BioElectronics Corporation

(A Development Stage Company)

UNAUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Unaudited financial statements for BioElectronics Corporation for the years ended December 31, 2013 and 2012 have been prepared by management. Accordingly, the financial statements have not been audited, reviewed or compiled by independent accountants. The financial statements have been prepared in accordance with generally accepted accounting principles.

Trading Symbol: BIEL
CUSIP Number: 09062H108

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

	December 31, 2013		December 31, 2012
Assets			
Current assets:			
Cash and cash equivalents	$ 28,603	$	20,965
Trade and other receivables, net	120,315	$	69,314
Inventory	716,903	$	854,342
Prepaid expenses and other	-	$	-
Total current assets	865,821		944,621
Property and equipment	170,011	$	170,011
Less: Accumulated depreciation	(144,956)	$	(128,393)
Property and equipment, net	25,055		41,618
Total assets	$ 890,876	$	986,239
Liabilities and stockholders' deficiency			
Current liabilities:			
Accounts payable and accrued expenses	681,567	$	557,609
Deferred revenue	124,036	$	26,550
Related party notes payable, current portion	1,502,459	$	2,430,890
Ex-Im Bank Financing	500,000	$	-
Total current liabilities	2,808,062		3,015,049
Long-term liabilities:			
Related party notes payable, net of discount	5,623,531	$	3,971,043
Total liabilities	8,431,593		6,986,092
Commitments and contingencies			
Stockholders' deficiency:			
Common stock, par value $0.001 per share, 4,000,000,000 and 3,000,000,000 shares authorized at December 31, 2013 and December 31, 2012, respectively, and 3,859,893,093 and 2,666,347,359 shares issued and outstanding at December 31, 2013 and December 31, 2012, respectively	3,859,893	$	2,666,348
Additional paid-in capital	10,999,588	$	11,288,377
Deficit accumulated during the development stage	(22,400,198)	$	(19,954,578)
Total stockholders' deficiency	(7,540,717)		(5,999,853)
Total liabilities and stockholders' deficiency	$ 890,876	$	986,239

BioElectronics Corporation (A Development Stage Company)
Condensed Statements of Operations
For the Years Ended December 31, 2013 and 2012
and for the Period from April 10, 2000 (Inception) to December 31, 2013
(Unaudited)

	2013	2012	Period from April 10, 2000 (Inception) to December 31, 2013
Sales	$ 665,510	$ 500,121	6,248,783
Cost of Goods Sold	430,724	272,637	3,042,656
Gross profit	234,786	227,484	3,206,127
General and Administrative Expenses:			
Bad Debt Expense	12,633	102,928	435,171
Depreciation and Amortization	16,563	16,334	162,882
Investor Relations Expenses	36,697	219,289	2,286,020
Legal and Accounting Expenses	88,138	224,629	2,073,403
Sales Support Expenses	699,191	386,705	4,027,740
Research and Development	216,665	140,200	356,865
Other General and Administrative Expenses	1,098,427	1,091,703	12,531,652
Total General and Administrative Expenses	2,168,314	2,181,788	21,873,733
Loss from Operations	(1,933,528)	(1,954,304)	(18,667,606)
Interest Expense and Other:			
Interest Expense	(637,170)	(458,216)	(3,938,657)
Other Income(Expenses)	125,078	-	206,065
Total Interest Expense and Other, Net	(512,092)	(458,216)	(3,732,592)
Loss Before Income Taxes	(2,445,620)	(2,412,520)	(22,400,198)
Provision for Income Tax Expense	-	-	-
Net loss	$ (2,445,620)	$ (2,412,520)	$ (22,400,198)
Net loss Per Share - Basic and Diluted	$ (0.0007)	$ (0.0009)	
Weighted Average Number of Shares Outstanding - Basic and Diluted	3,263,120,226	2,384,800,466	

BioElectronics Corporation (A Development Stage Company)
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012
and for the Period from April 10, 2000 (Inception) to December 31, 2013
(Unaudited)

