

BioElectronics Corporation

(A Development Stage Company)

UNAUDITED FINANCIAL STATEMENTS

FOR YEARS ENDED DECEMBER 31, 2011 AND 2010

Unaudited financial statements for BioElectronics Corporation for the years ended December 31, 2011 and 2010 have been prepared by management. Accordingly, the financial statements have not been audited, reviewed or compiled by independent auditors.

Trading Symbol: BIEL
CUSIP Number: 09062H108

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BioElectronics Corporation (A Development Stage Company)
Balance Sheets
(Unaudited)

	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,492	\$ 26,389
Trade and other receivables, net	185,823	184,970
Inventory	775,184	972,346
Prepaid expenses and other	50,000	99,570
Total current assets	1,066,499	1,283,275
Property and equipment	170,011	170,011
Less: Accumulated depreciation	(112,058)	(94,872)
Property and equipment, net	57,953	75,139
Total assets	\$ 1,124,452	\$ 1,358,414
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable	\$ 272,293	\$ 338,014
Related party notes payable	2,120,427	1,145,437
Accrued expenses	42,697	37,486
Deferred revenue	-	213,315
Notes payable	100,537	11,488
Total current liabilities	2,535,954	1,745,740
Long-term liabilities:		
Related party notes payable, net of discount	3,565,811	3,110,275
Total liabilities	6,101,765	4,856,015
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, par value \$0.001 per share, 2,000,000,000 shares authorized at December 31, 2011 and December 31, 2010 and 1,963,281,871 and 1,546,648,871 shares issued and outstanding at December 31, 2011 and December 31, 2010, respectively	1,963,282	1,546,649
Additional paid-in capital	10,614,063	9,657,748
Deficit accumulated during the development stage	(17,554,658)	(14,701,998)
Total stockholders' deficiency	(4,977,313)	(3,497,601)
Total liabilities and stockholders' deficiency	\$ 1,124,452	\$ 1,358,414

BioElectronics Corporation (A Development Stage Company)
Statements of Operations
For the Years Ended December 31, 2011 and 2010
and for the Period from April 10, 2000 (Inception) to December 31, 2011

	2011	2010	Period from April 10, 2000 (Inception) to December 31, 2011
Sales	\$ 1,176,285	\$ 821,136	\$ 5,083,152
Cost of Goods Sold	509,238	402,143	2,339,295
Gross profit	<u>667,047</u>	<u>418,993</u>	<u>2,743,857</u>
General and Administrative Expenses:			
Bad Debt Expense	98,000	163,355	319,610
Depreciation and Amortization	17,686	15,586	129,985
Investor Relations Expenses	280,893	154,580	2,030,034
Legal and Accounting Expenses	338,870	638,714	1,760,636
Sales Support Expenses	812,523	701,391	2,941,844
Other General and Administrative Expenses	<u>1,561,165</u>	<u>1,632,317</u>	<u>10,354,122</u>
Total General and Administrative Expenses	<u>3,109,137</u>	<u>3,305,943</u>	<u>17,536,231</u>
Income/(Loss) from Operations	(2,442,090)	(2,886,950)	(14,792,374)
Interest Expense and Other, Net:			
Other Income/(Expenses)	-	122,530	122,530
Interest Expense	(410,570)	(222,428)	(2,843,271)
Loss on Disposal of Assets	<u>-</u>	<u>(5,691)</u>	<u>(41,543)</u>
Total Interest Expense and Other, Net	<u>(410,570)</u>	<u>(105,589)</u>	<u>(2,762,284)</u>
Income/(Loss) Before Income Taxes	(2,852,660)	(2,992,539)	(17,554,658)
Provision for Income Tax Expense	<u>-</u>	<u>-</u>	<u>-</u>
Net Income/(Loss)	<u>\$ (2,852,660)</u>	<u>\$ (2,992,539)</u>	<u>\$ (17,554,658)</u>
Net loss Per Share - Basic and Diluted	<u>\$ (0.0017)</u>	<u>\$ (0.0020)</u>	<u>N/A</u>
Weighted Average Number of Shares Outstanding - Basic and Diluted	<u>1,715,629,288</u>	<u>1,492,873,871</u>	<u>N/A</u>

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency
For the Period from April 10, 2000 (Inception) to December 31, 2011

	Capital Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Amount			
Balance at April 10, 2000 (Inception)	-	\$ -	\$ -	\$ -	\$ -
Net Loss	-	-	-	(34,124)	(34,124)
Contribution of assets	-	-	8,000	-	8,000
Issuance of common stock for services rendered	22,150,000	22,150	(8,000)	(13,150)	1,000
Balance at December 31, 2000	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss	-	-	-	-	-
Balance at December 31, 2001	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss	-	-	-	-	-
Balance at December 31, 2002	22,150,000	22,150	-	(47,274)	(25,124)
Net Loss	-	-	-	(568,087)	(568,087)
Sale of common stock at \$.03 per share	3,950,000	3,950	112,100	-	116,050
Sale of common stock at \$.0496 per share	800,000	800	38,900	-	39,700
Sale of common stock at \$.35 per share	40,000	40	13,960	-	14,000
Balance at December 31, 2003	26,940,000	26,940	164,960	(615,361)	(423,461)
Net loss	-	-	-	(792,799)	(792,799)
Common stock dividend	15,800,577	15,800	-	(15,800)	-
Issuance of common stock for services rendered	2,245,649	2,246	110,036	-	112,282
Sale of common stock at \$.3540 per share	678,000	678	239,322	-	240,000
Sale of common stock at \$.4286 per share	149,333	149	63,851	-	64,000
Sale of common stock at \$.30 per share	83,333	83	24,917	-	25,000
Sale of common stock at \$.01 per share	5,020,000	5,020	45,180	-	50,200
Balance at December 31, 2004	50,916,892	50,916	648,266	(1,423,960)	(724,778)
Net loss	-	-	-	(2,233,678)	(2,233,678)
Fair value of warrants issued in connection with financing arrangements	-	-	542,460	-	542,460
Issuance of convertible debt with beneficial conversion interest	-	-	422,324	-	422,324
Issuance of common stock for services rendered	2,128,000	2,128	205,043	-	207,171
Sale of common stock at \$.30 per share	3,420,000	3,420	1,022,580	-	1,026,000
Sale of common stock at \$.0833 per share	4,600,000	4,600	378,785	-	383,385
Sale of common stock at \$.0959 per share	800,000	800	75,912	-	76,712
Sale of common stock at \$.1475 per share	1,000,000	1,000	146,500	-	147,500
Balance at December 31, 2005	62,864,892	62,864	3,441,870	(3,657,638)	(152,904)
Net loss	-	-	-	(3,185,522)	(3,185,522)
Issuance of convertible debt with beneficial conversion interest	-	-	88,214	-	88,214
Issuance of common stock for services rendered	7,099,856	7,100	433,481	-	440,581
Fair value of warrants issued in connection with financing arrangements	-	-	182,913	-	182,913
Sale of common stock at \$.1667 per share	240,000	240	39,760	-	40,000
Sale of common stock at \$.10 per share	400,000	400	39,600	-	40,000
Issuance of common stock for conversion of debt	5,000,000	5,000	495,000	-	500,000
Stock based compensation expense	-	-	72,703	-	72,703
Balance at December 31, 2006	75,604,748	75,604	4,793,541	(6,843,160)	(1,974,015)
Net loss	-	-	-	(2,105,180)	(2,105,180)
Issuance of convertible debt with beneficial conversion interest	-	-	155,665	-	155,665
Issuance of common stock for services rendered	1,555,000	1,555	51,145	-	52,700
Sale of common stock at \$.035 per share	6,000,000	6,000	204,000	-	210,000
Sale of common stock at \$.04 per share	750,000	750	29,250	-	30,000
Sale of common stock at \$.0444 per share	1,125,000	1,125	48,875	-	50,000
Issuance of common stock for conversion of debt	33,366,847	33,367	1,470,471	-	1,503,838
Balance at December 31, 2007	118,401,595	118,401	6,752,947	(8,948,340)	(2,076,992)
Net loss	-	-	-	(2,127,028)	(2,127,028)
Issuance of convertible debt with beneficial conversion interest	-	-	168,779	-	168,779
Issuance of common stock for services rendered	45,338,500	45,338	355,007	-	400,345
Sale of common stock at \$.035 per share	2,000,000	2,000	68,000	-	70,000
Sale of common stock at \$.0026 per share	8,500,000	8,500	14,000	-	22,500
Sale of common stock at \$.005 per share	5,000,000	5,000	20,000	-	25,000
Sale of common stock at \$.0032 per share	6,250,000	6,250	13,750	-	20,000
Sale of common stock at \$.00351 per share	5,700,000	5,700	14,300	-	20,000
Sale of common stock at \$.0035 per share	11,642,857	11,643	29,107	-	40,750
Issuance of common stock for conversion of debt	63,709,683	63,710	838,051	-	901,761
Balance at December 31, 2008	266,542,635	\$ 266,542	\$ 8,273,941	\$ (11,075,368)	\$ (2,534,885)

