

**QUARTERLY REPORT FOR  
PERIOD ENDED  
MARCH 31, 2012**



**ALGAE FARM (USA), INC.**

**24523 GOSLING ROAD, UNIT G003**

**SPRING, TEXAS 77389-2713**

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**Federal I.D. No.**  
**88-0377615**

**CUSIP No.**  
**01551R 200**

**ISSUER'S EQUITY SECURITIES**

**COMMON STOCK (as of 5/10/2012)**

**1,998,000,000 Shares Authorized**

**\$.0001 Par Value**

**608,491,180 Common Shares Issued and Outstanding**

**PREFERRED STOCK (as of 5/10/2012)**

**2,000,000 Shares Authorized**

**1,000,000 Series A Preferred Shares \$.001 Par Value**

**100,000 Series A Preferred Shares Issued and Outstanding**

**1,000,000 Series B Preferred Shares (\$. undesignated)**

**0 Series B Preferred Shares Issued and Outstanding**

**TRANSFER AGENT**

**Pacific Stock Transfer Company**

**4045 South Spencer Street**

**Suite 403**

**Las Vegas, NV 891119**

**Telephone (702) 361-3033**

**Facsimile (702) 433-1979**

# ALGAE FARM (USA), INC.

All information in this Quarterly Report has been compiled to fulfill the disclosure requirements of Rule 15c2-11 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The enumerated items and captions contained herein correspond to the format as set forth in that rule.

## **Forward-looking Statements**

This Quarterly Report contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements represent the Company's expectations or beliefs concerning future events. The words "*believe*," "*expect*," "*anticipate*," "*intend*," "*estimate*," "*project*" and similar expressions are intended to identify forward-looking statements. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including without limitations, the factors described in this Quarterly Report.

Investors are cautioned not to place undue reliance on such forward-looking statements because they speak only of the Company's views as of the statement dates. Although the Company has attempted to list the important factors that presently affect the Company's business and operating results, the Company further cautions investors that other factors may in the future prove to be important in affecting the Company's results of operations the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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

Algae Farm (USA), Inc., (a Nevada Corporation)  
24523 Gosling Road, Unit G003  
Spring, Texas 77389-2713

## **Item II. Shares outstanding:**

As of May 10, 2012, there were 608,491,180 shares of the Company's Common Stock issued and outstanding.

As of May 10, 2012, there were 100,000 shares of the Company's Series A Preferred Stock issued and outstanding.

As of May 10, 2012, there were 0 shares of the Company's Series B Preferred Stock issued and outstanding.

## **Item III. Interim financial statements:**

The Company's financial statements for the three month period ended March 31, 2012 are attached hereto.

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**Item IV. Management's discussion and analysis or plan of operation:****Forward Looking Statements**

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

- Our ability to attract and retain management, and to integrate and maintain technical information and management information systems;
- Our ability to raise capital when needed and on acceptable terms and conditions;
- The intensity of competition; and
- General economic conditions.

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

**Background and Basis of Presentation**

The accompanying consolidated financial statements include the accounts of Algae Farm (USA), Inc. and its wholly-owned subsidiaries and have been prepared on a going concern basis in accordance with U.S. generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated. Since February 20, 1997 (Date of Inception) the Company has been in a development stage. Operating results for the years ended December 31, 2010 and 2011, are not necessarily indicative of the results that may be expected in the future.

**Critical Accounting Policies**

We have identified critical accounting policies based upon the significance of the accounting policy to our overall financial statement presentation, as well as the complexity of the accounting policy and our use of estimates and subjective assessments. We have concluded our critical accounting policies are as follows:



## **Long Lived Assets**

### **Unpatented Mining Claims:**

From November 2006 through July 2007, the Company acquired 255 unpatented mining claims and since November 2008 has focused on research and development of renewable energy; specifically in the area of algae production systems.

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 production systems 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.

### **Property and Equipment:**

During 2012, the Company expects to acquire equipment and property associated with the production of algae oil, residual biomass and algal biomass. These assets will be capitalized and reviewed for impairment as the algae market develops in the future.

