GEOSPATIAL CORPORATION

INDEX

	Page
Report of Independent Registered Public Accounting Firm	F-2
Financial Statements as of September 30, 2013 (Unaudited), and as of December 31, 2012 and 2011 (Audited), and for the Nine Months Ended September 30, 2013 (Unaudited) and for the Years Ended December 31, 2012 and 2011 (Audited)	
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Changes in Stockholders' Deficit	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Geospatial Corporation

We have audited the accompanying consolidated balance sheets of Corporation (a Nevada corporation) as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Geospatial Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the financial statements, the Company has incurred net losses since inception, operations and capital requirements since inception have been funded by sales of stock and advances from its chief executive officer and current liabilities exceed current assets by $5,635,189. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Goff Backa Alfera and Company, LLC
Pittsburgh, Pennsylvania
March 25, 2014

Geospatial Corporation and Subsidiaries
Consolidated Balance Sheets

	September 30, 2013 (Unaudited)	December 31, 2012	December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	$ 256,234	$ 3,928	$ 158,849
Accounts receivable	203,400	—	10,550
Costs and estimated earnings in excess of billings on uncompleted contracts	—	—	21,789
Prepaid expenses and other current assets	178,272	109,309	67,614
Total current assets	637,906	113,237	258,802
Property and equipment:			
Field equipment	48,788	36,363	—
Field vehicles	43,285	16,870	—
Total property and equipment	92,073	53,233	—
Less: accumulated depreciation	(19,187)	(3,760)	—
Net property and equipment	72,886	49,473	—
Other assets:			
Deposits on equipment	50,000	—	—
Total assets	$ 760,792	$ 162,710	$ 258,802
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	$ 916,378	$ 1,016,809	$ 1,011,800
Accrued expenses	3,757,186	4,836,596	5,188,697
Billings in excess of costs and estimated earnings on uncompleted contracts	—	—	86,195
Due to related parties	34,398	878,913	796,827
Notes payable to related parties	—	676,629	619,093
Current portion of capital lease liability to related party	3,259	3,189	—
Senior convertible redeemable notes, net of deferred debt issue costs	1,419,716	1,414,331	1,233,624
Notes payable	142,158	332,877	342,152
Total current liabilities	6,273,095	9,159,344	9,278,388
Non-current liabilities:			
Notes payable	308,494	383,738	—
Capital lease liability to related party	10,966	13,419	—
Accrued registration payment arrangement	997,599	1,066,977	1,070,127
Other non-current liabilities	22,798	30,611	—
Total non-current liabilities	1,339,857	1,494,745	1,070,127
Total liabilities	7,612,952	10,654,089	10,348,515
Commitments and contingencies	—	—	—
Stockholders' deficit:			
Preferred stock:			
Undesignated, $0.001 par value; 0, 3,425,000 and 3,425,000 shares authorized at September 30, 2013, December 31, 2012, and December 31, 2011, respectively; no shares issued and outstanding at September 30, 2013, December 31, 2012, and December 31, 2011	—	—	—
Series A Convertible Preferred Stock, $0.001 par value; 0, 1,575,000, and 1,575,000 shares authorized at September 30, 2013, December 31, 2012, and December 31, 2011, respectively; no shares issued and outstanding at September 30, 2013, December 31, 2012, and December 31, 2011	—	—	—
Series B Convertible Preferred Stock, $0.001 par value; 5,000,000, 0, and 0 shares authorized at September 30, 2013, December 31, 2012, and December 31, 2011, respectively; 4,517,572, 0, and 0 shares issued and outstanding at September 30, 2013, December 31, 2012, and December 31, 2011, respectively	4,518	—	—
Common stock, $.001 par value; 100,000,000 shares authorized at September 30, 2013, December 31, 2012 and December 31, 2011; 69,752,667, 45,980,623 and 43,935,623 shares issued and outstanding at September 30, 2013, December 31, 2012, and December 31, 2011, respectively	69,753	45,981	43,936
Series B Convertible Preferred Stock subscribed	—	846,685	—
Additional paid-in capital	27,660,883	22,869,831	22,728,726
Accumulated deficit	(34,587,314)	(34,253,876)	(32,862,375)
Total stockholders' deficit	(6,852,160)	(10,491,379)	(10,089,713)
Total liabilities and stockholders' deficit	$ 760,792	$ 162,710	$ 258,802

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

Geospatial Corporation and Subsidiaries
Consolidated Statements of Operations

	For the Years Ended December 31,		For the Nine Months Ended September 30,	
	2012	2011	2013	2012
			(Unaudited)	
Sales	$ 336,672	$ 387,282	$ 494,738	$ 336,672
Cost of sales	145,916	359,684	162,781	136,595
Gross profit	190,756	27,598	331,957	200,077
Selling, general and administrative expenses	1,256,128	2,051,661	1,194,556	932,022
Net loss from operations	(1,065,372)	(2,024,063)	(862,599)	(731,945)
Other income (expense):				
Interest expense, net of interest income	(335,900)	(233,855)	(380,521)	(210,790)
Gain on extinguishment of debt	1,733	—	909,682	1,733
Other income	8,038	606	—	7,085
Total other income and expenses	(326,129)	(233,249)	529,161	(201,972)
Net loss before income taxes and discontinued operations	(1,391,501)	(2,257,312)	(333,438)	(933,917)
Provision for income taxes	—	—	—	—
Net loss before discontinued operations	(1,391,501)	(2,257,312)	(333,438)	(933,917)
Income from discontinued operations, net of income taxes	—	14,127	—	—
Net loss	$ (1,391,501)	$ (2,243,185)	$ (333,438)	$ (933,917)
Basic and fully-diluted net loss per share of common stock	$ (0.03)	$ (0.05)	$ (0.01)	$ (0.02)

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

Geospatial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Deficit
For the Years Ended December 31, 2012 and 2011 (Audited); and for the Nine Months Ended September 30, 2013 (Unaudited)

