

Blue Earth, Inc.
Form 10-K/A
April 12, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 2
To
Form 10-K/A

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 333-148346

BLUE EARTH, INC. f/k/a
Genesis Fluid Solutions Holdings, Inc.
(Exact Name of Registrant as specified in its charter)

| | | |
|--|---|---|
| Nevada | 8700 | 98-0531496 |
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

2298 Horizon Ridge Parkway, Suite 205
Henderson, NV 89052
Telephone: 702-263-1808
Telecopier: 866-263-1824
(Address and telephone number of principal executive offices)

Dr. Johnny R. Thomas, CEO
Blue Earth, Inc.
2298 Horizon Ridge Parkway, Suite 205
Henderson, NV 89052
Telephone: 702-263-1808
Telecopier: 702-263-1824
(Name, address and telephone number of agent for service)

Copy to:
Elliot H. Lutzker, Esq.
Davidoff Malito & Hutcher LLP

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605 Third Avenue
New York, New York 10158
Telephone: (212) 557-7200
Telecopier: (212) 286-1884

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|--|--|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="checkbox"/> |
|---|---|--|--|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed fiscal year was \$66,011,295.

As of April 15, 2010, there were 17,751,500 shares of Common Stock, par value \$0.001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K amends the Annual Report on Form 10-K for the year ended December 31, 2009 (the “Original Report”) and is being filed by Blue Earth, Inc. (the “Company”) f/k/a Genesis Fluid Solutions Holdings, Inc. (“Genesis”); f/k/a Cherry Tankers, Inc. (“CT”) to report certain information disclosed to the Company by the Securities and Exchange Commission concerning former auditors of the Company.

The financial statements of CT and Genesis for the fiscal year ended December 31, 2008 and included in the Company’s Forms 10-K for the fiscal years ended December 31, 2008 and 2009 and its Form 8-K/A dated October 30, 2009 and filed on November 16, 2009 were audited by Davis Accounting Group P.C.

The audit reports were issued by Davis Accounting Group, P.C. from Cedar City, Utah and were dated January 15, 2009 and November 11, 2009. The license of Mr. Edwin Reese Davis, Jr. and his firm, Davis Accounting Group, P.C., lapsed on September 30, 2008 and were formally revoked as of November 4, 2010 by the Utah Division of Occupational & Professional Licensing (“DOPL”). You can find a copy of the order at https://secure.utah.gov/llv/search/detail.html?license_id=3599263.

As Davis Accounting Group, P.C. was not licensed when it issued its audit reports on the Company’s financial statements, we may not include its audit reports in our filings with the Commission.

The Company is amending this Form 10-K for the fiscal year ended December 31, 2009 to amend and restate Item 8 to remove the audit report of Davis Accounting Group, P.C. and to label the columns of the financial statements for fiscal year ended December 31, 2008 as “Not audited.”

Unless expressly noted otherwise, the disclosures in this Form 10-K/A continue to speak as of the date of the Original Report, and do not reflect events occurring after the filing of the Original Report. For additional information on subsequent events, the reader should refer to the Forms 10-K, Forms 10-Q and Forms 8-K the Company has filed in 2010 and 2011. The filing of this Form 10-K/A shall not be deemed an admission that the Original Report, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

Item 8. Financial Statements and Supplementary Data.

Genesis Fluid Solutions Holdings, Inc. and Subsidiary Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of:
Genesis Fluid Solutions Holdings, Inc.

We have audited the accompanying consolidated balance sheet of Genesis Fluid Solutions Holdings, Inc. and Subsidiary as of December 31, 2009 and the related consolidated statements of operations, changes in stockholders' equity (deficiency), and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Genesis Fluid Solutions Holdings, Inc. and Subsidiary as of December 31, 2009 and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company reported a net loss and used cash in operations of \$2,247,767 and \$1,737,841, respectively, in 2009. As of December 31, 2009, the Company had an accumulated deficit of \$6,217,899. In addition, the Company has minimal revenue generating activities in 2009 and is transitioning to a new business model. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans as to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Salberg & Company, P.A.

SALBERG & COMPANY, P.A.
Boca Raton, Florida
April 14, 2010

GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| Assets | December 31, 2009 | December 31, 2008 NOT AUDITED |
|--|----------------------|--|
| Current assets: | | |
| Cash and cash equivalents | \$ 4,873,912 | \$ 9,076 |
| Costs in excess of billings on uncompleted contracts | 59,506 | — |
| Prepaid expenses and other current assets | 185,273 | 60,468 |
| Total current assets | 5,118,691 | 69,544 |
| Property and equipment, net | 719,469 | 844,999 |
| Patents, net | — | 54,492 |
| Patents pending | — | 98,097 |
| Other assets | — | 2,334 |
| Total assets | \$ 5,838,160 | \$ 1,069,466 |
| Liabilities and Stockholders' Equity (Deficiency) | | |
| Current liabilities: | | |
| Accounts payable | \$ 82,206 | \$ 110,524 |
| Accrued expenses | 476,800 | 771,540 |
| Warrant derivative liability | 804,718 | — |
| Billings in excess of costs on uncompleted contracts | 201,219 | 215,000 |
| Equipment payable | 84,795 | 84,795 |
| Settlement due to vendor, current portion | 84,667 | 67,334 |
| Loan payable | 68,076 | 68,076 |
| Obligations under capital leases, current portion | 59,216 | 143,428 |
| Convertible notes payable | 10,000 | 723,190 |
| Secured note payable | — | 116,662 |
| Notes payable — related parties | 14,575 | 50,819 |
| Total current liabilities | 1,886,272 | 2,351,368 |
| Obligations under capital leases, net of current portion | — | 117,822 |
| Settlement due to vendor, net of current portion | — | 84,666 |
| Total liabilities | 1,886,272 | 2,553,856 |
| Commitments and contingencies — See Note 15 | | |
| Stockholders' equity (deficiency): | | |

