

**ALGAE FARM (USA), INC**  
**(f/k/a Russell Industries, Inc.)**  
**(A Development Stage Enterprise)**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

ASSETS	<u>December 31, 2011</u>	<u>December 31, 2010</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 5,344	\$ 8,050
Prepaid Expenses	2,465	-
Total Current Assets	7,809	8,050
Property and equipment, net	74,054	67,575
<b>Other Assets:</b>		
Marketable Securities - Available for Sale	50,000	-
<b>Total Assets</b>	<b>\$ 131,863</b>	<b>\$ 75,625</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 753,047	\$ 316,909
Convertible promissory notes, net of discounts of \$- and \$61,643, respectively	760,177	698,533
Derivative Liability	380,089	1,723,619
Loans payable - related party	32,442	35,861
Total Current Liabilities	1,925,755	2,774,922
<b>Total Liabilities</b>	<b>1,925,755</b>	<b>2,774,922</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity (Deficit):</b>		
Preferred stock - series A, \$.001 par value; 1,000,000 shares authorized; 100,000 and 100,000 issued and outstanding, respectively.	100	100
Preferred stock - series B, \$.001 par value; 1,000,000 shares authorized; none issued and outstanding, respectively.	-	-
Common stock, \$0001 par value, 1,998,000,000 shares authorized, 608,491,180 and 5,847,275 shares issued and outstanding, respectively.	60,849	585
Additional paid-in capital	17,438,943	14,623,498
Deficit accumulated during development stage	(19,156,284)	(17,323,480)
Accumulated Other Comprehensive Income (Loss)	(137,500)	-
Total Stockholders' Equity (Deficit)	(1,793,892)	(2,699,298)
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<b>\$ 131,863</b>	<b>\$ 75,625</b>

The accompanying notes are an integral part of these financial statements

**ALGAE FARM (USA), INC**  
**(f/k/a Russell Industries, Inc.)**  
**Condensed Consolidated Statement of Operations**  
**(Unaudited)**

	<u>For the Year Ended</u> <u>December 31, 2011</u>	<u>For the Year Ended</u> <u>December 31, 2010</u>	<u>For the Period</u> <u>February 20, 1997</u> <u>(Inception) to</u> <u>December 31, 2011</u>
Revenues	\$ 37,500	\$ -	\$ 37,500
Costs and Expenses			
General and administrative	3,174,051	511,184	17,433,939
Legal and Professional Fees	102,530	109,024	376,040
Mining and Exploration	-	1,056	121,990
Research and Development	3,517	223,703	430,472
Write-down of Unpatented Mining Claims	-	324,807	324,807
Total Costs and Expenses	<u>3,280,098</u>	<u>1,169,774</u>	<u>18,687,248</u>
Loss from Operations	(3,242,598)	(1,169,774)	(18,649,748)
Other (Income) Expenses:			
Interest income	-	(259)	(2,586)
Amortization of Discounts on Debentures	61,644	794,144	1,095,000
Change in Fair Value of Derivatives	(1,343,530)	808,615	(534,916)
Interest expense on Convertible Promissory Notes	59,592	59,592	136,538
(Gain) on Sale of Unpatented Mining Claims	(187,500)	-	(187,500)
Total Other (Income) Expenses	<u>(1,409,794)</u>	<u>1,662,092</u>	<u>506,536</u>
Net Loss	<u>\$ (1,832,804)</u>	<u>\$ (2,831,866)</u>	<u>\$ (19,156,284)</u>
Net Loss per Common Share - Basic and Diluted	<u>\$ (0.01)</u>	<u>\$ (0.66)</u>	
Weighted Average Common Shares Outstanding	<u>287,691,363</u>	<u>4,284,448</u>	

**ALGAE FARM (USA), INC**  
**(f/k/a Russell Industries, Inc.)**  
**(A Development Stage Enterprise)**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<u>For the Year Ended</u>		<u>For the Period</u>
	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>February 20, 1997</u>
			<u>(Inception) to</u>
			<u>December 31, 2011</u>
<b>Cash Flows from Operating Activities:</b>			
Net Loss	\$ (1,832,804)	\$ (2,831,866)	\$ (19,156,285)
Adjustments to reconcile net loss to net cash used by operating activities:			
Write-down of unpatented mining claims	-	324,807	324,807
Amortization of discount on debentures	61,644	794,144	1,095,010
Change in Derivative Liability	(1,343,530)	808,615	(534,915)
Depreciation expense	1,157	1,541	2,784
Gain on Sale of Unpatented Mining Claims	(187,500)	-	(187,500)
Issuance of common stock for services	2,836,209	-	15,168,315
Changes in assets and liabilities:			
(Increase) in prepaid expenses	(2,465)	-	(2,465)
Increase (Decrease) in accrued expenses	411,138	104,689	728,047
Net Cash (Used) in Operating Activities	(56,151)	(798,070)	(2,562,202)
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures	-	(1,314)	(69,201)
Purchase of Unpatented Mining Claims	-	-	(324,807)
Net Cash (Used) by Investing Activities	-	(1,314)	(394,008)
<b>Cash Flow from Financing Activities:</b>			
Proceeds from sale of common stock	42,500	-	1,754,940
Commissions and Finder's Fees paid on sale of common stock	(3,000)	-	(38,182)
Proceeds from (Repayment of) Loans payable - Related party	30,233	(1,518)	66,094
Proceeds from Issuance of convertible debentures - related parties	-	-	100,000
Proceeds from Issuance of convertible debentures	-	425,000	1,095,000
Net Cash Provided by Financing Activities	69,733	423,482	2,977,852
Increase (Decrease) in Cash	(2,706)	(375,902)	4,850
Cash at Beginning of Period	8,050	383,952	-
Cash at End of Period	\$ 5,344	\$ 8,050	\$ 4,850
 <b>Supplemental Cash Flow Information:</b>			
Cash Paid For Interest	\$ 162	\$ 1,444	\$ 9,653
Cash Paid For Income Taxes	\$ -	\$ -	\$ -
 <b>Supplemental Non-Cash Investing and Financing Activities:</b>			
Common Stock Issued upon Conversion of Convertible Debentures	\$ -	\$ 240,446	\$ 704,246
Unamortized Discount on Promissory Notes Payable	\$ -	\$ 425,000	\$ 1,195,000
Unrealized Loss on Available for Sales Securities	\$ 137,500	\$ -	\$ 137,500