	Preferred Stock		Common Stock		Series B Convertible Preferred Stock	Additional Paid-In	Accumulated	
	Shares	Amount	Shares	Amount	Subscribed	Capital	Deficit	Total
Balance, December 31, 2010	—	$ —	43,433,123	$ 43,433	$ —	$22,694,053	$ (30,619,190)	$ (7,881,704)
Issuance of common stock for registration penalty	—	—	502,500	503	—	34,673	—	35,176
Net loss for the year ended December 31, 2011	—	—	—	—	—	—	(2,243,185)	(2,243,185)
Balance, December 31, 2011	—	—	43,935,623	43,936		22,728,726	(32,862,375)	(10,089,713)
Issuance of common stock for registration penalty	—	—	45,000	45	—	3,105	—	3,150
Issuance of common stock for services	—	—	2,000,000	2,000	—	138,000	—	140,000
Series B Convertible Preferred Stock subscribed	—	—	—	—	631,685	—	—	631,685
Series B Convertible Preferred Stock subscribed in settlement of liabilities	—	—	—	—	215,000	—	—	215,000
Net loss for the year ended December 31, 2012	—	—	—	—	—	—	(1,391,501)	(1,391,501)
Balance, December 31, 2012	—	—	45,980,623	45,981	846,685	22,869,831	(34,253,876)	(10,491,379)
Issuance of common stock for registration penalty	—	—	991,120	991	—	68,387	—	69,378
Issuance of common stock in settlement of liabilities	—	—	21,280,922	21,281	—	1,468,384	—	1,489,665
Sale of common stock, net of issuance costs	—	—	1,500,002	1,500	—	103,339	—	104,839
Sale of Series B Preferred Stock, net of issuance costs	3,469,330	3,470	—	—	(631,685)	2,633,220	—	2,005,005
Issuance of Series B Preferred Stock in settlement of liabilites	1,048,242	1,048	—	—	(215,000)	517,722	—	303,770
Net loss for the nine months ended September 30, 2013	—	—	—	—	—	—	(333,438)	(333,438)
Balance, September 30, 2013	4,517,572	$ 4,518	69,752,667	$ 69,753	$ —	$27,660,883	$ (34,587,314)	$ (6,852,160)

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

Geospatial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		For the Nine Months Ended September 30,	
	2012	2011	2013	2012
			(Unaudited)	
Cash flows from operating activities:				
Net loss	$ (1,391,501)	$ (2,243,185)	$ (333,438)	$ (933,917)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	3,760	—	15,427	407
Amortization of deferred debt issue costs	42,953	32,894	27,814	31,110
Gain on extinguishment of debt	(1,733)	—	(909,682)	(1,733)
Issuance of common stock for services	140,000	—	—	140,000
Accrued interest payable	274,021	178,309	338,897	166,311
Changes in operating assets and liablities:				
Accounts receivable	10,550	393,770	(203,400)	3,670
Costs and estimated earnings in excess of billings on uncompleted contracts	21,789	17,753	—	21,789
Prepaid expenses and other current assets	(41,695)	189,832	(68,963)	(107,640)
Accounts payable	6,742	(35,936)	471,449	73,527
Accrued expenses	359,109	673,580	(174,169)	335,360
Billings in excess of costs and estimated earnings on uncompleted contracts	(86,195)	72,527	—	(86,195)
Due to related parties	82,086	564,290	(562,359)	70,931
Other long-term liabilities	30,611	—	(7,813)	32,139
Net cash used in operating activities	(549,503)	(156,166)	(1,406,237)	(254,241)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(36,363)	—	(38,840)	(29,276)
Deposits on equipment	—	—	(50,000)	—
Net cash used in investing activities	(36,363)	—	(88,840)	(29,276)
Cash flows from financing activities:				
Proceeds from issuance of notes payable	150,000	300,000	—	—
Principal payments on notes payable	(350,478)	(3,405)	(145,078)	(209,564)
Principal payments on capital lease liabilities	(262)	(81,984)	(2,383)	—
Proceeds from sale of common stock, net of offering costs	—	—	104,839	—
Proceeds from sale of Series B Convertible Preferred Stock, net of offering costs	631,685	—	1,790,005	401,250
Net cash provided by financing activities	430,945	214,611	1,747,383	191,686
Net change in cash and cash equivalents	(154,921)	58,445	252,306	(91,831)
Cash and cash equivalents at beginning of period	158,849	100,404	3,928	158,849
Cash and cash equivalents at end of period	$ 3,928	$ 158,849	$ 256,234	$ 67,018
Supplemental disclosures:				
Cash paid during period for interest	$ 18,926	$ 22,652	$ 13,810	$ 13,369
Cash paid during period for income taxes	—	—	—	—
Non-cash transactions:				
Issuance of common stock for registration penalty	3,150	35,176	69,378	3,150
Issuance of common stock for services	140,000	—	—	140,000
Issuance of common stock in settlement of liabilities	—	—	1,489,665	—
Acquisition of property, plant and equipment through capital lease	16,870	—	—	—
Assets sold through assumption of liabilities by purchasers	—	833,399	—	—
Conversion of note payable to Series B Convertible Preferred Stock subscription	215,000	—	—	—
Issuance of Series B Convertible Preferred Stock in settlement of liabilities	—	—	518,770	—

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

Note 1 – Summary of Significant Accounting Policies

This summary of significant accounting policies of Geospatial Corporation, a Nevada corporation, formerly known as Geospatial Holdings, Inc., (the "Company"), is presented to assist in the understanding of the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The Company utilizes innovative technologies to acquire and manage data related to underground assets. The Company's services include pipeline data acquisition and professional data management. The Company also provided utility locating services through March, 2011. The Company is located in Sarver, Pennsylvania, and provides services throughout the United States.

