

QUARTERLY REPORT
for the period ended September 30, 2009

HydroGenetics, Inc.
(HYGN)

ITEM 1: EXACT NAME AND ADDRESS OF PRINCIPAL EXECUTIVE OFFICES

HydroGenetics, Inc.
4770 Biscayne Boulevard
Suite 780C
Miami, Florida, 33137
Phone: (305) 576-5778
Facsimile: (305) 576-6889
<http://www.hydrogeneticsusa.com>

ITEM 2: SHARES OUTSTANDING

COMMON SHARES

Period End Date	September 30, 2009	December 31, 2008	December 31, 2007
Number of Shares Authorized	500,000,000	250,000,000	100,000,000
Number of Shares Outstanding ⁽¹⁾⁽²⁾	363,555,919	56,942,723	3,355
Freely Tradable Shares	329,608,827	31,175,357	71
Total Number of Beneficial Shareholders ⁽¹⁾⁽²⁾⁽³⁾	—	5	1
Total Number of Shareholders of Record ⁽¹⁾⁽²⁾	110	118	72

- (1) Of the number of shares outstanding as of September 30, 2009, 301,263,917 shares, or 83%, were held in street name and counted as one shareholder. This number also reflects shares issued during the second quarter of 2009 in connection with a Rule 504 private placement, shares issued upon conversion of debt outstanding, and stock issued to employees, consultants and affiliates for services rendered. Of the number of shares issued and outstanding as of September 30, 2009, an aggregate of 11,875,850 shares or 3% are held by the current officers and directors of the Company.

Of the number of shares outstanding as of December 31, 2008, 11,112,998 shares, or 20%, were held in street name and counted as one shareholder.

- (2) The number of shares outstanding as of December 31, 2007 represents shares outstanding following a 10,000:1 reverse stock split in October 2008.
- (3) No information is available as to the number or identity of shareholders (other than officers and directors) holding 5% or greater of the Company's issued and outstanding common stock) for the period ended September 30, 2009. Officers and directors of the Company, consisting of two individuals, in the aggregate hold 2,960,585 shares or 3%.

Based on a report of the Transfer Agent, as of December 31, 2008, there were five shareholders holding 5% or greater and holding, in the aggregate, 23,736,196 shares or 42%. Of this amount, three officers, directors and key employees held an aggregate of 13,000,000 shares or 23% and a consultant held 6,600,000 or 12%.

Based on a report of the Transfer Agent, at December 31, 2007, a former officer of the Company held 2,973 shares or 89%.

PREFERRED SHARES

Period End Date	September 30, 2009	December 31, 2008	December 31, 2007
Number of Shares Authorized	10,000,000	1,000,000	1,000,000
Number of Shares Outstanding	0	0	0
Freely Tradeable Shares	0	0	0
Total Number of Beneficial Shareholders	0	0	0
Total Number of Shareholders of Record	0	0	0

ITEM 3: INTERIM FINANCIAL STATEMENTS

The interim financial statements for the quarter ended September 30, 2009 are consolidated to include the accounts of the Company and its wholly owned subsidiary HydroAxis Technologies, Inc. The interim financial statements do not include financials for Buffalo Biodiesel. The interim financial statements include the unaudited consolidated Balance Sheet, Statement of Operations for the three and nine months ended September 30, 2009, Statements of Cash Flows for the nine months ended September 30, 2009, Consolidated Statement of Changes in Stockholders' Deficit for the nine months ended September 30, 2009 and the footnotes to the interim financial statements. The interim financial statements are attached at the end of this Quarterly Update and are incorporated herein by reference.

ITEM 4: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This Quarterly Report contains forward looking statements that relate to the Company's expectations, plans and projections about our business strategy which may or may not materialize and which are subject to various risks and uncertainties, including statements regarding income, expenses and other capital requirements, and the adequacy of the Company's sources of cash to finance its current and future operations. When used in this Quarterly Report, the words "plans", "believes", "expects", "projects", "targets", "anticipates" and similar expressions are intended to identify forward- looking statements. Factors which could cause actual results to materially differ from the Company's expectations include but are not limited to general economic conditions and growth in the alternative energy industry, prospective products and acquisitions, future performance or results of current or anticipated products or acquisitions, outcome of contingencies and their future impact on financial condition, results of operations, liquidity, business strategies, cost savings, objectives of management, and other matters. These forward-looking statements speak only as of the date of this Quarterly Report. The Company expressly disclaims any obligation or undertaking to release publicly any updates or change in its expectations or any change in events, conditions or circumstances on which any such statement may be based except as may be otherwise required by the securities laws.