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| | | |
|--|--------------|--------------|
| Preferred stock, \$0.001 par value; 25,000,000 shares authorized, zero shares issued and outstanding | — | — |
| Common stock, \$0.001 par value; 100,000,000 shares authorized, 17,668,500 and 10,000,000 issued and outstanding, respectively | 17,669 | 10,000 |
| Additional paid-in capital | 10,152,118 | 2,486,609 |
| Accumulated other comprehensive loss | — | (10,867) |
| Accumulated deficit | (6,217,899) | (3,970,132) |
| | | |
| Total stockholders' equity (deficiency) | 3,951,888 | (1,484,390) |
| | | |
| Total liabilities and stockholders' equity (deficiency) | \$ 5,838,160 | \$ 1,069,466 |

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 NOT AUDITED |
|---|---|---|
| Revenues | \$ — | \$ 35,097 |
| Cost of revenues | | 393,683 |
| Gross loss | | (358,586) |
| Operating expenses: | | |
| Selling, general and administrative | 1,941,484 | 713,424 |
| Total operating expenses | 1,941,484 | 713,424 |
| Operating loss from continuing operations | (1,941,484) | (1,072,010) |
| Other income (expense): | | |
| Change in warrant derivative liability | 21,960 | — |
| Interest income | 198 | 10,103 |
| Interest expense | (287,682) | (332,219) |
| Inducement expense on debt conversion | (40,759) | — |
| Loss on disposal of property and equipment | — | (174,125) |
| Total other income (expense), net | (306,283) | (496,241) |
| Loss from continuing operations before income taxes | (2,247,767) | (1,568,251) |
| Income tax benefit | | — |
| Net loss | (2,247,767) | (1,568,251) |
| Other comprehensive income (loss): | | |
| Gain (loss) on foreign currency translation, net of income tax of \$0 | 10,867 | (445) |
| Total other comprehensive income (loss), net of income taxes | 10,867 | (445) |
| Comprehensive loss | \$ (2,236,900) | \$ (1,568,696) |
| Weighted average number of common shares — basic and diluted | 12,050,759 | 10,000,000 |

The accompanying notes are an integral part of these consolidated financial statements.

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GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
For the Years Ended December 31, 2009 and 2008
(NOT AUDITED for fiscal year ended December 31, 2008)

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity (Deficiency) |
|---|------------------------|------------------------|----------------------------------|---|------------------------|--|
| Balance, December 31, 2007 | 10,000,000 | \$ 10,000 | \$ 2,230,309 | \$ (10,422) | \$ (2,401,881) | \$ (171,994) |
| Principal stockholder contribution of cash derived from sale of common shares of Company stock | — | — | 68,360 | — | — | 68,360 |
| Principal stockholder issuance of shares on behalf of company for conversion of convertible notes payable and accrued interest | — | — | 187,940 | — | — | 187,940 |
| Foreign currency translation loss | — | — | — | (445) | — | (445) |
| Net loss, 2008 | — | — | — | — | (1,568,251) | (1,568,251) |
| Balance, December 31, 2008 | 10,000,000 | 10,000 | 2,486,609 | (10,867) | (3,970,132) | (1,484,390) |
| Principal stockholder contribution of cash derived from sale of common shares of Company stock | — | — | 491,374 | — | — | 491,374 |
| Principal stockholder issuance of common shares on behalf of company to settle debt and accrued | — | — | 770,063 | — | — | 770,063 |

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| | | | | | | |
|--|-------------|---------|-----------|---|---|-----------|
| interest | | | | | | |
| Principal stockholder issuance of common shares on behalf of company for loan origination fees | — | — | 265 | — | — | 265 |
| Common shares returned to treasury and canceled | (1,232,730) | (1,233) | 1,233 | — | — | — |
| Common shares returned in exchange for stock options issued | (1,972,000) | (1,972) | 1,972 | — | — | — |
| Common shares issued to settle debt and accrued interest | 101,730 | 102 | 142,312 | — | — | 142,414 |
| Common shares issued for nominal cash and services | 2,584,000 | 2,584 | 23,256 | — | — | 25,840 |
| Consideration paid by stockholders, on behalf of company, to service providers | — | — | 25,000 | — | — | 25,000 |
| Consideration paid by stockholders, on behalf of company, to settle accounts payable | — | — | 125,000 | — | — | 125,000 |
| Common shares issued pursuant to recapitalization | 1,160,000 | 1,160 | (1,160) | — | — | — |
| Common shares and warrants issued under private placement, net of offering costs | 6,150,000 | 6,150 | 5,903,600 | — | — | 5,909,750 |
| Common shares and warrants issued for conversions of bridge notes payable | 877,500 | 878 | 775,372 | — | — | 776,250 |

