

Biomagnetics Diagnostics Corporation
(A Development Stage Company)

NOTES TO UNAUDITED FINANCIAL STATEMENTS
(June 30, 2013 and December 31, 2012)

NOTE 1. GENERAL ORGANIZATION AND BUSINESS

Biomagnetics Diagnostics Corporation (The Company) was organized in the state of Nevada on February 26, 1997 as JRL enterprises, Inc. During 2003, the company abandoned its business plan and operations and on March 1, 2005 its corporate charter was revoked. On July 6, 2005 one of the company's shareholders filed action to be appointed custodian and on October 11, 2005 was appointed custodian until January 18, 2006. During the period of custodianship the Company was again brought into good standing with the State of Nevada.

On March 27, 2006 the company executed a stock purchase agreement with Bio-Spectrum Technologies, Inc., a Nevada corporation organized March 10, 1997. In the one-for-one stock exchange a change of control took place. This action is accounted for as a reverse acquisition. The Company is the surviving legal entity with Bio-Spectrum Technologies, Inc. the surviving historical accounting company. On December 7, 2006 the Company changed its name to Biomagnetics Diagnostics Corporation.

The Company designs, patents and will bring to market diagnostic equipment and immunoassays as well as other advanced biotechnologies. The Company currently holds two patents and has filed a third and is continuing development of biochemical assay and diagnostic systems and equipment.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The relevant accounting policies and procedures are listed below.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and financial instruments which mature within three months of the date of purchase.

Accounting Basis

The statements were prepared following generally accepted accounting principles of the United States of America consistently applied. The Company operates on a December 31 fiscal year end.

Revenue Recognition

Revenues from services are recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, services have been rendered, payment has been contractually earned and it is reasonably assured that the related receivable or unbilled revenue is collectable.

Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income (loss) by the weighted-average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Potentially dilutive securities have been excluded from the net loss per common share calculation as the effects would be anti-dilutive. Common stock equivalents as of March 31, 2013 that were excluded from the diluted earnings per share calculation consisted of 12,500,000 warrants to purchase shares of the Company's stock and 2,362,665 options.

Dividends

The Company has not yet adopted any policy regarding payment of dividends. No dividends have been paid during the periods shown.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are carried at cost and depreciated on a straight-line bases over their useful lives of three years for office equipment and ten years for manufacturing equipment. The Up to current period the Company's primary activity has been the development and installation of patented equipment and processes. The Company evaluated its use of cash raised during 2010 and found that over 80% of that cash was used in the development, procurement and installation of physical assets and accordingly capitalized a proportional amount of its indirect costs to those assets. During the year ended December 31, 2010 the Company began its acquisition and installation of bio-diesel processing equipment in its facility in China and has allocated \$723,475 direct and indirect costs to that equipment. Also during the year ended December 31, 2010 the company capitalized \$729,136 direct and indirect costs for prototype medical diagnostic equipment built under its specifications by the Los Alamos National Laboratory. Depreciation of these assets began upon completion of installation and clinical trials. Following is a summary of the Property and Equipment:

Property and Equipment:	<u>30-Jun-13</u>	<u>31-Dec-12</u>
Diagnostic Equipment	\$ 729,136	\$ 729,136
Bio-Fuel Equipment	723,475	723,475
Office Equipment	7,251	7,251
Accumulated Depreciation	<u>(371,483)</u>	<u>(298,377)</u>
Property and Equipment - Net	<u>\$1,088,379</u>	<u>\$1,161,485</u>

Patents

Patent expenses are capitalized until the patent is awarded or abandoned. Capitalized expenses include costs associated with foreign and domestic application, search, proof and patent defense. Previously capitalized costs are expensed when an application is abandoned. The Company has funded two patents and has one active domestic application and various foreign registrations in process. Upon award patents are amortized over 20 years on a straight-line method.

A summary of capitalized patent cost for the reporting period follows:

	<u>30-Jun-13</u>	<u>31-Dec-12</u>
Patents	\$ 35,742	\$ 35,742
Applications	34,702	34,702
Accumulated Amortization	<u>(16,567)</u>	<u>(15,673)</u>
Patents - Net	<u>\$ 53,877</u>	<u>\$ 54,771</u>

Patent License Agreement

The Company entered into a patent license agreement on October 16, 2009 at a cost of \$87,500 with Los Alamos National Laboratory to market Triggered Optical Biosensor and Integrated Optical Biosensor System technology, developed at Los Alamos National Laboratory. The Company is amortizing the cost of this license over a 20 year useful life and will review for amortization an annual basis.