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency
For the Period from April 10, 2000 (Inception) to December 31, 2011
(Continued)

	Capital Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Amount			
Net loss				(634,091)	(634,091)
Issuance of convertible debt with beneficial conversion interest			6,000	-	6,000
Issuance of common stock for services rendered	149,051,667	149,052	93,845	-	242,897
Sale of common stock at \$.0030 per share	9,000,000	9,000	18,000	-	27,000
Sale of common stock at \$.0020 per share	15,000,000	15,000	15,000	-	30,000
Sale of common stock at \$.0017 per share	11,500,000	11,500	8,500	-	20,000
Sale of common stock at \$.0015 per share	16,666,667	16,667	8,334	-	25,001
Sale of common stock at \$.0012 per share	55,500,000	55,500	11,100	-	66,600
Sale of common stock at \$.0013 per share	16,750,000	16,750	4,850	-	21,600
Sale of common stock at \$.02 per share	7,500,000	7,500	142,500	-	150,000
Sale of common stock at \$.028 per share	5,357,142	5,357	144,643	-	150,000
Sale of common stock at \$.0444 per share	2,250,000	2,250	97,750	-	100,000
Sale of common stock at \$.05 per share	5,646,000	5,646	276,654	-	282,300
Issuance of common stock for conversion of debt	905,788,207	905,788	182,724	-	1,088,512
Issuance of common stock for warrant exercises	4,446,553	4,447	889	-	5,336
Balance at December 31, 2009	1,470,998,871	\$ 1,470,999	\$ 9,284,730	\$ (11,709,459)	\$ (953,730)
Net loss				(2,992,539)	(2,992,539)
Share-based compensation	9,950,000	9,950	326,768	-	336,718
Issuance of common stock for services rendered at \$.002250 per share	3,200,000	3,200	4,000	-	7,200
Issuance of common stock for services rendered at \$.00500 per share	2,500,000	2,500	10,000	-	12,500
Issuance of common stock for services rendered at \$.005250 per share	5,000,000	5,000	21,250	-	26,250
Issuance of common stock for conversion of debt at \$.0012 per share	55,000,000	55,000	11,000	-	66,000
Balance at December 31, 2010	1,546,648,871	\$ 1,546,649	\$ 9,657,748	\$ (14,701,998)	\$ (3,497,601)
Net loss				(2,852,660)	(2,852,660)
Share-based compensation for nonvested share awards	-	-	222,815	-	222,815
Issuance of common stock for conversion of debt at \$.0015 per share	80,000,000	80,000	16,000	-	96,000
Issuance of common stock for services rendered at \$.0010 per share	12,600,000	12,600	-	-	12,600
Issuance of common stock for services rendered at \$.0060 per share	1,800,000	1,800	9,000	-	10,800
Issuance of common stock for services rendered at \$.0080 per share	12,150,000	12,150	-	-	12,150
Issuance of common stock for services rendered at \$.0069 per share	83,000	83	-	-	83
Issuance of common stock for services rendered at \$.0049 per share	5,000,000	5,000	24,600	-	29,600
Issuance of common stock for services rendered at \$.00295 per share	20,000,000	20,000	39,000	-	59,000
Issuance of common stock for services rendered at \$.00650 per share	20,000,000	20,000	110,000	-	130,000
Issuance of common stock for cash at \$.00250 per share	10,000,000	10,000	15,000	-	25,000
Issuance of common stock for cash at \$.009091 per share	5,500,000	5,500	44,500	-	50,000
Issuance of common stock for cash at \$.00625 per share	8,000,000	8,000	42,000	-	50,000
Issuance of common stock for cash at \$.00500 per share	10,000,000	10,000	40,000	-	50,000
Issuance of common stock for cash at \$.00400 per share	12,500,000	12,500	37,500	-	50,000
Issuance of common stock for cash at \$.003226 per share	15,500,000	15,500	34,500	-	50,000
Issuance of common stock for cash at \$.003704 per share	13,500,000	13,500	36,500	-	50,000
Issuance of common stock for cash at \$.003704 per share	13,500,000	13,500	36,500	-	50,000
Issuance of common stock for cash at \$.003226 per share	15,500,000	15,500	34,500	-	50,000
Issuance of common stock for cash at \$.002778 per share	18,000,000	18,000	32,000	-	50,000
Issuance of common stock for cash at \$.002778 per share	18,000,000	18,000	32,000	-	50,000
Issuance of common stock for cash at \$.002778 per share	18,000,000	18,000	32,000	-	50,000
Issuance of common stock for cash at \$.002500 per share	20,000,000	20,000	30,000	-	50,000
Issuance of common stock for cash at \$.002500 per share	20,000,000	20,000	30,000	-	50,000
Issuance of common stock for cash at \$.002273 per share	22,000,000	22,000	28,000	-	50,000
Issuance of common stock for cash at \$.002000 per share	25,000,000	25,000	25,000	-	50,000
Issuance of common stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Net Loss				(2,852,660)	(2,852,660)
Balance at December 31, 2011	1,963,281,871	\$ 1,963,282	\$ 10,619,163	(17,554,658)	\$ (7,824,873)

NOTE 1- NATURE OF BUSINESS

BioElectronics Corporation was incorporated in April 2000 and began employee-based operations in 2003. BioElectronics Corporation (the “Company”) is the maker of inexpensive, drug-free, anti-inflammatory medical devices and patches – its primary SIC code is 3845. The Company's wafer thin patches contain an embedded microchip and battery that deliver pulsed electromagnetic energy, a clinically proven and widely accepted anti-inflammatory and pain relief therapy that heretofore has only been possible to obtain from large, facility-based equipment. BioElectronics markets and sells its current products under the brand names ActiPatch®, Allay™ and RecoveryRx™.

