

BioElectronics Corporation

(A Development Stage Company)

UNAUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Unaudited financial statements for BioElectronics Corporation for the years ended December 31, 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)

	<u>December 31,</u> 2012	<u>(Restated)</u> <u>December 31,</u> 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,965	\$ 55,492
Trade and other receivables, net	69,314	185,823
Inventory	854,342	775,184
Prepaid expenses and other	-	50,000
Total current assets	<u>944,621</u>	<u>1,066,499</u>
Property and equipment	170,011	170,011
Less: Accumulated depreciation	(128,393)	(112,058)
Property and equipment, net	<u>41,618</u>	<u>57,953</u>
Total assets	<u>\$ 986,239</u>	<u>\$ 1,124,452</u>
Liabilities and stockholders' deficiency		
Current liabilities:		
Accounts payable and accrued expenses	557,609	314,990
Deferred revenue	26,550	-
Related party notes payable, current portion	2,430,890	2,120,427
Notes payable	-	100,537
Total current liabilities	<u>3,015,049</u>	<u>2,535,954</u>
Long-term liabilities:		
Related party notes payable, net of discount	<u>3,971,043</u>	<u>3,565,811</u>
Total liabilities	<u>6,986,092</u>	<u>6,101,765</u>
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, par value \$0.001 per share, 3,000,000,000 and 2,500,000,000 shares authorized at December 31, 2012 and December 31, 2011, respectively, and 2,666,347,359 and 1,950,681,871 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	2,666,348	1,950,682
Additional paid-in capital	11,288,377	10,614,063
Deficit accumulated during the development stage	(19,954,578)	(17,542,058)
Total stockholders' deficiency	<u>(5,999,853)</u>	<u>(4,977,313)</u>
Total liabilities and stockholders' deficiency	<u>\$ 986,239</u>	<u>\$ 1,124,452</u>

BioElectronics Corporation (A Development Stage Company)
 Statements of Operations
 For the Years Ended December 31, 2012 and 2011
 and for the Period from April 10, 2000 (Inception) to December 31, 2012
 (Unaudited)

	2012	2011	Period from April 10, 2000 (Inception) to December 31, 2012
Sales	\$ 500,121	\$ 1,176,285	\$ 5,583,273
Cost of Goods Sold	<u>272,637</u>	<u>509,238</u>	<u>2,611,932</u>
Gross profit	<u>227,484</u>	<u>667,047</u>	<u>2,971,341</u>
General and Administrative Expenses:			
Bad Debt Expense	102,928	98,000	422,538
Depreciation and Amortization	16,334	17,686	146,319
Investor Relations Expenses	219,289	280,893	2,249,323
Legal and Accounting Expenses	224,629	338,870	1,985,265
Sales Support Expenses	386,705	812,523	3,328,549
Research and Development	140,200	-	140,200
Other General and Administrative Expenses	<u>1,091,703</u>	<u>1,561,165</u>	<u>11,433,225</u>
Total General and Administrative Expenses	<u>2,181,788</u>	<u>3,109,137</u>	<u>19,705,419</u>
Loss from Operations	(1,954,304)	(2,442,090)	(16,734,078)
Interest Expense and Other:			
Interest Expense	(458,216)	(410,570)	(3,301,487)
Other Income(Expenses)	<u>-</u>	<u>-</u>	<u>80,987</u>
Total Interest Expense and Other, Net	<u>(458,216)</u>	<u>(410,570)</u>	<u>(3,220,500)</u>
Loss Before Income Taxes	(2,412,520)	(2,852,660)	(19,954,578)
Provision for Income Tax Expense	<u>-</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$ (2,412,520)</u>	<u>\$ (2,852,660)</u>	<u>\$ (19,954,578)</u>
Net loss Per Share - Basic and Diluted	<u>\$ (0.0009)</u>	<u>\$ (0.0017)</u>	<u>N/A</u>
Weighted Average Number of Shares Outstanding - Basic and Diluted	<u>2,384,800,466</u>	<u>1,715,629,288</u>	<u>N/A</u>

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency (Unaudited)
For the Period from April 10, 2000 (Inception) to December 31, 2012

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

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency (Unaudited)
For the Period from April 10, 2000 (Inception) to December 31, 2012
(Continued)

