act of 1934; or b) twelve (12) months if the

Company does not file such public reports.

(4) Preferred C Stock

A. Par or Stated Value.

The par value for the preferred stock authorized and issued by the Issuer is \$0.000001.

B. Common or Preferred Stock.

**DIVIDENDS.** The holders of Series C Preferred Stock shall be entitled to receive dividends when, as and if declared by the Board of Directors, in its sole discretion.

**LIQUIDATION RIGHTS.** Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any stock ranking junior to the Series C Preferred Stock, the holders of the Series C Preferred Stock shall be entitled to be paid out of the assets of the Corporation an amount equal to \$1.00 per share or, in the event of an aggregate subscription by a single subscriber for Series C Preferred Stock in excess of \$100,000, \$0.997 per share (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares) (the "Preference Value"), plus all declared but unpaid dividends, for each share of Series C Preferred Stock held by them after the payment of the full applicable Preference Value of each share of the Series C Preferred Stock as set forth herein, the remaining assets of the Corporation legally available for distribution, if any, shall be distributed ratably to the holders of the Corporation's Common Stock.

**CONVERSION AND ANTI-DILUTION.** Each share of Series C Preferred Stock shall be convertible, at any time, and/or from time to time, into the number of shares of the Corporation's common stock, par value \$0.000001 per share (the "Common Stock") equal to the price of the Series C Preferred Stock as stated in the Bylaws, divided by the par value of the Common Stock, subject to adjustment as may be determined by the Board of Directors from time to time (the "Conversion Rate"). For example, assuming a \$2 price per share of Series C Preferred Stock, and a par value of \$0.000001 per share for Common Stock, each share of Series C Preferred Stock would be convertible into 2,000,000 shares of Common Stock. Such conversion shall be deemed to be effective on the business day (the "Conversion Date") following the receipt by the Corporation of written notice from the holder of the Series C Preferred Stock of the holder's intention to convert the shares of Series C Stock, together with the holder's stock certificate or certificates evidencing the Series C Preferred Stock to be converted. Promptly after the Conversion Date, the Corporation shall issue and deliver to such holder a certificate or certificates for the number of full shares of Common Stock issuable to the holder pursuant to the holder's conversion of Series C Preferred Shares in accordance with the provisions of this Section. The stock certificate(s) evidencing the Common Stock shall be issued with a restrictive legend indicating that it was issued in a transaction exempt from

registration under the Securities Act of 1933, as amended (the "Securities Act"), and that it cannot be transferred unless it is so registered, or an exemption from registration is available, in the opinion of counsel to the Corporation. The Common Stock shall be issued in the same name as the person who is the holder of the Series C Preferred Stock unless, in the opinion of counsel to the Corporation, such transfer can be made in compliance with applicable securities laws. The person in whose name the certificate(s) of Common Stock are so registered shall be treated as a holder of shares of Common Stock of the Corporation on the date the Common Stock certificate(s) are so issued. All shares of Common Stock delivered upon conversion of the Series C Preferred Shares as provided herein shall be duly and validly issued and fully paid and non-assessable. Effective as of the Conversion Date, such converted Series C Preferred Shares shall no longer be deemed to be outstanding and all rights of the holder with respect to such shares shall immediately terminate except the right to receive the shares of Common Stock issuable upon such conversion. The Corporation covenants that it will at all times reserve and keep available out of its authorized but unissued shares of Common Stock, for the purpose of effecting conversions of the Series C Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of the Series C Preferred Stock not converted. For purposes of this Section, the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of the Series C Preferred Stock shall be computed as if at the time of computation all the outstanding shares were held by a single holder. Shares of Series C Preferred Stock are anti-dilutive to reverse splits, and therefore in the case of a reverse split, are convertible to the number of Common Shares after the reverse split as would have been equal to the ratio established in Section II.4 (a) prior to the reverse split. Shares of Series C Preferred Stock, however, would participate in forward splits, and may not be diluted by a reverse split following a forward split

**VOTING RIGHTS.** Each share of Series C Preferred Stock shall have one vote for any election or other vote placed before the shareholders of the Company.

**PRICE.** The initial price of each share of Series C Preferred Stock shall be \$2.00. The price of each share of Series C Preferred Stock may be changed either through a majority vote of the Board of Directors through a resolution at a meeting of the Board, or through a resolution passed at an Action Without Meeting of the unanimous Board, until such time as a listed secondary and/or listed public market develops for the Shares.

**LOCK-UP RESTRICTIONS ON CONVERSION.** Shares of Series C Preferred Stock may not be converted into shares of Common Stock for a period of a) six (6) months after issuance, if the Company voluntarily or involuntarily files public reports pursuant to Section 12 or 15 of the Securities Exchange Act of 1934; or b) twelve (12) months if the Company does not file such public reports.

**Item VI      The number of shares or total amount of the securities outstanding for each class of securities authorized.**



### Common Stock

	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>
Period End Date	12-31-2012	12-31-2011	12-31-2010
Common Shares Authorized	10,000,000,000	750,000,000	500,000,000
Common Shares Outstanding	4,189,341,272	302,002,772	7,402,763
Free Trading Common Shares	3,463,241,242	302,002,772	7,402,763
Total Number of Shareholders	612	152	195

### Preferred A Stock

	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>
Period End Date	12-31-2012	12-31-2011	12-31-2010
Common Shares Authorized	2,000,000	2,000,000	2,000,000
Common Shares Outstanding	0	0	2
Free Trading Preferred Shares	0	0	0
Total Number of Shareholders	0	0	2

### Preferred B Stock

	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>
Period End Date	12-31-2012	12-31-2011	12-31-2010
Common Shares Authorized	10,000,000	10,000,000	10,000,000
Common Shares Outstanding	0	0	920,000
Free Trading Preferred Shares	0	0	0
Total Number of Shareholders	0	0	9

### Preferred C Stock

	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>	<u>Fiscal Year End</u>
Period End Date	12-31-2012	12-31-2011	12-31-2010
Common Shares Authorized*	10,000,000	10,000,000	0
Common Shares Outstanding*	696,841	354,829	0
Free Trading Preferred Shares	398	0	0
Total Number of Shareholders	18	1	0

### **Item VII      The name and address of the transfer agent**

Transfer Online, Inc.  
512 SE Salmon Street  
Portland, OR 97214

Phone: 503.227.2950  
Facsimile: 503.227.6874

Transfer Online, Inc. is registered under the Federal Exchange Act, and as such is regulated by the Securities and Exchange Commission, in conjunction with FINRA.

## **Part C Business Information**

### **Item VIII      The nature of the issuer's business.**

## **Part A Business Development.**

**1. The form of the organization of the issuer;**

Hollund Industrial Marine, Inc. is incorporated as a Washington corporation.

**2. The year the issuer (or any predecessor) was organized;**

The Issuer was organized under the laws of the State of Washington in 1988.

**3. The Issuer's fiscal year end date;**

The issuer's fiscal year end date is December 31.

**4. Whether the issuer (and/or any predecessor) has been in bankruptcy, receivership, or any similar proceeding;**

The predecessor company, Carver Corporation, filed for bankruptcy protection on May 12, 1999, under a Chapter 11 reorganization plan, and then converted to a liquidation plan on June 12, 2003. That proceeding was concluded on December 29, 2005.

**5. Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business;**

The Issuer has not effectuated a reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business, except as follows:

On November 20, 2007, we completed a reverse merger with Hollund Industrial, Inc. and changed our name to Hollund Industrial, Inc. as the surviving company.

On February 18, 2008, we entered into a Stock Purchase Agreement to acquire 100% of the issued and outstanding stock of Hollund Industrial Robotics Systems, Inc. which then became our wholly owned subsidiary of the Company. The assets included all rights, patents and physical components of the Tiger-Lynk underwater manipulator system. However, on April 2, 2012, the parties canceled the Stock Purchase Agreement.

**6. Any default of the terms of any note, loan, lease, or other indebtedness or other indebtedness or financing arrangement requiring the issuer to make payments.**

As of the date of this disclosure, there are no defaults on any notes, loans, leases, or other indebtedness or financing arrangement requiring the Issuer to make payments.

**7. Any change of control.**

As of the date of this disclosure there has been no change of control.

**8. Any increase in 10% or more of the same class of outstanding equity securities;**

During the 2012 fiscal year, there has been no increase of 10% or more of the same class of outstanding equity securities. See Note 7 of Attached Exhibit 1

**9. Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization;**

There are no pending or anticipated stock splits, stock dividend, recapitalization, merger, spin-off, or reorganization.

Past stock splits are as follows:

On March 21, 2007, the Company effectuated a 1-for-100 reverse stock split of the Company's issued and outstanding common stock.

On November 20, 2007, the Company effectuated a recapitalization of the Company by means of a 17-for-1 forward stock split of the Company's issued and outstanding common stock.

On October 2, 2008, the Company completed a mandatory share certificate exchange whereby certificates representing 261,450,054 shares were received and processed.

On June 25, 2010, the Company effectuated a 1-for-100 reverse stock split of the Company's issued and outstanding common stock.

On December 3, 2010, the Company effectuated a 1-for-1000 reverse stock split of the Company's issued and outstanding common stock.

**10. Any delisting of the issuer's securities by any securities exchange or NASDAQ;**

There has been no delisting of the Issuer's securities by any securities exchange or NASDAQ. On May 14, 2007 the Company filed a Form 15-12G Certification and Notice of Suspension of Duty to File Reports under Sections 13 and 15(d) of the Securities Exchange Act of 1934.

**11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved.**

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the Issuer's business, financial condition, or operations.

**Part B - Business of Issuer.**

**1. The issuer's primary and secondary SIC codes;**

The Issuer's primary SIC Code is 3553 and its secondary SIC Code is 3559.

**2. Whether the issuer has never conducted operations, is in the development stage or is currently conducting operations.**

The Issuer is currently in the development stage of its operations.

**3. Whether the issuer is or has at any time been a “shell company”.**

Hollund has ongoing operations, a dedicated staff, bank accounts, account payables, and as we believe by a definitional basis, is *not* considered a “shell company” pursuant to SEC Rule 405 of the Securities Act of 1933.

**4. The names of any parent, subsidiary, or affiliate of the issuer, and describe its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this disclosure document.**

There are no parents, subsidiaries or affiliates of issuer that are included in the financial statements attached to this disclosure document.

**5. The effect of existing or probable governmental regulations on the business;**

There are no known effects on existing or probable governmental regulations on the ongoing operations of the business.

**6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and if applicable, the extent to which the cost of such activities are borne directly by customers;**

Not applicable.

**7. Costs and effects of compliance with environmental laws (federal, state and local);**

There have been no costs incurred and the issuer business is not affected by any environmental laws.

**8. Total number of employees and number of full time employees;**

The Issuer at the date of this disclosure has two (2) persons under its employ.

**Item IX      The nature of products or services offered.**

**A. Principal products or services, and their markets;**

The Company offers integrated project development services and solutions for underwater natural resource industries. Our experience, services and solutions particularly focus on underwater forest management. These integrated project development services include resource

and needs assessment, permitting, environmental and project planning, logging, milling, product branding, marketing and sales.

Estimates from 2006, places approximately 300 million trees worth in excess of \$50 billion inundated by over 50,000 man-made lakes and large dam reservoirs covering over 80 million acres around the world. The company has focused in the tropical regions where a large percentage of the underwater forest contains exotic hardwood species. These trees are highly sought after in the marketplace due to their eco-friendly nature and high quality. As a result, underwater harvested wood can sell at a significant premium to comparable new wood. There is a proven market worldwide for underwater wood products including veneer, hardwood flooring, decking, siding and dimensional lumber.