## **Derivatives**

The Company has raised capital via the issuance of convertible debt that can be converted to registered common stock at a discount to the trading price. As a result, financial derivatives have been created. Generally, the difference between the sales price and the closing price on the date of issuance has been recorded as a discount and amortized to the income statement over time or upon conversion of the debt to common stock. Currently, the Company is in default on Convertible Promissory Notes in the amount of \$760,177. These convertible notes contain provisions for conversion at variable exercise prices based on historical closing prices of the Company's stock and are being treated as derivatives.

## **Research and Development**

All costs and expenses associated with the algae biomass production technology are expensed when incurred as research and development. Such costs and expenses are eligible for research and development tax credits. 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 Share**

Net loss per share is computed using the weighted average number of shares of common stock outstanding during the applicable period. Shares associated with convertible promissory notes were not included because they are antidilutive. There is no difference between basic and diluted net loss per share for any period presented.



## **Liquidity and Capital Resources**

As of March 31, 2012 we had a decrease in cash and cash equivalents of \$6,892 and incurred a net loss of \$36,663. Our net loss included \$1,157 of non-cash related expenses. The Company is in the development stage of operations and has not generated any meaningful and sustained revenue and does not expect any meaningful revenue until the fourth quarter 2012. Our ability to generate sufficient cash flows from operations to meet our operating and capital requirements is uncertain, and we must raise additional capital in order to fund development of our algae biomass technology. These matters raise substantial doubt about our ability to continue as a going concern.

## **Results of Operations – Analysis of Quarter Ended March 31, 2012 and March 31, 2011.**

The net loss for the three months ended March 31, 2012 of \$36,663 reflects a decrease of \$686,104 from the net loss of \$722,767 for the same period in 2011. This increase in net loss is primarily a result of:

- an increase in Research and Development of \$7,765 ; offset by
- a decrease in General and administrative expense of \$2,056,871;
- a decrease in Interest expense on convertible Promissory Notes of \$138;
- a decrease in Legal and Professional expenses of \$11,185;
- a decrease in Amortization of Discounts on Debentures of \$56,986.

## **Revenues**

There was no revenue for the three months ended March 31, 2012 and \$37,500 for the year ended 2011. We focused our resources on research and development associated with our algae biomass production technology.

## **Research and Development Expenses**

The research and development expenses for the three months ended March 31, 2012 and 2011 were \$8,771 and \$1,006 respectively.

## **General and Administrative Expenses**

The general and administrative expenses for the three months ended March 31, 2012 and 2011 were \$10,847 and \$2,067,718, respectively. This decrease was due primarily to no stock-based compensation being paid during the period. We anticipate that general and administrative expense will increase in the future as warranted to coincide with increased production of the algae biomass.

## **Discounts on Issuances of Common Stock**

During 2009 and 2010, we sold convertible debt that was convertible into common stock below the closing price on the date of issuance. As a result, for debt that was converted, we recorded a discount upon the issuance of such stock for the difference between the issuance price and the closing price on the date of issuance. Amortization of these debt discounts amounted to \$-0- and \$56,986 for the three months ended March 31, 2012 and 2011, respectively.

## **Item V. Legal Proceedings:**

The Company is not engaged in any legal proceedings.

**Item VI. Default upon senior securities:**

As of May 10, 2012, the Company was in default on four convertible promissory notes totaling \$760,177.

**Item VII. Other Information:**

**A. Entry into a material definitive agreement.**

None for the period ended March 31, 2012 and through the date of this report.

**B. Termination of material definitive agreement:**

None for the period ended March 31, 2012 and through the date of this report.

**C. Completion of acquisition or disposition of assets, including but not limited to merger**

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 it’s possession for 250,000,000 restricted common shares of CGI valued at \$187,500. The shares are worth \$25,000 as of May 10, 2012.

**D. Creation of a direct financial obligation or an obligation under an off-balance sheet arrangement of an Issuer:**

None for the period ended March 31, 2012 and through the date of this report.

**E. Triggering events that accelerate or increase a direct financial obligation or an obligation under an off-balance sheet arrangement:**

None for the period ended March 31, 2012 and through the date of this report.

**F. Costs associated with exit or disposal activities:**

None for the period ended March 31, 2012 and through the date of this report.

**G. Material Impairments:**

None for the period ended March 31, 2012 and through the date of this report.

**H. Sales of equity securities:**

None for the period ended March 31, 2012 and through the date of this report.

**I. Material Modification of rights of security holders:**

None for the period ended March 31, 2012 and through the date of this report.