	<u>30-Jun-13</u>	<u>31-Dec-12</u>
License	\$ 87,500	\$ 87,500
Accumulated Amortization	<u>(20,327)</u>	<u>(18,139)</u>
Patents - Net	<u>\$ 67,173</u>	<u>\$ 69,361</u>

Fees and royalties associated with this license include a \$3,000 annual license to be credited against earned royalties for the year and is recorded as prepaid royalties and amortized quarterly. Royalties for the triggered optical biosensor device begins at 5% of net sales for 0 to 15 units sold; 7% of net sales for 15 to 40 units sold and 9% of net sales for greater than 40 units sold with 11% of net sales royalty on each assay used in conjunction with the triggered optical biosensor device.

Advertising

Advertising is expensed as incurred and consists of web-design and maintenance, public relations, and promotional activities. Following is a summary of advertising expense:

	<u>30-Jun-2013</u>	<u>31-Dec-2012</u>
Advertising	\$ 671	\$ 500

Income Taxes

The provision for income taxes is the total of the current taxes payable and the net of the change in the deferred income taxes. Provision is made for the deferred income taxes where differences exist between the period in which transactions affect current taxable income and the period in which they enter into the determination of net income in the financial statements.

Stock Based Compensation

The company has on occasion issued stock in lieu of cash to various vendors for services rendered. In so doing the company issued the stock at fair value defined as the current market value.

Recent Accounting Guidance Not Yet Adopted

The Company has evaluated the recent accounting pronouncements through ASU 2012-01 and believes that none of them will have a material effect on the company's financial statements.

NOTE 3. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, the Company has accumulated a loss of \$9,854,712 during its development stage. This raises substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from this uncertainty.

Managements Plan

Management has developed patents and acquired patent license agreements and has completed a prototype of its mobile diagnostics laboratory system. The Company is positioning itself to perform clinical trials in Mexico, India and China followed by trials in the US and Europe.

Management has initiated Letters of Intent with various Chinese companies that upon final agreement would enhance its immediate income potential. Management also continues to seek funding from its shareholders and other qualified investors to pursue its business plan.

NOTE 4. STOCKHOLDERS' EQUITY

Convertible Preferred Stock

The Company is authorized to issue 10,000,000 preferred shares of stock with a par value of \$0.001 per share.

The Company has authorized 1,000,000 shares as Series A Preferred Stock which will rank superior to common shares with respect to dividend, liquidation and dissolution rights. Each share of Series A Preferred Stock is entitled to voting rights equal to 100 shares of common stock and is convertible to one share of Common stock with a potential conversion adjustment for dilutive issues of stock.

The superior rank of Series A Preferred Stock means that no dividends will be paid on any Common Stock unless or until a dividend of equal or greater amount is paid to Series A Preferred Stock. In the event of a liquidation of the Corporation holders of Series A Preferred Stock shall be entitled to receive out of the assets of Company cash in an amount equal to \$0.10 per Series A Preferred shares adjusted for stock splits, combinations, reorganizations and the like plus an amount equal to all accrued but unpaid dividends. If upon liquidation the assets are insufficient to make the preference liquidation payments the entire assets of the Company shall be distributed among the Series A Preferred Stock holders on a pro rata basis.

On July 7, 2007 the Company issued to its CEO 1,000,000 shares of Series A Preferred Stock with the surrender of 500,000 common shares valued at \$185,000 and recorded an additional \$185,000 beneficial conversion fee for the 500,000 preferred shares issued in excess of the 500,000 common shares surrendered.

Common Stock

In preparation for a possible merger or acquisition the Company executed a 250:1 reverse stock split on March 3, 2006 leaving a balance of 222,842 common shares issued and outstanding as of that date. On March 27, 2006 the Company executed a stock purchase agreement with Bio-Spectrum Technologies, Inc. wherein it issued 5,295,927 common shares in a one-for-one stock exchange. This action resulted in a change of control with the Company the surviving legal entity and Bio-Spectrum becoming the historical accounting company. The accompanying financial statements reflect historical records of Bio-Spectrum.

On March 22, 2013 the Company increased its authorization to issue 310,000,000 common shares with a par value of \$0.001 per share.