The Company has an exclusive license agreement on a patented articulated robot manipulator technology named “Tiger-Lynk” which is designed to operate like traditional forest “feller buncher” equipment. The robot arm is comprised of 5 booms connected by four rotary joints. When fully extended, the arm provides a maximum reach of 120 feet and work envelope of 1,100 m<sup>3</sup>.

What we believe sets the Tiger-Lynk machine system apart is the fully articulated Robot Manipulator. Tiger-Lynk robot arms offer heavy-duty construction, 7-9 degrees of freedom, and up to 50 ton lift capacity. Tiger-Lynk arms can be mounted on vessels, barges or platforms, making it convenient to integrate into existing operations. And when paired with one of Tiger-Lynk’s industrial tools, you can perform a wide array of construction and recovery services- all on the same system. You can also integrate a variety of standard tool components via multi-hydraulic circuitry located at the wrist. Tiger-Lynk’s design enables scalable arm configurations, with models ranging in length from 50 to 200 feet. Powerful. Versatile. Innovative. Tiger-Lynk machine systems with heavy duty RM Technology are redefining the way contractors work underwater.

Tiger-Lynk is well suited for heavy construction and repair (bridges, dams, offshore platforms and rigs, pipelines, levees, etc.), forest recovery, mining, flood emergency response, diver assistance, cutting, drilling, grapppling, welding, dredging, raking, heavy transport, and other remote services.

#### **B. Distribution methods of the products or services;**

The Company has currently engaged North Cal Wood Products, Inc. for the exclusive distribution of the Company’s wood products.

#### **C. Status of any publicly announced new product or service;**

Not applicable.

#### **D. Competitive business conditions, the issuer’s competitive position in the industry, and methods of competition;**

The natural resource industry and in particular the forest sector business is very competitive. However, we are one of the only companies in the world with highly specialized technology specifically designed for underwater forest harvesting on a commercial scale. This technology provides us with an advantage over all other mechanical or diver based underwater logging companies that we are aware of. However, other forest companies have greater financial, and personnel resources that may in time allow them to enjoy certain advantages and allow them to implement competitive business plans before we do. We may not be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by us or implemented in the future may become obsolete. In such case, our business, financial condition and results of operations could be materially adversely affected. If we are unable to utilize the most advanced commercially available technology, our business, financial condition and results of operations could be materially and adversely affected.

**E. Sources and availability of raw materials and the names of principal suppliers;**

There are no dependencies.

**F. Dependence on one or a few major customers;**

The Company does not believe it will be dependent upon a few major customers for its sales.

**G. Patents, trademarks, licenses, franchises, concessions, royalty agreements, or labor contracts, including their duration;**

The Company has a 10 year exclusive license agreement on Tiger-Lynk Articulated Boom and Head whose patented technology includes the following:

Canadian Patent 2,268,515. US Patent 6,024,145 including all rights, title and interest to the Tiger-Lynk logo, in all formats and colors, as well as Tiger-Lynk trademarks and marketing rights.

**H. The need for government approval of principal products or services and the status of any requested government approvals.**

**Environmental.** We are a natural resource based company and as such are subject to various federal, state and local laws and regulations relating to environmental protection and pollution control in the various areas where our concessions are located. We are currently not paying any costs to comply with environmental laws; however these costs may increase in the future. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date. Specifically, we are subject to legislation regarding emissions into the environment, water quality protection aquatic species protection and aquatic habitat protection. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Generally,

environmental requirements do not appear to affect us any differently or to any greater or lesser extent than other companies in the industry.

**Governmental Regulation.** The Company's operations are subject to federal, state, provincial, and local laws relating to the protection of the environment, including laws regulating removal of natural resources and the discharge of materials into the environment. The Company's operations are also subject to federal, state, provincial, and local laws and regulations which seek to maintain health and safety standards. Various permits from government bodies are required for the Company's operations to be conducted; we may not be able to receive such permits. Environmental standards imposed by federal, state, provincial, or local authorities may change and any such changes might have a material adverse effect on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on us. Compliance with these laws and regulations has not had a material effect on our operations or financial condition to date.

**Item X            The nature and extent of the issuer's facilities.**

The Company owns no real estate. It currently maintains its corporate offices at 107-417 477 Peace Portal Drive, Blaine, Washington, 98230.

**Part D Management Structure and Financial Information**

**Item XI            The name of the chief executive officer, members of the board of directors, as well as control persons.**

**A – Officers and Directors**

(1) Peter Meier  
President  
107-417 477 Peace Portal Drive  
Blaine, WA 98230

**Board memberships and other affiliations – None**  
**Compensation - \$36,000 annually with additional bonuses as applicable**  
**Number of Shares Owned: 25,000,000 Common Shares**

Mr. Meier has over 20 years of experience working specifically in the lumber exporting sector for BC Forest Products, Fletcher Challenge Canada and International Forest Products. He has extensive business management experience and has consulted and been active in the public market for over 15 years.

(2) Sheldon Romain  
Vice-President  
107-417 477 Peace Portal Drive  
Blaine, WA 98230

**Board memberships and other affiliations – None**  
**Compensation - \$36,000 annually with additional bonuses as applicable**  
**Number of Shares Owned: 25,000,000 Common Shares**

Mr. Romain has 24 years of experience in the natural resource industries and environmental protection. He has planned and directed a wide variety of projects in Forestry, Oil and Gas, Mining, Hydroelectric, Transportation and Environmental Management.

### **Directors**

Peter Meier  
Sheldon Romain

**B - Legal/Disciplinary History Identify whether any of the foregoing persons have in the last five years, been the subject of:**

**1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);**

None of the foregoing persons have been the subject of a conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding.

**2. The entry of an order, judgment, or decree not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such a person's involvement in any type of business, securities, commodities, or banking activities;**

None of the foregoing persons have been the subject of any order, judgment, or decree, that permanently or temporarily enjoined, barred, suspended or otherwise limited such a person's involvement in any type of business, securities, commodities, or banking activities

**3. A finding or judgment by a court of competent jurisdiction (in a civil action), the SEC, the CFTC, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated;**

None of the foregoing persons have been the subject of any finding or judgment by a court of competent jurisdiction (in a civil action), the SEC, the CFTC, or a state securities regulator of a violation of federal or state securities or commodities law.

**4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.**

None of the foregoing persons have been the subject of any order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.



### **C - Disclosure of Family Relationships**

There are no disclosable family relationships between the issuer, its officers or directors and family members outside the Company.

### **D - Disclosure of Related Party Transactions**

There are no related party transactions.

### **E - Disclosure of Conflicts of Interest**

There are no business relationships outside of the company with the officers and directors of the Company to cause a conflict of interest.

### **Item XII      Financial information for the issuer's most recent fiscal period.**

The following documents are filed under “*Exhibit I*” and are included as part of this Disclosure:

Financial Statements of the Company for the years ended December 31, 2011 and 2012:

Balance Sheets  
Statements of Income  
Statements of Stockholders' Equity  
Statements of Cash Flows  
Notes to Financial Statements

See Attached Exhibit 1

### **Item XIII      Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.**

The two preceding fiscal years financial statements are uploaded as separate documents and are fully incorporated herein by reference and may be found through the OTC Disclosure and News Service at <http://www.otcmarkets.com/stock/HIMR/financials>.

### **Item XIV      Beneficial Owners.**

There are four (4) registered shareholders with 5% or more of the Company's issued and outstanding shares:

Azteck Group of Companies, LTD	488,000,000
Coastal Shore Consulting, LLC	300,000,000
Coastal Consulting, LTD	260,000,000

John Haylock

350,000,000

Total 1,398,000,000

**Item XV The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure:**

1. Investment Banker

None

2. Promoters

None

3. Counsel

Stephen Roberts, Esq  
M. Stephen Roberts A Professional law Corporation  
2501 Nicholson Drive  
Baton Rouge LA 70802  
Phone: 225-389-8300  
Fax: 225-389-0870  
[www.SteveRobertsLaw.com](http://www.SteveRobertsLaw.com)

4. Accountant or Auditor

Accountant:

Wong Johnson and Associates APC  
41856 Ivy Street, Suite 203  
Murrieta, California 92562-8805  
Telephone 951-693-1120  
[dgj@wjacpa.com](mailto:dgj@wjacpa.com)

PCAOB Auditor:

None

5. Public Relations Consultant(s)

None

6. Investor Relations Consultant

None

7. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement

None

**Item XVI      Management's Discussion and Analysis or Plan of Operation.**

**Forward Looking Statements**

Some of the statements contained in this Annual Report that are not historical facts are “forward-looking statements” which can be identified by the use of terminology such as “*anticipate*,” “*believe*,” “*estimate*,” “*expect*,” “*plan*,” “*project*,” “*intend*,” or the negative or other variations, or by discussions of strategy that involve risks and uncertainties. We urge you to be cautious of the forward-looking statements, that such statements, which are contained in this Annual Report, reflect our current beliefs with respect to future events and involve known and unknown risks, uncertainties and other factors affecting our operations, market growth, services, products and licenses. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of the risks we face, and actual events may differ from the assumptions underlying the statements that have been made regarding anticipated events. Factors that may cause actual results, our performance or achievements, or industry results, to differ materially from those contemplated by such forward-looking statements include without limitation:

- Our ability to attract and retain qualified management;
- Our ability to raise capital when needed and on acceptable terms and conditions;
- Our ability to successfully partner and harvest the Company's products;
- The intensity of competition; and
- General economic conditions.

All written and oral forward-looking statements made in connection with this Annual Report that is attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given the uncertainties that surround such statements, you are cautioned not to place undue reliance on such forward-looking statements.

*The following discussion should be read in conjunction with our financial statements and the related notes contained elsewhere in this Annual Report and in our other Pink Sheets filings, including our Pink Sheets Initial Disclosure Report for the period ended Dec 31,2012.*

**A. PLAN OF OPERATION**

**BUSINESS OVERVIEW**

The Company offers integrated project development services and solutions focused on underwater forest management. The Company has an exclusive license agreement on a patented articulated robot manipulator technology named “Tiger-Lynk.” Tiger-Lynk is a machine

technology designed to operate like traditional forest harvesting equipment. The robot arm is comprised of 5 booms connected by four rotary joints which is well suited for heavy construction and repair (bridges, dams, offshore platforms and rigs, pipelines, levees, etc.), forest recovery, mining, flood emergency response, diver assistance, cutting, drilling, grappling, welding, dredging, raking, heavy transport, and other remote services.

Estimates from 2006, places approximately 300 million trees inundated in over 50,000 manmade lakes and large hydroelectric dam reservoirs worldwide. Many of the resulting reservoirs contain sufficient forest resources to sustain long term commercial operations. Brazil, a leading dam building nation with over 4,000 square miles of flooded Amazon forests is one of our primary geographic markets. Additional target areas include large reservoirs within additional countries of South America, Central America, North America, Asia and Europe. In addition, hundreds of new dams are being built each year, adding even more reserves to an already huge forest base. The Company has focused on tropical regions where existing reservoirs contain exotic hardwood species. The wood products from these flooded trees are highly sought after due to their ecologically friendly nature, their unique qualities resulting from inundation in the aquatic environment and their high quality. As a result, underwater harvested wood can sell at a premium in comparison to the majority of wood sold on the market today. In addition, developing these non-living forest resources can also aid in reducing deforestation and its impact on climate change.

## **RISKS AND UNCERTAINTIES**

The business of exploration, development, production and acquisition of underwater forestry and concessions granting rights to such, involves a number of uncertainties and as a result the Company is exposed to certain business risks inherent in the forestry industry which impact our results. Information on these and other risk factors that could affect operations or financial results are included in more detail under the heading “Risk Factors” of our prior filings with the Securities and Exchange Commission and all such “Risk Factors” are fully incorporated herein.