**J. Changes in issuer’s certifying accountant:**

None for the period ended March 31, 2012 and through the date of this report.



**K. Non-reliance on previously issued financial statements or a related audit report or completed interim review:**

None for the period ended March 31, 2012 and through the date of this report.

**L. Changes in control of issuer:**

None for the period ended March 31, 2012 and through the date of this report.

**M. Departure of directors or officers, election of directors, appointment of principal officers:**

None for the period ended March 31, 2012 and through the date of this report.

**N. Amendments Article of Incorporation or Bylaws; Change in Fiscal Year:**

Are hereby incorporated by reference and can be found on [www.pinksheets.com](http://www.pinksheets.com) as (supplemental information).

None for the period ended March 31, 2012 and through the date of this report.

**O. Amendments to the Issuer's Code of Ethics or Waiver of a provision of the Code of Ethics:**

None for the period ended March 31, 2012 and through the date of this report.

**Item XIII. Exhibits**

None

**Item IX. Issuer's Certification:**

I, Rick Berman Chief Executive Officer of the issuer, certify that:

- a. I have reviewed the Quarterly Report including the financial statements for the period ended March 31, 2012 and the footnotes of Algae Farm (USA), Inc.
- b. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report; and
- c. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented.

May 10, 2012

/s/ Rick Berman

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Rick Berman  
President, Chief Executive Officer, Director



ALGAE FARM (USA), INC  
(A Development Stage Enterprise)  
Condensed Consolidated Balance Sheets  
(Unaudited)

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 604	\$ 5,344
Prepaid Expenses	313	2,465
Total Current Assets	<u>917</u>	<u>7,809</u>
Property and equipment, net	81,799	74,054
Other Assets:		
Marketable Securities - Available for Sale	25,000	50,000
Total Assets	<u>\$ 106,799</u>	<u>\$ 131,863</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 834,545	\$ 753,047
Convertible promissory notes, net of discounts of \$4,658 and \$61,643, respectively	760,177	760,177
Derivative Liability	325,809	380,089
Loans payable - related party	41,823	32,442
Total Current Liabilities	<u>1,962,354</u>	<u>1,925,755</u>
Total Liabilities	<u>1,962,354</u>	<u>1,925,755</u>
Commitments and Contingencies		
Stockholders' Equity (Deficit):		
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 608,491,180 shares issued and outstanding, respectively.	60,849	60,849
Additional paid-in capital	17,438,943	17,438,943
Deficit accumulated during development stage	(19,192,947)	(19,156,284)
Accumulated Other Comprehensive Income (Loss)	(162,500)	(137,500)
Total Stockholders' Equity (Deficit)	<u>(1,855,555)</u>	<u>(1,793,892)</u>
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 106,799</u>	<u>\$ 131,863</u>

The accompanying notes are an integral part of these financial statements

ALGAE FARM (USA), INC  
Condensed Consolidated Statement of Operations  
(Unaudited)

	<u>For the Three</u> <u>Months Ended</u> <u>March 31, 2012</u>	<u>For the Three</u> <u>Months Ended</u> <u>March 31, 2011</u>	<u>For the Period</u> <u>February 20, 1997</u> <u>(Inception) to</u> <u>March 31, 2012</u>
Revenues	\$ -	\$ -	\$ -
Costs and Expenses			
General and administrative	10,847	2,067,718	17,444,786
Legal and Professional Fees	2,147	13,322	378,187
Mining and Exploration	-	-	121,990
Research and Development	8,771	1,006	439,243
Write-down of Unpatented Mining Claims	-	-	324,807
Total Costs and Expenses	<u>21,765</u>	<u>2,082,046</u>	<u>18,709,013</u>
Loss from Operations	(21,765)	(2,082,046)	(18,709,013)
Other (Income) Expenses:			
Interest income	-	(97)	(2,586)
Amortization of Discounts on Debentures	-	56,986	1,090,342
Change in Fair Value of Derivatives	-	(1,431,301)	(534,916)
Interest expense on Convertible Promissory Notes	14,898	15,036	151,436
Total Other (Income) Expenses	<u>14,898</u>	<u>(1,359,279)</u>	<u>704,276</u>
Net Loss	<u>\$ (36,663)</u>	<u>\$ (722,767)</u>	<u>\$ (19,192,947)</u>
Net Loss per Common Share - Basic and Diluted	<u>(0.01)</u>	<u>(0.02)</u>	
Weighted Average Common Shares Outstanding	<u>287,891,363</u>	<u>39,958,523</u>	