The accompanying notes are an integral part of these financial statements

**ALGAE FARM (USA), INC AND SUBSIDIARIES**  
(f/k/a Russell Industries, Inc.)  
(A Development Stage Enterprise)  
**Condensed Consolidated Statement of Stockholders' Equity (Deficit)**  
For the Period February 20, 1997 (Inception) to December 31, 2011  
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid In Capital	Deficit Accumulated During Development Stage	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balances, February 17, 1997 (inception)	-	\$ -	-	\$ -	-	\$ -	-	\$ -
Balances, December 31, 1997	-	-	-	-	-	-	-	-
Issuance of shares pursuant to a Private Placement	-	-	-	-	30,000	-	-	30,000
Balances, December 31, 1998	-	-	-	-	30,000	-	-	30,000
Balances, December 31, 1999	-	-	-	-	30,000	-	-	30,000
Balances, December 31, 2000	-	-	-	-	30,000	-	-	30,000
Net loss for the year ended December 31, 2001	-	-	-	-	-	(8,761)	-	(8,761)
Balances, December 31, 2001	-	-	-	-	30,000	(8,761)	-	21,239
Net loss for the year ended December 31, 2002	-	-	-	-	-	(8,382)	-	(8,382)
Balances, December 31, 2002	-	-	-	-	30,000	(17,143)	-	12,857
Net loss for the year ended December 31, 2003	-	-	-	-	-	(18,289)	-	(18,289)
Balances, December 31, 2003	-	-	-	-	30,000	(35,432)	-	(5,432)
Net loss for the year ended December 31, 2004	-	-	-	-	-	(9,570)	-	(9,570)
Balances, December 31, 2004	-	-	-	-	30,000	(45,002)	-	(15,002)
Net loss for the year ended December 31, 2005	-	-	-	-	-	(13,465)	-	(13,465)
Balances, December 31, 2005	-	-	-	-	30,000	(58,467)	-	(28,467)
Issuance of common stock valued at \$4,545,454,545 per share	-	-	-	-	100,000	-	-	100,000
Issuance of common stock valued at \$1,515,353,636 per share	-	-	-	-	50,000	-	-	50,000
Common Stock issued for Services valued at \$636,363,636 per share - Related Party	-	-	-	-	2,071,807	-	-	2,071,807
Net loss for the year ended December 31, 2006	-	-	-	-	-	(2,170,181)	-	(2,170,181)
Balances, December 31, 2006	-	-	-	-	2,251,807	(2,228,648)	-	23,159
Issuance of common stock valued at \$204,545,455 per share	-	-	-	-	61,759	-	-	61,759
Issuance of common stock valued at \$86,363,636 per share	-	-	-	-	38,000	-	-	38,000
Issuance of common stock valued at \$52,272,727 per share	-	-	-	-	7,000	-	-	7,000
Issuance of common stock valued at \$48,700,909 per share	-	-	-	-	15,000	-	-	15,000
Issuance of common stock valued at \$45,454,545 per share	-	-	-	-	2,500	-	-	2,500
Issuance of common stock valued at \$36,657,273 per share	-	-	-	-	25,000	-	-	25,000
Issuance of common stock valued at \$31,818,182 per share	-	-	-	-	85,000	-	-	85,000
Issuance of common stock valued at \$30,000,000 per share	-	-	-	-	20,000	-	-	20,000
Issuance of common stock valued at \$27,272,727 per share	-	-	-	-	45,000	-	-	45,000