	Capital Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Amount			
Balance at December 31, 2008	266,542,635	\$ 266,542	\$ 8,273,941	\$ (11,075,368)	\$ (2,534,885)
Net loss				(634,091)	(634,091)
Issuance of convertible debt with beneficial conversion interest			6,000	-	6,000
Issuance of common stock for services rendered	149,051,667	149,052	93,845	-	242,897
Sale of common stock at \$.0030 per share	9,000,000	9,000	18,000	-	27,000
Sale of common stock at \$.0020 per share	15,000,000	15,000	15,000	-	30,000
Sale of common stock at \$.0017 per share	11,500,000	11,500	8,500	-	20,000
Sale of common stock at \$.0015 per share	16,666,667	16,667	8,334	-	25,001
Sale of common stock at \$.0012 per share	55,500,000	55,500	11,100	-	66,600
Sale of common stock at \$.0013 per share	16,750,000	16,750	4,850	-	21,600
Sale of common stock at \$.02 per share	7,500,000	7,500	142,500	-	150,000
Sale of common stock at \$.028 per share	5,357,142	5,357	144,643	-	150,000
Sale of common stock at \$.0444 per share	2,250,000	2,250	97,750	-	100,000
Sale of common stock at \$.05 per share	5,646,000	5,646	276,654	-	282,300
Issuance of common stock for conversion of debt	905,788,207	905,788	182,724	-	1,088,512
Issuance of common stock for warrant exercises	4,446,553	4,447	889	-	5,336
Balance at December 31, 2009	1,470,998,871	\$ 1,470,999	\$ 9,284,730	\$ (11,709,459)	\$ (953,730)
Net loss				(2,992,539)	(2,992,539)
Share-based compensation	9,950,000	9,950	326,768	-	336,718
Issuance of common stock for services rendered at \$.002250 per share	3,200,000	3,200	4,000	-	7,200
Issuance of common stock for services rendered at \$.00500 per share	2,500,000	2,500	10,000	-	12,500
Issuance of common stock for services rendered at \$.005250 per share	5,000,000	5,000	21,250	-	26,250
Issuance of common stock for conversion of debt at \$.0012 per share	55,000,000	55,000	11,000	-	66,000
Balance at December 31, 2010	1,546,648,871	\$ 1,546,649	\$ 9,657,748	\$ (14,701,998)	\$ (3,497,601)
Share-based compensation	-	-	222,815	-	222,815
Issuance of common stock for conversion of debt at \$.0012 per share	80,000,000	80,000	16,000	-	96,000
Issuance of common stock for services rendered at \$.0060 per share	1,800,000	1,800	9,000	-	10,800
Issuance of common stock for services rendered at \$.0010 per share	12,150,000	12,150	-	-	12,150
Issuance of common stock for services rendered at \$.0010 per share	83,000	83	-	-	83
Issuance of common stock for services rendered at \$.0049 per share	5,000,000	5,000	19,500	-	24,500
Issuance of common stock for services rendered at \$.00295 per share	20,000,000	20,000	39,000	-	59,000
Issuance of common stock for services rendered at \$.00650 per share	20,000,000	20,000	110,000	-	130,000
Issuance of common stock for cash at \$.00250 per share	10,000,000	10,000	15,000	-	25,000
Issuance of common stock for cash at \$.009091 per share	5,500,000	5,500	44,500	-	50,000
Issuance of common stock for cash at \$.00625 per share	8,000,000	8,000	42,000	-	50,000
Issuance of common stock for cash at \$.00500 per share	10,000,000	10,000	40,000	-	50,000
Issuance of common stock for cash at \$.00400 per share	12,500,000	12,500	37,500	-	50,000
Issuance of common stock for cash at \$.003226 per share	15,500,000	15,500	34,500	-	50,000
Issuance of common stock for cash at \$.003704 per share	13,500,000	13,500	36,500	-	50,000
Issuance of common stock for cash at \$.003704 per share	13,500,000	13,500	36,500	-	50,000
Issuance of common stock for cash at \$.003226 per share	15,500,000	15,500	34,500	-	50,000
Issuance of common stock for cash at \$.002778 per share	18,000,000	18,000	32,000	-	50,000
Issuance of common stock for cash at \$.002778 per share	18,000,000	18,000	32,000	-	50,000
Issuance of common stock for cash at \$.002778 per share	18,000,000	18,000	32,000	-	50,000
Issuance of common stock for cash at \$.002500 per share	20,000,000	20,000	30,000	-	50,000
Issuance of common stock for cash at \$.002500 per share	20,000,000	20,000	30,000	-	50,000
Issuance of common stock for cash at \$.002273 per share	22,000,000	22,000	28,000	-	50,000
Issuance of common stock for cash at \$.002000 per share	25,000,000	25,000	25,000	-	50,000
Issuance of common stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Net loss				(2,840,060)	(2,840,060)
Balance at December 31, 2011 (As Restated)	1,950,681,871	\$ 1,950,682	\$ 10,614,063	\$ (17,542,058)	\$ (4,977,313)