The accompanying notes are an integral part of these financial statements



**ALGAE FARM (USA), INC**  
**(A Development Stage Enterprise)**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<u>For the Three Months Ended</u>		<u>For the Period</u>
	<u>March 31, 2012</u>	<u>March 31, 2011</u>	<u>February 20, 1997</u>
			<u>(Inception) to</u>
			<u>March 31, 2012</u>
Cash Flows from Operating Activities:			
Net Loss	\$ (36,663)	\$ (722,767)	\$ (19,192,948)
Adjustments to reconcile net loss to net cash used by operating activities:			
Write-down of unpatented mining claims	-	-	324,807
Amortization of discount on debentures	-	56,986	1,095,010
Change in Fair Value of Derivative Liability	-	(1,431,301)	(534,915)
Depreciation expense	1,157	386	3,941
Gain on Sale of Unpatented Mining Claims	-	-	(187,500)
Issuance of common stock for services	-	1,950,000	15,168,315
Changes in assets and liabilities:			
(Increase) in prepaid expenses	2,152	(2,465)	2,152
Increase (Decrease) in accrued expenses	81,498	115,217	809,545
Net Cash (Used) in Operating Activities	<u>(48,144)</u>	<u>(33,944)</u>	<u>(2,610,346)</u>
Cash Flows from Investing Activities:			
Capital expenditures	-	-	(69,202)
Purchase of Unpatented Mining Claims	-	-	(324,807)
Net Cash (Used) by Investing Activities	<u>-</u>	<u>-</u>	<u>(394,009)</u>
Cash Flow from Financing Activities:			
Proceeds from sale of common stock	-	24,500	1,754,940
Commissions and Finder's Fees paid on sale of common stock	-	-	(38,182)
Proceeds from (Repayment of) Loans payable - Related party	(1,613)	6,245	64,094
Proceeds from Issuance of convertible debentures - related parties	-	-	100,000
Proceeds from Issuance of convertible debentures	-	-	1,095,000
Net Cash Provided by Financing Activities	<u>(1,613)</u>	<u>30,744</u>	<u>2,975,852</u>
Increase (Decrease) in Cash	(6,892)	(3,200)	917
Cash at Beginning of Period	<u>7,809</u>	<u>8,050</u>	<u>-</u>
Cash at End of Period	<u>\$ 917</u>	<u>\$ 4,850</u>	<u>\$ 917</u>
<u>Supplemental Cash Flow Information:</u>			
Cash Paid For Interest	<u>\$ 123</u>	<u>\$ 41</u>	<u>\$ 9,776</u>
Cash Paid For Income Taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Supplemental Non-Cash Investing and Financing Activities:</u>			
Common Stock Issued upon Conversion of Convertible Debentures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 704,246</u>
Unamortized Discount on Promissory Notes Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,195,000</u>
Unrealized Loss on Available for Sale Securities	<u>\$ 162,500</u>	<u>\$ -</u>	<u>\$ 162,500</u>

The accompanying notes are an integral part of these financial statements

ALGAE FARM (USA), INC AND SUBSIDIARIES  
(A Development Stage Enterprise)  
Condensed Consolidated Statement of Stockholders' Equity (Deficit)  
For the Period February 20, 1997 (Inception) to March 31, 2012  
(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



**ALGAE FARM (USA), INC AND SUBSIDIARIES**  
**(A Development Stage Enterprise)**  
**Condensed Consolidated Statement of Stockholders' Equity (Deficit)**  
**For the Period February 20, 1997 (Inception) to March 31, 2012**  
**(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 \$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>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>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

**ALGAE FARM (USA), INC AND SUBSIDIARIES**  
**(A Development Stage Enterprise)**  
**Condensed Consolidated Statement of Stockholders' Equity (Deficit)**  
**For the Period February 20, 1997 (Inception) to March 31, 2012**  
**(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**  
**(A Development Stage Enterprise)**  
**Condensed Consolidated Statement of Stockholders' Equity (Deficit)**  
**For the Period February 20, 1997 (Inception) to March 31, 2012**  
**(Unaudited)**