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For the Period February 20, 1997 (Inception) to December 31, 2011  
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	Preferred Stock		Common Stock		Additional Paid In Capital	Deficit Accumulated During Development Stage	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Issuance of common stock valued at \$25,000,000 per share	-	-	-	-	91,667	-	-	91,667
Issuance of common stock valued at \$22,727,273 per share	-	-	-	-	337,500	-	-	337,500
Issuance of common stock valued at \$22,500,000 per share	-	-	-	-	25,000	-	-	25,000
Issuance of common stock valued at \$18,181,818 per share	-	-	-	-	149,000	-	-	149,000
Issuance of common stock valued at \$15,151,515 per share	-	-	-	-	50,000	-	-	50,000
Issuance of common stock valued at \$7,500,000 per share	-	-	-	-	25,000	-	-	25,000
Issuance of common stock valued at \$5,000,000 per share	-	-	-	-	10,000	-	-	10,000
Issuance of common stock valued at \$2,272,727 per share	-	-	-	-	75,000	-	-	75,000
Common Stock issued for Services valued at \$50,000,000 per share	-	-	-	-	69,667	-	-	69,667
Issuance of Preferred Stock for Services valued at \$3.82 per share - Related Party	100,000	100	-	-	382,286	-	-	382,386
Fees paid on issuances of common stock	-	-	-	-	(35,182)	-	-	(35,182)
Net loss for the year ended December 31, 2007	-	-	-	-	-	(1,048,440)	-	(1,048,440)
<b>Balances, December 31, 2007</b>	<b>100,000</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>3,731,004</b>	<b>(3,277,088)</b>	<b>-</b>	<b>454,016</b>
Issuance of common stock valued at \$90,909 per share	-	-	-	-	25,000	-	-	25,000
Issuance of common stock valued at \$60,605 per share	-	-	-	-	5,000	-	-	5,000
Issuance of common stock valued at \$44,545 per share	-	-	-	-	21,220	-	-	21,220
Issuance of common stock valued at \$36,364 per share	-	-	-	-	10,000	-	-	10,000
Issuance of common stock valued at \$34,091 per share	-	-	1	0	25,000	-	-	25,000
Issuance of common stock valued at \$2,727 per share	-	-	1	0	3,300	-	-	3,300
Issuance of common stock valued at \$1,818 per share	-	-	7	0	11,000	-	-	11,000
Issuance of common stock valued at \$909 per share	-	-	15	0	14,000	-	-	14,000
Issuance of common stock valued at \$755 per share	-	-	7	0	5,000	-	-	5,000
Issuance of common stock valued at \$545 per share	-	-	22	0	12,000	-	-	12,000
Issuance of common stock valued at \$364 per share	-	-	28	0	10,000	-	-	10,000
Issuance of common stock valued at \$264 per share	-	-	112	0	29,094	-	-	29,094
Common Stock issued for Services valued at \$909,091 per share - Related Party	-	-	-	-	1,000	-	-	1,000
Common Stock issued for Services valued at \$8,182 per share - Related Party	-	-	974	0	7,969,063	-	-	7,969,063
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$3,636 per share	-	-	6	0	20,000	-	-	20,000
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$1,818 per share	-	-	7	0	11,000	-	-	11,000
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$909 per share	-	-	15	0	14,000	-	-	14,000
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$755 per share	-	-	7	0	5,000	-	-	5,000
Discounts on Issuance of Convertible Promissory Notes	-	-	-	-	45,000	-	-	45,000
Net loss for the year ended December 31, 2008	-	-	-	-	-	(8,640,457)	-	(8,640,457)
<b>Balances, December 31, 2008</b>	<b>100,000</b>	<b>100</b>	<b>1,200</b>	<b>0</b>	<b>11,966,681</b>	<b>(11,917,545)</b>	<b>-</b>	<b>49,236</b>
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$127.27 per share	-	-	157	0	20,000	-	-	20,000
Issuance of common stock valued at \$18.18 per share	-	-	275	0	5,000	-	-	5,000

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Condensed Consolidated Statement of Stockholders' Equity (Deficit)  
For the Period February 20, 1997 (Inception) to December 31, 2011  
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid In Capital	Deficit Accumulated During Development Stage	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Issuance of common stock valued at \$9.27 per share	-	-	5,392	1	49,999	-	50,000	
Issuance of common stock valued at \$4.54 per share	-	-	4,400	0	20,000	-	20,000	
Issuance of common stock valued at \$3.79 per share	-	-	6,600	1	24,999	-	25,000	
Issuance of common stock valued at \$3.50 per share	-	-	7,150	1	24,999	-	25,000	
Issuance of common stock valued at \$1.40 per share	-	-	7,150	1	9,999	-	10,000	
Issuance of common stock valued at \$0.78 per share	-	-	38,500	4	29,996	-	30,000	
Issuance of common stock valued at \$0.60 per share	-	-	33,000	3	19,997	-	20,000	
Issuance of common stock valued at \$0.54 per share	-	-	46,200	5	24,995	-	25,000	
Issuance of common stock valued at \$0.40 per share	-	-	12,222	1	4,999	-	5,000	
Issuance of common stock valued at \$0.36 per share	-	-	13,750	1	4,999	-	5,000	
Issuance of common stock valued at \$0.27 per share	-	-	277,200	28	74,972	-	75,000	
Issuance of common stock valued at \$0.22 per share	-	-	110,000	11	24,989	-	25,000	
Issuance of common stock valued at \$0.36 per share - Related Party	-	-	1,100	0	400	-	400	
Common Stock issued for Services valued at \$.91 per share	-	-	13,840	1	12,581	-	12,582	
Common Stock issued for Services valued at \$9.09 per share - Related Party	-	-	111,100	11	1,009,989	-	1,010,000	
Common Stock issued for services valued at \$0.64 per share	-	-	39,514	4	24,996	-	25,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$9.09 per share.	-	-	2,200	0	20,000	-	20,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$4.73 per share.	-	-	10,577	1	49,999	-	50,000	
Common Stock issued for Services valued at \$3.64 per share - Related Party	-	-	165,000	17	599,984	-	600,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$1.82 per share	-	-	27,500	3	49,997	-	50,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$1.24 per share.	-	-	16,134	2	19,998	-	20,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$1.09 per share.	-	-	36,666	4	39,996	-	40,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$.91 per share.	-	-	44,000	4	39,996	-	40,000	
Common Stock issued for Services valued at \$0.45 per share	-	-	22,000	2	9,998	-	10,000	
Common Stock issued for Services valued at \$0.36 per share - Related Party	-	-	438,900	44	159,556	-	159,600	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$0.36 per share	-	-	162,250	16	58,984	-	59,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$0.21 per share	-	-	117,858	12	24,988	-	25,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$0.18 per share	-	-	374,000	37	67,963	-	68,000	
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$0.15 per share	-	-	151,801	15	22,985	-	23,000	
Discounts on Issuance of Convertible Promissory Notes	-	-	-	-	675,000	-	675,000	
Amortization of Discount on Issuance of Convertible Promissory Notes	-	-	-	-	(232,500)	-	(232,500)	
Net loss for the year ended December 31, 2009	-	-	-	-	-	(2,574,068)	(2,574,068)	
Balances, December 31, 2009	100,000	100	2,297,637	230	14,961,533	(14,491,613)	470,250	

**ALGAE FARM (USA), INC AND SUBSIDIARIES**  
(f/k/a Russell Industries, Inc.)  
(A Development Stage Enterprise)  
**Condensed Consolidated Statement of Stockholders' Equity (Deficit)**  
**For the Period February 20, 1997 (Inception) to December 31, 2011**  
(Unaudited)