Consolidation

The Company's financial statements include wholly-owned subsidiaries Geospatial Mapping Systems, Inc. and Utility Services and Consulting Corporation ("USCC"). USCC ceased operations in March, 2011. All material intercompany accounts and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of September 30, 2013, the consolidated statements of operations and statements of cash flows for the nine months ended September 30, 2013 and 2012 and the consolidated statement of changes in stockholders' deficit for the nine months ended September 30, 2013 are unaudited. The interim unaudited financial statements have been prepared on the same basis as the annual audited financial statements; and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the Company's financial position as of September 30, 2013, and the results of its operations and its cash flows for the nine months ended September 30, 2013 and 2012. The financial data and other information disclosed in these notes related to the nine months ended September 30, 2013 and 2012 are unaudited. The results for the nine months ended September 30, 2013 are not necessarily indicative of results to be expected for the year ending December 31, 2013, or any other interim periods, or any future year or period.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Estimates and assumptions which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which it would be reasonably possible that future events or information could change those estimates include:

- Estimated useful lives of property and equipment;
- Estimated costs to complete fixed-price contracts;
- Realization of deferred income tax assets;
- Estimated number and value of shares to be issued pursuant to registration payment arrangements.

These estimates are discussed further throughout these Notes to Financial Statements.

Going Concern

Since its inception, the Company has incurred net losses. In addition, the Company's operations and capital requirements have been funded since its inception by sales of its common stock and advances from its chief executive officer. At September 30, 2013, the Company's current liabilities exceeded its current assets by $5,635,189, and total liabilities exceeded total assets by $6,852,160. Those factors create an uncertainty about the Company's ability to continue as a going concern. The Company's management has implemented plans to secure financing sufficient for the Company's operating and capital requirements, and to negotiate settlements or extensions of existing liabilities. There can be no assurance that such efforts will be successful. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Accounting Method

The Company's financial statements are prepared on the accrual method of accounting.

Cash and Cash Equivalents

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

Note 1 – Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are presented in the balance sheet net of estimated uncollectible amounts. The Company records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. The Company had no allowance for doubtful accounts at September 30, 2013, and December 31, 2012 and 2011.

Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes, and accelerated methods for tax purposes, based on estimated useful lives ranging from three to ten years. Depreciation expense was $15,427 for the nine months ended September 30, 2013, and $3,760 and $0 for the years ended December 31, 2012 and 2011, respectively.

Expenditures for major renewals and betterments that materially extend the useful lives of assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

The Company leases equipment under leases with terms of three years. Each lease is analyzed using the criteria in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 840, *Leases*, to determine whether the lease is a capital or operating lease. Capital leases are recorded at the inception of the lease as property and equipment, and a capital lease liability of the same amount, at the lesser of the fair value of the leased asset or the present value of the minimum lease payments. Assets recorded under capital lease agreements are depreciated over their estimated useful lives. Depreciation of assets recorded under capital leases is included with depreciation expense related to owned assets. At September 30, 2013, assets under capital leases and the related accumulated depreciation amounted to $16,870 and $2,952, respectively. At December 31, 2012, assets under capital leases and the related accumulated depreciation amounted to $16,870 and $422, respectively. The Company had no assets under capital lease at December 31, 2011.

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Company records revenue when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The price to the buyer is fixed or determinable; and
- Collectibility is reasonably assured.

Substantially all of the Company's services are rendered under the following types of contracts:

Fixed-price contracts are contracts in which the Company's clients are billed at defined milestones for an agreed amount negotiated in advance for a specified scope of work. Revenues for fixed-price contracts are recognized under the percentage-of-completion method of accounting, whereby revenues are recognized ratably as those contracts are performed. This rate is based primarily on the proportion of contract costs incurred to date to total contract costs projected to be incurred for the entire project, or the proportion of measurable output completed to date to total output anticipated for the entire project.

Units of delivery contracts are contracts in which the Company's clients are billed an agreed amount for each unit of service, as defined in the contract, that is delivered to the client. Revenues for units of delivery contracts are recognized as each unit of service is completed.

Time-and-materials contracts are contracts in which the Company and the client negotiate billing rates, typically hourly, and bill based on the actual time expended, plus other direct costs incurred in connection with the contract. Revenues for time-and-materials contracts are recognized as the services are rendered.

Advance customer payments are recorded as deferred revenue until such time as the related services are rendered or performed.

Revenues are recorded net of sales taxes collected.

Deferred Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the related debt.

Note 1 – Summary of Significant Accounting Policies (continued)

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes,* which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryovers.

The Company currently has a deferred tax asset resulting from differences in accounting methods for financial reporting and income tax reporting purposes. This deferred tax asset is completely offset by a valuation allowance due to the uncertainty of realization.

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities and various state authorities for the years 2009 through 2012. Due to financial constraints, the Company has not filed its federal and state tax returns for 2009 through 2013.

Stock-Based Payments

The Company accounts for its stock-based compensation in accordance with FASB ASC 718, *Stock Compensation*. The Company records compensation expense for employee stock options at the fair value of the stock options at the grant date, amortized over the vesting period. The Company records expense for stock options, warrants, and similar grants issued to non-employees at their fair value at the grant date, or the fair value of the consideration received, whichever is more readily available.

Registration Payment Arrangements

The Company is contractually obligated to issue shares of its common stock to certain investors for failure to register shares of its common stock under the Securities Act of 1933, as amended (the "Securities Act"). The Company has recorded a liability for the estimated number of shares to be issued at the fair value of the stock to be issued. This liability is included on the Consolidated Balance Sheet under the heading "accrued registration payment arrangement," and amounted to $997,599 at September 30, 2013, and $1,066,977, and $1,070,127 at December 31, 2012 and 2011, respectively. Gains or losses resulting from changes in the carrying amount of the liability are included in the Consolidated Statement of Operations in other income and expense under the heading "registration payment arrangements". There were no such gains or losses during the nine months ended September 30, 2013, or the years ended December 31, 2012 and 2011.

Segment Reporting

The Company operates as one segment. Accordingly, no segment reporting is presented.

Note 1 – Summary of Significant Accounting Policies (continued)

Discontinued Operations

In March, 2011, USCC ceased operations, and the Company sold substantially all of the assets of USCC. All results of operations for USCC are reported on the Statement of Operations as discontinued operations. No gain or loss on disposal of the assets of USCC was recorded because the assets were written down to their realizable value during 2010.