	2013	2012	April 10, 2000 (Inception) to December 31, 2013
Cash Flows From Operating Activities:			
Net Loss	$ (2,445,620)	$ (2,412,520)	(22,400,198)
Adjustment to Reconcile Net Loss to Net Cash Used in Operating Activities:			
Depreciation and amortization	16,563	16,334	162,382
Provision for bad debts	12,633	102,928	529,058
Amortization of non-cash debt issuance costs	-	-	725,373
Amortization and extinguishment of beneficial conversion discount	-	44,718	828,050
Non-cash expenses	-	-	1,503,499
Share-based compensation expense	52,085	249,959	1,154,113
Non-cash interest related to notes payable	3,150	-	595,568
Non-cash interest related to related party notes payable	466,755	438,480	1,564,203
Amortization of loan costs	-	-	129,852
Increase in related party notes payable for services rendered	-	244,022	949,840
Loss on disposal of property and equipment	-	-	41,543
Changes in Assets and Liabilities:			
Trade and other receivables	(63,634)	13,581	(288,415)
Trade receivables assigned to related party	-		-
Inventory	137,439	(71,289)	(716,903)
Due from related party	-	-	-
Prepaid expenses and other	-	42,131	-
Accounts payable and accrued expenses	123,958	194,196	681,567
Deferred revenue	97,486	26,550	124,036
Net Cash Used In Operating Activities	(1,599,185)	(1,110,910)	(14,416,432)
Cash Flows Used In Investing Activities			
Acquisition of property and equipment	-	-	(211,564)
Cash Flows From Financing Activities			
Proceeds from note payable	496,850	-	1,586,998
Payments on note payable	-	(52,114)	(627,142)
Proceeds from related party notes payable	1,109,973	561,490	9,580,277
Proceeds from financing of receivables with related party	-	-	116,978
Payments for financing of receivables with related party	-	-	(974,803)
Proceeds from issuance of common stock	-	567,007	4,984,278
Other	-	-	(9,987)
Net Cash Provided By Financing Activities	1,606,823	1,076,383	14,656,599
Net Increase (Decrease) In Cash	7,638	(34,527)	28,603
Cash- Beginning of Period	20,965	55,492	-
Cash- End of Period	$ 28,603	$ 20,965	$ 28,603
Supplemental Disclosures Of Cash Flow Information:			
Cash paid during the periods for interest	$ 11,432	$ -	$ 78,064
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Conversion of debt and accrued interest into common stock	$ 870,665	$ 539,109	$ 5,266,319
Issuance of convertible debt with beneficial conversion interest	$ -	$ 33,905	$ 874,887
Conversion of warrants into common stock	$ -	$ -	$ 5,336
Equipment purchases financed through capital leases and notes payable	$ -	$ -	$ 9,986

NOTE 1- NATURE OF BUSINESS

BioElectronics Corporation was incorporated in April 2000 and began employee-based operations in 2003. The Company is the developer, marketer and manufacturer of patented, inexpensive, drug–free, topical pain medical devices. The devices use proven therapies of heat and electric restoration of the body's injured cells. Physicians, sports trainers, and therapist around the world have used pulsed shortwave therapy successfully for more than eighty years to reduce pain and inflammation *and* accelerate healing. The Company has reduced the clinic apparatus to wafer thin disposable devices that are applied directly to the body. The extended duration dual therapy of heat and electric restoration is significantly safer and more effective than competitive heat or cold pads and pain medications. The devices consist of an inexpensive microchip, battery and antenna that deliver the therapy more effectively. BioElectronics markets and sells its current products under the brand names ActiPatch®, Allay™,RecoveryRx™ and HealFast®.

- 5x better pain relief than OTC drugs, 100% safer and restores functionality.
- Available for
  - Back Pain Therapy packaged with a wrap
  - Multi-Use Therapy packaged with 60 adhesives
  - Knee Pain Therapy packaged with a wrap
  - Wrist and Elbow Pain Therapy packaged with a wrap
  - Comfortable and discreet 24-hour Menstrual pain and discomfort relief
  - Post-operative and chronic wound care
  - Post-operative and chronic wound care
- Clinically proven, with 6 published clinical studies, and ongoing studies at Tufts Dental School, University of Chicago Medical School, University of British Columbia, Aarhus University Hospital, Denmark, and University Hospital, Ghent Belgium.

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Development Stage Company

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The more significant estimates include inventory obsolescence reserve, useful lives for depreciation and amortization, salvage values of depreciable equipment, valuation of warrants, nonvested restricted shares, stock options, and allowance for doubtful accounts receivable. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less as cash equivalents.

Trade Receivables

The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments. These reserves are determined based on a number of factors, including the current financial condition of specific customers, the age of trade and other receivable balances and historical loss rate. The allowance for doubtful accounts was $11,972 and $103,009 at December 31, 2013 and December 31, 2012, respectively. Bad debt expense for the years ended December 31, 2013 and 2012 was $12,633 and $102,928, respectively.