BioElectronics Corporation (A Development Stage Company)
Statement of Changes in Stockholders' Deficiency (Unaudited)
For the Period from April 10, 2000 (Inception) to December 31, 2012
(Continued)

	Capital Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Amount			
Balance at December 31, 2011 (As Restated)	1,950,681,871	\$ 1,950,682	\$ 10,614,063	\$ (17,542,058)	\$ (4,977,313)
Issuance of common Stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Issuance of common stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Issuance of common stock for cash at \$.001500 per share	20,000,000	20,000	10,000	-	30,000
Issuance of common stock for cash at \$.001200 per share	25,000,000	25,000	5,000	-	30,000
Issuance of common stock for cash at \$.001200 per share	25,000,000	25,000	5,000	-	30,000
Issuance of common stock for cash at \$.001000 per share	45,000,000	45,000	-	-	45,000
Issuance of common stock for cash at \$.002000 per share	5,500,000	5,500	5,500	-	11,000
Issuance of common stock for services rendered at \$.001000 per share	10,000,000	10,000	-	-	10,000
Issuance of common stock for cash at \$.001943 per share	8,750,000	8,750	8,255	-	17,005
Issuance of common stock for services rendered at \$.002500 per share	10,000,000	10,000	15,000	-	25,000
Issuance of common stock for services rendered at \$.002500 per share	30,000,000	30,000	45,000	-	75,000
Issuance of common stock for cash at \$.002000 per share	5,000,000	5,000	5,000	-	10,000
Issuance of common stock for cash at \$.002000 per share	5,000,000	5,000	5,000	-	10,000
Issuance of common stock for conversion of debt at \$.001709 per share	91,808,086	91,808	65,096	-	156,904
Issuance of common stock for conversion of debt at \$.001979 per share	57,618,000	57,618	56,391	-	114,009
Issuance of common stock for conversion of debt at \$.001979 per share	57,618,000	57,618	56,391	-	114,009
Issuance of common stock for cash at \$.001500 per share	33,333,334	33,334	16,667	-	50,001
Issuance of common stock for cash at \$.001000 per share	15,000,000	15,000	-	-	15,000
Issuance of common stock for services rendered at \$.002500 per share	1,000,000	1,000	1,500	-	2,500
Issuance of common stock for conversion of debt at \$.002000 per share	71,139,000	71,139	71,139	-	142,278
Issuance of common stock for cash at \$.001360 per share	25,000,000	25,000	9,000	-	34,000
Issuance of common stock for cash at \$.002000 per share	25,000,000	25,000	25,000	-	50,000
Issuance of common stock for cash at \$.002083 per share	12,000,000	12,000	13,000	-	25,000
Issuance of common stock for cash at \$.001786 per share	28,000,000	28,000	22,000	-	50,000
Issuance of common stock for cash at \$.001786 per share	28,000,000	28,000	22,000	-	50,000
Issuance of common stock for cash at \$.001667 per share	30,000,000	30,000	20,000	-	50,000
Compensation expense for nonvested share awards			127,459	-	127,459
Issuance of convertible debt with beneficial conversion interest			33,905	-	33,905
Issuance of common stock for services rendered at \$.00200 per share	5,000,000	5,000	5,000	-	10,000
Issuance of common stock for conversion of debt at \$.00200 per share	5,899,068	5,899	6,011	-	11,910
Net loss				(2,412,520)	(2,412,520)
Balance at December 31, 2012	<u>2,666,347,359</u>	<u>\$ 2,666,348</u>	<u>\$ 11,288,377</u>	<u>\$ (19,954,578)</u>	<u>\$ (5,999,853)</u>

BioElectronics Corporation (A Development Stage Company)
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011
and for the Period from April 10, 2000 (Inception) to December 31, 2012
(Unaudited)