	Preferred Stock		Common Stock			Deficit Accumulated During Development Stage	Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Additional Paid In Capital			
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$0.09 per share	-	-	2,304,500	230	209,270	-	-	209,500
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$0.12 per share	-	-	330,000	33	39,967	-	-	40,000
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$0.15 per share	-	-	348,151	35	52,710	-	-	52,745
Common Stock issued in connection with the conversion of Convertible Promissory Notes Payable at \$0.00212 per share			565,723	57	1,143	-	-	1,200
Derivative Liability related to Convertible Promissory Notes					(915,004)			(915,004)
Discounts on Issuance of Convertible Promissory Notes					(151,123)			(151,123)
Amortization of Discount on Issuance of Convertible Promissory Notes					425,000			425,000
Net loss for the year ended December 31, 2010	-	-	-	-	-	(2,831,866)	-	(2,831,866)
<b>Balances, December 31, 2010</b>	<b>100,000</b>	<b>\$ 100</b>	<b>5,847,275</b>	<b>\$ 585</b>	<b>\$ 14,623,498</b>	<b>\$ (17,323,480)</b>		<b>\$ (2,699,297)</b>
Common Stock issued to a related party for services valued at \$.035 per share			55,000,000	5,500	1,944,500			1,950,000
Issuance of common stock valued at \$0.009 per share			825,000	83	7,417			7,500
Issuance of common stock valued at \$0.0027 per share			6,233,334	623	16,377			17,000
Common Stock issued to a related party for services valued at \$.0018 per share			478,767,278	47,877	822,609			870,482
Common Stock issued for services valued at \$.0018 per share			3,490,402	349	5,999			6,348
Common Stock issued for services valued at \$.0028 per share			3,327,363	333	9,044			9,377
Issuance of common stock valued at \$0.0003 per share			55,000,000	5,500	12,500			18,000
Costs related to sale of common stock at \$0.0003 per share					(3,000)			(3,000)
Unrealized Loss on Marketable Securities Held for Sale							(137,500)	(137,500)
Net loss for the year ended December 31, 2011						(1,832,804)		(1,832,804)
<b>Balances, December 31, 2011</b>	<b>100,000</b>	<b>\$ 100</b>	<b>608,490,652</b>	<b>\$ 60,849</b>	<b>\$ 17,438,943</b>	<b>\$ (19,156,284)</b>	<b>(137,500)</b>	<b>\$ (1,793,892)</b>

ALGAE FARM (USA), INC.  
(f/k/a Russell Industries, Inc.)  
(A Development Stage Enterprise)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Basis of Presentation

Description of Business

Algae Farm (USA), Inc., formerly known as ("f/k/a") Russell Industries, Inc. (hereinafter referred to as "the Company", "the Issuer", "we", or "us"), was incorporated in February 1997 in the State of Nevada.

From November 2006 through July 2007, the Company acquired 255 unpatented mining claims. However, since August 2007 it has focused primarily on the research and development of alternative and renewable energy sources, focusing primarily in the area of algae oil production.

In August 2010, the Company decided not to renew one hundred and ninety-two (192) of its unpatented mining claims. The decision to not renew had to do with management's decision that the benefit of renewing the claims did not exceed the cash costs involved. Management had been focusing all of their attention on algae oil production and did not expect to pursue mining activities in the near future.

In September 2010, the Company wrote off the entire value of the remaining sixty-three (63) unpatented mining claims for the reasons mentioned previously.

On June 13, 2011 the Company entered into a Purchase Agreement ("the Agreement") with Colorado Goldfields, Inc. ("CGI") to sell the remaining sixty-three (63) unpatented mining claims in its possession for 250,000,000 restricted common shares of CGI valued at \$187,500.

Going Concern

The accompanying unaudited condensed financial statements have been prepared assuming that the Company will continue as a going concern. During the year ended December 31, 2011 the Company remained in the development stage, had no significant revenue producing operations, and as of December 31, 2011 had a working capital deficit of \$1,793,892. In addition, during the year ended December 30, 2011 the Company incurred a net loss of \$1,832,804 and since inception has incurred losses aggregating \$19,156,284. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the classification of liabilities that may result from the outcome of this uncertainty.

Management's plans with respect to the current situation consist of seeking additional financial resources from its existing investors, new investors, note holders, and its Chief Executive Officer Richard M. Berman. The Company is planning to begin operations in the third quarter of 2012, at which point Management believes they will be able to generate positive cash flows

There can be no assurance that sufficient funds will be generated during the next year or thereafter from operations, or that funds will be available from external sources such as debt or equity financings or other potential sources. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's existing stockholders.

The accompanying unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

ALGAE FARM (USA), INC.  
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Algae Farm (USA), Inc. and its wholly-owned subsidiaries, Algae Farm LLC, a Nevada Limited Liability Company, and Algae Farm (International), Inc., a Nevada Corporation, that were formed on March 17, 2009 and July 24, 2007, respectively, which to date have had no operations. All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents.

Marketable Securities

The Company accounts for its investments in marketable securities in accordance with ASC guidance for Investments—Debt and Equity Securities.

Management determines the appropriate classification of all securities at the time of purchase and re-evaluates such designation as of each balance sheet date. The Company has classified its marketable equity securities as available for sale securities and has recorded such securities at fair value using the closing quoted market price on the exchange the securities are traded as of the balance sheet date. The Company uses the specific identification method to determine realized gains and losses. Unrealized holding gains and losses are excluded from earnings and, until realized, are reported as a separate component of stockholders' equity.