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| | | | | | | |
|--|------------|-----------|---------------|--------|-----------------|--------------|
| Stock option expense | — | — | 233,900 | — | — | 233,900 |
| Reclassifications of warrants from equity to a liability | — | — | (826,678) | — | — | (826,678) |
| Foreign currency translation gain | — | — | — | 10,867 | — | 10,867 |
| Net loss, 2009 | — | — | — | — | (2,247,767) | (2,247,767) |
| Balance, December 31, 2009 | 17,668,500 | \$ 17,669 | \$ 10,152,118 | \$ | —\$ (6,217,899) | \$ 3,951,888 |

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 NOT AUDITED |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | \$ (2,247,767) | \$ (1,568,251) |
| Adjustments to reconcile net loss from continuing operations to net cash used in operating activities: | | |
| Stock-based compensation | 284,714 | — |
| Impairment of patents pending | 119,896 | — |
| Depreciation of property and equipment | 112,345 | 252,609 |
| Stock-based interest expense | 101,250 | — |
| Impairment of property and equipment | 61,107 | 124,630 |
| Impairment of patents | 50,077 | — |
| Convertible debt inducement expense | 40,759 | — |
| Amortization of patents | 4,415 | 4,415 |
| Stock-based loan fees | 265 | — |
| Gain on settlement of accounts payable | (118,910) | — |
| Change in warrant derivative liability | (21,960) | — |
| Loss on disposal of property and equipment | — | 174,125 |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable | — | 72,728 |
| Decrease in inventories | — | 2,116 |
| Increase in costs in excess of billings on uncompleted contracts | (59,506) | — |
| Increase in prepaid expenses and other current assets | (124,805) | — |
| Decrease in other assets | 2,334 | 30,000 |
| Increase (decrease) in accounts payable | 215,592 | (144,518) |
| (Decrease) increase in accrued expenses | (76,533) | 320,687 |
| (Decrease) increase in billings in excess of costs on uncompleted contracts | (13,781) | 215,000 |
| Decrease in settlement due to vendor | (67,333) | (58,984) |
| Net cash used in operating activities | (1,737,841) | (575,443) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (47,922) | (10,712) |
| Patent costs | (21,799) | (64,290) |
| Net cash used in investing activities | (69,721) | (75,002) |
| Cash flows from financing activities: | | |
| Proceeds from common stock and warrants issued for cash, net of offering costs | 5,909,750 | — |
| Capital contributions received | 491,374 | 68,360 |
| Proceeds from issuance of convertible notes payable | 773,500 | 595,330 |

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| | | |
|---|------------------|-----------------|
| Principal payments on convertible notes payable | (158,179) | (94,007) |
| Proceeds from issuance of notes payable | — | 607,987 |
| Principal payments on secured note payable | (116,662) | (297,529) |
| Proceeds from notes payable — related parties | — | 71,975 |
| Principal payments on notes payable — related parties | (36,244) | (85,500) |
| Debt issuance costs | | (4,000) |
| Principal payments on capital leases | (202,034) | (252,018) |
| Nominal cash received for common shares issued for services | 26 | — |
| Net cash provided by financing activities | 6,661,531 | 610,598 |
| Effect of exchange rate changes on cash | 10,867 | (445) |
| Net increase (decrease) in cash and cash equivalents | 4,864,836 | (40,292) |
| Cash and cash equivalents at beginning of year | 9,076 | 49,368 |
| Cash and cash equivalents at end of year | \$ 4,873,912 | \$ 9,076 |

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 NOT AUDITED |
|--|--|--|
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 111,847 | \$ — |
| Income taxes paid | \$ — | \$ — |
| Non-cash investing and financing activities: | | |
| Issuance of common stock to settle accounts payable | \$ 125,000 | \$ — |
| Conversion of accrued interest payable to convertible notes payable | \$ 129,298 | \$ — |
| Conversion of accrued interest payable to common stock | \$ 88,909 | \$ — |
| Conversion of convertible notes payable to common stock | \$ 1,457,809 | \$ — |
| Reclassification of warrant derivative liability from additional paid-in capital | \$ 826,678 | \$ — |

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(NOT AUDITED FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008)

Note 1. Nature of Operations and Recapitalization

Overview

Genesis Fluid Solutions Holdings, Inc. (“Holdings” or the “Company”) is an environmental company that supplies a Rapid Dewatering System (“RDS”) technology for dredged material, including fine-grained sediment, for lake and waterway restoration. The Company’s subsidiary, Genesis Fluid Solutions, Ltd (“Genesis Ltd”), was incorporated on October 26, 2005 under the laws of the State of Colorado.

On October 30, 2009, Genesis Ltd. entered into and consummated an Agreement of Merger and Plan of Reorganization (the “Merger Agreement”) with Holdings, an inactive publicly-held company, and Genesis Fluid Solutions Acquisition Corp. (“Acquisition Sub”), which was Holdings’ newly formed, wholly-owned Delaware subsidiary. Upon closing of the transaction contemplated under the Merger Agreement (the “Merger”), Acquisition Sub merged with and into Genesis Ltd., and Genesis Ltd., as the surviving corporation, became a wholly-owned subsidiary of Holdings. On October 30, 2009, the Company changed its name to Genesis Fluid Solutions Holdings, Inc.