	2012	2011	April 10, 2000 (Inception) to December 31, 2012
Cash Flows From Operating Activities:			
Net Loss	\$ (2,412,520)	\$ (2,852,660)	(19,954,578)
Adjustment to Reconcile Net Loss to Net Cash Used in Operating Activities:			
Depreciation and amortization	16,334	17,186	145,819
Provision for bad debts	102,928	98,000	516,425
Amortization of non-cash debt issuance costs	-	-	725,373
Amortization and extinguishment of beneficial conversion discount	44,718	25,317	828,050
Non-cash expenses	-	-	1,503,499
Share-based compensation expense	249,959	471,948	1,102,028
Non-cash interest related to notes payable	-	-	592,418
Non-cash interest related to related party notes payable	438,480	385,087	1,097,448
Amortization of loan costs	-	-	129,852
Increase in related party notes payable for services rendered	244,022	52,122	949,840
Loss on disposal of property and equipment	-	-	41,543
Changes in Assets and Liabilities			
(Increase) Decrease in:			
Trade and other receivables	13,581	(98,853)	(224,781)
Inventory	(71,289)	197,162	(854,342)
Due from related party	-	-	-
Prepaid expenses and other	42,131	71,955	-
Increase (Decrease) in:			
Accounts payable and accrued expenses	194,196	28,449	557,609
Accrued expenses	-	-	-
Cash overdraft	-	-	-
Deferred revenue	26,550	(213,315)	26,550
Net Cash Used In Operating Activities	(1,110,910)	(1,817,602)	(12,817,247)
Cash Flows Used In Investing Activities			
Acquisition of property and equipment	-	-	(211,564)
Cash Flows From Financing Activities			
Proceeds from note payable	-	-	1,090,148
Payments on note payable	(52,114)	(22,295)	(627,142)
Proceeds from related party notes payable	561,490	1,064,000	8,470,304
Proceeds from financing of receivables with related party	-	-	116,978
Payments on related party notes payable	-	-	-
Proceeds from shareholder loans	-	-	-
Payments for financing of receivables with related party	-	-	(974,803)
Proceeds from issuance of common stock	567,007	805,000	4,984,278
Other	-	-	(9,987)
Net Cash Provided By Financing Activities	1,076,383	1,846,705	13,049,776
Net Increase (Decrease) In Cash	(34,527)	29,103	20,965
Cash- Beginning of Period	55,492	26,389	-
Cash- End of Period	\$ 20,965	\$ 55,492	\$ 20,965
Supplemental Disclosures Of Cash Flow Information:			-
Cash paid during the periods for:			
Interest	\$ -	\$ -	\$ 66,632
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Conversion of debt and accrued interest into common stock	\$ 539,109	\$ 96,000	\$ 4,395,654
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

BioElectronics Corporation (A Development Stage Company)
Notes to Condensed Financial Statements
See Accountants' Compilation Report
(Unaudited)

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™ and RecoveryRx™.

- 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
- Providing 720 hours of musculoskeletal therapy or ninety (90) overnight treatments for \$19.95 retail, or \$0.25 each.
- Providing 5 days of profound menstrual pain and discomfort relief for \$9.95
- 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, 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 \$103,009 and \$128,000 at December 31, 2012 and December 31, 2011, respectively. Bad debt expense for the years ended December 31, 2012 and 2011 was \$102,928 and \$98,000, 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, 2012 and 2011. 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, including infomercials. 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, 2012 and 2011 were \$31,736 and \$53,742, respectively, and included

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in the other general and administrative expenses. There was no value recorded to prepaid advertising as of December 31, 2012 and 2011, and the total amount amortization expense for prepaid advertising amounted to \$-0- and \$46,450 for the years ended December 31, 2012 and 2011, 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 cost represent the costs of clinical studies, which are expensed as incurred. The Company incurred \$140,200 and \$-0- in the years ended December 31, 2012 and 2011, 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, 2012 and 2011 the Company reported net losses, and as a result there is no difference between basic and diluted shares for each of the years presented as the shares are anti-dilutive.

Issuance Of Stock For Non-Cash Consideration

All issuances of the Company’s stock for non-cash consideration have been assigned a per share amount determined with reference to the value of consideration received, which has been determined to be a more readily determinable fair value than the fair value of the common stock. The majority of the non-cash consideration pertains to services rendered by consultants and vendors. The fair value of the services received was used to record the related expense in the statement 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, and finally to 3,000,000,000 in 2012. These increases are a result of the continued requirement to cover the potential issuance of common stock resulting from the conversion of debt to equity, and the vesting of nonvested share awards. The

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

During 2011, the Company raised \$805,000 of financing through the issuance of 265,000,000 shares of Common Stock, in tranches ranging from 8,000,000 to 25,000,000 shares. The Company also issued 59,033,000 shares of Common Stock for services rendered in 2011, and 80,000,000 shares issued in 2011 due to conversion of debt.