Revenue Recognition

The Company sells its products to wholesale distributors and directly to hospitals and clinics. Revenue is recognized when evidence of an arrangement exists, pricing is fixed and determinable, collection is reasonably assured, and shipment has occurred. Payment is due on a net basis in 60 days. If the customer is deemed not credit worthy, payment in advance is required. Payments received in advance of when revenue is recognized are recorded as deferred revenue on the balance sheets and recognized as revenue when the goods are shipped and all other general revenue recognition criteria have been met. No allowance for sales returns is required for the years ended December 31, 2013 and 2012. Defective units are replaced at the request of the customer.

Advertising Costs

The Company expenses the costs associated with advertising as incurred, except if costs are for the production of advertisements that have not yet been broadcast. These advertising costs are recorded as prepaid expenses and amortized over a one-year period beginning when the advertisements are aired. Advertising expenses for the years ended December 31, 2013 and 2012 were $140,128 and $31,736, respectively, and included

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in sales support expenses. There was no value recorded to prepaid advertising as of December 31, 2013 and 2012, and no value recorded to amortization expense for prepaid advertising for the years ended December 31, 2013 and 2012, respectively.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No, 109, "Accounting for Income Taxes." SFAS 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided to offset any deferred tax assets that may not be realized.

Research and Development

Research and development costs include the costs of clinical studies, which are expensed as incurred. The Company incurred $184,665 and $140,200 in the years ended December 31, 2013 and 2012, respectively.

Stock Incentive Plans and Other Share-Based Compensation

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

Net Loss per Share

The Company calculates basic and diluted net loss per share in accordance with ASC Topic 260, "Earnings per Share", which requires the presentation of basic and diluted net loss per share on the face of the Statement of Operations. Basic and diluted net loss per share is computed by dividing net loss by the weighted average number of outstanding shares of common stock. Convertible debt instruments, warrants, and options to purchase common stock are included as common stock equivalents only when dilutive. For the years ended December 31, 2013 and 2012 the Company reported net losses, and as a result there is no difference between basic and diluted shares for each of the years presented.

Issuance Of Stock For Non-Cash Consideration

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

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

Stockholders' Equity Transactions

On June 18, 2009, the Company authorized to increase the number of common shares from 750,000,000 to 1,000,000,000, with further increases to 1,500,000,000 (November 2010), 2,000,000,000 in 2011, to 3,000,000,000 in 2012, and to 4,000,000 in 2013. These increases are a result of the continued requirement to

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

cover the potential issuance of common stock resulting from the conversion of debt to equity, and the vesting of nonvested share awards. The holders of the remaining shares to be issued upon conversion or exercise of equity instruments are likely to promptly sell those shares into the public market. The resale of these shares could have a negative impact on the stock price, and these conversions would have a dilutive impact on our shareholders. As a result, our net income per share could decrease for future periods, and the market price of our common stock could decline.

NOTE 3 – GOING CONCERN

The Company's financial statements have been prepared on a going concern basis which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. The Company has incurred substantial losses from operations. The Company sustained a net loss of $2,445,620 for the year ended December 31, 2013, and a total net loss since inception of $22,400,198. The Company is currently seeking financing to provide the needed funds for operations. However, the Company can provide no assurance that it will be able to obtain the financing it needs to continue its efforts for market acceptance, U.S. FDA approval and to maintain operations and alleviate doubt about its ability to continue as a going concern.

NOTE 4 - INVENTORY

The components of inventory consisted of the following as of:

	December 31, 2013	December 31, 2012
Raw materials	$ 404,292	$ 574,469
Prepaid inventory	60,145	20,117
Finished goods	252,466	259,756
	$ 716,903	$ 854,342

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following as of:

	December 31, 2013	December 31, 2012
Machinery & Equipment	$ 163,129	$ 163,129
Leasehold improvements	6,882	6,882
	170,011	170,011
Less: accumulated depreciation	144,956	128,393
Total property and equipment, net	$ 25,055	$ 41,618

For the years ended December 31, 2013 and 2012, depreciation expense on property and equipment amounted to $16,563 and $16,334, respectively.

NOTE 6 – LINE OF CREDIT

In May 2013, the Company finalized a line of credit agreement with the Export-Import Bank of the United States. The line of credit is for $500,000 at a fixed interest rate of 3.99%, with the amount borrowed owed in full in May 2014. As of December 2013, the full line of credit of $500,000 was utilized with the full amount payable. Total interest expense on the line of credit amounted to $8,873 in 2013.