At the closing of the Merger, each share of Genesis Ltd. common stock that was issued and outstanding immediately prior to the closing of the Merger was exchanged for ten shares of Holdings’ common stock. This transaction was treated as a recapitalization of Genesis Ltd. with 1,160,000 common shares deemed issued to the pre-merger stockholders of Holdings. Subsequent to the merger, but prior to the same day closing of the first tranche of a private placement of common stock and warrants, the stockholders of Genesis Ltd. had approximately 89% voting control of the Company. The accounting effects of the recapitalization are reflected retroactively for all periods presented in the accompanying consolidated financial statements and footnotes (See Note 16).

Note 2. Significant Accounting Policies

Use of Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of our consolidated financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our consolidated financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result. Significant estimates include the estimates of depreciable lives and valuation of property and equipment, valuation and amortization periods of intangible assets, valuation of derivatives, valuation of payroll tax contingencies, valuation of share-based payments, and the valuation allowance on deferred tax assets.

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GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2009 AND 2008
 (NOT AUDITED FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008)

Principles of Consolidation

The consolidated financial statements include the accounts of Holdings and its wholly-owned subsidiary Genesis Ltd. All significant inter-company balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments with an original maturity at the date of purchase of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2009.

Accounts Receivable

The Company records accounts receivable related to its construction contracts based on billings or on amounts due under the contractual terms. Accounts receivable throughout the year may decrease based on payments received, credits for change orders, or back charges incurred.

Management reviews accounts receivable periodically to determine if any receivables will potentially be uncollectible. Management's evaluation includes several factors including the aging of the accounts receivable balances, a review of significant past due accounts, economic conditions, and our historical write-off experience, net of recoveries. The Company includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve, in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets per the following table. Expenditures for additions and improvements are capitalized while repairs and maintenance are expensed as incurred.

| Category | Depreciation Term |
|-------------------------------|----------------------|
| Computer and office equipment | 3–5 years |
| Equipment and tools | 5–10 years |

Intangible Assets

The Company records the purchase of intangible assets not purchased in a business combination in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification") Topic 350 "Intangibles - Goodwill and Other" and records intangible assets acquired in a business combination in accordance with ASC Topic 805 "Business Combinations".

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GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(NOT AUDITED FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008)

The Company capitalizes the costs associated with the application for and issuance of international patents related to its technology. Such costs are classified as patents pending in the accompanying consolidated balance sheet until such time as the patents are issued. Upon issuance, such costs are reclassified to patents and subsequently amortized over the useful life of the related patents.

Long-Lived Assets

Management evaluates the recoverability of the Company's identifiable intangible assets and other long-lived assets in accordance with ASC Topic 360, "Property Plant and Equipment," which generally requires the assessment of these assets for recoverability when events or circumstances indicate a potential impairment exists. Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period of time, and changes in the Company's business strategy. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets. If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair market value of the assets.

Fair Value Measurements

On January 1, 2008, the Company adopted the provisions of ASC Topic 820 "Fair Value Measurements and Disclosures". ASC Topic 820 defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements. Excluded from the scope of ASC Topic 820 are certain leasing transactions accounted for under ASC Topic 840, "Leases." The exclusion does not apply to fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of ASC Topic 820.

Revenue Recognition

The Company generates revenues from professional services contracts. Customers are billed, according to individual agreements, typically based upon the amount of cubic yards of material processed. Revenues from professional services are recognized on a completed-contract basis, in accordance with ASC Topic 605-35, "Construction-Type and Production-Type Contracts." Under the completed-contract basis, contract costs are recorded to a deferred asset account and billings and/or cash received are recorded to a deferred revenue liability account during the periods of construction. Costs include direct material, direct labor and subcontract labor. All revenues, costs, and profits are recognized in operations upon completion of the contract. A contract is considered complete when all costs except insignificant items have been incurred and final acceptance has been received from the customer. Corporate general and administrative expenses are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is incurred.

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GENESIS FLUID SOLUTIONS HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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For uncompleted contracts, the deferred asset (accumulated contract costs) in excess of the deferred liability (billings and/or cash received) is classified under current assets as Costs in excess of billings on uncompleted contracts. The deferred liability (billings and/or cash received) in excess of the deferred asset (accumulated contract costs) is classified under current liabilities as Billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivable.

The Company is transitioning to a licensing model, under which it will not be directly performing dredging services. Under such a contractual arrangement, license fees would typically be paid to the Company at a negotiated, flat monthly rate, which would not be tied to the volume of material processed.

Advertising

The Company conducts advertising for the promotion of its services. In accordance with ASC Topic 720.35.25, advertising costs are charged to operations when incurred. Advertising costs aggregated \$3,216 and \$8,024 for the years ended December 31, 2009 and 2008, respectively.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year, and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if, based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized. A liability (including interest if applicable) is established in the consolidated financial statements to the extent a current benefit has been recognized on a tax return for matters that are considered contingent upon the outcome of an uncertain tax position. Applicable interest is included as a component of income tax expense and income taxes payable.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for unrecognized tax benefits. As of December 31, 2009, the tax years 2006 through 2008 remain open for IRS audit. The Company has received no notice of audit from the Internal Revenue Service for any of the open tax years.