The dermal patch delivery system creates a multitude of new product opportunities for chronic and acute inflammatory conditions. The market potential is estimated at \$10 billion or 400 million incidents worldwide. The distinctive value proposition of the device is the delivery of drug-free therapy that reduces pain and inflammation and accelerates healing by 30% to 50% when compared with the present standard methods of patient care. The current major applications are:

- Medical Surgeries
- Chronic Wounds
- Oral Surgeries
- Sprains and Strains
- Lower Back Pain
- Chronic Repetitive Stress Injuries, Heel Pain, Carpal Tunnel, Bursitis, etc.

The Company was granted its first approval from the FDA under a 510(k) in August 2002. Prior to FDA approval and the establishment of its research and development group, PAW, LLC (an entity owned by the family of Andy Whelan, President) funded the operations and costs of product development.

In December 2004, the Company received ISO and CE (European Common Market) certification. In 2005, Health Canada approved ActiPatch® Therapy for the relief of pain in musculoskeletal complaints.

In early 2008, the Company redesigned its product and manufacturing process and established new disease specific products and distinct medical and retail product lines. It also shifted its attention to international sales.

The accompanying financial statements are those of a development stage company. The Company is currently engaged in and devotes considerable time to planning, developing and testing Infomercials, product design changes, establishing sources of material supply and manufacturing subcontractors, recruiting distributors and establishing a market presence for its product.

The Company has focused attention on international customers to expand its distributions and sales. The Company has established distribution agreements with distributors in Korea, Singapore, Malaysia, Canada, Columbia, Italy, Scandinavia, Saudi Arabia, Japan, Benelux, the Balkans, Austria, Australia, China and South America. The distribution agreements grant the right to sell BioElectronics' products in certain territories. The distributors are responsible for advertising and promotion in their assigned territories. In addition, the distributors are subject to minimum annual product purchases, minimum initial purchases and minimum inventory requirements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company has prepared the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Development Stage Company

As defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 915, “Development Stage Entities”, the Company is devoting substantially all of its present efforts to developing its business. Additionally, the Company has not yet commenced one of its planned principal activities, the sales of products in the U.S. retail market. All losses accumulated since inception have been considered as part of the Company’s development stage activities. Costs of start-up activities, including organizational costs, are expensed as incurred.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to significant concentration of credit risk, consist primarily of cash and cash equivalents. From time to time the Company may have bank deposits in excess of federally insured limits. The standard maximum deposit insurance amount protected by the Federal Deposit Insurance Corporation is unlimited for non-interest bearing accounts at December 31, 2011 and 2010. As of December 31, 2011 and 2010, the excess amount of bank deposits unprotected is approximately \$-0- and \$46,000, respectively. Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The more significant estimates include inventory obsolescence reserve, useful lives for depreciation and amortization, salvage values of depreciable equipment, valuation of warrants, nonvested restricted shares, stock options, intrinsic value of beneficial conversion features, allowance for doubtful trade and other receivables and the utilization of deferred tax assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less as short-term investments.

Trade Receivables

The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments. These reserves are determined based on a number of factors, including the current financial condition of specific customers, the age of trade and other receivable balances and historical loss rate. The allowance for doubtful accounts was \$132,000 and \$34,000 at December 31, 2011 and 2010, respectively. Bad debt expense for the years ended December 31, 2011 and 2010 was \$98,000 and \$197,355, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Risk Associated with Trade Receivables

In order to reduce the default risk associated with international revenue transactions, the Company secured most of international sales by a letter of credit or guaranteed by the Export Import Bank of the United States.

Inventories

Inventories consist of raw materials, supplies and finished goods. All inventories are valued at lower of average cost or market determined under the first-in, first-out method. The Company periodically reviews inventories and items considered outdated or obsolete are reduced to their estimated net realizable value.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable as prescribed by ASC Topic 360-10-05, "Impairment or Disposal of Long-Lived Assets". If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, the Company will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. No impairment losses were recognized for the years ended December 31, 2011 and 2010.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Company provides for depreciation expense on a straight line basis over each asset's estimated useful life.

<u>ASSET CLASSIFICATION</u>	<u>USEFUL LIFE</u>
Machinery	5 Years
Equipment	5 Years
Leasehold Improvements	5 Years

Additions to property and equipment and major improvements are capitalized. Gains and losses on dispositions are recognized immediately. Maintenance, repairs and minor replacements are expensed as incurred.

Revenue Recognition

The Company sells its products to wholesale distributors and directly to hospitals and clinics. Revenue is recognized when evidence of an arrangement exists, pricing is fixed and determinable, collection is reasonably assured, and shipment has occurred. Payment is due on a net basis in 30 days. If the customer is deemed not credit worthy, payment in advance is required. Payments received in advance of when revenue is recognized are recorded as deferred revenue on the balance sheets and recognized as revenue when the goods are shipped and all other general revenue recognition criteria have been met. The Company's agreement with customers includes a right of return, but the return history of products is immaterial. No allowance for sales returns is required for the years ended December 31, 2011 and 2010. Defective units are replaced at the request of the customer.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Company expenses the costs associated with advertising as incurred. Costs incurred to fund the production of advertisements, including Infomercials, are reported as a prepaid expense if the related advertisement has not yet been broadcast. Advertising expenses for the years ended December 31, 2011 and 2010 are \$53,742 and \$550, respectively, and are included in other general and administrative expenses in the statements of operations. Prepaid advertising costs are amortized on a straight-line basis over a one year period beginning on the date the advertisements are aired. As of December 31, 2011 and 2010, total advertising costs included in prepaid expenses on the balance sheets were \$-0- and \$46,450, net of accumulated amortization of \$84,749 and 38,299 \$-0-, respectively. Total amortization expense included in advertising costs for the years ended December 31, 2011, 2010, and for the period from inception (April 10, 2000) through December 31, 2010, was \$46,450, \$38,299-, and \$84,749, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when necessary to reduce deferred tax assets to amounts expected to be realized. Also see note 13.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of income tax expense. Income tax returns for tax years from 2005 to 2010 are subject to examination.