Property and Equipment

Property and equipment are stated at cost. Repairs and maintenance costs that do not improve service potential or extend the economic life of an existing fixed asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Indefinite-Life Intangible Assets

Indefinite-life intangible assets consisted of unpatented mining claims that did not have a determinable useful life. Accordingly, indefinite-life intangible assets were not amortized. It is the Company's policy to assess periodically the carrying amount of its indefinite-life intangible assets to determine if there has been impairment to their carrying value. During August 2010 (see Note 1), the Company decided not to renew 192 of its mining claims. In September 2010, the Company reduced the carrying value of the remaining claims to zero after determining that they would not be pursuing any mining activities in the foreseeable future.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents, and convertible promissory notes payable approximated fair value because of the short maturity of these instruments.

Revenue Recognition

The Company will recognize revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, and the sales price charged is fixed or determinable. As of December 31, 2011 the Company has received revenue of \$37,500 in the form of fees from a licensing agreement which has since been terminated by the Company.

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ALGAE FARM (USA), INC.  
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Advertising Costs

The Company expenses the costs of advertising in the period in which the advertising takes place. For the years ended December 31, 2011 and 2010, the company had no advertising costs.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents.

The Company periodically maintains cash balances at financial institutions which exceed the current Federal Deposit Insurance Corporation ("FDIC") limit of \$250,000.

Fair Value Measurements

In January 2010, the ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to: i) transfers in and out of level 1 and 2 fair value measurements and ii) enhanced detail in the level 3 reconciliation. The guidance was amended to provide clarity about: i) the level of disaggregation required for assets and liabilities and ii) the disclosures required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring measurements that fall in either level 2 or level 3. The updated guidance was effective for the Company's interim reporting period beginning April 1, 2010, with the exception of the Level 3 disaggregation, which is effective for the year beginning January 1, 2011. The Company adopted this guidance on the Company's consolidated financial position, results of operations and cash flows.

Research and Development

All costs and expenses associated with the algae biomass production technology are expensed when incurred as research and development. Once the technology has been developed and a revenue producing facility has been built, expenses associated with the production of algae oil will be expensed as a cost of sales.

Net Loss Per Common Share

Basic and diluted net losses per share are computed using the weighted average number of shares of common stock outstanding during the period. Equivalent common shares are excluded from the calculation of diluted net loss per share for the years ended December 31, 2011 and December 31, 2010 since their effect would be anti-dilutive.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Equity Based Compensation

In connection with employment of the Company's executive as well as in consideration for agreements with certain consultants, the Company may issue shares of its common stock. Employee and non-employee awards are made at the discretion of the Board of Directors.

The Company accounts for stock compensation under ASC guidance for compensation – stock compensation, which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized over the requisite service period following the date of grant.

The Company accounts for non-employee equity based awards in which goods or services are the consideration received for the equity instruments issued at their fair value.

Reclassifications

Certain reclassifications have been made to prior periods' financial statements to conform to the classifications used in the current period.

NOTE 3 - Property and Equipment

Property and equipment consist of the following:

	<u>Estimated Useful Lives</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Computer Equipment	3 Years	\$ 1,202	\$ 1,202
Laboratory Equipment	5 Years	13,335	5,700
Mining Equipment	Units of Production	<u>62,300</u>	<u>62,300</u>
		76,837	69,202
Less: Accumulated Depreciation		<u>2,783</u>	<u>1,627</u>
		<u>\$ 74,054</u>	<u>67,575</u>

Depreciation expense on property and equipment was \$1,156 and \$1,157 for the nine months ended September 30, 2011 and 2010, respectively.

Note 4 - Marketable Securities – Available for Sale

Marketable securities classified as other assets and are summarized as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Marketable equity securities, at cost	<u>\$ 187,500</u>	<u>\$ - 0 -</u>
Marketable equity securities, at fair value	<u>\$ 50,000</u>	<u>\$ - 0 -</u>

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NOTE 5 - Convertible Promissory Notes Payable

On October 15, 2009 the Company issued a 1 year, 8% Convertible Promissory Note ("the Note") to E-Lionheart Associates, LLC ("E-Lionheart") in the principal amount of \$250,000. At any time on or prior to the Maturity Date, any amount of the unpaid Principal Amount (the "Conversion Amount") may be converted into *free-trading* and unrestricted shares of Common Stock of the Company equal to the result of (i) the Conversion Amount, divided by (ii) the Variable Conversion Price. The "Variable Conversion Price" shall mean the Applicable Percentage (as defined herein) multiplied by the Market Price (as defined herein). "Market Price" means the average of the lowest three (3) Trading Prices (as defined below) for the Common Stock during the twenty (20) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent by the Holder to the Borrower via facsimile (the "Conversion Date"). "Trading Price" means, for any security as of any date, the intraday trading price on the Pink Sheets (the "PINKSHEETS") as reported by a reliable reporting service mutually acceptable to and hereafter designated by Holders of a majority in interest of the Notes and the Borrower or, if the PINKSHEETS is not the principal trading market for such security, the intraday trading price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no intraday trading price of such security is available in any of the foregoing manners, the average of the intraday trading prices of any market makers for such security that are listed in the "pink sheets" by the National Quotation Bureau, Inc. "Applicable Percentage" shall mean 50.

On November 2, 2009 the Company issued 162,250 common shares to E-Lionheart upon conversion of \$29,500 of principal on the Note dated October 15, 2009.

On November 24, 2009 the Company issued 117,857 common shares to E-Lionheart upon conversion of \$12,500 of principal on the Note dated October 15, 2009.

On November 30, 2009 the Company issued 165,000 common shares to E-Lionheart upon conversion of \$15,000 of principal on the Note dated October 15, 2009.

On December 9, 2009 the Company issued 209,000 common shares to E-Lionheart upon conversion of \$19,000 of principal on the Note dated October 15, 2009.

On December 18, 2009 the Company issued 151,801 common shares to E-Lionheart upon conversion of \$11,500 of principal on the Note dated October 15, 2009.