## **COMMITMENTS**

In the normal course of business, the Company may enter into contractual obligations including the following:

- purchase of services;
- royalty agreements;
- operating agreements;
- flow through share agreements; and
- lease agreements for office space, and office equipment.

## **TWELVE MONTH PLAN OF OPERATION**

The Company is currently working to secure a number of underwater logging concession opportunities in which we will employ the Tiger-Lynk technology to harvest inundated forests on a commercial scale in a safe, environmentally friendly and cost effective manner. We have interests from numerous parties in partnering to develop the Tiger-Lynk technology. Demand for

our product and services will depend in large part on the demand for wood fiber. That demand will be largely fueled by global population growth and need for infrastructure. At the same time deforestation is consuming millions of acres of wood fiber each year. We believe these factors will increase the demand for products necessary to the harvesting of submerged hardwood. Once we have a definitive purchase order, we will start to raise the money necessary to complete our first unit (the AR-120). Once this has been completed, we have identified a few key personnel to help expand the Company into additional industries (i.e.: offshore drilling, Port Cleanup, and Military applications). We do not foresee any need to build or purchase a production facility, as we plan to contract a manufacturer to provide us with warranty and worldwide servicing that we could not provide at this stage of the company.

We plan to raise additional funds in order to manufacture the Tiger-Lynk AR-120, conduct work utilizing the Tiger-Lynk, acquire new concessions to properties, and to generally meet our future corporate obligations. We plan to raise funds through the sale of our common stock or through loans. There is no guarantee that we will be successful in arranging the required financing. Our future success will be materially dependent upon our ability to satisfy additional financing requirements. We are reviewing our options to raise equity capital. We cannot estimate when we will begin to realize revenue. In order to satisfy our requisite budget, we have held and will continue to conduct negotiations with various investors. We cannot predict whether these negotiations will result in additional investment income for us. Funding for our operations may not be available under favorable terms, if at all. If adequate funds are not available, we may be required to further curtail operations significantly or to obtain funds by entering into arrangements with collaborative partners or others that may require us to relinquish rights that we would not otherwise relinquish.

Our current exploitation and development plans are described in this disclosure document. Whether we undertake an exploitation or development project will depend on the following factors:

- availability and cost of capital;
- receipt of additional geographical data or the reprocessing of existing data;
- current and projected lumbar gas prices;
- the costs and availability of equipment supplies and personnel necessary to conduct operations;
- success or failure of activities in similar areas;
- changes in the estimates of the costs to complete our projects;
- our ability to attract other industry partners to acquire a portion of the working interests, to reduce costs and exposure to risks;
- decisions of our joint working interest owners and partners;
- defects in title or loss of any potential concessions could limit our abilities or result in significant unanticipated costs;
- decreased availability or increased costs of key equipment, supplies or commodities could decrease our profitability;
- our operations may adversely impact the environment which could result in material liabilities to us;
- we may be required to obtain governmental permits and approvals for operations, which can be a costly and time-consuming process, can result in restrictions on our

- operations, and may delay or prevent us from obtaining necessary permits; and
- Union represented labor may result in an increased risk of work stoppages and increased labor costs.

We will continue to gather data about our projects, and it is possible that additional information will cause us to alter our schedule or determine that a project should not be pursued. You should understand that our plans regarding our projects might change.

## **B. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

As of December 31, 2012, the Company has been involved primarily with acquiring an exclusive license agreement on the Tiger-Lynk technology and organizing and restructuring the company to meet the needs of shareholders and attract a suitable financing. We now have an opportunity to provide and operate a product uniquely designed for harvesting submerged forests and recovering hardwood in a safe and cost effective manner.

To fund operations for the next twelve (12) month period, we project a need for \$2.3 million that we will have to raise through debt or equity. We have already identified a manufacturer with facilities designed and capable of producing the Tiger-Lynk AR-120 and providing worldwide warranty and service.

Over the next twelve (12) months, we do not plan on significant product research and development other than required modifications to equipment to improve efficiency and adapt it to specific operating platforms as required for specified uses. We do not plan to allocate any funding to research and development activities.

We do not expect any significant changes in the number of employees until after we obtain concessions for the use of the Tiger-Lynk AR-120.

The Company plans to start the initial phase of the project in the current year.

Currently the Company is formulating additional long term and short term goals. We are also actively seeking additional potential projects that could fit into the company's long term strategy.

## **C. OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital resources or capital reserves.

## **Part E Issuance History**

### **Item XVII List of securities offerings and shares issued for services in the past two years.**

<u>Shares Issued To:</u>	<u>Date of Issue</u>	<u>No. of Shares Issued</u>	<u>The value Received</u>
--------------------------	----------------------	-----------------------------	---------------------------

NONE

## **Part F Exhibits**

The following exhibits must be either described in or attached to the disclosure statement:

### **Item XVIII    Material Contracts.**

Date Signed: April 2, 2012

Terms of Agreement: Debt Settlement relating to the Purchase Agreement (from February 18, 2008). Hollund was unable to fulfill its obligations to pay for the Tiger-Lynk technology and has come to terms with Mr. Hayward on the expenses associated with the original agreement whereby, (i) Mr. Hayward will retain the Series Preferred C shares as consideration already paid under the Purchase Agreement, (ii) Mr. Hayward releases all interests in the \$2,000,000 Convertible Note due under the Purchase Agreement, and (iii) Hollund releases all interests in the technology under the Purchase Agreement.

Date Signed: August 5, 2012

Terms of Agreement: Mr. Hayward as owner of the Tiger-Lynk technology would grant Hollund the exclusive rights to the technology for a period of ten years.

Date Signed: August 21, 2012

Terms of Agreement: North Cal Wood Products was granted the license to market, sell and operate the Tiger-Lynk technology for harvesting underwater timber.

Date Signed: October 1, 2012

Terms of Agreement: Cancellation of Shares Agreement whereby Aztek Group of Companies, Ltd. agreed to cancel 95% of their common shares currently owned in exchange for a share of the Company's revenue equal to 0.0025% revenue share for the next Twenty (20) years.

### **Item XIX    Articles of Incorporation and Bylaws.**

The exhibits required to be attached are listed below, and are incorporated herein by this reference.

#### **Exhibit No.**

3.1    Restated Articles of Incorporation<sup>1</sup>

3.2    Bylaws<sup>2</sup>

3.3    Amended Bylaws<sup>2</sup>

<sup>1</sup> Previously filed as Exhibits to Registrant's Form 10-K for the year ended December 31, 1989

<sup>2</sup> Attached and filed as Exhibits to this Disclosure statement for the year ended December 31, 2012

**Item XX      Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

NONE

**Item XXI      Issuers Certifications.**

**CERTIFICATIONS**

I, Peter Meier, President of Hollund Industrial Marine, Inc., hereby certify that:

1. I have reviewed this "Initial Company Information and Disclosure Statement" of Hollund Industrial Marine, Inc. for the period through December 31, 2012; and
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as, and for, the periods presenting this disclosure statement.

Date: April 15, 2013

/s/ Peter Meier  
By: Peter Meier  
President



**Exhibit 1**
**HOLLUND INDUSTRIAL MARINE, INC.**

(Unaudited)

**BALANCE SHEETS**

	December 31,	December 31,
	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	711	-
Prepaid expenses	\$ 34,600	\$ 3,261
<b>TOTAL CURRENT ASSETS</b>	<b>35,311</b>	<b>3,261</b>
<b>LONG TERM ASSETS</b>		
Office equipment	2,662	-
<b>TOTAL ASSETS</b>	<b>\$ 37,973</b>	<b>\$ 3,261</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Lines of credit with related parties	\$ 73,480	52,780
Notes payable – related parties	250,173	157,715
Accrued officer compensation	523,900	457,400
Accrued interest	7,619	463,100
Other accrued liabilities	125,034	74,468
	\$	\$
<b>TOTAL CURRENT LIABILITIES</b>	<b>980,206</b>	<b>1,205,463</b>
<b>LONG-TERM LIABILITIES</b>		
Note Payable – net of current portion	\$ 720,859	\$ -
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>720,859</b>	<b>-</b>
	\$	\$
<b>TOTAL LIABILITIES</b>	<b>1,701,065</b>	<b>1,205,463</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Common stock, \$0.000001 par value per share;	4,189	302
Class A Preferred stock, \$0.001 par value per share;	-	-
Class B Preferred stock, \$0.001 par value per share;	-	-
Class C Preferred stock, \$0.000001 par value per share;	1,393,682	709,657
Additional paid-in capital	1,288,417	1,229,907
Accumulated deficit	(4,349,380)	(3,142,068)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>(1,663,092)</b>	<b>(1,202,202)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 37,973</b>	<b>\$ 3,261</b>

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

**HOLLUND INDUSTRIAL MARINE, INC.**  
(Unaudited)  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011 and**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Year Ended December 31,	Year Ended December 31,	For the period from inception to December 31,
	2012	2011	2012
SALES	\$ --	\$ --	\$ --
OPERATING EXPENSES	--	--	--
Officer compensation	90,200	53,200	777,894
Compensation to Founders	--	--	253,689
Compensation to former Officers	--	--	330,000
Corporate expenses	720,859	--	720,859
Advertising and promotion	--	--	25,375
Bank charges	199	30	933
Miscellaneous	5,880	1,039	13,590
Office expenses	--	--	51,143
Office supplies	3,029	200	4,011
Postage and delivery	124	165	1,630
Professional fees	106,609	(115,139)	543,925
Strategic planning conference	32,000	--	32,000
Telephone	1,697	427	5,000
Travel	10,362	2,000	14,372
Licenses and permits	330	3,800	4,739
Total operating expenses	<u>971,289</u>	<u>(54,278)</u>	<u>2,779,160</u>
(LOSS) INCOME FROM OPERATIONS	(971,289)	54,278	(2,779,160)
Interest expense	(236,023)	(77,843,294)	(231,499,676)
Interest revenue	--	96,983,912	229,929,456
NET (LOSS) INCOME	<u>\$ (1,207,312)</u>	<u>19,194,896</u>	<u>(4,349,380)</u>

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

**HOLLUND INDUSTRIAL MARINE, INC.**  
**(UNAUDITED)**  
**STATEMENT OF STOCKHOLDERS' DEFICIT**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**and FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Common stock</u>		<u>Preferred Class A</u>		<u>Preferred Class B</u>		<u>Preferred Class C</u>		<u>Additional paid in capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>			
Balance, December 31, 2010	7,402,763	\$ 7	2	\$ 185,400	920,000	\$ 1,840,000			\$ 928,703	\$ (22,336,964)	\$ (19,382,834)
Issuance of common stock for consulting services	2,000,000	2							42,198		42,200
Issuance of common stock for consulting services	410,000,000	410							245,590		246,000
Cancellation of consulting services and return of common stock	(200,000,000)	(200)							(115,562)		(115,762)
Issuance of common stock to officer	1,000,000	1							19,999		20,000
Issuance of common stock for partial debt settlement	2,250,000	2			(5,000)	(10,000)			44,998		35,000
Issuance of common stock due to conversion of convertible note	80,000,000	80							63,980		64,060
Cancellation of common shares	(649,991)										-
Cancellation of Class A shares			(2)	(185,400)	-	-					(185,400)
Cancellation of Class B due to nonperformance of services					(210,000)	(420,000)					(420,000)
Conversion of Class B shares to debt					(5,000)	(10,000)					(10,000)
Conversion of Class B shares to Class C shares					(700,000)	(1,400,000)	700,000	1,400,000			-
Return of mechanical arm to former owners of HIRS							(345,171)	(690,343)			(690,343)
Net income										<u>19,194,896</u>	<u>19,194,896</u>
Balance, December 31, 2011	302,002,772	302	-	-	-	-	354,829	709,657	1,229,906	(3,142,068)	(1,202,203)
Partial conversion of Class C into common stock	2,702,338,500	2,703					(3,205)	(6,410)	3,707		-
Issuance of Class C for unpaid interest							345,217	690,435			690,435
Issuance of stock for services - consulting	5,873,000,000	5,873							106,627		112,500
Cancellation of stock to former officer - services not performed	(1,000,000)	(1)							(19,999)		(20,000)
Cancellation of stock to consultant - services not performed	(5,012,000,000)	(5,013)							(51,409)		(56,512)
Issuance of common stock to officer	25,000,000	25							19,975		20,000
Shares held in reserve for possible conversion of Class C	300,000,000	300							(300)		-
Net loss										<u>(1,207,312)</u>	<u>(1,167,412)</u>
Balance, December 31, 2012	<u>4,189,341,272</u>	<u>\$ 4,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>696,841</u>	<u>\$ 1,393,682</u>	<u>\$ 1,288,417</u>	<u>\$ (4,349,380)</u>	<u>\$ (1,623,192)</u>