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The Company adopted the provisions of ASC Topic 740.10.25.09, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The term “effectively settled” replaces the term “ultimately settled” when used to describe recognition, and the terms “settlement” or “settled” replace the terms “ultimate settlement” or “ultimately settled” when used to describe measurement of a tax position under ASC Topic 740. Topic 740.10.25.09 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open.

Stock-Based Compensation

The Company recognizes compensation expense for stock-based compensation in accordance with ASC Topic No. 718. For employee stock-based awards, the Company calculates the fair value of the award on the date of grant using the Black-Scholes method for stock options; the expense is recognized over the service period for awards expected to vest. For non-employee stock-based awards,

the Company calculates the fair value of the award on the date of grant in the same manner as employee awards, however, the awards are revalued at the end of each reporting period and the prorata compensation expense is adjusted accordingly until such time the nonemployee award is fully vested, at which time the total compensation recognized to date shall equal the fair value of the stock-based award as calculated on the measurement date, which is the date at which the award recipient’s performance is complete. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the periods presented. Diluted net loss per common share is computed using the weighted average number of common shares outstanding for the period, and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, stock warrants, convertible debt instruments or other common stock equivalents.

Options to purchase 3,222,000 common shares and warrants to purchase 3,520,000 common shares were outstanding at December 31, 2009, but were not included in the computation of diluted loss per share because the effects would have been anti-dilutive. These options and warrants may dilute future earnings per share.

Reclassifications

Certain amounts in the accompanying 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation.

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Comprehensive Loss

Comprehensive loss includes net loss as currently reported by the Company adjusted for other comprehensive items. Other comprehensive items for the Company consist of foreign currency translations gains and losses.

Foreign Currency Translation

The Company accounts for foreign currency translation according to ASC Topic 830, "Foreign Currency Matters". The Company's functional currency is the United States Dollar, but it had a capital lease obligation that is denominated in Euros. The capital lease obligation denominated in Euros is translated into United States Dollars using the current exchange rate at the end of each fiscal period. Such debt translation adjustments are included in accumulated other comprehensive income (loss) for the period. Expenses are translated using the average exchange rates prevailing throughout the respective periods. Translation gains or losses related to operating and interest expenses are recognized for each reporting period in the related statement of operations and comprehensive loss.

Accounting for Derivatives

The Company evaluates its options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging". The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liability at the fair value of the instrument on the reclassification date.

Research and Development

In accordance with ASC Topic 730, "Research and Development", expenditures for research and development of the Company's products and services are expensed when incurred, and are included in operating expenses. The Company recognized research and development costs of \$4,735 and \$2,011 for the years ended December 31, 2009 and 2008, respectively.

Codification Update

In May 2009, the FASB issued an accounting standard that became part of ASC Topic 855-10, "Subsequent Events" which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued.

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ASC Topic 855 sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC Topic 855 is effective for interim or annual financial periods ending after June 15, 2009. The adoption of ASC Topic 855 did not have a material effect on the Company's financial statements.

In June 2009, the FASB issued an accounting standard ASC 105, "Generally Accepted Accounting Principles", whereby the FASB Accounting Standards Codification ("ASC" or "Codification") will be the single source of authoritative nongovernmental U.S. GAAP. Rules and interpretive releases of the Securities and Exchange Commission (the "SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. ASC Topic 105 is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards are superseded as described in ASC Topic 105. All other accounting literature not included in the Codification is non-authoritative. The Codification is not expected to have a significant impact on the Company's financial statements.

In August 2009, the FASB issued Accounting Standards Update 2009-05, "Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value". ASU 2009-05 provided amendments to ASC 820-10, including clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using certain techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. Adoption of ASU 2009-05 did not have a material impact on the Company's consolidated results of operations or financial condition.

In October 2009, the FASB issued ASU 2009-13, "Multiple-Deliverable Revenue Arrangements (amendments to FASB ASC Topic 605, Revenue Recognition)" ("ASU 2009-13") and ASU 2009-14, "Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software)" ("ASU 2009-14"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect adoption of ASU 2009-13 or ASU 2009-14 to have a material impact on the Company's consolidated results of operations or financial condition.

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In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements". This update provides amendments to Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The Company does not expect adoption of ASU 2010-06 to have a material impact on the Company's consolidated results of operations or financial condition.

In February 2010, the FASB issued ASU 2010-09, "Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements". This update addresses both the interaction of the requirements of Topic 855, "Subsequent Events", with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provision related to subsequent events (paragraph 855-10-50-4). The amendments in this update have the potential to change reporting by both private and public entities, however, the nature of the change may vary depending on facts and circumstances. The Company does not expect adoption of ASU 2010-09 to have a material impact on the Company's consolidated results of operations or financial condition.