On January 4, 2010 the Company issued 242,000 common shares to E-Lionheart upon conversion of \$11,000 of principal on the Note dated October 15, 2009.

On January 13, 2010 the Company issued 264,000 common shares to E-Lionheart upon conversion of \$12,000 of principal on the Note dated October 15, 2009.

On January 22, 2010 the Company issued 220,000 common shares to E-Lionheart upon conversion of \$10,000 of principal on the Note dated October 15, 2009.

On February 3, 2010 the Company issued 330,000 common shares to E-Lionheart upon conversion of \$19,998 of principal on the Note dated October 15, 2009.

On February 23, 2010 the Company issued 165,000 common shares to E-Lionheart upon conversion of \$12,500 of principal on the Note dated October 15, 2009.

On March 12, 2010 the Company issued 183,151 common shares to E-Lionheart upon conversion of \$13,875 of principal on the Note dated October 15, 2009.

On March 26, 2010 the Company issued 192,500 common shares to E-Lionheart upon conversion of \$8,750 of principal on the Note dated October 15, 2009.

On April 9, 2010 the Company issued 203,500 common shares to E-Lionheart upon conversion of \$9,250 of principal on the Note dated October 15, 2009.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - Convertible Promissory Notes Payable (Continued)

On April 22, 2010 the Company issued 214,500 common shares to E-Lionheart upon conversion of \$9,750 of principal on the Note dated October 15, 2009.

On April 30, 2010 the Company issued 225,500 common shares to E-Lionheart upon conversion of \$10,250 of principal on the Note dated October 15, 2009.

On May 7, 2010 the Company issued 236,500 common shares to E-Lionheart upon conversion of \$10,750 of principal on the Note dated October 15, 2009.

On May 14, 2010 the Company issued 247,500 common shares to E-Lionheart upon conversion of \$11,250 of principal on the Note dated October 15, 2009.

On May 28, 2010 the Company issued 258,500 common shares to E-Lionheart upon conversion of \$11,750 of principal on the Note dated October 15, 2009.

On November 18, 2010 the Company issued 565,723 common shares to E-Lionheart upon conversion of \$1,200 of principal on the Note dated October 15, 2009.

As of December 31, 2011 the Company is currently in default on this Convertible Debenture in the amount of \$10,177

On November 20, 2009 the Company issued a 1 year, 8% Convertible Promissory Note ("the Note") to E-Lionheart Associates, LLC ("E-Lionheart") in the principal amount of \$250,000. At any time on or prior to the Maturity Date, any amount of the unpaid Principal Amount (the "Conversion Amount") may be converted into *free-trading* and unrestricted shares of Common Stock of the Company equal to the result of (i) the Conversion Amount, divided by (ii) the Variable Conversion Price. The "Variable Conversion Price" shall mean the Applicable Percentage (as defined herein) multiplied by the Market Price (as defined herein). "Market Price" means the average of the lowest three (3) Trading Prices (as defined below) for the Common Stock during the twenty (20) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent by the Holder to the Borrower via facsimile (the "Conversion Date"). "Trading Price" means, for any security as of any date, the intraday trading price on the Pink Sheets (the "PINKSHEETS") as reported by a reliable reporting service mutually acceptable to and hereafter designated by Holders of a majority in interest of the Notes and the Borrower or, if the PINKSHEETS is not the principal trading market for such security, the intraday trading price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no intraday trading price of such security is available in any of the foregoing manners, the average of the intraday trading prices of any market makers for such security that are listed in the "pink sheets" by the National Quotation Bureau, Inc. "Applicable Percentage" shall mean 50.

As of December 31, 2011 the Company is currently in default on this Convertible Debenture in the amount of \$250,000.

On December 18, 2009 the Company issued a 1 year, 8% Convertible Promissory Note ("the Note") to E-Lionheart Associates, LLC ("E-Lionheart") in the principal amount of \$250,000. At any time on or prior to the Maturity Date, any amount of the unpaid Principal Amount (the "Conversion Amount") may be converted into *free-trading* and unrestricted shares of Common Stock of the Company equal to the result of (i) the Conversion Amount, divided by (ii) the Variable Conversion Price. The "Variable Conversion Price" shall mean the Applicable Percentage (as defined herein) multiplied by the Market Price (as defined herein). "Market Price" means the average of the lowest three (3) Trading Prices (as defined below) for the Common Stock during the twenty (20) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent by the Holder to the Borrower via facsimile (the "Conversion Date"). "Trading Price" means, for any security as of any date, the intraday trading price on the Pink Sheets (the "PINKSHEETS") as reported by a reliable reporting service mutually acceptable to and hereafter designated by Holders of a majority in interest of the Notes and the Borrower or, if the PINKSHEETS is not the principal trading market for such security, the intraday trading price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no intraday trading price of such security is available in any of the foregoing manners, the average of the intraday trading prices of any market makers for such security that are listed in the "pink sheets" by the National Quotation Bureau, Inc. "Applicable Percentage" shall mean 50.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - Convertible Promissory Notes Payable (Continued)

As of December 30, 2011 the Company is currently in default on this Convertible Debenture in the amount of \$250,000.

On January 31, 2010 the Company issued a 1 year, 8% Convertible Promissory Note ("the Note") to E-Lionheart Associates, LLC ("E-Lionheart") in the principal amount of \$250,000. At any time on or prior to the Maturity Date, any amount of the unpaid Principal Amount (the "Conversion Amount") may be converted into *free-trading* and unrestricted shares of Common Stock of the Company equal to the result of (i) the Conversion Amount, divided by (ii) the Variable Conversion Price. The "Variable Conversion Price" shall mean the Applicable Percentage (as defined herein) multiplied by the Market Price (as defined herein). "Market Price" means the average of the lowest three (3) Trading Prices (as defined below) for the Common Stock during the twenty (20) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent by the Holder to the Borrower via facsimile (the "Conversion Date"). "Trading Price" means, for any security as of any date, the intraday trading price on the Pink Sheets (the "PINKSHEETS") as reported by a reliable reporting service mutually acceptable to and hereafter designated by Holders of a majority in interest of the Notes and the Borrower or, if the PINKSHEETS is not the principal trading market for such security, the intraday trading price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no intraday trading price of such security is available in any of the foregoing manners, the average of the intraday trading prices of any market makers for such security that are listed in the "pink sheets" by the National Quotation Bureau, Inc. "Applicable Percentage" shall mean 50.