From time to time, the Company may be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to the financial results. Our policy is that we recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Research and Development

Research and development are costs of clinical studies that are charged to operations as incurred. The Company incurred \$-0- and \$38,107 of such costs for the years ended December 31, 2011 and December 31, 2010, respectively.

Shipping and Handling Freight Fees and Costs

All amounts billed to a customer in a sales transaction related to shipping and handling represent revenues earned and are reported as revenue. The costs incurred by the Company for shipping and handling are reported as part of cost of goods sold. Shipping and handling costs of \$32,626 and \$54,376 are included in cost of goods sold for the years ended December 31, 2011 and 2010, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The Company does not accrue for compensated absences and recognizes the costs of compensated absences when paid to employees. Accordingly, no liability for such absences has been recorded in the accompanying financial statements. Management believes the effect of this policy is not material to the accompanying financial statements.

Stock Incentive Plans and Other Share-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Also see note 10.

Net Loss per Share

The Company calculates basic and diluted net loss per share in accordance with ASC Topic 260, “Earnings Per Share”, which requires the presentation of “basic” and “diluted” net loss per share on the face of the statement of operations. Basic and diluted net loss per share is computed by dividing net loss by the weighted-average number of outstanding shares of common stock. Convertible debt instruments, warrants, and options to purchase common stock are included as common stock equivalents only when dilutive. For the years ended December 31, 2011 and 2010 the Company reported net losses, as a result there is no difference between basic and diluted shares for each of the years presented as the shares are anti-dilutive.

Issuance of Stock for Non-Cash Consideration

All issuances of the Company’s stock for non-cash consideration have been assigned a per share amount determined with reference to the value of consideration received, which has been determined to be a more readily determinable fair value than the fair value of the common stock. The majority of the non-cash consideration pertains to services rendered by consultants and vendors. The fair value of the services received was used to record the related expense in the statement and fair value attributed to the shares issued.

The Company’s accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ASC Topic 505-50, “Equity-Based Payments to Non-Employees. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor’s performance is complete.

Stockholder’s Equity Transactions

On June 18, 2009, the Company authorized to increase the number of authorized common shares from 750,000,000 to 1,000,000,000 and on July 9, 2009, the Company further increased the authorized common shares to 1,500,000,000. On November 10, 2010 the Company increased its authorized shares of common stock to 1,750,000,000 and in 2011, the Company increased the authorized shares of common stock to 2,000,000,000 in order to cover the potential issuance of common stock resulting from the conversion of convertible debt to equity and the vesting of nonvested share awards. The holders of the remaining shares to be issued upon conversion or exercise of equity instruments are likely to promptly resell the shares into the public market. It is possible that resale of these shares will significantly reduce the market price for our common stock. In addition, the issuance of shares upon conversion of the convertible notes or exercise of the options will have a dilutive impact on our stockholders. As a result, our net income per share could decrease in future periods, and the market price of our common stock could decline.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stockholder's Equity Transactions (continued)

From August 02, 2011 through December 30, 2011, the Company raised an additional \$805,000 of financing through the issuance of 255,000,000 shares of Common Stock in tranches ranging from 8,000,000 to 25,000,000 shares of common stock.

NOTE 3 – GOING CONCERN

The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. The Company has incurred substantial losses from operations. As a result of the "start up" nature of our business and the uncertainty as to when certain products will approved for sale per our application with the United States Food and Drug Administration (U.S. FDA), we expect to continue to incur losses as we continue to identify and enter into new markets and enter into agreements with new distributors.

These conditions raise substantial doubt about our ability to continue as a going concern. Management recognizes that in order to meet our capital requirements, and continue to operate, additional financing will be necessary. We are evaluating alternative sources of financing to improve our cash position and are undertaking efforts to raise capital, but there is no assurance that such additional funds will be available for us to finance our operations on acceptable terms, if at all. If we are unable to raise additional capital or generate positive cash flow, it is unlikely that we will be able to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Company is currently discussing various strategic alternatives with investors. If U.S. FDA approval is obtained and sales increase as anticipated, the Company will seek additional capital from new investors. The Company has prepared a financing proposal to discuss opportunities with potential investors or possible strategic partners. However, the Company can provide no assurance that it will be able to obtain the financing it needs to continue its efforts for market acceptance, U.S. FDA approval and to maintain operations and alleviate doubt about its ability to continue as a going concern.

NOTE 4 - INVENTORY

The components of inventory consisted of the following as of:

	December 31, 2011	December 31, 2010
Raw materials	\$ 411,232	\$ 432,869
Prepaid inventory	52,366	121,360
Finished goods	311,586	418,117
	<u>\$ 775,184</u>	<u>\$ 972,346</u>

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NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

	December 31, 2011	December 31, 2010
Machinery & Equipment	\$ 163,129	\$ 163,129
Leasehold improvements	6,882	6,882
	170,011	170,011
Less: accumulated depreciation	115,744	94,872
Total property and equipment, net	\$ 54,267	\$ 75,139

Depreciation expense on property and equipment amounted to \$20,872 and \$15,586 for the twelve months ended December 31, 2011 and December 31, 2010, respectively.

NOTE 6 – FINANCING OF RECEIVABLES WITH RELATED PARTY

The Company entered into an agreement (the “Agreement”) on March 5, 2010, with Jarenz LLC (“Jarenz”) pursuant to which Jarenz provides accounts receivable financing and collection services to the Company. Jarenz is a related party, as defined in ASC 850.

The Agreement provides for the Company to assign certain accounts receivable balances to Jarenz in exchange for a Cash Advance amount of up to 80% of the face value of the receivables transferred; such amount determined upon discussions between the parties. Following collection of the related receivable, Jarenz pays the balance thereof to BioElectronics minus the initial down payment and a discount fee earned by Jarenz.

Jarenz’s discount fee is a percentage, between 1% to 9.5%, of the Cash Advance Amount based upon the number of days elapsing between the date of purchase by Jarenz and the date of collection of the related accounts receivable with a minimum fee of \$10 per transaction.

The Company accounted for transactions under the Agreement as secured borrowings since the Company has not surrendered control of the transferred accounts receivable to Jarenz under the Agreement. A total of approximately \$1,113,000 of receivables were sold to Jarenz, with a discount fee of approximately \$10,000 recorded as interest expense in the statement of operations for the year ended December 31, 2010. As of December 31, 2010 the factoring agreement was terminated and trade receivables are no longer available for sale to Jarenz.

NOTE 7 – NOTES PAYABLE

In October 2011, the Company converted accounts payable of \$88,959 due to a vendor to a note payable with a zero percent stated interest rate. The note is due in equal monthly installments of \$6,000 until October 28, 2012 and a balloon payment of \$10,959 on November 28, 2012. The outstanding balance at December 31, 2011 was \$70,959.