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

# HOLLUND INDUSTRIAL MARINE, INC.

(Unaudited)

## STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011 and FOR THE YEAR ENDED DECEMBER 31, 2012

	Year Ended December 31,	Year Ended December 31,	For the period from inception to December 31,
	2012	2011	2012
Cash flows from operating activities:			
Net (loss) income	\$ (1,207,312)	\$ 19,194,896	\$ (4,349,380)
Adjustments to reconcile to net (loss) income to net cash used by operating activities:			
Derivative liability		(19,426,332)	
Estimated value of corporate start up expenses paid by former shareholder	720,859		720,859
Estimated value of common stock issued to Founders			253,689
Estimated value of common stock issued to former officers			330,000
Estimated value of common stock issued to consultants	55,988	2,000	463,660
Estimated value of common stock issued for interest			324,863
Estimated value of common stock issued to officers	25,000		191,694
Estimated value of stock issued for partial debt settlement		12,500	56,280
Estimated value of shares returned by former officer	(20,000)		(20,000)
Estimated value of preferred class B issued for interest		75,038	85,038
Estimated value of preferred class B cancelled		(420,000)	(420,000)
Estimated value of preferred class C issued for interest	233,291		233,291
Increase (decrease) in operating assets and liabilities			
Prepaid expenses and other current assets	(96,038)	238,006	205,499
Accrued officer compensation	66,500	53,200	586,400
Accrued interest	7,619	210,502	859,377
Other accrued liabilities	50,566	35,916	137,534
Net cash used by operating activities	<u>(163,527)</u>	<u>(24,274)</u>	<u>(341,196)</u>
Cash flows from investing activities:			
Purchase of office equipment	<u>(2,662)</u>	<u>-</u>	<u>(2,662)</u>
Net cash used by investing activities	<u>(2,662)</u>	<u>-</u>	<u>(2,662)</u>
Cash flows from financing activities:			
Proceeds from lines of credit with related parties			52,780
Proceeds from lines of credit with unrelated parties	20,700		20,700
Proceeds from notes payable with related parties	115,988	23,841	220,877
Repayment of notes payable with related parties	(2,288)		(2,288)
Proceeds from convertible notes payable with unrelated parties	32,500		32,500
Proceeds from notes payable from Founders			20,000
Net cash provided by financing activities	<u>166,900</u>	<u>23,841</u>	<u>344,569</u>
Net (decrease) increase in cash	711	(433)	711
Cash at beginning of period	<u>-</u>	<u>433</u>	<u>-</u>
Cash at end of period	<u>\$ 711</u>	<u>\$ -</u>	<u>\$ 711</u>

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

**HOLLUND INDUSTRIAL MARINE, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE –1 ORGANIZATION**

Hollund Industrial Marine Inc. (the “Company”) is currently a development stage company under the provisions of Statement of Financial Accounting Standards No. 7 and was incorporated under the laws of the State of Washington as Carver Corporation. On July 29, 1998 the Company restated their articles of incorporation. The Company filed for bankruptcy protection on May 12, 1999, under chapter 11 reorganization plans, then on June 12, 2003, converted to a liquidation plan, which concluded on December 29, 2005. The Company was reinstated with the State of Washington on October 9, 2006.

On November 20, 2007, Hollund Industrial, Inc. completed its reverse merger with Carver Corp. As a result of this transaction, the Company changed its name to Hollund Industrial Inc.

The Company adopted fresh start reporting because holders of existing voting shares immediately before filing and confirmation of the plan received less than 50 percent of the voting shares of the emerging entity.

During February 2008, the Company finalized a \$3,000,000 Stock Purchase Agreement between the Company and Hollund Industrial Robotics Systems Inc. (HIRS), whose principal asset is all rights, patents and physical components of the Tiger-Lynk underwater manipulator system (Note 3). Prior to January 1, 2012, Hollund Robotics was a wholly owned subsidiary of the Company. The acquisition debt was secured with first priority interest in the technology in an event of default.

During May 2008, the Company entered into an agreement to exchange \$2,000,000 of HIRS acquisition debt into convertible debentures (Notes 5 and 6).

During July 2008, the Company changed its name from Hollund Industrial, Inc. to Hollund Industrial Marine Inc.

In late 2011, the Company began a re-valuation of its business plan in the recognition that it was in default under the Stock Purchase Agreement and related acquisition debt pursuant to which it had acquired HIRS and its Tiger-Lynk technology. The Company decided that it did not expect to be able to cure that default in a reasonable period of time. As a result of that re-valuation and pursuant to discussions with the holders of the acquisition debt, the Company and former owners of HIRS reached an agreement under which HIRS, including the Tiger-Lynk technology, would be returned to the former owners in exchange for release of the acquisition debt. In addition, the Company has entered into a ten year exclusive license agreement with the owners of HIRS to manage, market, and operate the Tiger-Lynk underwater manipulator system. .

A summary of the asset and liabilities returned or released by the former owners of HIRS as of December 31, 2011 is as follows-

Intangible asset – Tiger-Lynk mechanical arm patents	\$3,000,000
Convertible notes payable – HIRS	(1,968,250)
Convertible notes payable – others	( 10,690)
Note payable – HIRS	( 329,863)
Class C Preferred Stock	( 690,343)
Accrued interest	( 854)
Net book value	<u>\$ - 0 -</u>

## **NOTE –1 ORGANIZATION (continued)**

During August 2012, the Company signed an exclusive license and strategic partnership agreement with North Cal Woods Products, under which it has the exclusive right to manage, market and operate the Tiger-Lynk system.

## **NOTE –2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The Company's consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has experienced recurring losses from operations, has an accumulated deficit of approximately \$4,349,000 as of December 31, 2012 and has returned its rights, patents and physical components of the Tiger-Lynk underwater manipulator system to the former owners of HIRS. These factors, among others, raise substantial doubt as to its ability to continue as a going concern.

In order to continue as a going concern, the Company needs to develop a reliable source of revenues, and achieve a profitable level of operations. As of December 31, 2012, the Company has been involved primarily with acquiring an exclusive license agreement on the Tiger-Lynk technology and organizing and restructuring the Company to meet the needs of shareholders and attract suitable financing.

To fund operations for the next twelve months, the Company projects a need for \$2.3 million that will have to be raised through debt or equity. The Company has already identified a manufacturer with facilities designed and capable of producing the Tiger-Lynk AR120 and providing worldwide warranty and service.

Accordingly, the consolidated financial statements are accounted for as if the Company is a going concern and does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or other adjustments that might be necessary should the Company be unable to continue as a going concern.

### **Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant inter-company balances and transactions have been eliminated.

### **Long-Lived Assets**

In accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

## **NOTE –2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Fair Value of Financial Instruments**

In accordance with Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurement and Disclosure*, the Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures.

Company bases fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When observable market prices and data are not readily available, significant management judgment often is necessary to estimate fair value. In those cases, different assumptions could result in significant changes in valuation and may not be realized in an actual sale. Additionally, there may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates, and expected cash flows could significantly affect the results of current or future values.

For certain financial instruments, including accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their relatively short maturities. In the case of the notes payable, the interest rate on the notes approximates the market rate of interest for similar borrowings. Consequently the carrying value of the notes payable also approximates the fair value. It is not practicable to estimate the fair value of the related party notes payable due to the relationship of the counter party.

All assets of the Company are considered Level 1 type assets.

### **Share-Based Payment**

The Company follows ASC 718, *Share Based Payment*, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on accounting for transactions where an entity obtains services in share based payment transactions. ASC 718 requires entities to measure the cost of services received in exchange equity instruments, including stock options and warrants, based on the grant date fair value of the award and to recognize it as compensation expense over the period services are to be provided, usually the vesting period.

The fair value of options is calculated using the Black-Scholes option-pricing model. This model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions. As such, the values derived from using that model can differ significantly from other methods of valuing the Company’s share based payment arrangements. The Black-Scholes model also requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. These factors could change in the future, affecting the determination of share based payment expense in future periods.

The assumptions used in the Black Scholes models referred to above are based upon the following data: (1) The expected life of the warrant is estimated by considering the contractual term of the warrant, the vesting period and the expected exercise price. (2) The expected stock price volatility of the underlying shares over the expected term is based upon historical share price data. (3) The risk free interest rate is based on published U.S. Treasury Department interest rates for the expected terms. (4) Expected dividends are based on historical dividend data and expected future dividend activity.

## **NOTE –2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Income Taxes**

The Company utilizes the asset and liability method of accounting for income taxes. The asset and liability method requires that the current or deferred tax consequences of all events recognized in the financial statements are measured by applying the provisions of enacted tax laws to determine the amount of taxes payable or refundable currently or in future years. Deferred tax assets are reviewed for recoverability and the Company records a valuation allowance to reduce its deferred tax assets when it is more likely than not that all or some portion of the deferred tax assets will not be recovered.

In July 2006, the FASB issued guidance that clarified the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

The Company had no material uncertain tax positions at December 31, 2012 or 2011.

### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. The accounting estimates that require our significant, difficult, and subjective judgments include:

- the assessment of recoverability of long lived assets;
- the recognition and measurement of deferred income tax assets and liabilities; and
- the valuation and recognition of share-based compensation.

The actual results that we experience may differ materially from our estimates.



**NOTE –2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Statement of Cash Flows**

Supplemental cash flows and non-cash investing and financing activities for the years ended December 31, 2012 and 2011 and for the period October 6, 2006 (date of inception) through December 31, 2012 are as follows:

	2012	2011	Inception to date
Supplemental cash flow information:			
Income taxes paid	\$ -	\$ -	\$ -
Interest expense paid	-	-	-
Non-cash investing and financing activities:			
Common stock issued to consultants	112,500	288,000	477,827
Cancellation of common stock due to nonperformance of services	(56,512)	(115,762)	(172,274)
Common stock issued to officers	20,000	20,000	40,000
Common stock issued for partial debt settlement	-	35,000	35,000
Preferred Class B issued to consultants		-	420,000
Cancellation of Class B stock due to nonperformance of services	-	(420,000)	(420,000)
Conversion of Class B shares to note payable	-	(10,000)	(10,000)
Preferred Class B issued for accrued interest		-	415,000
Issuance of Preferred Class C for accrued interest	690,435	-	690,435
Preferred Class A issued for settlement of accrued compensation	-	-	185,400
Cancellation of Class A shares	-	(185,400)	(185,400)
Partial conversion of Preferred Class C into common stock	5,370	-	8,970
Debt issued for acquisition of Hollund Industrial Robotics Inc.	-	-	3,000,000
Preferred Class B issued for partial payment on acquisition debt	-	-	670,137
Conversion of Class B shares to Class C	-	1,400,000	1,400,000
Exchange note payable for convertible debt	-	-	2,000,000
Return of mechanical arm and cancellation of related acquisition debt	-	(3,000,000)	(3,000,000)
Conversion of note payable to Preferred Class C shares	50,000	-	50,000
Common stock issued for partial conversion of convertible debt	-	64,060	85,060
Reverse stock split (1000:1)	-	-	7,395
Reverse stock split (100:1)	-	-	2,810,646
Forward stock split (17:1)	-	-	28,223,348
Change of common stock par value	-	-	25,766,314

## **NOTE –2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **New Accounting Pronouncements**

Management is in the process of reviewing the new accounting pronouncements issued or effective during the year and has not yet determined, if any, is expected to have a material impact on the financial statements.