As of December 31, 2011 the Company is currently in default on this Convertible Debenture in the amount of \$250,000.

NOTE 6 - Derivative Liability

The Company has reclassified certain convertible debentures as derivative liabilities, which are marked to fair value periodically pursuant to ASC guidance. This valuation resulted in a reclassification from stockholders' equity of \$915,004. For the nine months ended September 30, 2011 and 2010, we realized a gain of \$1,343,530 and \$ -0- respectively, based on the change in fair value of these liabilities during the periods.

NOTE 7 - Preferred Stock

Preferred Stock Designations

On October 29, 2007 the Company established a Series A Preferred Stock. The Series A Preferred Shares have a \$.001 par value and 1,000,000 shares are authorized.

Each issued and outstanding Series A Preferred Share is entitled to the number of votes equal to the result of: (i) the number of shares of common stock of the Company (the "Common Shares") issued and outstanding at the time of such vote multiplied by 1.10; divided by (ii) the total number of Series A Preferred Shares issued and outstanding at the time of such vote, at each meeting of shareholders of the Company with respect to any and all matters presented to the shareholders of the Company for their action or consideration, including the election of directors. Except as provided by law, holders of Series A Preferred Shares may vote together with the holders of Common Shares as a single class. The Company may not amend, alter or repeal the Series A Preferred Shares, special rights or other powers of the Series A Preferred Shares so as to affect adversely the Series A Preferred Shares, without the written consent or affirmative vote of the holders of at least a majority of the then outstanding aggregate number of shares of such adversely affected Series A Preferred Shares, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class.

Determination of Fair Value

The fair value of the Company's preferred stock issuances are based upon the market price of the Company's common stock on the date of issuance multiplied by the number of voting common shares represented by the issuance on the date of issue.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - Stockholders' Deficit (Continued)

Issuances

On November 5, 2007, the Company issued 100,000 shares of its \$0.001 par value Series A Preferred stock, valued at \$382,386 to Richard M. Berman for services rendered.

Common Stock

At various stages in the Company's development, shares of the Company's common stock has been issued at fair market value in exchange for services or property received with a corresponding charge to operations, property and equipment, unpatented mining claims and additional paid-in capital depending on the nature of the services provided or property received.

On January 4, 2010 the Company issued 242,000 of its common stock to E-Lionheart Assoc. LLC, as payment of \$11,000 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$11,000.

On January 13, 2010 the Company issued 264,000 of its common stock to E-Lionheart Assoc. LLC, as payment of \$12,000 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$12,000.

On January 22, 2010 the Company issued 220,000 of its common stock to E-Lionheart Assoc. LLC, as payment of \$10,000 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$10,000.

On February 3, 2010 the Company issued 330,000 of its common stock to E-Lionheart Assoc. LLC, as payment of \$19,998 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$19,998.

On February 23, 2010 the Company issued 165,000 of its common stock to E-Lionheart Assoc. LLC, as payment of \$12,500 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$12,500.

On March 12, 2010 the Company issued 183,151 of its common stock to E-Lionheart Assoc. LLC, as payment of \$13,875 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$13,875.

On March 26, 2010 the Company issued 192,500 of its common stock to E-Lionheart Assoc. LLC, as payment of \$8,750 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$8,750.

On April 9, 2010 the Company issued 203,500 of its common stock to E-Lionheart Assoc. LLC, as payment of \$9,250 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$9,250.

On April 22, 2010 the Company issued 214,500 of its common stock to E-Lionheart Assoc. LLC, as payment of \$9,750 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$9,750.

On April 30, 2010 the Company issued 225,500 of its common stock to E-Lionheart Assoc. LLC, as payment of \$10,250 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$10,250.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - Stockholders' Deficit (Continued)

Common Stock (Continued)

On May 7, 2010 the Company issued 236,500 of its common stock to E-Lionheart Assoc. LLC, as payment of \$10,750 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$10,750

On May 14, 2010 the Company issued 247,500 of its common stock to E-Lionheart Assoc. LLC, as payment of \$11,250 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$11,250.

On May 28, 2010 the Company issued 258,500 of its common stock to E-Lionheart Assoc. LLC, as payment of \$11,750 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$11,750.

On November 18, 2010 the Company issued 565,723 of its common stock to E-Lionheart Assoc. LLC, as payment of \$1,200 in principal on a previously issued 8% Convertible Promissory Note Payable. In connection with the issuance the Company recorded finance charges of \$1,200.

On January 27, 2011 the Company issued 55,000,000 shares of its common stock to Richard M. Berman, a related party and the Company's President and CEO, as consideration for monies owed to Mr. Berman for previous services rendered. Such shares were valued at \$1,950,000.

On March 3, 2011, the Company sold 825,000 of its common stock for \$7,500 to Magna Group, LLC.

On March 24, 2011, the Company sold 6,233,334 of its common stock for \$17,000 to Magna Group, LLC.

On April 25, 2011, the Company issued 3,327,363 of its common stock valued at \$9,377 to Scottsdale Capital Advisors pursuant to a Business Advisory Agreement.

On June 1, 2011 the Company issued 478,767,278 shares of its common stock to Richard M. Berman, a related party and the Company's President and CEO, as consideration for amounts owed to Mr. Berman for previous services rendered. Such shares were valued at \$870,482.