Recent Accounting Pronouncements

In July, 2012, FASB issued Accounting Standards Update No. 2012-02, *Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 amends Topic 350 by establishing an optional two-step analysis for impairment testing of indefinite-lived intangibles other than goodwill. This update allows an entity the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. Under that option, an entity no longer would be required to calculate the fair value of the intangible asset unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In July, 2013, the FASB issued Accounting Standards Update No. 2013-11, *Liabilities (Topic 405): Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11"). ASU 2013-11 provides guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning after December 15, 2013. The Company is currently evaluating the potential impact of ASU 2013-11 on its consolidated financial statements.

Note 2 – Capital Stock

The Company has authorized 100,000,000 shares of common stock with a par value of $0.001 per share. Each outstanding share of common stock entitles the holder to one vote on all matters. Stockholders do not have preemptive rights to purchase shares in any future issuance of common stock. Upon the Company's liquidation, common stockholders are entitled to a pro-rata share of assets, if any, after payment of creditors and preferred stockholders.

The Company has authorized 5,000,000 shares of preferred stock with a par value of $0.001 per share. All powers and rights of the shares of preferred stock are determined by the Company's Board of Directors at issuance.

On December 11, 2009, the Company filed a Certificate of Designations, Powers, Preferences and Rights of the Series A Preferred Stock of Geospatial Holdings, Inc. (the "Certificate of Designations") with the State of Nevada. The Certificate of Designations designated 1,575,000 shares of Series A Convertible Preferred Stock ("Series A Stock") for issuance by the Company. Each share of Series A Stock was convertible to shares of common stock in accordance with the terms of the Certificate of Designations. Each holder of Series A Stock was entitled to the number of votes equal to the number of shares of common stock into which the Series A Stock may be converted. The holders of Series A Stock were entitled to a liquidation preference equal to the original issue price, and a dividend preference over the holders of common stock. All shares of Series A were automatically converted to common stock on June 7, 2010. On August 20, 2013, the Company filed a Certificate of Withdrawal of Certificate of Designation to withdraw the Series A Stock.

On August 20, 2013, the Company filed a Certificate of Designation to designate 5,000,000 shares of Series B Convertible Preferred Stock ("Series B Stock") for issuance by the Company. Each share of Series B Stock is convertible to ten shares of common stock at the option of the holder, or automatically upon the occurrence of certain events. The holders of Series B Stock have the same voting rights and dividend participation rights as common stockholders in proportion to the number of shares of common stock the holders of Series B Stock would hold if those shares were converted to common stock. The holders of Series B stock are entitled to a liquidation preference of 150% of the original issue price, after payment of which they participate in liquidation with the holders of common stock.

The Company entered into a series of Subscription and Purchase Agreements with certain investors dated October 9, 2009 (the "October 2009 Subscription Agreement") in connection with the sale of 2,000,000 shares of the Company's common stock (the "October 2009 shares"). Pursuant to the October 2009 Subscription Agreement, the Company agreed to register the October 2009 shares under the Securities Act by March 1, 2010. The Company failed to register the October 2009 shares by March 1, 2010, and consequently each investor that invested pursuant to the October 2009 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the October 2009 Shares for each 30-day period that elapses after March 1, 2010, subject to certain restrictions.

Note 2 – Capital Stock (continued)

The Company entered into a series of Subscription and Purchase Agreements with certain investors dated December 14, 2009 (the "December 2009 Subscription Agreement") in connection with the sale of 1,500,000 shares of the Company's Series A Stock (the "December 2009 shares"). The Series A Stock subsequently converted to 1.25 shares of the Company's common stock. Pursuant to the December 2009 Subscription Agreement, the Company agreed to register the December 2009 shares under the Securities Act by March 1, 2010. The Company failed to register the December 2009 shares by March 1, 2010, and consequently each investor that invested pursuant to the December 2009 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the December 2009 Shares for each 30-day period that elapses after March 1, 2010, subject to certain restrictions.

The Company entered into a series of Subscription and Purchase Agreements with certain investors dated March 19, 2010 (the "March 2010 Subscription Agreement") in connection with the sale of 8,589,771 shares of the Company's common stock (the "March 2010 shares"). Pursuant to the March 2010 Subscription Agreement, the Company agreed to register the March 2010 shares under the Securities Act by September 1, 2010. The Company failed to register the March 2010 shares by September 1, 2010, and consequently each investor that invested pursuant to the March 2010 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the March 2010 Shares for each 30-day period that elapses after September 1, 2010, subject to certain restrictions.

The Company entered into a series of Subscription and Purchase Agreements with certain investors dated April 6, 2010 (the "April 2010 Subscription Agreement") in connection with the sale of 112,000 shares of the Company's common stock (the "April 2010 shares"). Pursuant to the April 2010 Subscription Agreement, the Company agreed to register the April 2010 shares under the Securities Act by September 1, 2010. The Company failed to register the April 2010 shares by September 1, 2010, and consequently each investor that invested pursuant to the March 2010 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the March 2010 Shares for each 30-day period that elapses after September 1, 2010, subject to certain restrictions.

The Company entered into a series of Subscription and Purchase Agreements dated October 15, 2010 (the "October 2010 Subscription Agreement") in connection with the issuance of $1,155,000 of 10% Senior Secured Redeemable Notes (the "Senior Notes"). Pursuant to the October 2010 Subscription Agreement, the Company agreed to register the common stock into which the Senior Notes are convertible (the "Conversion Shares") by April 15, 2011. The Company failed to register the Conversion Stock by April 15, 2011, and consequently each investor that invested pursuant to the October 2010 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the Conversion Shares for each 30-day period that elapses after April 15, 2011, subject to certain restrictions.

Note 2 – Capital Stock (continued)

The Company has recorded a liability for its obligation to issue shares for failure to register shares pursuant to the October 2009 Subscription Agreement, the December 2009 Subscription Agreement, the March 2010 Subscription Agreement, the April 2010 Subscription Agreement, and the October 2010 Subscription Agreement (collectively, the "Subscription Agreements"). There is no limitation to the maximum potential consideration to be paid for failure to register shares pursuant to the Subscription Agreements. The liability for accrued registration payment arrangements was $997,599, $1,066,977, and $1,070,127 at September 30, 2013, December 31, 2012, and December 31, 2011, respectively.