During 2012, the Company raised \$567,006 of financing through the issuance of 375,583,334 shares of Common Stock, in tranches ranging from 5,000,000 to 45,000,000 shares. The Company also issued 56,000,000 shares of Common Stock for services rendered in 2012, and 284,082,154 shares issued in 2012 due to the conversion of debt.

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 \$2,412,520 for the year ended December 31, 2012. 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, 2012	December 31, 2011
Raw materials	\$ 574,469	\$ 411,232
Prepaid inventory	20,117	52,366
Finished goods	259,756	311,586
	<u>\$ 854,342</u>	<u>\$ 775,184</u>

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

	December 31, 2012	December 31, 2011
Machinery & Equipment	\$ 163,129	\$ 163,129
Leasehold improvements	6,882	6,882
	170,011	170,011
Less: accumulated depreciation	128,393	112,058
Total property and equipment, net	<u>\$ 41,618</u>	<u>\$ 57,953</u>

For the years ended December 31, 2012 and 2011, depreciation expense on property and equipment amounted to \$16,334 and \$17,686, respectively.

NOTE 6 – 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, 2011, IBEX converted \$96,000 of the Revolver’s outstanding balance and received 80,000,000 shares of the Company’s common stock at a conversion price of \$0.0012 per share. There were no debt conversions for the year ended December 31, 2012.

The balance of the Revolver as of December 31, 2012 and 2011 was \$1,287,511 and \$1,200,727, respectively, net of unamortized discount from beneficial conversion feature of \$38,436 and \$57,654, respectively.

Amortization of the discount included in interest expense for the years ended December 31, 2012 and 2011 was \$19,216 and 25,317, respectively, and \$802,545 for the period from April 10, 2000 (Inception) through December 31, 2012. Future amortization of the discount will be approximately \$19,218 per year through December 31, 2014, unless all or part of the outstanding Revolver balance is extinguished prior to January 1, 2015.

IBEX Promissory Convertible Notes Payable

In addition to the Revolver as described above, beginning on August 1, 2009, the Company started entering into convertible promissory note agreements with IBEX with simple interest at 8% per annum. All accrued interest and principal on the various notes payable are due on or before the end of the month two years from the date of issuance (e.g. August 31, 2011), whether by the payment of cash or by conversion into shares of the Company’s common stock, 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

NOTE 6 – RELATED PARTY NOTES PAYABLE (Continued)

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 August 31, 2013.

Starting in 2012 and continuing through March 2013, the Company extended the maturity dates by one year on 23 separate notes, totaling \$1,944,333, 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 787,650,788 at December 31, 2011 to 1,630,805,314 shares of Common Stock.

During the years ended December 31, 2012 and 2011, the Company borrowed \$237,000 and \$570,000, 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, 2012 and 2011 was \$335,005 and \$218,224, respectively.

At the option of the note holder, the promissory notes are convertible into shares of Common Stock at a conversion rate equal to the quotient of (i) a sum equal to the entire outstanding principal balance and interest accrued, divided by (ii) the conversion price indicated on the following page:

NOTE 6 – RELATED PARTY NOTES PAYABLE (Continued)