### **NOTE – 3 PURCHASE OF HOLLUND INDUSTRIAL ROBOTICS SYSTEMS, INC.**

During February 2008, the Company finalized a Stock Purchase Agreement between the Company and Hollund Industrial Robotics Systems Inc., Lonnie Hayward and Troy Micielli relating to the purchase and sale of 100 percent of the common stock of Hollund Industrial Robotics Systems Inc. (HIRS). The terms of the purchase and sale agreement require the Company to remit \$3,000,000 ("Purchase Price") for 100 percent of HIRS outstanding common shares. The purchase price is payable no later than February 2011 and accrues interest at a rate of 4 percent per annum. Cash payments can be made on a periodic basis by the Company. If, at maturity, the Company is unable to remit payment of the outstanding balance of the Note, including accrued interest, the Company can request a 180-day extension period ("Extension Period"). If the Company is still unable to remit payment after the extension period, the note holders have the option to either (1) grant the Company an additional 180 days in which to pay the balance of the Note, including any accrued interest ("New Extension Period") or (2) receive an amount of the Company's common stock equal to the balance of the Note, including any accrued interest. If the Company is unable to pay the Purchase Price within the extension period or the new extension period using the Company's authorized common stock, the Company agrees to restructure by increasing the authorization of common stock and / or executing a reverse split, at the sole option of the note holders. The note payable is secured with a first priority interest in the technology in an event of default.

Previously, during January 2008, HIRS had entered into an agreement to acquire all rights, title and interest in the Tiger-Lynk underwater manipulator system from Aquatic Cellulose International Corp. (AQCI). The agreement with AQCI includes acquiring a mechanical arm assembly stored at AQCI's facility in Kamloops, British Columbia. Terms of the purchase were finalized on February 20, 2008. Those terms include the purchase price being \$314,000 payable as follows: (1) \$50,000 down payment; (2) \$14,000 cash payment; and, (3) \$250,100 note payable in 10 payments of \$25,000 installments with the first payment beginning on March 1, 2008 and the final payment due on December 1, 2008.

In connection to acquiring the Tiger-Lynk technology, the Company entered into the following commitments with Gary Ackles, former CEO of AQCI: (1) a 50/50 (percent) profit share agreement on the first 5 Tiger-Lynk machines sold; (2) a 7.5 percent royalty assignment on the first 5 machines, reducing to 5 percent on each successive machine; and (3) the Company to issue common stock with a value of \$330,000 (Canadian dollars). The exact number of Hollund common shares shall be determined by the closing price and dollar exchange rate on the date prior to the date of transfer by Hollund, subject to Hollund's completion of a reverse merger.

During March 2008, the Company entered into an addendum to its agreement with AQCI, whereby it was agreed that the Company would issue 750,000 shares of Hollund Industrial Inc. common stock to the Legacy Investment Club in consideration for the March 1, 2008 payment.

During May 2008, the Company entered into an agreement to exchange \$2,000,000 of HIRS acquisition debt into convertible debentures.

During November 2009, the Company issued 700,000 shares of Series B Preferred Stock as partial payment on the debt owed for the HIRS acquisition (approximately \$670,000) and previously recorded accrued interest (approximately \$405,000). Since the value of the shares was estimated to be \$1,400,000, the Company recorded additional interest expense of approximately \$325,000.

**NOTE – 3 PURCHASE OF HOLLUND INDUSTRIAL ROBOTICS SYSTEMS, INC.  
(continued)**

During April 2011, the Company canceled all outstanding Preferred B Shares and the former owner of HIRS agreed to accept 700,000 shares of the newly issued Preferred C Stock.

During February 2012, the Company and former owners of HIRS agreed that the Stock Purchase Agreement of February 2008 is in default and that the patents and properties under that agreement would be returned to the former owners of HIRS (Note 1).

**NOTE – 4 LINES OF CREDIT**

During December 2007, the Company entered into a Line of Credit Agreement with Jasmine Investments LLC, a Wyoming corporation, and totaling \$500,000. The line of credit agreement bears interest at 6 percent and has no set maturity date. Accrued interest is payable in the common stock of the Company, at a 40 percent discount to market, based upon the average of the 5 lowest trading prices calculated after 20 trading days post restructuring. Additionally, the lender shall be granted a 2-year option to purchase 50,000 common shares of the Company at the same price determined in calculating the Company's discount to market described above. The lender has the right to terminate the agreement for any reason at any time at their discretion. Upon notification, full reimbursement of the principal and interest borrowed up to the time of termination shall be due within 30 days from the time of the notification. The line of credit agreement does not include any limitations on borrowings or any restrictive debt covenants. As of December 31, 2012 and 2011 advances under the line of credit were \$37,380 and \$37,380, respectively.

During January 2008, the Company entered into another Line of Credit Agreement with Network International Credit & Collections LTD, a Washington corporation, and totaling \$500,000. The line of credit agreement has terms similar to those outlined in the preceding paragraph. As of December 31, 2012 and 2011 advances under the line of credit were \$15,400 and \$15,400, respectively.

During August 2012, the Company entered into a \$50,000 Line of Credit Agreement with Ajene Watson, LLC, a New York limited liability company. The line of credit agreement bears interest at 10 percent and has a December 31, 2013 maturity date. Accrued interest is payable on a quarterly basis no later than the 5th business day following the end of such quarter. Any overdue principal or interest shall bear interest at 15 percent until paid in full.

The Company can borrow, repay and re-borrow at any time during the commitment period as long as repayments take the form of cash. Payment of the advances can be made, at the Company's sole discretion, through the issuance of a new class of preferred shares, \$0.001 par value, with the following rights and preferences: 1) convertible into the Company's common shares at a rate of 5 shares of common stock for every share of preferred stock, adjusted for common stock splits, stock dividends or rights offerings by the Company, if any; 2) convertible into common stock for a period of 10 years from the date of issuance; and, 3) preferred stock will bear interest at a rate equal to the interest on the advances, which interest will accrue until such time as the preferred stock is retired or converted into the Company's common share.

Upon the occurrence of an event of default, as defined, the lender has the right to terminate the agreement. The line of credit agreement does not include any limitations on borrowings or restrictive debt covenants. As of December 31, 2012, advances under the line of credit and accrued interest were approximately \$20,700 and \$400, respectively.

**NOTE 5 - CONVERTIBLE NOTE**

During May 2008, the Company entered into an agreement to exchange \$2,000,000 of Hollund Robotics' acquisition debt (Note 3) into convertible debentures, which are payable and bear

## NOTE 5 - CONVERTIBLE NOTE (continued)

interest at 10 percent, due on a quarterly basis, and are secured by a first priority interest in the Company's assets. Any amount of principal or interest due under the debentures, which is not paid when due will bear interest at 10 percent per annum from the due date thereof until the amount is paid. These debentures are convertible, at the investors' sole option, into common shares at \$0.000001 per share (fixed conversion price).

If, at any time, the Company issues or sells any shares of common stock for no or below market consideration (dilutive issuance), then immediately upon the dilutive issuance, the fixed conversion price would be reduced to the amount of the consideration per share received by the Company in such dilutive issuance. The number of common shares issuable upon the conversion of the debentures is limited to 4.9 percent in beneficial ownership by the debenture holders of the outstanding shares of common stock. The debentures do not automatically convert to common shares on their due dates.

After a thorough analysis and review of the terms of the note and respective covenants, the Company has determined the appropriate method of accounting is including the entire debt as a current liability on the balance sheet, since the debt is immediately convertible at the option of the holder.

In accordance with SFAS 133, the debt features provision (collectively, the features) contained in the terms governing the notes is not clearly and closely related to the characteristics of the notes. Accordingly, the features qualified as embedded derivative instruments at issuance and, because they do not qualify for any scope exception within SFAS 133, they were required by SFAS 133 to be accounted for separately from the debt instrument and recorded as derivative financial instruments.

Pursuant to the terms of the notes, these notes are convertible at the option of the holder, at anytime on or prior to maturity. There is an additional interest rate adjustment feature; a liquidated damages clause, as well as the redemption option. The debt features represent an embedded derivative that is required to be accounted for apart from the underlying notes. At issuance of the notes, the debt features had an estimated initial fair value as follows, which was recorded as a derivative liability on the balance sheet.

In subsequent periods, if the price of the security changes, the embedded derivative financial instrument related to the debt features will be adjusted to the fair value with the corresponding charge or credit to Other Expense or Income.

The estimated fair value of the debt features was determined using the probability weighted averaged expected cash flows Black Scholes Model with the closing price on original date of issuance, a conversion price based on the terms of the note, a period based on the terms of the note, and a volatility factor on the date of issuance.

The recorded value of the debt features related to the notes can fluctuate significantly based on fluctuations in the fair value of the Company's common stock, as well as in the volatility of the stock price during the term used for observation and the term remaining for the warrants.

The significant fluctuations can create significant income and expense items on the financial statements of the Company.

Because the terms of the 2008 convertible note require such classification, the accounting rules required additional convertible notes and non-employee warrants to also be classified as liabilities, regardless of the terms of the new notes and / or warrants. This presumption has been made due to the Company no longer having the control to physical or net share settle subsequent

## NOTE 5 - CONVERTIBLE NOTE (continued)

convertible instruments because it is tainted by the terms of the notes. Were the notes to not have contained those terms or even if the transactions were not entered into, it could have altered the treatment of the other notes and the conversion features of the latter agreement may have resulted in a different accounting treatment from the liability classification. The current note, as well as any subsequent convertible notes or warrants, will be treated as derivative liabilities until all such provisions are settled.

For the years ended December 31, 2012 and 2011, the Company recorded Other Income (expense) of \$-0- and \$19,426,332, respectively, related to the derivative features of the convertible debt.

The balance of the carrying value of the derivative liability as of December 31, 2011 is as follows:

\$	19,490,312	December 31, 2010 value of derivative liability
	19,490,312	Decrease in value of derivative liability
\$	-0-	December 31, 2011 value of derivative liability

During February 2012, the Company and former owners of HIRS agreed that the Stock Purchase Agreement of February 2008 is in default and that the patents and properties under that agreement would be returned to the former owners of HIRS in exchange for release of the acquisition debt (Note 1).

In connection with the convertible note, the Company had approximately \$429,100 of accrued interest at December 31, 2011, which is included in these consolidated financial statements. During April 2012, the Company agreed to issue 345,217 shares of Series C Preferred Stock for previous recorded unpaid interest (Note 7).

All convertible notes are issued to the same group, thus no conflict exists with security in the first priority interest in the Company's assets.

### *Hollund Robotics' Acquisition Debt*

During February 2008, the Company finalized a Stock Purchase Agreement between the Company; Hollund Robotics and its shareholders relating to the purchase and sale of 100 percent of the common stock of Hollund Industrial Robotics Systems Inc. (Notes 1 and 3)

During May 2008, the Company entered into an agreement to exchange \$2,000,000 of Hollund Robotics acquisition debt into convertible debentures (Note 5).