NOTE 7 – RELATED PARTY NOTES PAYABLE

IBEX Revolver Agreement

IBEX, LLC is a limited liability company, whose President is the daughter of the President of the Company. On January 1, 2005, the Company entered into an unsecured revolving convertible promissory note agreement ("the Revolver") with IBEX, LLC ("IBEX") a related party, for a maximum limit of $2,000,000, with interest at the

Prime Rate plus 2%, and all accrued interest and principal due on or before January 1, 2015, whether by the payment of cash or by conversion into shares of the Company's common stock.

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

Any discount will be negotiated on a case by case basis between the holder and the Company to reflect current market conditions and both parties must expressly accept the discounted conversion price.

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

During the year ended December 31, 2013, IBEX sold $634,013 of the Revolver's outstanding balance to external parties, who subsequently converted these notes into 1,121,562,701 shares at conversion prices ranging from $.00025 to $.0021 per share. There were no debt conversions for the year ended December 31, 2012.

The balance of the Revolver as of December 31, 2013 and 2012 was $745,417 and $1,287,511, respectively.

IBEX Promissory Convertible Notes Payable

In addition to the Revolver as described above, beginning on August 1, 2009, the Company started entering into convertible promissory note agreements with IBEX with simple interest at 8% per annum. All accrued interest and principal on the various notes payable are due on or before the end of the month two years from the date of issuance, whether by the payment of cash or by conversion into shares of the Company's common stock, unless otherwise extended with new terms. According to the original Security Agreement dated August 1, 2009, the Company grants IBEX a security interest in, all of the right, title, and interest of the Company, in and to all of the Company's personal property and intellectual property, and all proceeds or replacements as collateral for the convertible promissory note agreements.

On August 31, 2011, the date of maturity for notes payable of $519,920, the Company did not have sufficient cash on hand to pay the amount due, so the Company and issuer entered into an agreement to change the conversion price of the note to the market price of the restricted shares. The Conversion Price was thus changed from the original amount of $.019 per share to $.015 per share, the share market price on that date. The maturity date on the note agreement was extended to September 30, 2015, with a new conversion price of $.0008 per share.

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

Starting in 2012 and continuing through December 2013, the Company extended the maturity dates by one year and two years on several separate notes through multiple agreements with IBEX, as a result of insufficient cash to make payments on amounts owed. In exchange for the extensions, the conversion prices were changed to the existing market price of the Common Stock on the date of the maturity. Due to the drop in stock prices since the original note issuances, the corresponding shares to be issued on the conversion of these IBEX notes has increased from 1,803,415,186 at December 31, 2012 to 9,863,573,500 at December 31, 2013..

During the years ended December 31, 2013 and 2012, the Company borrowed $704,000 and $237,000, respectively, through additional promissory notes with IBEX.

Total interest expense, including amortization of the discount, incurred on the IBEX Revolver and IBEX convertible promissory notes payable for the years ended December 31, 2013 and 2012 was $362,824 and $335,005, respectively.

The IBEX notes payable are summarized as follows:

Issuance Date Ranges	Maturity Date	Average Interest Rate	Total Value of Notes Payable: Principal	Interest	Total	Average Conversion Price/Share	Convertible Shares
5/10 - 12/12	2014	8.0%	$ 657,000	$ 165,129	$ 822,129	$ 0.0016	499,502,834
8/09 - 12/13	2015	8.0%	2,186,311	443,982	2,630,293	$ 0.0006	4,363,419,167
2/10 - 3/11	2016	8.0%	599,000	211,659	810,659	$ 0.0002	5,000,653,333
			$ 3,442,311	$ 820,770	$ 4,263,081	$ 0.0004	9,863,575,334

Other Related Party Loans

The Company has entered into convertible promissory note agreements with various other related parties of the Company. Other related parties consist of family members of the President of the Company. Additionally, St. Johns, LLC is a limited liability company, which is owned by a family member of the President of the Company.

Other related parties consist of Robert Whelan and Janel Zaluski, the son and daughter of the President, Mary Whelan, the sister of the President, St. John's LLC, which is owned by family members of the President, and Richard Staelin, who is Chairman of the Board of Directors.