All shares issued for services are valued at fair value which is the current market price on the day shares are authorized to be issued.

As of the December 31, 2010 the Company had 74,291,499 common shares issued and outstanding.

On January 27, 2011 the Company issued 1,142,857 common shares for \$50,000 cash.

On February 1, 2011 the Company issued 83,334 common shares at the market price of \$0.075 or \$6,250 for twelve months prepaid consulting.

On February 2, 2011 the Company issued 1,160,005 common shares for \$45,000 cash.

On February 9, 2011 the company issued 1,392,758 common shares for \$50,000 cash.

On February 24, 2011 the company issued 1,500,000 common shares at the market price of \$0.046 for six months prepaid consulting.

On March 1, 2011 the company issued 400,000 common shares at the market price of \$0.06 for six months prepaid consulting.

On March 2, 2011 the company issued 300,000 common shares at the market price of \$0.06 for six months prepaid consulting.

On March 28, 2011 the Company issued 2,000,000 common shares at the market price of \$0.032 for six months prepaid consulting.

On May 12, 2011 the Company issued 5,000,000 common shares at the market price of \$0.043 for six months prepaid consulting.

On May 23, 2011 the Company issued 4,178,500 common shares in a private offering for \$0.03 per share or \$125,355 and received cash in the amount of \$141,138 with \$15,963 prepaid deposit for additional shares.

On August 3, 2011 the Company issued 666,668 common shares at \$0.03 in a private placement upon the receipt of \$4,000 cash and crediting the \$15,963 prepaid deposit.

On September 12, 2011 the Company issued 83,333 common shares at \$0.03 per share for \$2,500 consulting.

On December 8, 2011 the company issued 20,953,230 common shares in a 504 offering at \$0.001 per share for debt in lieu of cash.

On December 21, 2011 the Company issued 333,333 shares of common stock for \$10,000 cash.

During the quarter ended June 30, 2012 the company issued 30,650,000 common shares with a fair market value of \$162,900 for \$53,000 cash and recorded \$109,900 financing costs

On July 19, 2012 the Company issued 7,555,555 shares of common stock for \$10,600 cash.

On August 9, 2012 the Company issued 11,000,000 shares of common stock for \$12,000 cash.

On August 14, 2012 the Company issued 12,500,000 shares of common stock for \$12,500 cash.

On December 1, 2012 the Company issued 7,000,000 shares of common stock for \$12,000 cash.

On December 28, 2012 the Company issued 11,000,000 shares of common stock for \$12,000 cash.

On January 30, 2013 the Company issued 11,000,000 shares of common stock for \$11,000 cash.

On April 1 2013 the Company issued 11,000,000 shares of common stock for \$10,000 cash.

Outstanding Options

Among the shares issued for cash during the year ended December 31, 2010, 2,262,665 were issued at \$0.15 per share and 100,000 shares issued at \$0.10 per share with a three year option to purchase one share of common stock at \$0.25. The Company calculated the fair value for 2,362,665 options to be \$234,627 by using the Black-Sholes options pricing model with the following parameters:

<u>Black-Sholes Variables</u>	
Stock Price:	\$0.10 and \$0.15
Exercise/Strike Price:	\$0.25
Volatility:	129.56%
Risk-Free Rate:	1.46%
Years to Maturity:	3 Years

Information relating to option activity follows:

	<u>Number of Options</u>	<u>Exercise Price</u>
Options Outstanding at December 31, 2012	2,362,665	\$ 0.25
Plus: Options Issued	-	
Less: Options Exercised	-	
Less: Options Expired	-	
Total Options outstanding at June 30, 2013	<u>2,362,665</u>	

On June 30, 2013 the Company had options outstanding for the purchase of an aggregate of 2,362,665 shares of its common stock, which are summarized in the table below:

	<u>Options Outstanding</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
	747,333	\$ 0.25	19-Aug-2013
	340,000	\$ 0.25	7-Sep-2013
	891,332	\$ 0.25	8-Sep-2013
	284,000	\$ 0.25	29-Sep-2013
	100,000	\$ 0.25	1-Dec-2013
Total	<u>2,362,665</u>		

NOTE 5. NOTES PAYABLE

The Company has received demand loans from several private individuals and businesses with interest rates that range from 8% to 12%. Most of these notes are convertible with a wide variety of conversion features. We evaluated the conversion features in accordance with ASC topic 470-20 which requires that the effect of any beneficial conversion features be accounted for at the fair value of stock on the commitment date.