Note 3 – Accrued Expenses

Accrued expenses consisted of the following at September 30, 2013 and December 31, 2012 and 2011:

	September 30, 2013	December 31, 2012	December 31, 2011
License fees	$ 3,000,000	$ 3,000,000	$ 3,000,000
Payroll and taxes	602,187	1,419,295	1,564,160
Damage claims	12,645	46,804	61,711
Accounting	36,910	112,101	112,101
Insurance	63,758	24,131	28,071
Subcontractors	—	—	20,000
Other	41,686	234,265	402,654
Accrued expenses	$ 3,757,186	$ 4,836,596	$ 5,188,697

Note 4 – Related-Party Transactions

The Company leases its headquarters building from Mark A. Smith, the Company's Chairman and Chief Executive Officer. The building has approximately 3,200 square feet of office space, and is used by the Company's corporate, technical, and operations staff. The Company incurred $58,500 of lease expense for this building in the nine months ended September 30, 2013, and $78,000 of lease expense in each of the years ended December 31, 2012 and 2011. The lease is cancellable by either party upon 30 days' notice.

At December 31, 2010, the Company owed Mr. Smith $149,911 on a note payable (the "Smith Note"). Interest on the Smith Note at 8% amounted to $8,336 for the nine months ended September 30, 2013, and $13,514, and $12,443 for the years ended December 31, 2012 and 2011, respectively. The balance due on the Smith Note was $175,867 and $162,354 at December 31, 2012 and 2011, respectively.

At December 31, 2010, the Company owed Mr. Smith $33,073 on a convertible note payable (the "Convertible Note"). The Convertible Note was convertible to the Company's common stock at a price of $1.00 per share. Interest on the Convertible Note at 8% amounted to $1,839 for the nine months ended September 30, 2013, and $2,981, and $2,745 for the years ended December 31, 2012 and 2011, respectively. The balance due on the note was $38,799 and $35,818 at December 31, 2012 and 2011, respectively.

At December 31, 2010, the Company owed Mr. Smith $140,803 on a demand note payable (the "Demand Note"). Interest on the Demand Note at 8% amounted to $7,830 for the nine months ended September 30, 2013, and $12,692, and $11,687 for the years ended December 31, 2012 and 2011, respectively. The balance due on the note was $165,182 and $152,489 at December 31, 2012 and 2011, respectively.

Note 4 – Related-Party Transactions (continued)

On November 9, 2012, the Company and Mr. Smith entered into a Lease Agreement, pursuant to which the Company leases a vehicle from Mr. Smith. The lease is for 60 months, and is for substantially the same terms for which Mr. Smith leases the vehicle from the manufacturer. Interest on the lease amounted to $338 for the nine months ended September 30, 2013, and $41 for the year ended December 31, 2012. The lease is recorded as a capital lease. At September 30, 2013, gross assets recorded under the lease and associated accumulated depreciation were $16,870 and $2,952, respectively. Future minimum payments under the capital lease are as follows as of September 30, 2013:

Balance of 2013	$	907
Year ending December 31, 2014		3,628
Year ending December 31, 2015		3,628
Year ending December 31, 2016		3,628
Year ending December 31, 2017		3,326
Thereafter		—
Total minimum payments		15,117
Less: minimum interest payments		(893)
Minimum principal payments	$	14,224

On August 20, 2013, the Company and Mr. Smith entered into a Conversion Agreement (the "Smith Conversion Agreement"), pursuant to which liabilities totaling $1,253,644 were converted to 17,909,203 shares of the Company's common stock and warrants to purchase 1,790,920 shares of the Company's common stock at an exercise price of $0.25 per share. The liabilities to Mr. Smith included $573,635 of accrued salary, $282,156 of unreimbursed business expenses and unpaid rent for the Company's offices, $184,204 for unpaid principal and accrued interest on the Smith Note, $40,638 for unpaid principal and accrued interest on the Convertible Note, and $173,011 for unpaid principal and accrued interest on the Demand Note. As required by the Smith Conversion Agreement, the Company paid taxes owed by Mr. Smith as a result of the conversion in the amount of $57,887. In addition to the liabilities to Mr. Smith converted pursuant to the Smith Conversion Agreement, the Company agreed to use reasonable commercial efforts to pay additional accrued salary of $97,500, and additional unreimbursed business expenses and unpaid rent of $21,366.

On August 20, 2013, the Company and Thomas R. Oxenreiter, the Company's Chief Financial Officer, entered into a Conversion Agreement (the "Oxenreiter Conversion Agreement"), pursuant to which accrued salary of $223,959 and unreimbursed business expenses of $12,062 were converted to 3,371,719 shares of the Company's common stock and warrants to purchase 337,172 shares of the Company's common stock at an exercise price of $0.25 per share. As required by the Oxenreiter Conversion Agreement, the Company paid taxes owed by Mr. Oxenreiter as a result of the conversion in the amount of $18,925. In addition to the liabilities to Mr. Oxenreiter converted pursuant to the Conversion Agreement, the Company agreed to use reasonable commercial efforts to pay additional accrued salary of $31,250, and additional unreimbursed business expenses of $1,759.

Note 4 – Related-Party Transactions (continued)

In 2010, the Company entered into a Strategic Advisory Agreement (the "Strategic Advisory Agreement") with Pace Global Energy Services, LLC ("Pace") and Ridge Global, LLC ("Ridge") to provide the Company with certain strategic advisory and other support services. Pursuant to the Strategic Advisory Agreement, the Company issued Pace and Ridge warrants to purchase 1,600,000 and 2,400,000 shares, respectively, of the Company's common stock. The warrants expired on March 2, 2012. Further, pursuant to the Strategic Advisory Agreement, the Company agreed to expand the number of members of the Company's board of directors from three to five, and to appoint Timothy F. Sutherland, chairman and chief executive officer of Pace, and Thomas J. Ridge, president and chief executive officer of Ridge, to fill the newly-created vacancies. The Company incurred fees pursuant to the Strategic Advisory Agreement of $480,000 during the year ended December 31, 2011. The fees pursuant to the Strategic Advisory Agreement amounted to $560,000 at December 31, 2012 and 2011.