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

Other related party notes payable are summarized as follows:

Issuance Date Ranges	Maturity Dates	Average Interest Rate	Total Value of Notes Payable: Principal	Interest	Total	Average Conversion Price/Share	Convertible Shares	Lender
11/10 - 12/13	6/13 - 3/16	8.0%	$ 1,412,501	$ 253,797	$ 1,666,298	$ 0.00125	1,331,963,774	President
11/10 - 9/13	11/13 - 9/15	8.0%	294,586	31,295	325,881	0.00055	593,378,357	Board Chairman
12/10 - 9/13	12/13 - 9/15	8.0%	106,893	18,422	125,315	0.00097	128,922,250	Other Related Parties
		8.0%	$ 1,813,980	$ 303,514	$ 2,117,494	$ 0.0010	2,054,264,381	

NOTE 7 – RELATED PARTY NOTES PAYABLE (Continued)

Similar to the IBEX promissory convertible notes, the conversion prices per the terms of the note agreements are based upon the fair market value of the OTC closing price of the Company's stock as of the date of issuance discounted based on the factors previously discussed in the disclosures related to the IBEX Revolver and promissory convertible notes. There were no related party loan conversions in 2013. During the year ended December 31, 2012, $527,200 worth of debt was converted into 278,183,086 shares of $.001 par value common stock at an average conversion price of $0.0019 per share.

During the years ended December 31, 2013 and 2012, the Company borrowed $191,253 and $593,511, respectively, through additional promissory notes with other related parties.

During 2012, the Company reached an agreement with the holders of the other related parties to extend the maturity of approximately $272,000 of notes for one year, as the Company did not have the cash to pay the Notes and all parties wishing to avoid having the Company be in default. In exchange for the extension of the convertible notes, the conversion price was lowered to $.002 per share. The extension of these convertible notes for a reduced conversion price led to a beneficial conversion feature. The total beneficial conversion feature on these notes, combined with the beneficial conversion feature on the IBEX notes payable was $33,905 upon conversion.

NOTE 8 – LOSS PER SHARE

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

	Year Ended December 31,	
Common Stock:	2013	2012
Weighted Average Number of Shares Outstanding - Basic	3,263,120,226	2,384,800,466
Effect of Dilutive Securities:		
Options and Warrants	-	-
Weighted Average Number of Shares Outstanding - Diluted	3,263,120,226	2,384,800,466
Options and Warrants Not Included Above (Antidilutive)		
Nonvested Restricted Share Awards	10,233,333	15,153,724
Options to Purchase Common Stock	333,700,000	26,399,293
	343,933,333	41,553,017

NOTE 9 – SHARE BASED COMPENSATION

On November 30, 2004, as amended March 22, 2005, the Company adopted the BioElectronics Equity Incentive Plan ("the Plan"), for the purpose of providing incentives for officers, directors, consultants and key employees to promote the success of the Company, and to enhance the Company's ability to attract and retain the services of such persons.

The Plan initially reserved 10 million shares of common stock for issuance, which was amended to 100 million shares on March 1, 2010. In 2012 the plan was amended to 200 million shares available for future grant, further amended to 300 million shares in 2013 under the Plan. The issuance can be in the forms of options or shares. The options may be incentive, nonqualified or stock appreciation rights. The shares may be issued for performance.

Stock Option Awards

On September 1, 2011, the Company granted stock options to a third party vendor with a grant date fair value of $0.005 per share. The exercise price is $0.005 per share with a term of ten years and a three year vesting period, with one-third of the options vesting on each anniversary date after the initial date of grant. The option awards

NOTE 9 – SHARE BASED COMPENSATION (Continued)

were granted with an exercise price equal to the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant, discounted fifty percent for lack of marketability, which was deemed to be fair value.

In January 2012, the Company granted 55.0 million stock options with an exercise price of $0.0029 per share, with immediate vesting. The option awards were granted with an exercise price slightly less than the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant.

On August 29, 2012, the Company granted stock options to employees of the Company, the Chairman of the Board and a shareholder of the Company with a grant date fair value of $0.0029 per share. The exercise price is $0.0022 per share with a term of five years and a three year vesting period, with one-third of the options vesting on each anniversary date after the initial date of grant. The option awards were granted with an exercise price equal to the Company's closing bid price on the Over-the-Counter Pink Sheets on the date of grant, discounted fifty percent for lack of marketability, which was deemed to be fair value.

In April 2013, the Company granted 85.0 million stock options to employees of the Company, with a grant date exercise price of $0.0015 per share. The exercise price is at a discount of around 50% relative to the market price of $0.0031 per share.