On June 1, 2011, the Company issued 3,490,402 of its common stock valued at \$6,348 to Klass, Helman and Ross for legal services rendered.

On July 7, 2011, the Company sold 55,000,000 of its common stock for \$18,000 to Epic Worldwide, Inc. In connection with this issuance the Company incurred costs of \$3,000 that were paid out of the gross proceeds.

Recapitalization

On December 29, 2010, the Company's Certificate of Incorporation was amended to decrease the Company's authorized shares of capital stock from 30,000,000,000 to 2,000,000,000 shares. The Company's equity structure is as follows: authorized 1,998,000,000 shares of common stock with a stated par value of \$.0001 per share; 1,000,000 shares of Class A preferred stock with a stated par value of \$.001 (Note 6) and 1,000,000 shares of a newly formed Class B preferred stock with a stated par value of \$.001 that currently does not contain any designations.

Effective June 30, 2011, the Company effected a forward split of its Common Stock for all stockholders' of record at June 29, 2011 at a ratio of eleven shares for ten (11:10). All share and per share data have been retroactively adjusted to reflect this recapitalization.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consists of unrealized gains and losses on available for sale marketable securities and is summarized as follows:

	<u>Unrealized gain (loss) on securities</u>	<u>Accumulated other comprehensive income</u>
Balance as of December 31, 2010	\$ -0-	\$ -0-
Income (loss)	(137,500)	(137,500)
Balance as of December 31, 2011	<u>\$ (137,500)</u>	<u>\$ (137,500)</u>

The Company has not recognized any income tax benefit or expense associated with other comprehensive income items for the years ended December 31, 2011 and December 31, 2010.

NOTE 10 - Related Party Transactions

Stock Based Compensation

On January 27, 2011 the Company issued 55,000,000 shares of its common stock to Richard M. Berman, a related party and the Company's President and CEO, for services rendered. Such shares were valued at \$1,950,000.

On June 1, 2011 the Company issued 478,767,278 shares of its common stock to Richard M. Berman, a related party and the Company's President and CEO, as consideration for amounts owed to Mr. Berman for previous services rendered. Such shares were valued at \$870,482.

Loan Payable – Related Party

Loan payable to related party ("Loan") consists of cash advances to the Company, by Richard M. Berman, the Company's President and Chief Executive Officer, as well as for unreimbursed expenses paid on behalf of the Company directly to third-party vendors by Mr. Berman. As of December 31, 2011 and December 31, 2010 the balance on this Loan was \$32,442 and \$35,861, respectively. The loan is non-interest bearing and is payable upon demand.

Accrued Compensation - Officer

Included in accounts payable and accrued expenses as of December 31, 2011 and December 31, 2010, are amounts owed to Mr. Berman amounting to \$653,106 and \$248,420, respectively, which represent accrued compensation owed Mr. Berman, pursuant to his Employment Contract (See Note 11).

NOTE 11 - Commitments and Contingencies

Employment Contracts

The Company entered into an employment agreement, effective December 1, 2006, and continuing for a six (6) year period thereafter, with its President and Chief Executive Officer, Richard M. Berman. The contract is renewable for successive one (1) year terms after the expiration of the initial agreement, unless either party elects to terminate the agreement by giving notice to the other party at least three (3) months in advance to the expiration of the current agreement.

Pursuant to this agreement, Mr. Berman is entitled to a base annual salary of at least \$350,000 in cash; In addition, Mr. Berman is entitled to health benefits, vacation pay, car allowances and reimbursement of any reasonable and ordinary business expenses incurred on behalf of the Company.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - Commitments and Contingencies (continued)

Lease Obligations

The Company operates its business in leased facilities. The Company currently leases approximately 675 square feet for its corporate office and research facilities for \$2,465 per month. The written lease agreement expired November 30, 2010 however the Company continued to rent the location on a month to month basis. The Company paid its final rent obligation in January 2012 and has moved to a new location.

Rent expense for these facilities for the year ended December 31, 2011 was \$29,580.

License and Commercialization Agreement

On September 13, 2011, the Company entered into a *License and Commercialization Agreement* with AlgaeTek Systems, Inc., a Florida Corporation (the "licensee"). Pursuant to the agreement the Company granted the licensee the right to use its intellectual property, trademarks, service marks, brand names, etc. non-exclusively in six (6) states. In addition, the Company agreed to build a Pilot Facility for the licensee in which the Company will create a system capable of sustaining continuous growth of an algal culture under controlled environmental conditions using the Company's Owned IP and Marks.

The licensee agrees to pay the Company the sum total of \$250,000 in installments as follows:

- \$25,000 received October 17, 2011
- \$25,000 due October 21, 2011 - (unpaid as of November 3, 2011)
- \$12,500 received October 21, 2011
- \$50,000 due November 11, 2011
- \$50,000 due December 9, 2011
- \$50,000 due January 13, 2012
- \$50,000 due February 3, 2012

The licensee made a total of \$37,500 in fee payments and made no further fee payments. The Company terminated the *License and Commercialization Agreement* on November 8, 2011. The Company will have no further obligation under this Agreement.

On April 26, 2011 the Company signed a Business Advisory Agreement with Scottsdale Capital Advisors, an Arizona Corporation, for certain services relating to the Company's business and financing activities. On April 26, 2011, The Company issued Scottsdale Capital Advisors 3,024,875 shares of its common stock bearing a restrictive legend. On December 16, 2011, the Company terminated the Business Advisory Agreement with no further obligation under this Agreement other than aforementioned issuance of stock.

Legal Proceedings

From time to time, the Company maybe named in legal actions which management considers to be incidental to the industry in which the Company operates. In the opinion of management, the outcome of these matters, if any, will not have a material impact on the financial condition of the Company.