Plan of Operation

Together with our wholly owned subsidiary, HydroAxis Technologies, Inc., we are developing alternative energy products for use in consumer, retail and small business applications. We have been actively developing hydrogen splitting technology which we intend to use in hydrogen fuel cell conversion kits for gas and diesel internal combustion engines for the automotive and marine industries. Management believes this technology will significantly reduce the consumption of fossil fuel and lead to greater energy efficiency.

Our goal is to build and test a prototype hydrogen fuel cell incorporating refinements derived from the results of recent testing. Testing on a diesel application began during the fourth quarter of 2009. Once testing is completed, we intend to outsource production of the hydrogen fuel cell to one or more domestic manufacturers which management believes will mitigate production costs and eliminate the need for the Company to purchase or maintain production facilities. We currently have one employee and do not anticipate any significant changes in the number of employees until we roll out a marketable product.

Prior to shifting our focus on the alternative energy industry, the Company was involved in film production for the entertainment industry through our subsidiaries Pacific Lights Entertainment, Inc. and Hilarity Films. Operations in both of these entities are currently inactive as we focus on our hydrogen fuel cell technology.

We believe we have enough cash to fund operations through the end of the first quarter 2010 but anticipate that we will need to raise funds during the second quarter of 2010 to maintain operations. We may seek additional funding through a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, or the provisions of Regulation D promulgated under the Securities Act.

Off-Balance Sheet Arrangements

There are no off balance sheet arrangements.

ITEM 5: LEGAL PROCEEDINGS

In January 2009, the Company, together with Xynergy Holdings, Inc., filed suit in the Circuit Court in and for Dade County, Florida (Case No. 2009-5738-CA-01 also 13-2009-CA-005738-0000-01) against the Company's former Chief Executive Officer, Marc A. Walther and Rhonda Windsor alleging breach of fiduciary duty and tortious interference and seeking an injunction against Marc Walther in connection with actions taken by Marc Walther following his removal from office by the shareholders of the Company. In March 2009, the Court granted Xynergy and the Company injunctive relief. In October 2009, we filed an amended complaint and intend to pursue the matter vigorously.

ITEM 6: DEFAULTS UPON SENIOR SECURITIES

Management is not aware of any defaults upon senior securities.

ITEM 7: OTHER INFORMATION

On October 27, 2009, the Company and Buffalo BioDiesel, Inc. mutually agreed to unwind a share exchange agreement entered into in December 2008. Buffalo BioDiesel did not provide financials to Hydrogenetics and therefore, no financial information of Buffalo was or is included in any reports published by the Company.

On September 3, 2009, the Company engaged Brad Hacker of Brad Hacker and Company, P.A. with his address at 5722 S. Flamingo Rd, Suite 151, Ft Lauderdale, FL 33330. Mr. Hacker will assist management with preparation of the Company's audited and interim financial reports and related matters.

ITEM 8: EXHIBITS

The following documents are included with this Quarterly Report to supplement corporate documents published on Pink Sheets in September 2008.

1) Amendment to Articles of Incorporation to increase authorized capital to 20,000,000 shares of common stock, \$.001 par value and 1,000,000 shares of blank check preferred stock, \$.001 par value, filed with the Florida Secretary of State on September 2, 2004.

2) Amendment to Articles of Incorporation to increase authorized capital to 100,000,000 shares of common stock, \$.001 par value, no change to blank check preferred, filed with the Florida Secretary of State on March 17, 2006.

3) Amendment to Articles of Incorporation to remove Joseph Emas as officer and director and to decrease authorized capital to 250,000,000 shares of common, \$.001 par value, no change to blank check preferred, filed December 23, 2008.

4) Amendment to Articles of Incorporation to change registered agent and designate a series of preferred stock known as Series A Convertible Preferred Stock, filed with the Florida Secretary of State on January 20, 2009.

5) Amendment to Articles of Incorporation to (i) add Charles W. Hansen as CEO and director, Ronny Halperin as director; (ii) remove Mark A. Walther as officer and director; (iii) provide for authorized capital of 500,000,000 shares of common stock, \$.001 par value and 10,000,000 shares of preferred stock, \$.001 par value, filed with the Florida Secretary of State on April 17, 2009.