In December 2013, the Company granted 90.0 million stock options to employees of the Company, with a grant date exercise price of $0.0007 per share. The exercise price is at a discount of around 13% relative to the market price of $0.0008 per share.

Stock options	Shares	Weighted-average grant date fair value
Balance at December 31, 2012	158,700,000	0.01056
Granted	175,000,000	0.00110
Vested	-	-
Forfeited	-	-
Balance at December 31, 2013	333,700,000	0.00559

Compensation expense related to the stock options during the years ended December 31, 2013 and 2012 was $29,853 and $12,583, respectively.

Nonvested Restricted Share Awards

In prior years, the Company also issued nonvested restricted share awards to directors, consultants and employees. The nonvested restricted share awards vest over a three year period based on the requisite service period. Compensation expense related to the fair value of these awards is recognized straight-line over the requisite service period based on those restricted stock grants that ultimately vest. The fair value of grants is measured by the market price of the Company’s common stock on the date of grant discounted by 50 percent based on the restricted nature of the stock, the volatility in the market and other variables taken into account by the Board of Directors in determining the fair value of the restricted share awards.

Restricted stock awards generally vest ratably over the service period beginning with the first anniversary of the grant date. After shares are vested, they will be issued upon the request of the grantee.

NOTE 9 – SHARE BASED COMPENSATION (Continued)

A summary of the status of the Company's nonvested shares granted to employees as of December 31, 2013, and changes during the year ended December 31, 2013, is as follows:

Nonvested shares	Shares	Weighted-average grant date fair value
Balance at December 31, 2012	6,000,000	$ 0.0104
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at December 31, 2013	6,000,000	$ 0.0104

Total compensation cost related to the restricted stock awards granted to employees was $0 and $15,134 for the years ended December 31, 2013 and 2012, respectively.

A summary of the status of the Company's nonvested shares granted to Non-employees as of December 31, 2013, and changes during the year ended December 31, 2013, is as follows:

Nonvested shares	Shares	Weighted-average grant date fair value
Balance at December 31, 2012	4,233,333	$ 0.0181
Granted	-	-
Vested	-	-
Forfeited	-	-
Balance at December 31, 2013	4,233,333	$ 0.0181

Total compensation cost related to the restricted stock awards granted to Non-employees was $0 and $19,157 for the years ended December 31, 2013 and 2012, respectively.

NOTE 10 – INCOME TAXES

The Company has not provided for income tax expense for the year ended December 31, 2013 because of a significant net operating loss carry-forward of approximately $21 million. The net operating losses expire in various years through 2031.

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

Based on available evidence, Company's management believes that it is more likely than not that the Company will not be able to realize the benefit of its net deferred tax assets as of December 31, 2013 and 2012, and that a full valuation reserve is needed to reduce the net deferred tax asset value to $0 for each year.

NOTE 11 – FAIR VALUE MEASUREMENTS

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

The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

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

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

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office equipment under a non-cancelable operating lease expiring in 2014. In the normal course of business, operating leases are generally renewed or replace by other leases.

The approximate future minimum lease payments as of December 31, 2012 amounted to $3,700 ($2,800 in 2013 and $900 in 2014) and as of December 31, 2013 amounted to $900, due in 2014.

The amount of rental expenses was $92,449 and $92,952 for the years ended December 31, 2013 and 2012, respectively.

Litigation

General

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

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

NOTE 13 – RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Note 7, BioElectronics signed a distribution agreement on February 9, 2009 with eMarkets Group, LLC (eMarkets) a company owned and controlled by a member of the Board of Directors and sister of the company's President. The agreement provides for eMarkets to be the exclusive distributor of the veterinary products of the Company to customers in certain countries outside of the United States for a period of three years. The distribution agreement lists the prices to be paid for the company's products by eMarkets and provides for the company to provide training and customer support at its own cost to support the distributor's sales function.

Revenue from eMarkets for the years ended December 31, 2013 and 2012 amounted to $4,820 and $2,431, respectively. The balance due from eMarkets as of December 31, 2013 and 2012 was $0 and $842, respectively.

NOTE 14 – CONCENTRATIONS

As of December 31, 2013, approximately 82 percent of trade receivables was from 3 customers. For the year ended December 31, 2013 approximately 66 percent of sales revenue was from 7 customers, with one customer accounting for 21 percent.

As of December 31, 2013, approximately 63 percent of accounts payable was for 8 vendors.