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NOTE 7 – NOTES PAYABLE (Continued)

Each year the Company enters into an insurance premium financing agreement with an independent company to purchase insurance policies for directors' and officers' liability, general liability and product liability. The annual interest rate was 5.51% as of December 31, 2011 and December 31, 2010. The remaining balance of the amount financed was approximately \$11,488 as of December 31, 2010, which was paid during the twelve months ended December 31, 2011. In December of 2011 an additional amount of premiums was financed totaling \$24,871 with annual interest rate of 5.51% with a corresponding amount recorded as prepaid expense. The interest expense for this note was \$104 for the year ended December 31, 2011. The outstanding note payable balance of \$23,578 is due in full on December 31, 2012.

NOTE 8 – RELATED PARTY NOTES PAYABLE

IBEX Revolver Agreement

IBEX, LLC is a limited liability company, whose President is the daughter of the President of the Company. On January 1, 2005, the Company entered into an unsecured revolving convertible promissory note agreement (“the Revolver”) with IBEX, LLC (“IBEX”) a related party, for a maximum limit of \$2,000,000, with interest at the Prime Rate plus 2%, and all accrued interest and principal due on or before January 1, 2015, whether by the payment of cash or by conversion into shares of the Company’s common stock. (See additional information regarding the IBEX Revolver and restatements to prior financial statement information in Note 16.)

The IBEX revolving convertible promissory note states the initial conversion price is \$0.05 per share subject to adjustments for a) stock dividends or other distributions and subdividing or combining its common stock or common stock equivalents, b) sales or issuances of common stock or common stock equivalents at less than market value, defined as the average of the daily closing price for the 10 trading days before the market value date. The closing price is the last sale price, regular way, or the average of last bid and ask price, regular way, if there are no reported sales during that period on exchanges where shares are admitted to trading or listed, and if not available, the fair market price as reasonably determined by the Board of Directors, or c) if the Company issues shares of common stock to the holder which are not freely transferable at the time of issuance, in lieu of payment of indebtedness, the conversion price shall be discounted to reflect such restriction. Any discount will be negotiated on a case by case basis between the holder and the Company to reflect current market conditions and both parties must expressly accept the discounted conversion price.

The conversion price on the related party convertible notes payable and the individual advances under the IBEX revolving convertible promissory note has generally been 50% or less of the pink sheet closing price of the common stock on the date the notes or advances are issued to reflect the restricted nature of the stock into which the notes could be converted and the Board of Directors’ belief that the closing stock price is not reflective of the fair market value of the common stock due to the price volatility, lack of an active market for trading shares resulting in limited trading volume of share transactions. The Board of Directors is active in negotiating conversion prices for each issuance and takes into consideration all information in establishing the issuance date fair market value.

During the twelve months ended December 31, 2011, IBEX converted \$96,000 of the Revolver’s outstanding balance and received 80,000,000 shares of the Company’s common stock at a conversion price of \$.0012 per share. The balance of the Revolver as of December 31, 2011 and December 31, 2010 was \$1,200,727 and \$1,206,981, respectively, net of unamortized discount from beneficial conversion feature of \$57,654 and \$82,972, respectively.

NOTE 8 – RELATED PARTY NOTES PAYABLE (Continued)

IBEX Revolver Agreement (Continued)

Amortization of the discount included in interest expense for the years ended December 31, 2011 and 2010 was \$25,317 and \$26,081, respectively, and \$783,329 for the period from April 10, 2000 (Inception) through December 31, 2010. Future amortization of the discount will be \$19,218 per year from 2011 through 2014, unless all or part of the outstanding Revolver balance is extinguished prior to January 1, 2015.

During the year ended December 31, 2010, IBEX converted \$66,000 of the Revolver's outstanding balance and received 55,000,000 shares of the Company's common stock at a conversion price of \$0.0012 per share.

IBEX Promissory Convertible Notes Payable

In addition to the Revolver as described above, beginning on August 1, 2009, the Company started entering into convertible promissory note agreements with IBEX with simple interest at 8% per annum.

All accrued interest and principal on the various notes payable are due on or before the end of the month two years from the date of issuance (e.g. August 31, 2011), whether by the payment of cash or by conversion into shares of the Company's common stock. According to the original Security Agreement dated August 1, 2009, the Company grants IBEX a security interest in, all of the right, title, and interest of the Company, in and to all of the Company's personal property and intellectual property, and all proceeds or replacements as collateral for the convertible promissory note agreements.

On August 31, 2011, the date of maturity for the notes payable of \$519,920, the Company did not have substantial cash on hand to pay the balance of the Note. The Company and the Issuer entered into an agreement to change the Conversion Price of the Note to the market price of restricted shares. The Conversion Price of the Note was effectively changed from the original agreed amount of One and Nine Tenth cents (\$.019) per share to One and a Half Tenths cents (\$.0015) per share.

At the option of the holder, the promissory notes are convertible into common shares of the Company's stock at a conversion rate equal to the quotient of (i) a sum equal to the entire outstanding principal and interest, divided by (ii) the conversion price indicated in the table on the following page:

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NOTE 8 – RELATED PARTY NOTES PAYABLE (Continued)

Issuance Date	Maturity Date	Interest Rate	Amounts Available for Conversion			Conversion Price/Share	Shares to be Issued
			Principal	Interest	Total		
8/1/2009	8/31/2013	8.00%	\$ 519,920	\$ 106,951	\$ 626,871	\$ 0.0015	417,914,000
2/9/2010	2/28/2014	8.00%	135,000	19,089	154,089	0.0100	15,408,900
3/31/2010	3/31/2014	8.00%	310,000	43,833	353,833	0.0100	35,383,300
4/15/2010	4/30/2012	8.00%	20,000	2,828	22,828	0.0100	2,282,800
5/5/2010	5/31/2012	8.00%	120,000	16,968	136,968	0.0100	13,696,800
5/14/2010	5/31/2012	8.00%	100,000	14,140	114,140	0.0100	11,414,000
6/22/2010	6/30/2012	8.00%	130,000	18,383	148,383	0.0100	14,838,300
7/15/2010	7/31/2012	8.00%	10,000	1,216	11,216	0.0100	1,121,600
7/23/2010	9/30/2012	8.00%	100,000	11,966	111,966	0.0080	13,995,750
9/7/2010	9/30/2012	8.00%	50,000	5,438	55,438	0.0070	7,919,714
9/14/2010	9/30/2012	8.00%	185,000	19,814	204,814	0.0070	29,259,143
9/30/2010	10/31/2012	8.00%	50,000	5,165	55,165	0.0070	7,880,714
10/4/2010	10/31/2012	8.00%	50,000	5,118	55,118	0.0060	9,186,333
10/8/2010	11/30/2012	8.00%	50,000	5,071	55,071	0.0060	9,178,500
11/4/2010	11/30/2012	8.00%	40,000	3,800	43,800	0.0050	8,760,000
11/15/2010	12/31/2012	8.00%	100,000	9,240	109,240	0.0045	24,275,556
12/7/2010	12/31/2012	8.00%	78,333	6,848	85,181	0.0046	18,517,609
12/16/2010	12/31/2012	8.00%	30,000	2,552	32,552	0.0050	6,510,400
12/30/2010	1/31/2013	8.00%	40,000	3,269	43,269	0.0050	8,653,800
1/26/2011	1/31/2013	8.00%	50,000	3,865	53,865	0.0063	8,550,000
1/31/2011	2/28/2013	8.00%	40,000	3,046	43,046	0.0063	6,832,698
2/2/2011	2/28/2013	8.00%	125,000	9,460	134,460	0.0059	22,789,831
2/14/2011	3/31/2013	8.00%	62,000	4,519	66,519	0.0050	13,303,800
3/7/2011	3/31/2013	8.00%	42,000	2,856	44,856	0.0051	8,795,294
3/23/2011	3/31/2013	8.00%	37,000	2,378	39,378	0.0047	8,378,298
4/11/2011	4/31/2013	8.00%	50,000	2,983	52,983	0.0045	11,774,000
4/14/2011	4/31/2013	8.00%	30,000	1,769	31,769	0.0045	7,059,778
6/30/2011	6/30/2013	8.00%	35,000	1,449	36,449	0.0029	12,568,621
6/30/2011	6/30/2013	8.00%	10,000	414	10,414	0.0029	3,591,034
7/19/2011	7/31/2013	8.00%	6,000	222	6,222	0.0028	2,222,143
7/28/2011	7/31/2013	8.00%	60,000	2,095	62,095	0.0028	22,176,786
8/15/2011	8/31/2013	8.00%	18,000	629	18,629	0.0070	2,661,286
8/17/2011	8/31/2013	8.00%	5,000	175	5,175	0.0069	750,000
			<u>\$ 2,688,253</u>	<u>\$ 337,549</u>	<u>\$ 3,025,802</u>		<u>787,650,788</u>