Of the fifteen notes payable thirteen were convertible. During the period ended December 31, 2012 the company has paid off three of the convertible notes with \$19,246 cash and converted nine others with the issue of 1,973,420 common shares at \$0.11 per share or a total of \$217,190.

Notes Payable

The outstanding balances for notes payable is summarized as follows:

<u>Description</u>	<u>Balance 30-Jun-2013</u>	<u>Balance 31-Dec-2012</u>
Notes Payable:		
<u>Non-convertible</u>		
Two 10% and one 8% demand notes non-convertible		
Principal:	\$ 157,000	\$ 116,000
Less: Payments/Adjustments	-	-
Plus: Accumulated Interest	9,805	5,509
Total Notes Payable	<u>\$ 166,805</u>	<u>\$ 121,509</u>

Notes Payable - Related Parties

The Company has five related party demand notes held by the CEO or organizations owned by the CEO. Four of the five notes have contingent convertible features based on the lowest private placement price during the life of the note. The 2007 price was \$0.08 per share and was revised

to the lower private placement price of \$0.001 during 2012. The outstanding balances for the related party notes are summarized as follows:

Description	Balance 30-Jun-2013	Balance 31-Dec-2012
Notes Payable - Related Party		
<u>Convertible</u>		
Four 10% demand notes, convertible at the lower of \$0.08 per share or Market Price of \$0.155, convertible at 31-Dec-2009 to 1,701,675 Common Shares at \$0.08 with an excess if-converted value of \$263,760		
Principal:	\$ 74,000	\$ 74,000
Less: Payments/Adjustments	(27,722)	(27,722)
Plus: Accumulated Interest	35,525	32,396
Balance	81,803	78,674
Total Related Party Notes	<u>\$ 161,656</u>	<u>\$ 156,429</u>

Notes Payable - Related Parties Cont.

Description	Balance 30-Jun-2013	Balance 31-Dec-2012
Notes Payable - Related Party		
<u>Non-convertible</u>		
One 10% demand note, non-convertible		
Principal:	53,304	53,304
Less: Payments/Adjustments	(10,989)	(10,989)
Plus: Accumulated Interest	37,538	35,440
Total Related Party Notes Payable	<u>\$ 79,853</u>	<u>\$ 77,755</u>

NOTE 6. DISPUTED PAYABLES

The balance of accounts payable includes \$13,500 payable to Michael J. Moore, CPA and or Moore and Associates Chartered is in dispute for non performance. Mr. Moore was engaged to perform an acceptable PCAOB certified audit which was declared unacceptable by the SEC and the Company was required to have the audit redone.

NOTE 7. PROVISION FOR INCOME TAXES

The Company provides for income taxes under ASC 740 "Income Taxes" which requires the use of an asset and liability approach in accounting for income taxes. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates in effect currently.

The standard requires the reduction of deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In the Company's opinion, it is uncertain whether they will generate sufficient taxable income in the future to fully utilize the net deferred tax asset. Accordingly, a valuation allowance equal to the deferred tax asset has been recorded. The total deferred tax asset is \$2,168,043 which is calculated by multiplying a 22% estimated tax rate by the cumulative NOL of \$9,854,741. The total valuation allowance is a comparable \$2,168,043. Details for the period ended June 30, 2013 and the year ended December 31, 2012:

	Period Ended 30-Jun-13	Year Ended 31-Dec-12
Deferred Tax Asset	\$ 32,529	\$ 113,980
Valuation Allowance	(32,529)	(113,980)
Current Taxes Payable	-	-
Income Tax Expense	<u>\$ -</u>	<u>\$ -</u>

Below is a chart showing the estimated federal net operating losses and the years in which they will expire.

Period	Net Operating Loss	Expiration
1997	\$ 615,180	2017
1998	1,458,670	2018
1999	148,600	2019
2000	39,264	2020
2001	30,508	2021
2002	33,643	2022
2003	388,942	2023
2004	55,850	2024
2005	52,306	2025
2006	462,458	2026
2007	3,286,197	2027
2008	327,283	2028
2009	1,171,881	2029
2010	238,312	2030
2011	879,698	2031
2012	518,089	2032
YTD 2013	147,860	2033
Total NOL	<u>\$ 9,854,741</u>	