Issuance Date	Maturity Date	Interest Rate	Amounts Available for Conversion			Conversion Price/Share	Shares to be Issued
			Principal	Interest	Total		
8/1/2009	8/31/2013	8.00%	\$ 519,920	\$ 157,020	\$ 676,940	\$ 0.0015	451,293,333
2/9/2010	2/28/2014	8.00%	135,000	31,396	166,396	0.0100	16,639,600
3/31/2010	3/31/2014	8.00%	310,000	72,094	382,094	0.0100	38,209,400
4/15/2010	4/30/2014	8.00%	20,000	4,651	24,651	0.0020	12,325,500
5/5/2010	5/31/2014	8.00%	120,000	27,907	147,907	0.0020	73,953,500
5/14/2010	5/31/2014	8.00%	100,000	23,256	123,256	0.0020	61,628,000
6/22/2010	6/30/2014	8.00%	130,000	30,233	160,233	0.0020	80,116,500
7/23/2010	9/30/2013	8.00%	100,000	20,909	120,909	0.0012	100,757,500
9/7/2010	9/30/2013	8.00%	50,000	9,866	59,866	0.0012	49,888,333
9/14/2010	9/30/2013	8.00%	185,000	36,172	221,172	0.0012	184,310,000
9/30/2010	10/31/2013	8.00%	50,000	9,572	59,572	0.0020	29,786,000
10/4/2010	10/31/2013	8.00%	50,000	9,520	59,520	0.0020	29,760,000
10/8/2010	11/30/2013	8.00%	50,000	9,469	59,469	0.0020	29,734,500
11/4/2010	11/30/2013	8.00%	40,000	7,299	47,299	0.0020	23,649,500
11/15/2010	12/31/2013	8.00%	100,000	17,966	117,966	0.0012	98,305,000
12/7/2010	12/31/2013	8.00%	78,333	13,652	91,985	0.0012	76,654,167
12/16/2010	12/31/2013	8.00%	30,000	5,152	35,152	0.0012	29,293,333
12/30/2010	1/31/2014	8.00%	40,000	6,725	46,725	0.0026	17,971,154
1/26/2011	1/31/2014	8.00%	50,000	8,168	58,168	0.0026	22,372,308
1/31/2011	2/28/2014	8.00%	40,000	6,484	46,484	0.0026	17,878,462
2/2/2011	2/28/2014	8.00%	125,000	20,200	145,200	0.0026	55,846,154
2/14/2011	3/31/2014	8.00%	62,000	9,832	71,832	0.0026	27,627,692
3/7/2011	3/31/2014	8.00%	42,000	6,439	48,439	0.0026	18,630,385
3/23/2011	3/31/2014	8.00%	37,000	5,523	42,523	0.0026	16,355,000
4/11/2011	4/31/2013	8.00%	50,000	7,215	57,215	0.0045	12,714,444
4/14/2011	4/31/2013	8.00%	30,000	4,307	34,307	0.0045	7,623,778
6/30/2011	6/30/2013	8.00%	35,000	4,360	39,360	0.0029	13,572,414
6/30/2011	6/30/2013	8.00%	10,000	1,246	11,246	0.0029	3,877,931
7/19/2011	7/31/2013	8.00%	6,000	719	6,719	0.0028	2,399,643
7/28/2011	7/31/2013	8.00%	60,000	7,055	67,055	0.0028	23,948,214
8/15/2011	8/31/2013	8.00%	18,000	2,116	20,116	0.0070	2,873,714
8/17/2011	8/31/2013	8.00%	5,000	588	5,588	0.0069	809,855
6/15/2012	6/30/2014	8.00%	68,500	3,056	71,556	0.0026	27,521,538
9/30/2012	9/30/2014	8.00%	133,500	5,468	138,968	0.0012	115,806,667
12/14/2012	12/31/2014	8.00%	35,000	138	35,138	0.0012	29,281,667
			<u>2,915,253</u>	<u>585,773</u>	<u>3,501,026</u>		<u>1,803,415,186</u>

NOTE 6 – RELATED PARTY NOTES PAYABLE (Continued)

Other Related Party Loans

The Company has entered into convertible promissory note agreements with various other related parties of the Company. 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. Richard Staelin is a member of the Board of Directors and Chairman of the Board.

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

The following table is a schedule of the individual promissory notes issuance date, maturity date, principal balance, accrued interest, and number of shares which the debt can be converted to as of December 31, 2012:

Issuance Date	Maturity Date	Principal Balance	Amounts Convertible			Conversion Price/Share	Shares to be Issued
			Principal	Interest	Total		
11/29/2010	11/30/2013	100,000	64,712	16,856	81,568	0.0020	40,784,000
12/7/2010	12/31/2013	87,760	87,760	15,791	103,551	0.0012	86,292,500
12/9/2010	12/31/2013	78,333	78,333	14,068	92,401	0.0012	77,000,833
12/31/2010	12/31/2013	52,095	52,095	8,681	60,776	0.0012	50,646,667
12/31/2010	12/31/2013	25,274	25,274	4,396	29,670	0.0012	24,725,000
1/5/2011	1/31/2014	100,000	100,000	17,267	117,267	0.0026	45,102,692
1/11/2011	1/31/2014	121,000	121,000	20,709	141,709	0.0026	54,503,462
3/31/2011	3/31/2014	33,000	33,000	4,982	37,982	0.0026	14,608,462
3/31/2011	3/31/2014	52,122	52,122	7,869	59,991	0.0026	23,073,462
4/20/2011	4/30/2013	100,000	100,000	14,603	114,603	0.0028	40,929,643
6/2/2011	6/30/2013	25,000	25,000	3,385	28,385	0.0027	10,512,963
6/9/2011	6/30/2013	30,000	30,000	4,032	34,032	0.0039	8,726,154
6/15/2011	6/30/2013	10,000	10,000	1,322	11,322	0.0034	3,330,000
7/14/2011	7/31/2013	75,000	75,000	9,459	84,459	0.0029	29,123,793
1/12/2012	1/31/2014	40,000	40,000	3,223	43,223	0.0014	30,873,571
4/30/2012	4/30/2014	5,000	5,000	272	5,272	0.0016	3,295,000
5/31/2012	5/31/2014	25,000	25,000	1,186	26,186	0.0016	16,366,250
6/27/2012	11/30/2013	25,000	25,000	4,683	29,683	0.0020	14,841,500
6/30/2012	6/30/2014	133,453	133,453	5,618	139,071	0.0020	69,535,500
6/30/2012	6/30/2014	50,961	50,961	2,144	53,105	0.0020	26,552,500
7/3/2012	7/31/2014	20,000	20,000	810	20,810	0.0020	10,405,000
7/6/2012	7/31/2014	4,000	4,000	159	4,159	0.0020	2,079,500
7/11/2012	7/31/2014	50,000	50,000	1,936	51,936	0.0020	25,968,000
7/20/2012	7/31/2014	12,000	12,000	441	12,441	0.0020	6,220,500
7/31/2012	7/31/2014	5,000	5,000	171	5,171	0.0020	2,585,500
8/14/2012	8/31/2014	10,000	10,000	311	10,311	0.0020	5,155,500
9/30/2012	9/30/2014	59,607	59,607	1,215	60,822	0.0012	50,685,000
12/31/2012	12/31/2014	153,490	153,490	-	153,490	0.0026	59,034,615
		<u>\$ 1,483,095</u>	<u>\$ 1,447,807</u>	<u>\$ 165,589</u>	<u>\$ 1,613,396</u>		<u>832,957,567</u>

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.

NOTE 6 – 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. 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, 2012 and 2011, the Company borrowed \$593,511 and \$570,000, 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.

Future minimum principal payments for the notes payable, IBEX Revolver, IBEX Notes and other related party loans are as follows, as of December 31, 2012:

2013	\$	2,430,890
2014		2,683,532
2015		<u>1,287,511</u>
	\$	<u>6,401,933</u>

NOTE 7 – LOSS PER SHARE

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

	Year Ended December 31,	
	2012	2011
Common Stock:		
Weighted Average Number of Shares Outstanding - Basic	2,384,800,466	1,715,629,288
Effect of Dilutive Securities:		
Options and Warrants	-	-
Weighted Average Number of Shares Outstanding - Diluted	2,384,800,466	1,715,629,288
Options and Warrants Not Included Above (Antidilutive)		
Nonvested Restricted Share Awards	15,153,724	11,333,334
Options to Purchase Common Stock	26,399,293	-
Warrants to Purchase Common Stock	-	-
	<u>41,553,017</u>	<u>11,333,334</u>

NOTE 8 – 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.

NOTE 8 – SHARE BASED COMPENSATION (Continued)

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 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 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.

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.

Below is a summary table of the options granted and the weighted-average grant date fair value during the year ended December 31, 2012:

Stock options	Shares	Weighted-average grant date fair value
Balance at December 31, 2011	24,000,000	\$ 0.0050
Granted	55,000,000	0.0029
Vested	(8,000,000)	0.0050
Forfeited	-	-
Balance at December 31, 2012	71,000,000	\$ 0.0034

Compensation expense related to the stock options during the years ended December 31, 2012 and 2011 was \$12,583 and \$23,158, respectively.

The maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to employees that the Company will have to recognize over a 4.92 year weighted-average period is approximately \$238,870.

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.

NOTE 8 – SHARE BASED COMPENSATION (Continued)

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.