During November 2009, the Company issued 700,000 shares of Series B Preferred Stock as partial payment on the debt owed for the HIRS acquisition and previously recorded accrued interest. Since the value of the shares was estimated to be \$1,400,000, the Company recorded additional interest expense (Note 3).

During April 2011, the Company entered into an agreement to convert 700,000 shares of the former Series B Preferred Stock into Series C Preferred Stock. The Series B Preferred Stock was originally issued by the Company as partial payment on the debt owed for the HIRS acquisition. The estimated value of the shares is \$1,400,000.

## NOTE 6 – NOTES PAYABLE

The remaining balance of the acquisition debt (Notes 1, 3 and 5) of approximately \$330,000 at December 31, 2010 is payable no later than February 2011 and accrues interest at a rate of 4 percent per annum. During 2011, the maturity of the note was changed to February 2012.

## **NOTE 6 – NOTES PAYABLE (continued)**

During February 2012, the Company and former owners of HIRS agreed that the Stock Purchase Agreement of February 2008 is in default and that the patents and properties under that agreement would be returned to the former owners of HIRS in exchange for the release of the acquisition debt (Note 1).

### *Notes Payable- Related Parties*

#### **Former Shareholder of Hollund Industrial Robotics Inc.**

During 2008 and 2009, the Company was advanced approximately \$7,000 and \$31,000, respectively, in funds from a former shareholder of HIRS to support the Company's continuing operations. During July 2010, the Company repaid \$10,000 of such advances. During the year ended December 31, 2011, the Company was advanced another \$26,000 from the former shareholder of HIRS. During the year ended December 31, 2012, the Company was advanced another \$113,700 from the former shareholder of HIRS. The advances due not bear interest and have no set maturity date. As of December 31, 2012 and 2011, the Company's unpaid advances were approximately \$167,700 and \$54,000, respectively.

#### **Corporate Start Up Costs to Former Shareholder HIRS**

During the quarter ended June 30, 2012, the Company and the former owner of HIRS reached an agreement whereby, the Company agreed to reimburse the former owner for any corporate start-up costs he incurred (approximately \$720,000) from available cash surplus. As of December 31, 2012, the Company had not yet repaid such costs as operations had not yet commenced. As the Company does not anticipate repayment of such costs until after January 1, 2014, the note payable is classified as long term in the consolidated balance sheet.

#### **Company Shareholders**

During November 2009, the Company entered into a Loan Agreement with a shareholder, totaling \$20,000. The loan agreement bears interest at 10 percent and is due in 6 equal monthly installments of approximately \$3,083 commencing January 2011 through June 2011. If the Company is unable to pay the loan amount plus accrued interest, the Lender has the right to convert the loan and interest into the Company's authorized Preferred B Shares at a fixed rate of \$2.00. As of December 31, 2011, the Company's unpaid note payable and accrued interest balances were approximately \$20,000 and \$5,500, respectively.

During July 2010, the Company entered into a Loan Agreement with the same shareholder, totaling \$5,000. The loan agreement bears interest at 10 percent and is due in twelve equal monthly installments of approximately \$458 commencing during September 2010 through August 2011. The loan agreement is secured by an interest in 5,000 shares of Hollund Industrial Marine Inc. Preferred B Shares, which is held in trust by an attorney appointed by the lender. As of December 31, 2011, the Company's unpaid note payable and accrued interest balances were approximately \$5,000 and \$750, respectively.

During May 2011, the Company entered into agreement to repurchase 5,000 of the former Class B shares for \$50,000 and the cancellation of the \$25,000 notes payable (described above). Payment terms to repurchase the shares and cancel the note payable are as follows: non-interest bearing notes, \$15,000 payable within the first 120 days following the execution of the agreements with the unpaid balance due before May 5, 2012. In addition, the former Class B shareholder received 1,000,000 restricted common shares from the Company. At the sole discretion of the former Class B shareholder, the shareholder may request the restriction be removed for up to ten percent (10% or 200,000) of the common shares every 90 days following the execution of the agreement or from the date of the previous restriction removal.

## **NOTE 6 – NOTES PAYABLE (continued)**

During May 2011, the Company entered into two separate other agreements to repurchase an aggregate of 5,000 of the former Class B shares for a total of \$50,000. Payment terms to repurchase the shares are as follows: non-interest bearing notes, \$20,000 payable within the first 120 days following the execution of the agreements with the unpaid balance due before May 5, 2012.

During the quarter ended September 30, 2012, a former shareholder of HIRS agreed to exchange 250 shares of Class C Preferred Stock in full settlement of a \$50,000 note payable

### **Company Officer**

During July 2010, the Company entered into a Loan Agreement with a Company officer, totaling \$5,000. The loan agreement bears interest at 10 percent and is due in twelve equal monthly installments of approximately \$458 commencing during September 2010 through August 2011. The loan agreement is secured by an interest in 5,000 shares of Hollund Industrial Marine Inc. Preferred B Shares, which is held in trust by an attorney appointed by the lender. As of December 31, 2011, the Company's unpaid note payable and accrued interest balances were approximately \$5,000 and \$300, respectively. During the quarter ended December 31, 2012, the note and accrued interest were paid in full.

### ***Convertible Note***

During July 2012, the Company entered into a \$32,500 Convertible Note Agreement with Vert Capital LLC, a Florida limited liability company. The convertible note agreement bears interest at 10 percent and has a July 23, 2013 maturity date. The note may be repaid in whole or in part any time prior to maturity. Any amount of principal or interest which is not repaid when due shall bear interest at 12 percent until paid in full. Any amount of principal or interest due under the note, which is not paid when due will bear interest at 12 percent per annum from the due date thereof until the amount is paid in full. The note is convertible, at the investors' sole discretion, into common shares at a variable conversion price, which approximates a 50 percent discount to market price over the last 50 trading days.

The number of common shares issuable upon the conversion of the note is limited to 4.9 percent in beneficial ownership by the lender of the outstanding shares of common stock. The note does not automatically convert to common shares on their due dates.

As of December 31, 2012, advances under the convertible note and accrued interest were approximately \$32,000 and \$1,400, respectively.

## **NOTE – 7 STOCKHOLDERS EQUITY**

### **Share Based Payments**

As previously noted in Note 2, the Company adopted SFAS No. 123 which establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on accounting for transactions where an entity obtains services in share based payment transactions. SFAS No. 123(R) requires a public entity to measure the cost of services received in exchange for an award of equity instruments, including stock warrants, based on the grant date fair value of the award and to recognize it as compensation expense over the period required to provide service in exchange for the award, usually the vesting period.

Stock based compensation expense recognized during the years ended December 31, 2012 and 2011 are based on the value of the portion of share based payment awards that are ultimately expected to vest during the period. As stock based compensation expense recognized in the statement of operations for 2012 and 2011 has been based on awards currently vested, it was

**NOTE – 7 STOCKHOLDERS EQUITY (continued)**

not necessary to reduce compensation expense for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those warrants to be classified as financing cash flows. Due to the Company's loss position, there were no such tax benefits during the years ended December 31, 2012 and 2011. The fair value of stock based awards is calculated using the Black Scholes option pricing model, even though this model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from the Company's stock awards. The Black Scholes model also requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The risk free rate selected to value any particular grant is based on the United States Treasury's T-bill rate (6.5%). The expected volatility is based on the historical volatility of the Company's stock price. These factors could change in the future, affecting the determination of stock based compensation expense in future periods.

The weighted average fair value of stock based compensation is based on the single option valuation approach. Forfeitures are estimated and it is assumed no dividends will be declared. The estimated fair value of stock based compensation awards are amortized using the straight-line method over the vesting period of the restricted common shares; as such method is consistent with the consultant's contractual obligation.

The Company's fair value calculations for stock based compensation awards for the years ended December 31, 2012 and 2011 were based on the following assumptions:

	2012	2011
Expected life in years	1 - 2	1 – 2
Stock price volatility	1095-1175%	241-1898%
Risk free interest rate	6.5%	6.5%
Expected dividends	None	None

The following table summarizes stock based compensation, consulting and interest costs related to common shares under SFAS No. 123(R) for the years ended December 31, 2012 and 2011 and for the period October 6, 2006 (date of inception) through December 31, 2012 is allocated as follows:

	2012	2011	Inception to date
Officer compensation	\$ -	\$ -	\$ 166,694
Compensation to Founders	-	-	253,689
Compensation to former officers	-	-	330,000
Professional fees	35,988	2,000	443,660
Interest	233,300	75,038	643,201
Total stock based compensation	\$ 269,288	\$77,038	\$ 1,837,244



## **NOTE – 7 STOCKHOLDERS EQUITY (continued)**

### **Common Shares**

The holders of Common Stock have one vote per share on all matters (including election of Directors) without provisions for cumulative voting. The Common Stock is not redeemable and has no conversion or preemptive rights.

In the event of liquidation of the Company, the holders of Common Stock will share equally in any balance of the Company's assets available for distribution to them after satisfaction of creditors and the holders of the Company's preferred securities. The Company may pay dividends, in cash or in securities or other property, when and as declared by the Board of Directors from assets legally available. To date, the Company has not declared or paid dividends on its Common Stock.

During November 2007, the Company changed the par value of its common stock from \$0.01 to \$0.001.

During June 2009, the Company changed the par value of its common stock from \$0.001 to \$0.000001.

During December 2010, the Company changed the authorized common shares from 10,000,000,000 to 500,000,000 common shares at a par value of \$0.000001 per share.

During August 2011, the Company changed the authorized common shares to 750,000,000 from 500,000,000.

### *Stock Issued*

During July 2007, the Company issued to its founders an aggregate total of 10,300,000 shares of common stock with an approximate value of \$273,700. As the common stock was issued at below the Company's market price at the date of grant (\$0.029 cost per share), the Company recorded compensation expense relating to the estimated value of these shares of approximately \$254,000.

During July 2007, the Company issued to its former officers an aggregate total of 180,000,000 shares of common stock with an approximate value of \$330,000. As the common stock was issued at below the Company's market price at the date of grant (nil per share), the Company recorded compensation expense relating to the estimated value of these shares.

During March 2008, the Company issued 750,000 shares of Hollund Industrial Inc. common stock with an approximate value of \$25,000 to the Legacy Investment Club (Note 3).

During October 2008, the Company issued to its two officers an aggregate of 3,000,000 shares with an approximate total value of \$60,000 for previously unpaid compensation. As the common stock was issued at below the Company's market price at the date of grant (\$0.09 cost per share), the Company recorded compensation expense relating to the estimated value of these shares of approximately \$222,000.

During July 2010, the Company issued to a consultant an aggregate total of 5,300,000,000 shares of common stock with an approximate value of \$77,327. As the common stock was issued at below the Company's market price at the date of grant (nil cost per share), the Company recorded compensation expense relating to the estimated value of these shares.

During July 2010, the Company issued to its convertible note holders an aggregate total of 2,100,000,000 shares of common stock with an approximate value of \$21,000.

## **NOTE – 7 STOCKHOLDERS EQUITY (continued)**

During February 2011, the Company committed to issue its two officers an aggregate of 4,000,000 shares with an approximate value of \$82,000 as a signing bonus. As the common shares were granted at below the Company's market price (nil cost per share), the Company recorded compensation expense relating to the estimated value of these shares.

Also during February 2011, the Company entered into an agreement whereby it issued 410,000,000 with an approximate value of \$246,000 to a consultant. As the common shares were granted at below the Company's market price (nil cost per share), the Company recorded compensation expense relating to the estimated value of these shares. During November 2011, the Company and consultant decided to cancel the agreement due to nonperformance of services and the consultant surrendered 200,000,000 shares back to the Company.

During May 2011, the Company issued to its convertible note holders an aggregate total of 400,000,000 shares of common stock with an approximate value of \$40,000. During July 2011, the note holder cancelled the conversion of 400,000,000 shares of common stock and surrendered the shares back to the Company.