ITEM 9: CERTIFICATIONS

I, Charles Hansen, III, certify that:

1) I have reviewed this Quarterly Report for the period ended September 30, 2009 of Hydrogenetics, Inc.;

2) Based on my knowledge, this disclosure statement 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 disclosure statements; and

3) Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly presented in all material respects the financial condition, results of operations and cash flows of the issue as of, and for, the periods presented in this disclosure statement.

Date: December 31, 2009

By: /s/ Charles W. Hansen III, CEO

HYDROGENETICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2009 AND DECEMBER 31, 2008

ASSETS

	September 30, 2009 (unaudited)	December 31, 2008 (unaudited)
Current Assets:		
Cash and cash equivalents	\$ 815,482	\$ 1,041
Total Current Assets	815,482	1,041
Fixed assets, net of depreciation	2,923	414
Other assets	45,463	340,463
TOTAL ASSETS	\$ 863,868	\$ 341,918

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses	\$ 47,958	\$ 52,655
Note Payable-Related Party (Current Portion)	83,333	83,333
Total Current Liabilities	131,291	135,988

Long Term Liabilities

Convertible Note Payable	176,924	459,580
Note Payable-Related Party (Long Term Portion)	228,360	363,076
Total Long Term Liabilities	405,284	822,656

TOTAL LIABILITIES

536,575	958,644
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STOCKHOLDERS' EQUITY (DEFICIT)

Preferred Stock, \$.001 Par Value; 10,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2009 and December 31, 2008.

Common Stock, \$.001 Par Value; 500,000,000 shares authorized, 363,555,919 and 56,942,723 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively.	363,556	57,103
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Additional paid-in capital	2,461,535	1,261,340
Accumulated other comprehensive income (loss)	-	-
Deficit	(2,497,798)	(1,950,169)
Total Stockholders' Equity (Deficit)	327,293	(616,726)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

\$ 863,868	\$ 341,918
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HYDROGENETICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATION:
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30,

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
OPERATING REVENUES				
Revenue	\$ -	\$ -	\$ -	\$ -
COST OF SALES	-	-	-	-
GROSS PROFIT	-	-	-	-
OPERATING EXPENSES	126,006	33,307	215,406	88,419
Total Operating Expenses	126,006	33,307	215,406	88,419
LOSS BEFORE OTHER (EXPENSE)	(126,006)	(33,307)	(215,406)	(88,419)
OTHER INCOME (EXPENSE)				
Interest Expense	(49)	-	(37,223)	29,987
Impairment of Asset	(295,000)	-	(295,000)	-
Total Other Income (Expense)	(295,049)	-	(332,223)	29,987
NET LOSS FROM CONTINUING OPERATIONS	(421,055)	(33,307)	(547,629)	(118,406)
Provision for Income Taxes	-	-	-	-
NET LOSS APPLICABLE TO COMMON SHARES	\$ (421,055)	\$ (33,307)	\$ (547,629)	\$ (118,406)
NET LOSS PER BASIC AND DILUTED SHARES	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
WEIGHTED AVERAGE NUMBER OF COMMON				
SHARES OUTSTANDING	363,555,919	39,696,859	261,351,520	38,687,569

HYDROGENETICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 and 2008

	Nine Months Ended September 30, 2009 (unaudited)	Nine Months Ended September 30, 2008 (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES		
Continuing Operations:		
Net loss	\$ (547,629)	\$ (118,406)
Adjustments to Reconcile Net (Loss) to Net Cash (used in) operating activities:		
Depreciation	414	900
Write down of investment and license agreement	295,000	
Changes in assets and liabilities		
Accounts payable and accrued expenses	(4,697)	11,923
Total adjustments	290,717	
Net cash (used in) operating activities - continuing operations	(256,912)	(105,583)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Continuing Operations:		
Increase (Decrease) in notes payable	74,526	(45,000)
Net cash provided by (used in) investing activities	74,526	(45,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Continuing Operations:		
Proceeds from common stock issuances	\$ 1,000,000	\$ 132,562
Fixed assets purchased	(3,173)	
Net cash provided by financing activities	996,827	132,562
NET INCREASE IN CASH AND CASH EQUIVALENTS	814,441	(18,020)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,041	19,602
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 815,482</u>	<u>\$ 1,581</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
CASH PAID DURING THE PERIOD FOR:		
Interest expense	<u>\$ 49</u>	
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Common stock issued for related party debt	\$ -	\$ 137,362
Common stock issued for convertible note	\$ -	\$ 187,786
Issuance of 8% convertible notes payable for payment of accrued salaries	\$ -	\$ 18,750