A summary of the status of the Company's nonvested shares granted to employees as of December 31, 2012, and changes during the year ended December 31, 2012, is as follows:

<u>Nonvested shares</u>	<u>Shares</u>	<u>Weighted-average grant date fair value</u>
Balance at December 31, 2011	11,333,334 \$	0.0107
Granted	-	-
Vested	(5,333,334)	0.0110
Forfeited	-	-
Balance at December 31, 2012	<u>6,000,000 \$</u>	<u>0.0104</u>

Total compensation cost related to the restricted stock awards granted to employees was \$15,134 and \$104,556 for the years ended December 31, 2012 and 2011, respectively.

The maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to employees that the Company will have to recognize over a 1.1 year weighted-average period is approximately \$39,000.

A summary of the status of the Company's nonvested shares granted to Non-employees as of December 31, 2012, and changes during the year ended December 31, 2012, is as follows:

<u>Nonvested shares</u>	<u>Shares</u>	<u>Weighted-average grant date fair value</u>
Balance at December 31, 2011	10,133,333 \$	0.0181
Granted	-	-
Vested	(5,066,667)	0.0181
Forfeited	(833,333)	0.0181
Balance at December 31, 2012	<u>4,233,333 \$</u>	<u>0.0181</u>

Total compensation cost related to the restricted stock awards granted to Non-employees was \$19,157 and \$91,700 for the years ended December 31, 2012 and 2011, respectively.

The maximum amount of compensation cost related to unvested equity-based compensation awards in the form of service-based restricted shares to Non-employees that the Company will have to recognize over a .5 year weighted-average period is approximately \$32,000.

Common Stock Issued For Services Rendered

On May 18, 2012 the Company issued 10,000,000 shares of common stock for services rendered valued at \$10,000, which was recorded as a part of Investor Relations expense in the accompanying Statement of Operations for the year ended December 31, 2012. These shares were valued at \$0.001 per share, which represents the fair value of the services rendered.

NOTE 8 – SHARE BASED COMPENSATION (Continued)

On June 5, 2012 the Company issued 40,000,000 shares of common stock for services rendered valued at \$100,000, which was recorded as a part of Other General and Administrative expense in the accompanying Statement of Operations for the year ended December 31, 2012. These shares were valued at \$0.0025 per share, which represents the fair value of the services rendered.

On June 22, 2012, the Company issued 1,000,000 shares of common stock for services rendered valued at \$2,500, which was recorded as a part of Other General and Administrative expense in the accompanying Statement of Operations for the year ended December 31, 2012. These shares were valued at \$0.0025 per share, which represents the fair value of the services rendered.

On November 21, 2012, the Company issued 5,000,000 shares of common stock for services rendered valued at \$10,000, which was recorded as a part of Other General and Administrative expense in the accompanying Statement of Operations for the year ended December 31, 2012. These shares were valued at \$0.0020 per share, which represents the fair value of the services rendered.

NOTE 9 – INCOME TAXES

The Company has not provided for income tax expense for the year ended December 31, 2012 because of a significant net operating loss carry-forward of approximately \$15.9 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, 2012 and 2011, and that a full valuation reserve is needed to reduce the net deferred tax asset value to \$0 for each year.

NOTE 10 – 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

NOTE 10 – FAIR VALUE MEASUREMENTS (Continued)

- 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 11 – 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 replaced by other leases.

The approximate future minimum lease payments as of December 31, 2012: 2013 - \$2,800, and 2014 - \$900, respectively.

The amount of rental expenses were \$92,952 and \$83,398 for the years ended December 31, 2012 and 2011, respectively.

Litigation

General

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

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

NOTE 12 – RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in Note 6, 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, 2012 and 2011 amounted to \$2,431 and \$237,827, respectively. The balance due from eMarkets as of December 31, 2012 and 2011 was \$842 and \$24,512, respectively.

NOTE 13 – CONCENTRATIONS

As of December 31, 2012, approximately 98 percent of trade receivables was from 3 customers. For the year ended December 31, 2012 approximately 54 percent of sales revenue was from 5 customers, with one customer accounting for 41 percent.

As of December 31, 2012, approximately 57 percent of accounts payable was to five vendors. For the year ended December 31, 2012, approximately 73 percent of purchases was from four vendors.

NOTE 14 – RESTATEMENT AND IMMATERIAL CORRECTION OF AN ERROR

The beginning Balance Sheet as of December 31, 2011 was restated due to errors found by management related to the issuance of shares for services rendered. The restatement resulted in a decrease in Common Stock of \$12,600 and a corresponding decrease in the Deficit accumulated during the development stage.