Total interest expense incurred on the IBEX Revolver and IBEX convertible promissory notes payable for the twelve months ended December 31, 2011 and 2010 was \$218,224 and \$103,021 respectively. For the three months ended December 31, 2011 and 2010, interest expense was \$60,445 and \$38,812, respectively.

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NOTE 8 – RELATED PARTY NOTES PAYABLE (Continued)

Other Related Party Loans

The Company has entered into convertible promissory note agreements with various other related parties of the Company. During the three months ended December 31, 2011 the Company borrowed \$88,959 from the related parties. During the twelve months ended December 31, 2011, the Company borrowed a total of \$715,081, consisting of cash as well as the conversion of accounts payable of \$52,212 owed to one of the related parties for reimbursement of expenses and services rendered.

Each of the promissory notes bears simple interest at 8% per annum, and all accrued interest and principal is due on the maturity date. At the option of the holder, the promissory notes are convertible into common shares of the Company's stock at a conversion rate equal to the quotient of (i) a sum equal to the entire outstanding principal and interest, divided by (ii) the conversion price indicated in the following table.

The following table is a schedule of the individual promissory notes issuance date, maturity date, principal balance, accrued interest, and number of shares which the debt can be converted to as of December 31, 2011:

Issuance Date	Maturity Date	Principal Balance	Amounts Convertible			Conversion Price/Share	Shares to be Issued
			Principal	Interest	Total		
8/9/2010	8/31/2012	100,000	\$ 100,000	\$ 11,756	\$ 111,756	0.0060	18,626,000
12/31/2010	12/31/2012	52,095	52,095	4,179	56,274	0.0046	12,233,478
11/9/2010	11/30/2012	25,000	25,000	2,399	27,399	0.0050	5,479,800
12/9/2010	12/31/2012	78,333	78,333	6,958	85,291	0.0046	18,541,522
8/9/2010	8/31/2012	100,000	100,000	11,756	111,756	0.0060	18,626,000
6/30/2010	5/31/2012	18,941	18,941	5,590	24,531	0.0100	2,453,100
8/31/2010	5/31/2012	61,109	61,109	6,879	67,988	0.0070	9,712,571
9/30/2010	9/30/2012	21,882	21,882	2,307	24,189	0.0070	3,455,571
11/22/2010	11/30/2012	125,600	125,600	11,699	137,299	0.0036	38,138,611
11/29/2010	11/30/2012	100,000	100,000	9,120	109,120	0.0039	27,979,487
12/7/2010	12/31/2012	87,760	87,760	7,803	95,563	0.0046	20,774,565
12/31/2010	12/31/2012	25,274	25,274	2,107	27,381	0.0046	5,952,391
1/5/2011	1/31/2013	100,000	100,000	8,220	108,220	0.0050	21,644,000
1/11/2011	1/31/2013	121,000	121,000	9,777	130,777	0.0053	24,674,906
3/31/2011	3/31/2013	33,000	33,000	2,052	35,052	0.0049	7,153,469
3/31/2011	3/31/2013	52,122	52,122	3,241	55,363	0.0049	11,298,571
4/20/2011	4/30/2013	100,000	100,000	5,761	105,761	0.0028	37,771,786
6/2/2011	6/30/2013	25,000	25,000	1,195	26,195	0.0027	9,701,852
6/9/2011	6/30/2013	30,000	30,000	1,407	31,407	0.0039	8,053,077
6/15/2011	6/30/2013	10,000	10,000	448	10,448	0.0034	3,072,941
7/14/2011	7/31/2013	75,000	75,000	2,943	77,939	0.0029	26,875,517
		<u>\$ 1,342,116</u>	<u>\$ 1,342,116</u>	<u>\$ 117,597</u>	<u>\$ 1,459,709</u>		<u>332,219,215</u>

Other related parties consist of Robert Whelan, the son, and Janel Zaluski, a daughter of the President of the Company. Additionally, St. Johns, LLC is a limited liability company, which is owned by family members of the President of the Company. Richard Staelin is a member of the Board of Directors and Chairman of the Board.

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NOTE 8 – RELATED PARTY NOTES PAYABLE (Continued)

Other Related Party Loans (continued)

Similar to the IBEX promissory convertible notes, the conversion prices per the terms of the note agreements are based upon the fair market value of the OTC closing price of the Company's stock as of the date of issuance discounted based on the factors previously discussed in the disclosures related to the IBEX Revolver and promissory convertible notes. Accordingly, there have been no beneficial conversion features contained in the convertible promissory note agreements issued during the twelve months ended December 31, 2011.

Interest expense incurred on the other related party notes payable for the three and twelve months ended December 31, 2011 totaled \$21,319 and \$72,446, respectively.