Note 3. Going Concern

As reflected in the accompanying consolidated financial statements for the years ended December 31, 2009 and 2008, the Company had net losses of \$2,247,767 and \$1,568,251, and cash used in operations of \$1,737,841 and \$575,443, respectively. At December 31, 2009, the Company had an accumulated deficit of \$6,217,899. In addition, the Company had minimal revenue generating activities in 2009 and is transitioning to a new business model. These matters raise substantial doubt about the Company's ability to continue as a going concern. During 2009, the Company raised approximately \$7.2 million from contributed capital, new loans, and a private placement of its common stock and warrants, net of offering costs. At December 31, 2009, the Company had working capital of \$3,232,419, which includes a warrant derivative liability of \$804,718. Management plans to utilize its working capital to implement its business plan. The financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to implement its business plan and continue as a going concern.

Note 4. Costs In Excess of Billings (Billings in Excess of Costs) On Uncompleted Contracts

Costs in excess of billings on uncompleted contracts (calculated on an individual contract basis) represent accumulated contract costs that exceeded billings and/or cash received on uncompleted contracts.

At December 31, 2009 and 2008, costs in excess of billings on uncompleted contracts consisted of the following:

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| | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|
| Costs on uncompleted contracts | \$ 76,596 | \$ — |
| Less: Billings and/or cash receipts on uncompleted contracts | (17,090) | — |
| Costs in excess of billings on uncompleted contracts | \$ 59,506 | \$ — |

Billings in excess of costs on uncompleted contracts (calculated on an individual contract basis) represents billings and/or cash received that exceed accumulated contract costs on uncompleted contracts.

At December 31, 2009 and 2008, billings in excess of costs on uncompleted contracts consisted of the following:

| | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|
| Billings and/or cash receipts on uncompleted contracts | \$ 215,000 | \$ 215,000 |
| Less: Costs on uncompleted contracts | (13,781) | — |
| Billings in excess of costs on uncompleted contracts | \$ 201,219 | \$ 215,000 |

Note 5. Property and Equipment

Property and equipment consisted of the following at December 31, 2009 and 2008:

| | December 31, 2009 | December 31, 2008 |
|-------------------------------|----------------------|----------------------|
| Computer and office equipment | \$ 9,724 | \$ 9,724 |
| Equipment and tools | 1,065,959 | 1,142,668 |
| | 1,075,683 | 1,152,392 |
| Accumulated depreciation | (356,214) | (307,393) |
| Property and equipment, net | \$ 719,469 | \$ 844,999 |

Property and equipment held under capitalized leases of \$258,991 and \$258,991 at December 31, 2009 and 2008, respectively, are included in Equipment and tools above. Depreciation expense for the years ended December 31, 2009 and 2008 was \$112,345 and \$252,609, of which \$25,899 and \$25,899 pertained to the capitalized lease discussed above, for the years ended December 31, 2009 and 2008, respectively. Accumulated depreciation amounted to \$356,214 and \$307,393, of which \$62,589 and \$36,690 pertained to capitalized leases, as of December 31, 2009 and 2008, respectively.

During the year ended December 31, 2008, as a result of an analysis by management, the Company determined that an impairment charge and write off of certain pieces of RDS equipment were appropriate. The Company recorded an impairment reserve as of December 31, 2008 of \$124,630, which is included in operating expenses, and wrote off the net book value of RDS equipment amounting to \$174,125, which is included in other income (expense). No other events or circumstances occurred for which an evaluation of the recoverability of long-lived assets was required.

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During the year ended December 31, 2009, the Company recognized an impairment loss of \$61,107, which is included in operating expenses, related to the net book value of RDS equipment held by a third party that was not recoverable.

Note 6. Patents

Patents consisted of the following at December 31, 2009 and 2008:

| | December 31, 2009 | December 31, 2008 |
|--------------------------|----------------------|----------------------|
| Patents | \$ — | \$ 68,767 |
| Patents pending | | 98,097 |
| | | — 166,864 |
| Accumulated amortization | | — (14,275) |
| Intangible assets, net | \$ — | \$ 152,589 |

Amortization expense for the years ended December 31, 2009 and 2008 was \$4,415 and \$4,415, respectively.

For the year ended December 31, 2009, as a result of an analysis by management, the Company recognized an impairment loss of \$50,077 and \$119,896 relating to the net book value of patents and patents pending, respectively. The charge is included in selling, general and administrative expenses.

Note 7. Accrued Expenses

Accrued expenses consisted of the following at December 31, 2009 and 2008:

| | December 31, 2009 | December 31, 2008 |
|------------------------------|----------------------|----------------------|
| Payroll and related benefits | \$ 288,945 | \$ 536,782 |
| Accrued interest | 12,180 | 183,482 |
| Sales tax payable | | — 16,276 |
| Other | 175,675 | 35,000 |
| Total | \$ 476,800 | \$ 771,540 |

The Company has accrued payroll and estimated related taxes, including estimated penalties and interest, to various taxing authorities, including the Internal Revenue Service, that pertain to various years of service. At December 31, 2009 and 2008, estimated penalties and interest in the amounts of \$63,709 and \$33,851, respectively, were included in payroll and related benefits in the above table.

Note 8. Fair Value of Financial Instruments

The estimated fair value of certain financial instruments, including cash and cash equivalents and current liabilities, are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

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On January 1, 2009, the Company adopted a newly issued accounting standard for fair value measurements of all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis.