	Preferred Stock		Common Stock		Additional Paid	Deficit	Other	
	Shares	Amount	Shares	Amount	In Capital	Accumulated During Development Stage	Comprehensive Income (Loss)	Total
						-		-
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)
Balances, December 31, 2010	100,000	\$ 100	5,847,275	\$ 585	\$ 14,623,498	\$ (17,323,480)	\$	(2,699,297)
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)
Balances, December 31, 2011	100,000	\$ 100	608,490,652	\$ 60,849	\$ 17,438,943	\$ (19,156,284)	\$ (137,500)	\$ (1,793,892)
Unrealized Loss on Marketable Securities Held for Sale							(25,000)	(25,000)
Net loss for the three months ended March 31, 2012						(36,663)		(36,663)
Balances, March 31, 2012	100,000	\$ 100	608,490,652	\$ 60,849	\$ 17,438,943	\$ (19,192,947)	\$ (162,500)	\$ (1,855,555)



ALGAE FARM (USA), 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 nine months ended March 31, 2012 the Company remained in the development stage, had no revenue producing operations, and as of March 31, 2012 had a working capital deficit of \$1,855,555. In addition, during the nine months ended March 31, 2012 the Company incurred a net loss of \$36,663 and since inception has incurred losses aggregating \$19,192,947. 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 fourth 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.  
(A Development Stage Enterprise)  
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 March 31, 2012 the Company has not yet recognized any meaningful and sustained revenue from the sales of any products or services.



ALGAE FARM (USA), INC.  
(A Development Stage Enterprise)  
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 nine and three month periods ended March 31, 2012 and 2011, 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 three months ended March 31, 2011 and March 31, 2012 since their effect would be anti-dilutive.



ALGAE FARM (USA), INC.  
(A Development Stage Enterprise)  
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>March 31, 2012</u>	<u>December 31, 2011</u>
Computer Equipment	3 Years	\$ 1,202	\$ 1,202
Laboratory Equipment	5 Years	22,238	13,335
Mining Equipment	Units of Production	<u>62,300</u>	<u>62,300</u>
		85,740	76,837
Less: Accumulated Depreciation		<u>3,941</u>	<u>2,783</u>
		<u>\$ 81,799</u>	<u>\$ 74,054</u>

Depreciation expense on property and equipment was \$1,156 and \$1,157 for the three months ended March 31, 2012 and for the year ended 2011, respectively.

Note 4 - Marketable Securities – Available for Sale

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

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Marketable equity securities, at cost	<u>\$ 187,500</u>	<u>\$ 187,500</u>
Marketable equity securities, at fair value	<u>\$ 25,000</u>	<u>\$ 50,000</u>

ALGAE FARM (USA), INC.  
(A Development Stage Enterprise)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.



ALGAE FARM (USA), INC.  
(A Development Stage Enterprise)  
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 March 31, 2012 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 March 31, 2012 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.



ALGAE FARM (USA), INC.  
(A Development Stage Enterprise)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - Convertible Promissory Notes Payable (Continued)

As of March 31, 2012 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 March 31, 2012 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 three months ended March 31, 2012 and 2011, we realized a gain of \$ -0- and \$ (1,431,301) 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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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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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, 2011	\$ (137,500)	\$ (137,500)
Income (loss)	(25,000)	(25,000)
Balance as of September 31, 2012	<u>\$ (162,500)</u>	<u>\$ (162,500)</u>

The Company has not recognized any income tax benefit or expense associated with other comprehensive income items for the year ended December 31, 2011 and the three months ended March 31, 2012.

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 March 31, 2012 the balance on this Loan was \$41,823. The loan is non-interest bearing and is payable upon demand.

Accrued Compensation - Officer

Included in accounts payable and accrued expenses as of March 31, 2012, are amounts owed to Mr. Berman amounting to \$755,673 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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NOTE 11 - Commitments and Contingencies (continued)

Lease Obligations

The Company operates its business in leased facility. The Company currently leases approximately 1,300 square feet for its corporate office and research facilities for \$939 plus utilities per month. The written lease agreement is on a month to month basis with a 30 day termination notice. The Company moved from its previous location in January 2011 with no further obligation. Previous monthly rent was \$2,465 including utilities per month.

Rent expense for these facilities for the three months ended March 31, 2012 was \$4,328 (including former office location).

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.

NOTE 12 - Subsequent Events

None