During December 2011, the Company issued to its convertible note holders an aggregate total of 80,000,000 shares of common stock with an approximate value of \$64,000.

During the three-month period ended June 2012, the Company entered into consulting agreements to provide advice relating to the international marketing of the company's underwater wood harvester and marketing its products in the Asian market, as well as, introductions to investor relation firms who specialize in creating customer awareness for a public company. The consulting agreements are for one year and require the Company to issue 5,873,000,000 common shares, with an approximate value of approximately \$112,500 to the consultants upon execution of the agreement. As the common stock was issued at below the Company's market price at the date of grant (nil cost per share), the Company recorded compensation expense relating to the estimated value of these shares. During the quarters ended September 30, 2012 and December 31, 2012, the Company and the consultant decided to cancel a portion of the agreement due to nonperformance of services and the consultant surrendered 5,012,000,000 shares back to the Company. The estimated value of the surrendered shares of approximately \$56,000 was recorded as a reduction in consulting expense. To cancel the shares, the Company and the consultant agreed to cancel 95 percent of the shares owned in exchange for a share of the Company's revenue equal to One-quarter of One Percent (.25%) of revenue for the next 20 years.

During September 2012, the Company issued to one of its officers an aggregate total of 25,000,000 shares of common stock with an approximate value of \$20,000. As the common stock was issued at below the Company's market price at the date of grant (nil per share), the Company recorded compensation expense relating to the estimated value of these shares.

### *Reverse Stock Split*

On March 21, 2007, the Board declared a one-for-one hundred reverse stock split of the Company's common stock. All shareholders of record on May 10, 2007 received one share of common stock for each one hundred shares held at that date. All fractional shares were rounded up.

### *Stock Split*

On November 20, 2007, the Board declared a seventeen-for-one stock split of the Company's common stock to be effected in the form of a common stock dividend. The common stock of the Company increased from 16,700,210 to 283,903,570 shares issued and outstanding.

## **NOTE – 7 STOCKHOLDERS EQUITY (continued)**

### *Mandatory Share Certificate Exchange*

During August 2008, the Company announced a mandatory share certificate exchange, which was completed on October 2, 2008. Certificates representing 261,450,054 Common shares were received and processed by the Company's transfer agent; Transfer Online, Inc. Certificates representing 2,732,776 Common shares were not presented to the transfer agent for exchange by October 2, 2008. As a result, these shares have been declared null and void. The total number of issued and outstanding shares for Hollund at such date stands at 258,717,278 shares.

### *Reverse Stock Split*

Effective June 25, 2010, the Company completed a one-for one hundred reverse split of our Common Stock. All shareholders of record on that date received one share of common stock for each one hundred shares held at that date. All fractional shares were rounded up.

### *Reverse Stock Split*

On December 3, 2010, the Board declared a one-for-one thousand reverse stock split of the Company's common stock. All shareholders of record on December 3, 2010 received one share of common stock for each one thousand shares held at that date. All fractional shares were rounded up.

As of December 31, 2012 and 2011, there were 4,189,341,272 and 302,002,772 shares issued and outstanding, respectively.

## **Preferred Shares**

### *Class A*

The Company has authorized 2,000,000 preferred shares at a par value of \$0.001 per share.

If at least one share of Series A Preferred Stock is issued and outstanding, then the total aggregate issued shares of Series A Preferred Stock at any given time, regardless of their number, shall be convertible into the number of shares of Common Stock which equals 75% of the total number of shares of Common Stock which are issued and outstanding at the time of conversion.

Shares of Preferred Stock may only be issued in exchange for the partial or full retirement of debt held by Management, employees, consultants, or those creditors that are designated, as voted upon by a majority of the Board of Directors, to receive Series A Preferred Stock. The number of Shares of Preferred Stock to be issued to each qualified person (number of Management, employee, consultant or creditor of the company) holding a Note shall be determined by the following formula: number of U.S. dollars = number of shares of Series A of debt retired Preferred Stock to be issued (E.g.: US\$1 of debt retired = 1 share of Series A Preferred Stock) If at least one share of Series A Preferred Stock is issued and outstanding, then the total aggregate issued shares of Series A Preferred Stock at any given time, regardless of their number, shall have voting rights equal to 75% of the total number of shares of Common Stock issued and outstanding at the time of any vote of shareholders, divided by the number of shares of Series A Preferred Shares, which are issued and outstanding at the time of the vote.

During November 2009, the Company issued an officer of the Company one share of Series A Preferred Stock to retire previously accrued compensation of \$92,700.

During November 2009, the Company issued another officer of the Company one share of Series A Preferred Stock to retire previously accrued compensation of \$92,700.

## **NOTE – 7 STOCKHOLDERS EQUITY (continued)**

During January 2011, the Company's Board of Directors decided to cancel all Series A Preferred Stock and record accrued officer compensation of \$185,400.

As of December 31, 2012 and 2011, there were -0- and -0- shares issued and outstanding, respectively.

### *Class B*

The Company has authorized 10,000,000 preferred shares at a par value of \$0.001 per share. .

The holders of Series B Preferred Stock shall be entitled to receive dividends when, as and if declared by the Board of Directors, in its sole discretion. As of December 31, 2012, no dividends have been declared.

Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any stock ranking junior to the Series B Preferred Stock, the holders of the Series B Preferred Stock shall be entitled to be paid out of the assets of the Corporation an amount equal to \$1.00 per share (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares) (the "Preference Value"), plus all declared but unpaid dividends, for each share of Series B Preferred Stock held by them. After the payment of the full applicable Preference Value of each share of the Series B Preferred Stock, as set forth herein, the remaining assets of the Corporation legally available for distribution, if any, shall be distributed ratably to the holders of the Corporation's Common Stock.

Each share of Series B Preferred Stock shall be convertible, at any time, and/or from time to time, into the number of shares of the Corporation's common stock, par value \$0.000001 per share (the "Common Stock") equal to the price of the Series B Preferred Stock as stated, divided by the par value of the Common Stock, subject to adjustment as may be determined by the Board of Directors from time to time (the "Conversion Rate"). For example, assuming a \$2 price per share of Series B Preferred Stock, and a par value of \$0.000001 per share for Common Stock, each share of Series B Preferred Stock would be convertible into 2,000,000 shares of Common Stock. Such conversion shall be deemed to be effective on the business day (the "Conversion Date") following the receipt by the Corporation of written notice from the holder of the Series B Preferred Stock of the holders intention to convert the shares of Series B Stock, together with the holders stock certificate or certificates evidencing the Series B Preferred Stock to be converted.

Promptly after the Conversion Date, the Corporation shall issue and deliver to such holder a certificate or certificates for the number of full shares of Common Stock issuable to the holder pursuant to the holder's conversion of Series B Preferred Shares in accordance with the provisions of this Section. The stock certificate(s) evidencing the Common Stock shall be issued with a restrictive legend indicating that it was issued in a transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and that it cannot be transferred unless it is so registered, or an exemption from registration is available, in the opinion of counsel to the Corporation. The Common Stock shall be issued in the same name as the person who is the holder of the Series B Preferred Stock unless, in the opinion of counsel to the Corporation, such transfer can be made in compliance with applicable securities laws. The person in whose name the certificate(s) of Common Stock are so registered shall be treated as a holder of shares of Common Stock of the Corporation on the date the Common Stock certificate(s) are so issued.

All shares of Common Stock delivered upon conversion of the Series B Preferred Shares as provided herein shall be duly and validly issued and fully paid and non-assessable. Effective as of the Conversion Date, such converted Series B Preferred Shares shall no longer be deemed to be outstanding and all rights of the holder with respect to such shares shall immediately terminate except the right to receive the shares of Common Stock issuable upon such conversion.

## **NOTE – 7 STOCKHOLDERS EQUITY (continued)**

The Corporation covenants that it will at all times reserve and keep available out of its authorized but unissued shares of Common Stock, for the purpose of effecting conversions of the Series B Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of the Series B Preferred Stock not converted. For purposes of this Section, the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of the Series B Preferred Stock shall be computed as if at the time of computation a single holder held all the outstanding shares.

Shares of Series B Preferred Stock are anti-dilutive to reverse splits, and therefore in the case of a reverse split, are convertible to the number of Common Shares after the reverse split as would have been equal to the ratio established prior to the reverse split. Shares of Series B Preferred Stock, however, would participate in forward splits, and may not be diluted by a reverse split following a forward split

Each share of Series B Preferred Stock shall have one vote for any election or other vote placed before the shareholders of the Company.

The initial price of each share of Series B Preferred Stock shall be \$2.00.

The price of each share of Series B Preferred Stock may be changed either through a majority vote of the Board of Directors through a resolution at a meeting of the Board, or through a resolution passed at an Action Without Meeting of the unanimous Board, until such time as a listed secondary and/or listed public market develops for the Shares.

Shares of Series B Preferred Stock may not be converted into shares of Common Stock for a period of a) six (6) months after purchase, if the Company voluntarily or involuntarily files public reports pursuant to Section 12 or 15 of the Securities Exchange Act of 1934; or b) twelve (12) months if the Company does not file such public reports.

During October 2009, the Company issued to a consultant 40,000 shares of Series B Preferred Stock for services to be rendered. The value of the shares was estimated to be \$80,000.

During November 2009, the Company issued to various consultants 170,000 shares of Series B Preferred Stock for services to be rendered. The value of the shares was estimated to be \$340,000.

Also during November 2009, the Company issued 700,000 shares of Series B Preferred Stock as partial payment on the debt owed for the HIRS acquisition (Note 3). The value of the shares was estimated to be \$1,400,000.

During November 2010, the Company issued to various consultants 10,000 shares of Series B Preferred Stock for services to be rendered. The value of the shares was estimated to be \$20,000.

During February 2011, the Company's Board of Directors decided to cancel all Series B Preferred Stock and issue certain Class B shareholders a new class called Series C Preferred Stock.

During April 2011, the Company entered into an agreement to convert 700,000 shares of the former Series B Preferred Stock into Series C Preferred Stock.

Additionally, during April 2011, five consultants surrendered to the Company 210,000 shares of the former Series B Preferred Stock due to their failure to perform certain contractual obligations.

During August 2011, the Company changed the authorized Class B Preferred shares from 10,000,000 to 700,000 Class B Preferred shares at a par value of \$0.001 per share.

## **NOTE – 7 STOCKHOLDERS EQUITY (continued)**

In connection with the Board of Director's decision to cancel the Series B Preferred Stock, the Company entered into three separate agreements to repurchase an aggregate of 10,000 Series B Preferred Stock for a total of \$100,000 (Note 6).

As of December 31, 2012 and 2011, there were -0- and -0- shares issued and outstanding, respectively.

### *Class C*

During April 2011, the Company authorized 10,000,000 preferred shares at a par value of \$0.000001 per share.

The holders of Series C Preferred Stock shall be entitled to receive dividends when, as and if declared by the Board of Directors, in its sole discretion. As of December 31, 2012, no dividends have been declared.

Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any stock ranking junior to the Series B Preferred Stock, the holders of the Series B Preferred Stock shall be entitled to be paid out of the assets of the Corporation an amount equal to \$1.00 per share (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares) (the "Preference Value"), plus all declared but unpaid dividends, for each share of Series B Preferred Stock held by them. After the payment of the full applicable Preference Value of each share of the Series B Preferred Stock, as set forth herein, the remaining assets of the Corporation legally available for distribution, if any, shall be distributed ratably to the holders of the Corporation's Common Stock.