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The accounting standard established a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring and non-recurring basis consisted of the following at December 31, 2009:

| | Total Carrying Value at December 31, 2009 | Fair Value Measurements at December 31, 2009 | | |
|------------------------------|---|---|-------------|-------------|
| | | (Level 1) | (Level 2) | (Level 3) |
| Assets: | | | | |
| Patents | \$ — | \$ — | \$ — | \$ — |
| Patents pending | — | — | — | — |
| Totals | \$ — | \$ — | \$ — | \$ — |
| Liabilities: | | | | |
| Warrant derivative liability | \$ 804,718 | \$ — | \$ — | \$ 804,718 |

The following is a summary of activity of Level 3 assets for the year ended December 31, 2009:

| | |
|------------------------------|------------|
| Balance at December 31, 2008 | \$ 152,589 |
| Patent costs | 21,799 |
| Amortization expense | (4,415) |
| Impairment loss recognized | (169,973) |

Balance at December 31, 2009

\$ —

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The following is a summary of activity of Level 3 liabilities for the year ended December 31, 2009:

| | |
|----------------------------------|----------------|
| Balance at December 31, 2008 | \$ — |
| Warrant liability upon issuance | 826,678 |
| Change in fair value | (21,960) |
| Balance at December 31, 2009 | \$ 804,718 |

Impairment losses recognized on patents and patents pending are included in selling, general and administrative expenses. Changes in fair value of the warrant derivative liability are included in other income (expense) in the accompanying consolidated statements of operations.

The Company used the discounted cash flows method to measure the fair value of patents and patents pending. Due to minimal and varied revenue producing activities, the Company cannot reliably project positive cash flows for patents and patents pending.

The Company estimates the fair value of the warrant derivative liability utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected warrant term, expected volatility of our stock price over the expected warrant term, expected risk-free interest rate over the expected warrant term, and the expected dividend yield rate over the expected warrant term. The Company believes this valuation methodology is appropriate for estimating the fair value of the warrant derivative liability. The following table summarizes the assumptions the Company utilized to estimate the fair value of the warrant derivative liability at December 31, 2009:

| Assumptions | December 31, 2009 |
|-------------------------|----------------------|
| Expected term (years) | 1.8 – 3.0 |
| Expected volatility | 120.0% |
| Risk-free interest rate | 1.14% – 1.70% |
| Dividend yield | 0.00% |

The expected warrant term is based on the remaining contractual term. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected term of the related warrant at the valuation date. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the fair value would increase if a higher expected volatility was used, or if the expected dividend yield increased.

There were no changes in the valuation techniques during the three months ended December 31, 2009.

Note 9. Loan Payable

Loan payable at December 31, 2009 and 2008 consisted of an unsecured, non-interest bearing loan in the amount of \$68,076, due on demand.

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Note 10. Equipment Payable

On June 19, 2007, the Company entered into an agreement and bill of sale with a third party vendor for the purchase of certain RDS equipment in the amount of \$110,000. The terms of payment under the agreement were principal only payments of \$6,670 per month, commencing August 1, 2007, for a period of seven months. On March 1, 2008, a final payment of \$70,000 was to be made by the Company. The Company made no payments under the agreement during 2007 and went into default under the agreement. During 2008, the Company made payments to reduce the principal amount by \$25,205. Upon default, 12% interest applies to the unpaid balance. As of December 31, 2009 and 2008, the principal amount due under the agreement amounted to \$84,795, and is reflected as equipment payable in the accompanying consolidated balance sheets.

Note 11. Capital Lease Obligations

Capital lease obligations consisted of the following at December 31, 2009 and 2008:

| | December 31, 2009 | December 31, 2008 |
|---------------------------|----------------------|----------------------|
| Capital lease obligations | \$ 59,216 | \$ 261,250 |
| Less: Current maturities | (59,216) | (143,428) |
| Amount due after one year | \$ | —\$ 117,822 |

Note 12. Secured Note Payable

Secured notes payable consisted of the following at December 31, 2009 and 2008:

| | December 31, 2009 | December 31, 2008 |
|-------------------------------------|----------------------|----------------------|
| 20% Secured promissory note payable | \$ | —\$ 116,662 |
| Less: Current maturities | | — (116,662) |
| Amount due after one year | \$ | —\$ — |

On July 30, 2008, the Company issued a secured promissory note in the amount of \$200,000 to a lender, who is the lessor of the office space that the Company occupies for its operations, for working capital purposes. The note bears interest at 20% per year, was secured by all patents and other intellectual property of the Company, and was personally guaranteed by the Chief Executive Officer of the Company. The terms for repayment of the note required payments of \$16,667 per month for a period of 12 months, together with a balloon payment of \$40,000 in interest at the time the last payment was made. As part of the secured promissory note, the Company granted to the lessor an option to purchase, for a period of one year after the repayment of the loan and interest, shares of common stock of the Company, up to a total of the amount of the note, interest paid on the note, and a premium of \$40,000 (approximately \$280,000 in total), at a price of \$1 per share. At December 31, 2008, the principal balance of the note remaining

amounted to \$116,662, all of which was current in nature. The remaining balance of the note, including accrued interest, was paid in full on August 31, 2009 and the lien was subsequently released by the lender.