HYDROGENETICS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

Description	Preferred Stock		Common Stock		Common Stock Issuable		Additional Paid In Capital	Accumulated Deficit	Total Stockholders Deficit
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance December 31, 2007	\$ -	-	40,680,190	\$ 40,680	160,000	\$ 160	\$ 1,261,340	\$ (1,729,306)	\$ (427,126)
Common Stock issued for services or debt			16,262,533	16,263			15,000		31,263
Net loss for the year								(220,863)	(220,863)
Balance December 31, 2008	-	\$ -	56,942,723	\$ 56,943	160,000	\$ 160	\$ 1,276,340	\$ (1,950,169)	\$ (616,726)
Net loss for the year								(28,494)	(28,494)
Balance March 31, 2009	-	\$ -	56,942,723	\$ 56,943	160,000	\$ 160	\$ 1,276,340	\$ (1,978,663)	\$ (645,220)
Common Stock Issued			306,613,196	306,613			1,185,035		1,491,648
Net loss for the year								(98,080)	(98,080)
Balance June 30, 2009	-	\$ -	363,555,919	\$363,556	160,000	\$ 160	\$ 2,461,375	\$ (2,076,743)	\$ 748,348
Net loss for the year								(421,055)	(421,055)
Balance September 30, 2009	-	\$ -	363,555,919	\$363,556	160,000	\$ 160	\$ 2,461,375	\$ (2,497,798)	\$ 327,293

HYDROGENETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 and 2008

NOTE 1 - INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements include the accounts of Hydrogenetics, Inc. (the "Company") required to be consolidated in accordance with U.S. generally accepted accounting principles (GAAP). In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain only normal recurring adjustments necessary to present fairly the Company's financial position as of September 30, 2009, and the results of its operations and cash flows for the three and nine months ended September 30, 2009 and 2008. Certain prior year amounts have been restated or reclassified to conform to the current period presentation. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009.

NOTE 2 -DESCRIPTION OF BUSINESS

The Company, together with its wholly owned subsidiary, HydroAxis Technologies, Inc., is in the business of developing alternative energy products with an emphasis on hydrogen fuel cell technology. Prior to shifting its focus on the alternative energy industry, the Company was involved in film production for the entertainment industry through its subsidiaries Pacific Lights Entertainment, Inc. and Hilarity Films. Operations in both of these entities are currently inactive as the Company focus on its alternative energy product development.

The Company was incorporated in the State of Florida on October 28, 1996 as Explorations of Boca Raton, Inc. In 2001 the Company changed its name to Explorations Entertainment & Education, Inc. Explorations of Boca Raton, Inc. operated a dance-training centers concentrating on the musical genre known as Hip Hop and Pop for kids and teens (beginners to advanced) and a singing competition through a subsidiary. In 2002 the Company changed its name to Pop Starz, Inc. The Company was a wholly-owned subsidiary of Explorations Group, Inc., a publicly held company ("Explorations") until September 9, 2004 at which time, Explorations acquired all of the issued and outstanding stock of Parking Pro, Inc., a New York corporation ("Parking Pro").

On July 5, 2006, the Company formed three wholly-owned subsidiaries in the State of Florida. The three subsidiaries are Pop Starz Records, Inc., Pop Starz Model and Talent Corp., and Pop Starz Productions, Inc. (now known as The Next Pop Star, Inc.). Pop Starz Records, Inc. ("PSR") is a Florida corporation and is engaged in the business of developing, producing, licensing, acquiring and distributing recorded music, primarily in the popular Hip Hop and Pop genres. Through June 29, 2007, Pop Starz Records, Inc. ("PSR") was a majority-owned subsidiary of the Company. Effective June 29, 2007, the Company distributed 4,905,200 shares of common stock (61.5%) of PSR to all Pop Starz, Inc. common shareholders, and those entitled to dividends as if a common shareholder, on the basis of one registered share for every ten shares of Pop Starz, Inc. beneficially owned as of the record date.

HYDROGENETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 and 2008

NOTE 2 -DESCRIPTION OF BUSINESS (CONTINUED)

In March 2008 the Company changed its name to Global Entertainment Acquisition Corp., to focus on producing small budget films in the comedy and science fiction sector while developing emerging writers, directors and actors. Between August and October 2008, the Company implemented a 10,000:1 reverse stock split and changed its name to Hydrogenetics, Inc. to reflect its current and primary business.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original term of three or less to be cash equivalents. At September 30, 2009 the Company had cash equivalents in the amount of approximately \$815,482 held in low risk investments or bank accounts.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash. The Company maintains cash balances at one financial institution, which is insured by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC insured institution insures up to \$250,000 on account balances. The amounts that are not insured by FDIC limitations are held in short-term securities. As of September 30, 2009 and December 31, 2008, there were approximately \$815,482 and \$1041, respectively in the Company's accounts. The Company has not experienced any losses in such accounts.

ACCOUNTS RECEIVABLE

The Company conducts business and extends credit based on the evaluation of its customers' financial condition. Exposure to losses on receivables is expected to vary by customer due to the financial condition of each customer. The Company monitors credit losses and maintains allowances for anticipated losses considered necessary under the circumstances. Recoveries of accounts previously written off are recognized as income in the periods in which the recoveries are made.

HYDROGENETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 and 2008

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Company accounts for the impairment of long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 144"). SFAS No. 144 requires write-downs to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets to be held and used, a recoverability test was performed based on assumptions concerning the amount and timing of estimated future cash flows reflecting varying degrees of perceived risk. Impairments to long-lived assets to be disposed of are recorded based upon the fair value of the applicable assets. Since judgment is involved in determining the fair value and useful lives of long-lived assets, there is a risk that the carrying value of our long-lived assets may be overstated or understated. Management believes that a change in any material underlying assumptions would not by itself result in the need to impair an asset.

If the long-lived assets are identified as being planned for disposal or sale, they would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. As of and for the nine months ended September 30, 2009, the Company had no impairment of long-lived assets.

GOODWILL AND OTHER INTANGIBLE ASSETS

In September 2001, the FASB issued Statement No. 142 Goodwill and Other Intangible Assets. This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements.

Goodwill and intangible assets with indefinite useful lives are not amortized. Intangible assets with finite useful lives are amortized generally on a straight-line basis over the periods benefited, with a weighted average useful life of 15 years. In performing this assessment, management uses the income approach and the similar transactions method of the market approach to develop the fair value of the acquisition in order to assess its potential impairment of goodwill. The income approach is based on a discounted cash flow

HYDROGENETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 and 2008

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

model which relies on a number of factors, including operating results, business plans, economic projections and anticipated future cash flows. Rates used to discount future cash flows are dependent upon interest rates and the cost of capital at a point in time. The similar transactions method is a market approach methodology in which the fair value of a business is estimated by analyzing the prices at which companies similar to the subject, which are used as guidelines, have sold in controlling interest transactions (mergers and acquisitions). Target companies are compared to the subject company, and multiples paid in transactions are analyzed and applied to subject company data, resulting in value indications. Comparability can be affected by, among other things, the product or service produced or sold, geographic markets served, competitive position, profitability, growth expectations, size, risk perception, and capital structure. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner that impairment in value may occur in the future.

REVENUE RECOGNITION

The Company recognizes revenue in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition" ("SAB No. 104"). SAB 104 clarifies application of generally accepted accounting principles related to revenue transactions. The Company also follows the guidance in EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables ("EITF Issue No. 00-21"), in arrangements with multiple deliverables.

The Company recognizes revenues when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery of products and services has occurred, (3) the fee is fixed or determinable and (4) collectability is reasonably assured.

In certain cases, the Company enters into agreements with customers that involve the delivery of more than one product or service. Revenue for such arrangements is allocated to the separate units of accounting using the relative fair value method in accordance with EITF Issue No. 00-21. The delivered item(s) is considered a separate unit of accounting if all of the following criteria are met: (1) the delivered item(s) has value to the customer on a standalone basis, (2) there is objective and reliable evidence of the fair value of the undelivered item(s) and (3) if the arrangement includes a general right of return, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor. If all the conditions above are met and there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on their relative fair values.

HYDROGENETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 and 2008

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Explicit return rights are not offered to customers; however, the Company may accept returns in limited circumstances. There have been no returns through September 30, 2009. Therefore, a sales return allowance has not been established since management believes returns will be insignificant.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for major betterments and additions are capitalized, while replacement, maintenance and repairs, which do not extend the lives of the respective assets, are currently charged to expense. Any gain or loss on disposition of assets is recognized currently in the statement of income.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash, cash equivalents, and marketable securities, accounts receivable, accounts payable, accrued expenses, and debt. The carrying amounts of such financial instruments approximate their respective estimated fair value due to the short-term maturities and/or 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 Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157"), 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;

HYDROGENETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 and 2008

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable or 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

INCOME TAXES

The Company accounts for income taxes using SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company determine whether the benefits of the Company's tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. The provisions of FIN 48 also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure. The Company did not have any unrecognized tax benefits and there was no effect on the financial condition or results of operations as a result of implementing FIN 48. The Company does not have any interest and penalties in the consolidated statement of operations for the periods ended September 30, 2009 and 2008.

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* ("the FSP"). The FSP provides guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP, a tax position could be effectively settled on completion of examination by a taxing authority if the entity does not intend to appeal or litigate the result and it is remote that the taxing authority would examine or re-examine the tax position.

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is computed in accordance with SFAS No. 128, "Earnings per Share". Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock, common stock equivalents and other potentially dilutive securities outstanding during the period.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company adopted SFAS No. 123R, "Accounting for Stock-Based Compensation". This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service.

In addition, a public entity is required to measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value. The fair value of that award has been remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period.

For the three and nine months ended September 30, 2009, the Company did not grant any stock options.

NON-EMPLOYEE STOCK BASED COMPENSATION

The cost of stock-based compensation awards issued to non-employees for services are recorded at either the fair value of the services rendered or the instruments issued in exchange for such services, whichever is more readily determinable, using the measurement date guidelines enumerated in Emerging Issues Task Force Issue ("EITF") 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18").

NOTE 4 - GOING CONCERN

As indicated in the accompanying financial statements, the Company has incurred cumulative net operating losses of \$2,371,224 since inception. To date, most of the working capital has been provided by the Company's management and from proceeds of a private placement during the second quarter of 2009. Management has indicated continued support for the Company; however, there is no assurance that additional funds will be advanced by management or that the Company will be successful in raising additional capital from private investors. These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements have been

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NOTE 4 - GOING CONCERN (CONTINUED)

prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2009, the Company adopted Financial Accounting Standards Board ("FASB") Statement No. 141R, *Business Combinations* ("FAS 141R"), FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"), Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("FSP 160"), Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161"), EITF Issue No. 08-6, *Equity Method Investment Accounting Considerations* ("EITF 08-6"), EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets* ("EITF 08-7"), FASB Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1") and FASB Staff Position APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("APB 14-1").

FAS 141R expands the scope of acquisition accounting to all transactions under which control of a business is obtained. This standard requires an acquirer to recognize the assets acquired and liabilities assumed at the acquisition date fair values with limited exceptions. Additionally, FAS 141R requires that contingent consideration as well as contingent assets and liabilities be recorded at fair value on the acquisition date, that acquired in-process research and development be capitalized and recorded as intangible assets at the acquisition date, and also requires transaction costs and costs to restructure the acquired company be expensed. Transactions are now being accounted for under this standard. On April 1, 2009, the FASB issued Staff Position FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, which is effective January 1, 2009, and amends the guidance in FAS 141R to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can reasonably be estimated. If the acquisition date fair value of an asset acquired or liability assumed that arises from a contingency cannot be determined, the asset or liability would be recognized in accordance with FASB Statement No. 5, *Accounting for Contingencies* ("FAS 5") and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*. If the fair value is not determinable and the FAS 5 criteria are not met, no asset or liability would be recognized.

FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible

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NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), and other principles of GAAP. This FSP applies to all intangible assets, whether acquired in a business combination or otherwise. The adoption of this standard in 2009 has not had a significant impact on the determination or reporting of our financial results.