On October 19, 2010, the Company, Pace, and Ridge entered into a Fee Deferral Agreement and Promissory Note (the "Promissory Note"), pursuant to which the company memorialized $238,030 of unpaid accounts payable to the Promissory Note bearing interest at 10% per annum. Interest on the Promissory Note totaled $4,864 for the nine months ended September 30, 2013, and $28,349 and $25,575 for the years ended December 31, 2012 and 2011, respectively. The balance due on the Promissory Note was $296,781 and $268,432 at December 31, 2012 and 2011, respectively.

Mr. Sutherland resigned his position on the Company's Board of Directors on February 6, 2012, and Mr. Ridge resigned his position on the Company's Board of Directors on May 31, 2012.

On February 28, 2013, the Company, Pace, and Ridge, Mr. Sutherland, and Mr. Ridge entered into a Mutual Termination and Release Agreement, which terminated all prior agreements and released all parties from all obligations related to all prior agreements, including the Promissory Note. As a result of the Mutual Termination and Release Agreement, the Company recorded a gain on extinguishment of debt of $861,645.

Note 5 – Senior Convertible Redeemable Notes

On October 15, 2010, the Company entered into a series of Senior Notes with certain investors. The initial principal amount of the Senior Notes totaled $1,155,000. Interest accrues on the Senior Notes at 10% per annum, payable quarterly by increasing the principal amounts of the Senior Notes. Upon certain instances of default, the interest rate may increase to 12% per annum. The principal and unpaid interest on the Senior Notes was due after 15 months, and was extendable for three additional six-month periods. The principal and unpaid interest on the Senior Notes is convertible at the option of the holders of the Senior Notes into the Company's common stock at $0.50 per share.

On July 31, 2013, the Company entered into a Note Conversion Agreement with a holder of a Senior Note pursuant to which the Senior Note's outstanding principal and interest of $132,342 were converted to 189,060 shares of the Company's Series B Stock and warrants to purchase 18,906 shares of the Company's Series B Stock.

The balance due on the Senior Notes amounted to $1,419,716 at September 30, 2013, and $1,414,331 and $1,233,624 at December 31, 2012 and 2011, respectively.

Note 6 – Notes Payable

Current notes payable consisted of the following at September 30, 2013 and December 31, 2012 and 2011:

	September 30, 2013	December 31, 2012	December 31, 2011
Note payable to an individual due February 1, 2013, bearing interest at 10% plus shares of Series B Stock	$ —	$ 180,313	$ —
Promissory note due December 5, 2011, secured by equipment, bearing interest at 10% plus warrants to purchase common stock	—	—	301,583
Current portion of long-term notes payable	$ 142,158	152,564	40,569
Current notes payable	$ 142,158	$ 332,877	$ 342,152

Note 6 – Notes Payable (continued)

Long-term notes payable consisted of the following at September 30, 2013 and December 31, 2012 and 2011:

	September 30, 2013	December 31, 2012	December 31, 2011
Notes payable under settlement agreements with former employees, payable monthly with terms of up to 39 months, with interest rates ranging from 0% to 4%	$ 371,476	$ 462,526	$ 40,569
Notes payable under settlement agreements with vendors, payable monthly with terms of up to 60 months, with interest rates ranging from 0% to 32%	79,176	73,776	—
Total long-term notes payable	450,652	536,302	40,569
Less: current portion	(142,158)	(152,564)	(40,569)
Long-term notes payable, less current portion	$ 308,494	$ 383,738	$ —

Future maturities of long-term debt are as follows as of September 30, 2013:

Balance of 2013	$ 38,497
Year ending December 31, 2014	136,280
Year ending December 31, 2015	236,134
Year ending December 31, 2016	14,000
Year ending December 31, 2017	14,000
Thereafter	11,741
	$ 450,652

Note 7 – Commitments and Contingencies

Reduct License Agreement

The Company, Reduct N.V., a Belgian company ("Reduct"), and Delta Networks, S.A., a Luxembourg company ("Delta"), the owner of substantially all the stock of Reduct, were parties to an Amended and Restated Exclusive License and Distribution Agreement dated December 15, 2009 (the "License Agreement"), pursuant to which Reduct granted the Company an exclusive license to promote, market, use, and distribute certain Reduct products and technology. On December 16, 2010, Reduct issued the Company a notice of termination under the License Agreement, and terminated the License Agreement effective January 17, 2011. At the time of termination, the Company owed Reduct $3.0 million under the License Agreement, and Reduct claimed the Company was liable for accelerated payments of future license fees under the License Agreement.

On May 10, 2013, the parties to the License Agreement entered into a Mutual Release and Settlement Agreement (the "Reduct Settlement"), pursuant to which the parties agreed to terminate all obligations arising from the License Agreement and all prior agreements in consideration for (i) the Company issuing to Delta 9,000,000 shares of common stock; (ii) the Company issuing Delta warrants to purchase 3,000,000 shares of common stock exercisable at $0.50 per share through December 31, 2015; and (iii) the Company placing orders for Reduct equipment totaling $300,000 over nine months following the close of the Company's Series B Stock financing. The Company must deliver additional shares of common stock to Delta in the event that the Company sells its stock for less than $0.07 per share. This anti-dilution provision expires if Delta's shares become registered with the U.S. Securities and Exchange Commission and the Company raises at least $5.0 million in cash from the sale of its capital stock, including the Series B Stock financing.

In September 2013, the Company placed its first order for $100,000 of Reduct equipment, and paid Reduct a deposit of $50,000. At September 30, 2013, the Company had not delivered the shares of common stock or warrants to Delta.

Bank Deposits

The Company maintains its cash in bank deposit accounts at financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. The bank accounts at times exceed FDIC limits. The Company has not experienced any losses on such accounts.

Note 7 – Commitments and Contingencies (continued)

Legal Matters

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or the results of operations of the Company.

The Company and its officers have been sued in the Court of Common Pleas of Butler County, Pennsylvania by a group of investors alleging misrepresentation regarding the plaintiffs' investments in the Company. The Company denies the allegations and believes that it will prevail should the case go to trial. The Company recorded expense in 2011 to the extent of its insurance deductible of $250,000 for the costs of its legal defense.