Future minimum principal payments for the notes payable, IBEX Revolver, IBEX Notes and other related party loans are as follows:

2012	\$	2,220,964
2013		1,857,162
2014		1,766,303
2015		-
2016		-
Thereafter		-
		-
	\$	5,844,429

NOTE 9 – LOSS PER SHARE

The following table sets forth the computation of basic and diluted share data:

	December 31,	
	2011	2010
Common Stock:		
Weighted Average Number of Shares Outstanding - Basic	1,715,629,288	1,481,415,538
Effect of Dilutive Securities:		
Options and Warrants		-
Weighted Average Number of Shares Outstanding - Diluted	1,715,629,288	1,481,415,538
Options and Warrants Not Included Above (Antidilutive)		
Nonvested Restricted Share Awards	11,333,334	76,550,000
Options to Purchase Common Stock	-	350,000
Warrants to Purchase Common Stock	-	332,000
	11,333,334	77,232,000

NOTE 10 – SHARE BASED COMPENSATION

On November 30, 2004, as amended March 22, 2005, the Company adopted the BioElectronics Equity Incentive Plan ("the Plan"), for the purpose of providing incentives for officers, directors, consultants and key employees to promote the success of the Company, and to enhance the Company's ability to attract and retain the services of such persons. The Plan initially reserved 10 million shares of common stock for issuance, which was amended to 100 million shares on March 1, 2010. The issuance can be in the forms of options or shares. The options may be incentive, nonqualified or stock appreciation rights. The shares may be issued for performance.

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NOTE 10 – SHARE BASED COMPENSATION (Continued)

As of December 31, 2011, the Company had 200 million shares available for future grant under the Plan.

Stock Option Awards

On September 1, 2011, the Company granted stock options to a third party vendor with a grant date fair value of \$0.005 per share. The exercise price is \$0.005 per share with a term of ten years and a three year vesting period, with one-third of the options vesting on each anniversary date after the initial date of grant. The option awards were granted with an exercise price equal to the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant, discounted fifty percent for lack of marketability, which was deemed to be fair value.

Below is a summary table of the options granted and the weighted-average grant date fair value during the three and twelve months ended December 31, 2011:

<u>Stock options</u>	<u>Shares</u>	<u>Weighted- average grant date fair value</u>
Balance at December 31, 2010	-	\$ -
Granted	24,000,000	0.0050
Vested	-	-
Forfeited	-	-
Balance at December 31, 2011	<u>24,000,000</u>	<u>\$ 0.0050</u>

Compensation expense related to the stock options for the years ended December 31, 2011 and 2010 was \$23,158 and zero, respectively. Remaining compensation expense totals \$95,940 as of December 31, 2011.

The maximum amount of annual compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to the vendor that the Company will have to recognize over a 2.4 year weighted-average period is approximately \$39,700.

Nonvested Restricted Share Awards

In prior years, the Company also issued nonvested restricted share awards to directors, consultants and employees. The nonvested restricted share awards vest over a three year period based on the requisite service period. Compensation expense related to the fair value of these awards is recognized straight-line over the requisite service period based on those restricted stock grants that ultimately vest.

The fair value of grants is measured by the market price of the Company's common stock on the date of grant discounted by 50 percent based on the restricted nature of the stock, the volatility in the market and other variables taken into account by the Board of Directors in determining the fair value of the restricted share awards. Restricted stock awards generally vest ratably over the service period beginning with the first anniversary of the grant date. After shares are vested, they will be issued upon the request of the grantee.

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NOTE 10 – SHARE BASED COMPENSATION (Continued)

Nonvested Restricted Share Awards (Continued)

A summary of the status of the Company’s nonvested shares granted to employees as of December 31, 2011, and changes during the twelve months ended December 31, 2011, is as follows:

<u>Nonvested shares</u>	<u>Shares</u>	<u>Weighted- average grant date fair value</u>
Balance at December 31, 2010	59,900,000 \$	0.0122
Granted	-	-
Vested	(28,966,667)	0.0137
Forfeited	(19,599,999)	0.0110
Balance at December 31, 2011	<u>11,333,334 \$</u>	<u>0.0107</u>

Total compensation cost related to the restricted stock awards granted to employees was \$104,556 and \$217,444 for the years ended December 31, 2011 and 2010, respectively. For years ended December 31, 2011 and 2010, \$7,848 and \$217,444, respectively, of the compensation cost was recorded in Sales Support expense, with the remainder recorded in Other General and Administrative expense on the accompanying condensed statements of income

The maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to employees that the Company will have to recognize over a 2.0 year weighted-average period is approximately \$77,700.

Total compensation cost related to the restricted stock awards granted to Non-employees was approximately \$91,700 and \$76,400 for the years ended December 31, 2011 and 2010, respectively.

A summary of the status of the Company’s nonvested shares granted to Non-employees as of December 31, 2011, and changes during the twelve months ended December 31, 2011, is as follows:

<u>Nonvested shares</u>	<u>Shares</u>	<u>Weighted- average grant date fair value</u>
Balance at December 31, 2010	15,200,000 \$	0.0181
Granted	-	-
Vested	(5,066,667)	0.0181
Forfeited	-	-
Balance at December 31, 2011	<u>10,133,333 \$</u>	<u>0.0181</u>

The maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to non-employees that the Company will have to recognize over a 1.1 year weighted-average period is approximately \$92,000.

On January 17, 2011 the Company issued 1,800,000 shares of common stock for services rendered valued at \$10,800 which was recorded as part of Investor Relations expense in the accompanying condensed statements of operations for the three and twelve months ended December 31, 2011. These shares were value at \$0.006 per share, which represents the fair value of the services provided.

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NOTE 10 – SHARE BASED COMPENSATION (Continued)

Common Stock Issued for Services

On April 1, 2011 the Company issued 5,000,000 shares of common stock for services rendered valued at \$24,500, which was recorded as part of Investor Relations expense in the accompanying condensed statements of operations for the three and twelve months ended December 31, 2011. These shares were value at \$0.0049 per share, which represents the fair value of the services provided.

On April 19, 2011 the Company issued 20,000,000 shares of common stock for services rendered valued at \$59,000, which was recorded as part of Other General and Administrative expense in the accompanying condensed statements of operations for the three and twelve months ended December 31, 2011. These shares were value at \$0.00295 per share, which represents the fair value of the services provided.

On August 5, 2011 the Company issued 20,000,000 shares of common stock for services rendered valued at \$130,000, which was recorded as part of Other General and Administrative expense in the accompanying statements of operations for the twelve months ended December 31, 2011. These shares were value at \$0.0065 per share, which represents the fair value of the services provided.

In addition, the Company released from escrow 24,833,000 shares of common stock to employees for shares vested during 2011 with fair values ranging from \$.0010 to \$.0080 per share at the date the shares were released from escrow.

Compensation cost related to the shares issued to consultants for services rendered were recorded based on the fair value of the services performed, as that fair value was deemed to be more readily available than the fair value of the common stock. In determining the number of shares to issue for the services rendered that was considered reasonable by the Board of Directors, the Company and the Board of Directors utilized the process in place for issuing shares upon conversion of convertible debt described previously. Where the Company issues fully vested, non-forfeitable shares of common stock that are not freely transferable at the time of issuance, in lieu of payment for services in cash, the number of shares to be issued are based on the invoice price of the services rendered and the estimated fair value of the shares traded on the OTC pink sheet market discounted to reflect the restriction on the shares issued for the services rendered.