FAS 160 provides guidance for the accounting, reporting and disclosure of noncontrolling interests and requires, among other things, that noncontrolling interests be recorded as equity in the consolidated financial statements. The adoption of FAS 160 did not affect the Company's consolidated financial position or consolidated results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires entities that use derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. The Company does not currently hold derivative instruments and was not impacted by the adoption of SFAS 161.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), and FSP FASB 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1). These two staff positions relate to fair value measurements and related disclosures. The FASB also issued a third FSP relating to the accounting for impaired debt securities titled FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2). These standards are effective for interim and annual periods ending after September 15, 2009. The Company has determined that FSP 157-4 and FSP 115-2 do not currently apply to its activities and has adopted the disclosure requirements of FSP 107-1.

In May 2009, the FASB issued Statement No. 165, "Subsequent Events" ("SFAS 165"), which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions of SFAS 165 for the quarter ended September 30, 2009. The adoption of these provisions did not have a material effect on the Company's consolidated financial statements.

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NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The Company evaluated subsequent events through the time of filing this Quarterly Report.

EITF 08-6, which is effective January 1, 2009, clarifies the accounting for certain transactions and impairment considerations involving equity method investments and is applied on a prospective basis to future transactions.

EITF 08-7, which is effective January 1, 2009, clarifies that a defensive intangible asset (an intangible asset that the entity does not intend to actively use, but intends to hold to prevent others from obtaining access to the asset) should be accounted for as a separate unit of accounting and should be assigned a useful life that reflects the entity's consumption of the expected benefits related to the asset. EITF 08-7 is applied on a prospective basis to future transactions.

FSP EITF 03-6-1 clarifies that share-based payment awards that entitle holders to receive nonforfeitable dividends before they vest will be considered participating securities and included in the earnings per share calculation pursuant to the two class method. The effect of adoption of FSP EITF 03-6-1 was not material to the Company's consolidated results of operations.

APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. APB 14-1 was adopted on January 1, 2009, and did not affect the Company's consolidated financial position or consolidated results of operations.

In September 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets*, an amendment to SFAS No. 140 (SFAS 166). SFAS 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company will adopt SFAS 166 in fiscal 2010 and is evaluating the impact it will have on the consolidated results of the Company.

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NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In September 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. SFAS 167 is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. The Company will adopt SFAS 167 in fiscal 2010 and is evaluating the impact it will have on the consolidated results of the Company.

In September 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 replaces FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the FASB Accounting Standards CodificationTM (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). SFAS 168 is effective for interim and annual periods ending after September 15, 2009. Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 6 - RECLASSIFICATIONS

Certain prior periods' balances have been reclassified to conform to the current period's financial statement presentation. These reclassifications had no impact on previously reported results of operations or stockholders' equity.

NOTE 7 -EQUITY

As of September 30, 2009, 500,000,000 shares of common stock were authorized at a par value of \$.001 per share with 363,555,919 shares issued and outstanding.

As of September 30, 2009, the Company is authorized to issue 10,000,000 shares of preferred stock of which no shares are issued and outstanding.

NOTE 8 -RELATED PARTY TRANSACTIONS

As of the nine months ended September 30, 2009, the Company owes an aggregate of \$83,333 in non-interest bearing loans to former employees. The loans are non-interest bearing.

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NOTE 9 - CONVERTIBLE NOTES PAYABLE

In October 2006, the Company issued an 8% convertible note payable in the amount of \$200,000 to an unrelated party. At September 30, 2009, accrued interest payable related to this note amounted to \$28,360.

NOTE 10 - LEGAL

In January 2009, the Company, together with Xynergy Holdings, Inc., filed suit in the Circuit Court in and for Dade County, Florida (Case No. 2009-5738-CA-01 also 13-2009-CA-005738-0000-01) against the Company's former Chief Executive Officer, Marc A. Walther and Rhonda Windsor alleging breach of fiduciary duty and tortious interference and seeking damages in excess of \$15,000.00 and an injunction against Marc Walther in connection with actions taken by Marc Walther following his removal from office by the shareholders of the Company. The matter is still pending and the Company cannot opine as to the outcome at this time.

NOTE 11 - SUBSEQUENT EVENTS

Effective Oct 27, 2009, Hydrogenetics, Inc and Buffalo Biodiesel mutually agreed to rescind the Share Exchange Agreement and any relationship that may have arisen between them pursuant to the Share Exchange Agreement. The parties desired to rescind and bring this entire matter to a final conclusion and settlement to avoid incurring any further costs and expenses incident to the negotiations and Share Exchange Agreement.