Note 8 – Income Taxes

The Company's provision for (benefit from) income taxes is summarized below for the nine months ended September 30, 2013, and for the years ended December 31, 2012 and 2011:

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Current:			
Federal	$ —	$ —	$ —
State	—	—	—
	—	—	—
Deferred:			
Federal	(103,336)	(455,570)	(766,597)
State	(32,815)	(144,626)	(243,364)
	(136,181)	(600,196)	(1,009,961)
Total income taxes	(136,181)	(600,196)	(1,009,961)
Less: valuation allowance	136,181	600,196	1,009,961
Net income taxes	$ —	$ —	$ —

Note 8 – Income Taxes (continued)

The reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows for the nine months ended September 30, 2013 and for the years ended December 31, 2012 and 2011:

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes (net of federal benefit)	6.5	6.5	6.5
Valuation allowance	(41.5)	(41.5)	(41.5)
Effective rate	0.0%	0.0%	0.0%

Significant components of the Company's deferred tax assets and liabilities are summarized below as of September 30, 2013, and December 31, 2012 and 2011. A valuation allowance has been established as realization of such assets has not met the more-likely-than-not threshold requirement under FASB ASC 740.

	September 30, 2013	December 31, 2012	December 31, 2011
Start-up costs	$ 59,616	$ 66,991	$ 76,825
License fees	337,232	356,597	403,417
Depreciation	(532)	20,903	59,324
Accrued expenses	1,407,480	1,758,367	1,805,918
Uncompleted contracts	—	—	(11,896)
Net operating loss carryforward	12,020,786	11,476,542	10,754,616
Deferred income taxes	13,824,582	13,688,401	13,088,204
Less: valuation allowance	(13,824,582)	(13,688,401)	(13,088,204)
Net deferred income taxes	$ —	$ —	$ —

At September 30, 2013, the Company had federal and state net operating loss carryforwards of approximately $28,966,000. The federal and state net operating loss carryforwards will expire beginning in 2021 and 2026, respectively. The amount of the state net operating loss carryforward that can be utilized each year to offset taxable income is limited by state law.

Note 9 – Net Loss Per Share of Common Stock

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential common stock had been converted to common stock. The following reconciles amounts reported in the financial statements:

	Year Ended December 31, 2012	Year Ended December 31, 2011	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Net loss	$ (1,391,502)	$ (2,257,311)	$ (333,438)	$ (933,917)
Divided by:				
Weighted average shares outstanding	44,908,967	43,788,870	49,368,040	44,549,141
Basic and fully-diluted net loss per share	$ (0.03)	$ (0.05)	$ (0.01)	$ (0.02)

The effects of the potential conversion of the Smith Convertible Note to 38,798, and 35,817 shares of common stock were not included in the computation of diluted earnings per share for the year ended December 31, 2012 and 2011, respectively, because the effects of their conversion would be antidilutive. The effect of the potential conversion of the Smith Convertible Note to 38,027 shares of common stock was not included in the computation of diluted earnings per share for the nine months ended September 30, 2012 because the effect of its conversion would be antidilutive.

The effects of options to purchase 9,050,000 and 9,650,000 shares of common stock, and warrants to purchase 5,991,272 and 12,416,272 shares of common stock were not included in the computation of diluted earnings per share for the years ended December 31, 2012 and 2011, respectively, because the effects of their conversion would be antidilutive. The effect of options to purchase 9,050,000 shares of common stock were not included in the computation of diluted earnings per share for the nine months ended September 30, 2013 and 2012 because the effect of their conversion would be antidilutive. The effects of warrants to purchase 8,219,362 and 5,991,272 shares of common stock were not included in the computation of diluted earnings per share for the nine months ended September 30, 2013 and 2012, respectively, because the effect of their conversion would be antidilutive.

Note 10 – Stock-Based Payments

On September 23, 2013, the Company adopted the 2013 Equity Incentive Plan (the "2013 Plan"), pursuant to which up to 25,000,000 shares of the Company's common stock shall be available for grants of awards, including incentive stock options, non-qualified stock options, stock appreciation rights, restricted awards, performance share awards, or performance compensation awards to eligible employees, consultants, and directors, provided that no more than 15,000,000 shares of common stock may be granted as incentive stock options. The Board of Directors has reserved 25,000,000 shares of the Company's common stock for issuance under the 2013 Plan. The Company did not grant any awards pursuant to the 2013 Plan during the nine months ended September 30, 2013.

In 2007, the Company adopted the 2007 Stock Option Plan (the "2007 Plan"), pursuant to which the Compensation Committee of the Board of Directors (the "Committee") may award grants of options to purchase up to 15,000,000 shares of the Company's common stock to eligible employees, directors, and consultants, subject to exercise prices and vesting requirements determined by the Committee. On September 23, 2013, the Company reduced the number of shares of the Company's common stock that may be subject to awards under the 2007 Plan to 9,050,000. The Board of Directors has reserved 9,050,000 shares of the Company's common stock for issuance under the 2007 Plan. The Company granted options to purchase 220,000 shares of the Company's common stock during the year ended December 31, 2011. The Company did not grant any options to purchase shares of the Company's common stock pursuant to the 2007 Plan during the year ended December 31, 2012 and the nine months ended September 30, 2013.

Using the Black-Scholes option pricing model, management has determined that the stock options granted in 2011 had no value. Accordingly, no compensation cost or other expense was recorded for the stock options. The current value of a share of the Company's common stock used in the Black-Scholes option pricing model was determined by an independent valuation. The value per share as determined by the valuation was $0.0089 per share as of December 31, 2011.