Each share of Series C Preferred Stock shall be convertible, at any time, and/or from time to time, into the number of shares of the Corporation's common stock, par value \$0.000001 per share (the "Common Stock") equal to the price of the Series C Preferred Stock as stated, divided by the par value of the Common Stock, subject to adjustment as may be determined by the Board of Directors from time to time (the "Conversion Rate"). For example, assuming a \$2 price per share of Series C Preferred Stock, and a par value of \$0.000001 per share for Common Stock, each share of Series C Preferred Stock would be convertible into 2,000,000 shares of Common Stock. Such conversion shall be deemed to be effective on the business day (the "Conversion Date") following the receipt by the Corporation of written notice from the holder of the Series B Preferred Stock of the holder's intention to convert the shares of Series C Stock, together with the holder's stock certificate or certificates evidencing the Series C Preferred Stock to be converted.

Promptly after the Conversion Date, the Corporation shall issue and deliver to such holder a certificate or certificates for the number of full shares of Common Stock issuable to the holder pursuant to the holder's conversion of Series C Preferred Shares in accordance with the provisions of this Section. The stock certificate(s) evidencing the Common Stock shall be issued with a restrictive legend indicating that it was issued in a transaction exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and that it cannot be transferred unless it is so registered, or an exemption from registration is available, in the opinion of counsel to the Corporation. The Common Stock shall be issued in the same name as the person who is the holder of the Series C Preferred Stock unless, in the opinion of counsel to the Corporation, such transfer can be made in compliance with applicable securities laws. The person in whose name the certificate(s) of Common Stock are so registered shall be treated as a holder of shares of Common Stock of the Corporation on the date the Common Stock certificate(s) are so issued.

All shares of Common Stock delivered upon conversion of the Series C Preferred Shares as provided herein shall be duly and validly issued and fully paid and non-assessable. Effective as of

## **NOTE – 7 STOCKHOLDERS EQUITY (continued)**

the Conversion Date, such converted Series C Preferred Shares shall no longer be deemed to be outstanding and all rights of the holder with respect to such shares shall immediately terminate except the right to receive the shares of Common Stock issuable upon such conversion.

The Corporation covenants that it will at all times reserve and keep available out of its authorized but unissued shares of Common Stock, for the purpose of effecting conversions of the Series C Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of the Series C Preferred Stock not converted. For purposes of this Section, the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of the Series C Preferred Stock shall be computed as if at the time of computation a single holder held all the outstanding shares.

Shares of Series C Preferred Stock are anti-dilutive to reverse splits, and therefore in the case of a reverse split, are convertible to the number of Common Shares after the reverse split as would have been equal to the ratio established prior to the reverse split. Shares of Series B Preferred Stock, however, would participate in forward splits, and may not be diluted by a reverse split following a forward split

Each share of Series C Preferred Stock shall have one vote for any election or other vote placed before the shareholders of the Company.

The initial price of each share of Series C Preferred Stock shall be \$2.00.

The price of each share of Series C Preferred Stock may be changed either through a majority vote of the Board of Directors through a resolution at a meeting of the Board, or through a resolution passed at an Action Without Meeting of the unanimous Board, until such time as a listed secondary and/or listed public market develops for the Shares.

Shares of Series C Preferred Stock may not be converted into shares of Common Stock for a period of a) six (6) months after purchase, if the Company voluntarily or involuntarily files public reports pursuant to Section 12 or 15 of the Securities Exchange Act of 1934; or b) twelve (12) months if the Company does not file such public reports.

During April 2011, the Company entered into an agreement to convert 700,000 shares of the former Series B Preferred Stock into Series C Preferred Stock. The Series B Preferred Stock was originally issued by the Company as partial payment on the debt owed for the HIRS acquisition. The estimated value of the shares is \$1,400,000.

During August 2011, the Company changed the authorized Class C Preferred shares from 10,000,000 to 700,000 Class B Preferred shares at a par value of \$0.000001 per share.

During February 2012, the Company and former owners of HIRS agreed that the Stock Purchase Agreement of February 2008 is in default and that the patents and properties under that agreement would be returned to the former owners of HIRS in exchange for release of the acquisition debt (Note 1).

During the quarter ended March 31, 2012, the holder of the Class C preferred shares converted 45.8 shares into 45,800,000 million common shares.

During April 2012, the Company entered into an agreement to issue 345,217 shares with an approximate total value of \$690,300 for previously unpaid interest. As the shares will be issued at below the Company's estimated market value at the date of grant (\$2 per share), the Company recorded additional interest expense of approximately \$233,300 relating to the estimated value of these shares.

## **NOTE – 7 STOCKHOLDERS EQUITY (continued)**

During the quarter ended June 30, 2012, the holder of the Class C preferred shares converted 1,565 shares into 1,565,000,000 common shares.

During the quarter ended September 30, 2012, the holders of the Class C preferred shares converted 874 shares into 874,000,000 million common shares.

Additionally, a former shareholder of HIRS agreed to exchange 250 shares of Class C Preferred Stock in full settlement of a \$50,000 note payable.

Finally, during the quarter ended September 30, 2012, an investor purchased 300 Class C preferred shares which required the Company to hold in reserve 300,000,000 common shares.

During the quarter ended December 31, 2012, the holders of the Class C preferred shares converted 200 shares into 200,000,000 million common shares.

As of December 31, 2012 and 2011, there were 696,841 and 354,829 shares issued and outstanding, respectively.

## **NOTE – 8 RELATED PARTY TRANSACTIONS**

During September 2006, the Company's Founder paid certain administrative costs on behalf of the Company. The Company reimbursed the Founder for these costs, along with unpaid compensation, through the issuance of 10,300,000 shares of common stock.

During July 2007, the Company issued to its former officers an aggregate total of 180,000,000 shares of common stock with an approximate value of \$330,000 for previously unpaid compensation.

During October 2007, the Company entered into an employment agreement with an officer containing the following terms: duration from October 30, 2007 through October 30, 2008; annual salary of \$60,000 (net of applicable income taxes); stock signing bonus of 1,000,000 free trading common shares; either party can terminate the agreement with one month advance written notification; and, the contract is governed by the laws of the State of Missouri. During October 2008; 2009 and 2010, the Company extended the period of the employment agreement at similar terms (excluding signing bonus).

During October 2008, the Company issued its officers an aggregate of 3,000,000 shares of common stock with an approximate total value of \$60,000 for previously unpaid compensation.

During October 2007, the Company entered into an employment agreement with another officer containing the following terms: duration from October 30, 2007 through October 30, 2008; annual salary of \$60,000 (net of applicable income taxes); stock signing bonus of 1,000,000 free trading common shares; either party can terminate the agreement with one month advance written notification; and, the contract is governed by the laws of the State of Florida. During October 2008; 2009 and 2010, the Company extended the period of the employment agreement at similar terms (excluding signing bonus).

During 2008 through 2012, the Company received advances from a former shareholder of Hollund Robotics to support the Company's continuing operations. As of December 31, 2012 and 2011, the Company's unpaid advances were approximately \$167,000 and \$54,000 respectively.

During December 2007 and January 2008, the Company entered into Line of Credit Agreements with Jasmine Investments LLC and Network International Credit & Collections LTD, both shareholders of the Company. As of December 31, 2012 and 2011, the advances under the lines of credit were approximately \$53,000.



## **NOTE – 8 RELATED PARTY TRANSACTIONS (continued)**

During November 2009 and July 2010, the Company entered into two separate Loan Agreements with a shareholder, totaling \$25,000. During the quarter ended September 30, 2012, the note holder agreed to exchange 250 shares of Class C Preferred Stock in full settlement of a \$50,000 notes payable.

During July 2010, the Company entered into a Loan Agreements with a Company officer, totaling \$5,000. During the quarter ended December 31, 2012, the note and accrued interest were paid in full. As of December 31, 2011, the Company's unpaid note payable and accrued interest balances were approximately \$5,000 and \$1,000, respectively.

During May 2011, the Company issued to its convertible note holder and former owner of HIRS an aggregate total of 400,000,000 shares of common stock with an approximate value of \$40,000. During July 2011, the note holder cancelled the conversion of 400,000,000 shares of common stock and surrendered the shares back to the Company.

During December 2011, the Company issued to its convertible note holder and former owner of HIRS an aggregate total of 80,000,000 shares of common stock with an approximate value of \$64,000.

During February 2012, the Company and former owners of HIRS agreed that the Stock Purchase Agreement of February 2008 is in default and that the patents and properties under that agreement would be returned to the former owners of HIRS in exchange for release of the acquisition debt.

During the quarter ended June 30, 2012, the Company and the former owner of HIRS reached an agreement whereby, the Company agreed to reimburse the former owner of HIRS for any corporate start-up costs he incurred (\$720,859). As of December 31, 2012, the Company had not yet repaid such costs.

During the quarter ended September 30, 2012, the Company was advanced \$5,103 from a former shareholder of HIRS and one of the holders of the Class C Preferred Stock. During September 2012, the Company repaid \$2,288 of such advances.

During the quarter ended December 31, 2012, the Company entered into employment agreements for past and future services with its officers / directors containing the following terms: duration from December 15, 2012 through December 15, 2014 with the term of the agreement automatically renewing for an additional one year unless either party notifies the other of its desire not to renew; annual salary of \$36,000, \$48,000 and \$60,000 for the first, second and third years, respectively, however, such payments shall be deferred until the Company receives sufficient financing in the Board's sole discretion after the effective date of the agreement; stock

signing bonus of 25,000,000 restricted common shares with 9,000,000 restricted shares upon the execution of the agreement and the remaining shares vesting in eight equal quarterly installments of 2,000,000 shares each.

Currently, the Company operates out of space offered without charge by the directors of the Company, and therefore does not currently pay any lease for office space.

## **NOTE – 9 INCOME TAXES**

The Company determines whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, the Company measures the tax position to determine the amount to recognize in the financial statements.

**NOTE – 9 INCOME TAXES (continued)**

The Company performed a review of its material tax positions at December 31, 2012 and 2011. The Company determined that non-cash compensation costs and interest expense were deducted in error in arriving at the determination of historical cumulative net operating losses. The Company intends to file amended tax returns for the years affected and determined that the overall cumulative impact to be an immaterial reduction of the net operating loss carry forwards. The Company does not expect to incur any penalties or interest related to the amendments.

Deferred tax assets and the valuation allowance are as follows:

	December 31,	
	2012	2011
Deferred tax assets:	\$	\$
NOL carryover	672,000	629,600
Valuation allowance	(672,000)	(629,600)
Net deferred tax asset	\$ -	\$ -

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 39% to pretax income from continuing operations for the years ended December 31, 2012 and 2011.

The components of income tax expense are as follows:

	December 31,	
	2012	2011
Book (loss) income	\$ (1,207,312)	\$ 19,194,896
Derivative liability		(19,426,332)
Stock-based compensation	269,288	(238,006)
Unpaid officers compensation	66,500	(53,200)
Interest related parties	7,619	(210,502)
Change in valuation allowance	46,600	10,200
	\$ (818,505)	\$ (1,410,625)

Due to the uncertainty of the utilization of net operating loss carry forwards, a valuation allowance has been made to the extent of any tax benefit that net-operating losses may generate. A provision for income taxes has not been made due to net operating loss carry-forwards of \$672,000 and \$629,600 as of December 31, 2012 and 2011, respectively, which may be offset against future taxable income through 2030. No tax benefit has been reported in the consolidated financial statements.

**NOTE - 10 CONTINGENCIES**

In the opinion of management, there are no matters requiring recognition or disclosure as a loss contingency in accordance with Statement of Financial Standards No. 5, *Accounting for Contingencies*.

#### **NOTE 11 – SUBSEQUENT EVENT**

The Company evaluated all events and transactions that occurred from the balance sheet date of December 31, 2012 through the financial statements issue date. During this period there were no events or transactions occurring which require recognition or disclosure in the financial statements.