NOTE 11 – INCOME TAXES

The income tax provision in the statements of operations for the years ended December 31, 2011 and 2010 consists of:

	2011	2010
Current Tax Expense:		
U.S. Federal	\$ -	\$ -
State and Local	-	-
	-	-
Deferred Tax Expense:		
U.S. Federal	-	-
State and Local	-	-
	-	-
Total Income Tax Expense	\$ -	\$ -

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NOTE 11 – INCOME TAXES (Continued)

For the years ended December 31, 2011 and 2010, the difference between the expected income tax benefit computed by applying the U.S. federal corporate income tax rate of 35% to loss before income taxes, and the reported income tax benefit is as follows:

	2011	2010
Federal Income Tax Benefit, at Statutory Tax Rate	\$ (962,906)	\$ (1,044,366)
State Income Taxes, Net of Related Federal Benefit	(41,649)	(158,405)
Nondeductible Expenses	1,820	5,552
Other	-	4,937
Change in Valuation Allowance	1,002,735	1,192,282
	<u>1,002,735</u>	<u>1,192,282</u>
Total Income Tax Expense	<u>\$ -</u>	<u>\$ -</u>

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2011 and 2010 are presented below:

	2011	2010 (Restated)
Allowance for Doubtful Accounts	\$ 39,555	\$ -
Charitable Contributions	2,503	2,503
Accrued Expenses	121,891	121,891
Discount From Beneficial Conversion	15,613	25,832
Share-based Compensation	225,841	135,908
Deferred Tax Assets - Current	<u>405,403</u>	<u>286,134</u>
Less: Valuation Allowance	<u>(405,403)</u>	<u>(286,134)</u>
Net Deferred Tax Assets - Current	<u>-</u>	<u>-</u>
Deferred Tax Assets - Non-Current:		
Net Operating Loss Carryforwards	5,215,907	4,332,441
Less: Valuation Allowance	<u>(5,215,907)</u>	<u>(4,332,441)</u>
Net Deferred Tax Assets - Non-Current	<u>-</u>	<u>-</u>
Total Net Deferred Tax Asset	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2011, the Company had net operating losses of approximately \$13.5 million that can be carried forward for up to twenty years and deducted against future taxable income (December 31, 2010 - \$10.5 million). The net operating losses expire in various years through 2031.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Based on available evidence, the Company's managements believes it is more likely than not that the Company will not be able to realize the benefit of its net deferred tax assets as of December 31, 2011 and 2010 and that a full valuation allowance is needed to reduce the net deferred tax asset to \$0 for each year. The valuation allowance at December 31, 2011 and 2010 was \$5,621,310 and \$4,618,575 (restated), respectively. The increase in deferred tax assets and the related valuation allowance was \$1,002,735 for the year ended December 31, 2011 and approximately \$1,192,000 for the year ended December 31, 2010, primarily due to the operating losses of the Company.

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NOTE 12 – RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Note 8, BioElectronics signed a distribution agreement on February 9, 2009 with eMarkets Group, LLC (eMarkets) a company owned and controlled by a member of the board of directors and sister of the company's president. The agreement provides for eMarkets to be the exclusive distributor of the company's line of products to customers in certain countries outside of the United States for a period of three years. The distribution agreement lists the prices to be paid for the company's products by eMarkets and provides for the company to provide training and customer support at its own cost to support the distributor's sales function.

Revenues for the year ended December 31, 2011 and 2010 include \$237,827 and \$2,473, respectively, for sales with \$135,561 and zero, respectively, of cost of goods sold to eMarkets, a related party. There was \$24,512 due to eMarkets included in Accounts Payable on the accompanying balance sheet as of December 31, 2011.

NOTE 13 - CONCENTRATIONS

For year ended December 31, 2011, 78% sales revenue was from four. As of December 31, 2011, \$268,823 and 95% of the accounts receivable balance was from five customers.

During the year ended December 31, 2010, three vendors accounted for more than 10% of the Company's total purchases, \$318,342, \$130,135, and \$101,274, totaling 59% of total purchases. Four customers accounted for approximately 52% (approximately 18%, 12%, 12% and 11% respectively) of total revenues for 2010

NOTE 14 – FAIR VALUE MEASUREMENTS

The Company's financial instruments consist primarily of cash, trade and other receivables, accounts payable, accrued liabilities, loans and notes payable. The carrying amounts of such financial instruments approximate their respective estimated fair value due to the short-term maturities and approximate market interest rates of these instruments. The estimated fair value is not necessarily indicative of the amounts the Company would realize in a current market exchange or from future earnings or cash flows. The Company adopted ASC Topic 820-10, "Fair Value Measurements and Disclosures", which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly including inputs in markets that are not considered to be active
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases warehouse, manufacturing and office space under various non-cancelable operating leases expiring in 2011. The Company also leases office equipment under a non-cancelable operating lease expiring in 2014. In the normal course of business, operating leases are generally renewed or replaced by other leases.

The future minimum lease payments as of December 31 for 2012 is \$2,693, 2013 is \$2,693 and 2014 is \$1,346, respectively.

The amount of rental expenses were \$83,398 and \$71,655 for the years ended December 31, 2011 and December 31, 2010, respectively.

Litigation

General

In the ordinary course of conducting its business, the Company may become involved in various legal actions and other claims, some of which are currently pending. Litigation is subject to many uncertainties and management may be unable to accurately predict the outcome of individual litigated matters. Some of these matters may possibly be decided unfavorably towards the Company.

The Company is involved, on a continuing basis, in monitoring our compliance with environmental laws and in making capital and operating improvements necessary to comply with existing and anticipated environmental requirements.

While it is impossible to predict with certainty, management currently does not foresee such expenses in the future as having a material effect on the business, results of operations, or financial condition of the Company.

In 2005, a lawsuit was filed against the Company by William Lyons for alleged breach of contract and conversion claims associated with fees for services provided to the Company. Mr. Lyons alleged that Andrew Whelan, the president of the Company, the Company, and PAW II, a Maryland limited liability company, (collectively, "the Defendants") reached an agreement to convey stock to Mr. Lyons. The defendants deny that any such agreement was in place or that Mr. Lyons had the right to enforce such an agreement.

On May 29, 2009, through binding arbitration, Mr. Lyons was awarded approximately \$1.2 million for his claims. Subsequently, on June 25, 2009 the Company filed, in the Circuit Court of Frederick County, Maryland, a Petition to Vacate Arbitration Award issued by the arbitrator. The Motion was denied by the Court on December 30, 2009.

On January 14, 2010, the Court entered Judgment in favor of Mr. Lyons and against the Defendants jointly and severally in the amount of \$1,217,919. In November 2010, the case was settled for a lump sum payment of \$235,000, which was accrued for and expensed the quarter ended September 30, 2010 and subsequently paid in November 2010.

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NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)

The Company is involved, on a continuing basis, in monitoring our compliance with environmental laws and in making capital and operating improvements necessary to comply with existing and anticipated environmental requirements. While it is impossible to predict with certainty, management currently does not foresee such expenses in the future as having a material effect on the business, results of operations, or financial condition of the Company.