The assumptions used and the weighted average calculated value of the stock options are as follows at December 31, 2011:

Risk-free interest rate	1.41%
Expected dividend yield	None
Expected life of options	5 years
Expected volatility rate	50%
Weighted average fair value of options granted	$0.00

Note 10 – Stock-Based Payments (continued)

The following is an analysis of the options to purchase the Company's common stock:

	Total Options	Weighted Average Exercise Price	Aggregate Fair Value	Weighted Average Remaining Contractual Term (In Years)
Total options outstanding at January 1, 2010	12,100,000	$ 0.57		
Granted	220,000	0.33		
Exercised	—	—		
Lapsed and forfeited	(2,670,000)	0.69		
Total options outstanding at December 31, 2011	9,650,000	$ 0.51	$ —	6.1
Options vested and expected to vest at December 31, 2011	9,650,000	$ 0.51	$ —	6.1
Options exercisable at December 31, 2011	9,650,000	$ 0.51	$ —	6.1
Total options outstanding at January 1, 2012	9,650,000	$ 0.51		
Granted	—	—		
Exercised	—	—		
Lapsed and forfeited	(600,000)	0.40		
Total options outstanding at December 31, 2012	9,050,000	$ 0.52	$ —	5.0
Options vested and expected to vest at December 31, 2012	9,050,000	$ 0.52	$ —	5.0
Options exercisable at December 31, 2012	9,050,000	$ 0.52	$ —	5.0

Note 10 – Stock-Based Payments (continued)

The following is an analysis of nonvested options:

	Nonvested Options	Weighted Average Fair Value
Nonvested options at January 1, 2011	697,783	$ —
Granted	220,000	—
Vested	(354,448)	—
Forfeited	(323,335)	—
Nonvested options at December 31, 2011	240,000	—
Granted	—	—
Vested	(83,332)	—
Forfeited	(156,668)	—
Nonvested options at December 31, 2012	—	$ —

On December 5, 2011, the Company granted warrants to purchase 3,000,000 shares of the Company's common stock at $0.10 per share to a lender. The warrants expire on December 5, 2016.

On December 1, 2012, the Company granted warrants to purchase 225,000 shares of the Company's common stock at $0.15 per share to a contractor. The warrants expire on November 30, 2015.

On August 20, 2013, the Company granted warrants to purchase 1,790,920 and 337,172 shares of its common stock at $0.25 per share to its chief executive officer and its chief financial officer, respectively, in connection with debt conversion agreements. The warrants expire on August 20, 2018.

On September 30, 2013, the Company granted warrants to purchase 149,998 shares of the Company's common stock at $0.25 per share to certain investors in connection with the sale of common stock. The warrants expire on September 30, 2018.

Note 10 – Stock-Based Payments (continued)

Using the Black-Scholes option pricing model, management has determined that the warrants to purchase the Company's Common Stock granted to non-employees in 2012 and 2011 have no value. Accordingly, no expense was recorded upon the grants of the warrants to purchase the Company's common stock. The current value of a share of the Company's common stock used in the Black-Scholes option pricing model was determined by an independent appraisal.

The assumptions used and the weighted average calculated value of the stock purchase rights are as follows for the year ended December 31:

	2012	2011
Risk-free interest rate	1.41%	1.41%
Expected dividend yield	None	None
Expected life of warrants	3 years	5 years
Expected volatility rate	50%	50%
Weighted average fair value of warrants granted	$0.00	$0.00

Note 10 – Stock-Based Payments (continued)

The following is an analysis of the warrants to purchase the Company's common stock.

	Total Options	Weighted Average Exercise Price	Aggregate Fair Value	Weighted Average Remaining Contractual Term (In Years)
Total warrants outstanding at January 1, 2011	9,766,272	$ 0.82		
Granted	3,000,000	0.10		
Exercised	—	—		
Lapsed and forfeited	—	—		
Total warrants outstanding at December 31, 2011	12,766,272	$ 0.65	$ —	2.8
Warrants vested and expected to vest at December 31, 2011	12,766,272	$ 0.65	$ —	2.8
Warrants exercisable at December 31, 2011	12,766,272	$ 0.65	$ —	2.8
Total warrants outstanding at January 1, 2012	12,766,272	$ 0.65		
Granted	225,000	0.15		
Exercised	—	—		
Lapsed and forfeited	(7,000,000)	0.79		
Total warrants outstanding at December 31, 2012	5,991,272	$ 0.47	$ —	4.4
Warrants vested and expected to vest at December 31, 2012	5,841,272	$ 0.47	$ —	4.4
Warrants exercisable at December 31, 2012	5,841,272	$ 0.47	$ —	4.4

Note 10 – Stock-Based Payments (continued)

The following is an analysis of nonvested warrants:

	Nonvested Warrants	Weighted Average Fair Value
Nonvested warrants at January 1, 2011	—	$ —
Granted	3,000,000	—
Vested	(3,000,000)	—
Forfeited	—	—
Nonvested warrants at December 31, 2011	—	—
Granted	225,000	—
Vested	(75,000)	—
Forfeited	—	—
Nonvested warrants at December 31, 2012	150,000	$ —

On August 20, 2013, the Company granted warrants to purchase 451,738 shares of its Series B Stock at $2.50 per share to certain investors in connection with the sale of Series B Stock. The warrants expire on August 20, 2018.

During 2012, the Company issued 2,000,000 shares of the Company's common stock as payment for services. The Company recorded expense of $140,000, the fair value of the services received.

Note 11 – Subsequent Events

On October 2, 2013, the Company filed a Certificate of Amendment with the State of Nevada to amend the Company's Articles of Incorporation to change the Company's name to Geospatial Corporation, to increase the aggregate number of authorized shares of common stock to 350,000,000 shares, and to increase the aggregate number of authorized shares of preferred stock to 25,000,000. The Company's stockholders, acting by majority written consent in lieu of a meeting, voted to approve the amendments to the Company's Articles of Incorporation on September 23, 2013.

On October 18, 2013, the Company granted stock appreciation rights on 15,900,000 shares of the Company's common stock to eligible employees and consultants pursuant to the 2013 Plan, with an exercise price of $0.07 per share. The rights expire on October 18, 2023.

Note 11 – Subsequent Events (continued)

On October 22, 2013, the Company delivered to Delta 9,000,000 shares of common stock and warrants to purchase 3,000,000 shares of common stock at $0.50 per share through December 31, 2015 pursuant to the Reduct Settlement.

From November 27, 2013 through March 20, 2014, the Company sold 5,542,860 shares of its common stock at $0.35 per share for aggregate consideration of $1,940,116.