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Note 13. Convertible Notes Payable

Convertible notes payable consisted of the following at December 31, 2009 and 2008:

| | December 31, 2009 | December 31, 2008 |
|---------------------------|----------------------|----------------------|
| Convertible notes payable | \$ 10,000 | \$ 723,190 |
| Less: Current maturities | (10,000) | (723,190) |
| Amount due after one year | \$ — | \$ — |

The Company has entered into various secured and unsecured convertible notes with third party lenders to fund its operations. The notes are generally convertible into shares of common stock at a fixed rate of \$5.00 per share at the discretion of the holder and mature over periods of less than one year. As the conversion rate for all of the notes exceeded the estimated fair value of the Company's common stock on the date of issuance, the notes did not contain a beneficial conversion feature. The notes bear interest at rates ranging from 4.3% to 40%. Activities pertaining to convertible notes for the years ended December 31, 2009 and 2008, were as follows:

| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 |
|-------------------------------------|---|--|
| Beginning balance | \$ 723,190 | \$ 302,971 |
| Issuance of convertible notes | 773,500 | 595,330 |
| Interest added to principal amounts | 129,298 | 78,896 |
| Principal payments | (158,179) | (94,007) |
| Conversions to common stock | (1,457,809) | (160,000) |
| Ending balance | \$ 10,000 | \$ 723,190 |

The weighted average interest rate for convertible notes payable outstanding as of December 31, 2009 was 40%.

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Note 14. Notes Payable – Related Party

Notes payable — related party consisted of the following at December 31, 2009 and 2008:

| | December 31, 2009 | December 31, 2008 |
|---------------------------------|----------------------|----------------------|
| Notes payable — related parties | \$ 14,575 | \$ 50,819 |
| Less: Current maturities | (14,575) | (50,819) |
| Amount due after one year | \$ — | \$ — |

The Company has entered into various unsecured notes with related parties to fund its operations. The notes are due on demand or within one year from the date of the note. The notes bear interest at rates ranging from 4.3% to 80%. Activities pertaining to notes payable – related parties for the years ended December 31, 2009 and 2008, are described in Note 19.

The weighted average interest rate for notes payable – related party outstanding as of December 31, 2009 was 13.5%.

Note 15. Commitments and Contingencies

Capital Leases

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2009:

| | |
|---|-----------|
| Year ending December 31, 2010 | \$ 61,912 |
| Total minimum lease payments | 61,912 |
| Less: Amount representing interest | (2,696) |
| Present value of net minimum lease payments | \$ 59,216 |

Operating Leases

The Company leases office facilities under a month-to-month lease, which is cancellable with 30 days notice by either the Company or the landlord.

Rent expense for the years ended December 31, 2009 and 2008 was \$14,971 and \$14,219, respectively.

Settlement Due to Vendor

On May 27, 2008, Eagle North America, Inc. (“Eagle”), which provided certain equipment and consulting services to the Company, filed suit against the Company and Michael Hodges, Chief Executive Officer and Director, for monies

owed pursuant to an equipment lease agreement between Eagle and the Company. Eagle claimed damages of \$152,103. The Company made counter claims

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against Eagle for breach of certain representations and warranties, alleged damages related to the performance and operation of certain leased equipment and losses incurred as a result of its inadequate operation and maintenance of approximately \$280,000. The Company and Eagle entered mediation in November 2008. On June 26, 2009, the parties entered into a settlement agreement pursuant to which Eagle dismissed its claims against the Company, and the Company dismissed its claims against Eagle. Pursuant to the settlement agreement, the Company is required to pay Eagle the aggregate sum of \$152,000, payable as follows: (i) \$25,000 within thirty days of the settlement, and (ii) thereafter 15 equal installments of \$8,467 commencing August 26, 2009. As of December 31, 2009, the remaining balance due under the settlement due to vendor was \$84,667, all of which is current in nature.

Registration Rights

As part of a private placement, we have agreed to file a “resale” registration statement with the SEC covering all shares of our common stock included within the Units sold in the Offering and underlying any warrants as well as the shares underlying the Placement Agent warrants, on or before the date which is 90 days after the final closing date of the Private Placement or the termination date, whichever occurs later (the “Filing Deadline”). We will maintain the effectiveness of the “resale” registration statement from the effective date through and until twelve (12) months after the final closing date, unless all securities registered under the registration statement have been sold or are otherwise able to be sold pursuant to Rule 144. We have agreed to use commercially reasonable efforts to have the “resale” registration statement declared effective by the SEC as soon as possible and, in any event, within 180 days after the final closing date of the Private Placement or the termination date, whichever occurs later (the “Effectiveness Deadline”). In addition, if the registration statement is not effective, then the investors in the Offering are permitted to “piggy-back” onto other registration statements that are filed by the Company, with certain exceptions. One of these exceptions is in connection with a registration statement filed to register the sale of certain shares held in escrow in connection with the Merger. We are obligated to pay to investors in the Offering a fee of 1% per month of the investors’ investment, payable in cash for each month: (i) in excess of the Filing Deadline that the registration statement has not been filed; and, (ii) in excess of the Effectiveness Deadline that the registration statement has not been declared effective; provided, however, that the Company shall not be obligated to pay any liquidated damages if the Company is unable to fulfill its registration obligations as a result of rules, regulations, positions or releases issued or actions taken by the SEC pursuant to its authority with respect to “Rule 415,” provided the Company registers at that time the maximum number of shares of common stock permissible upon consultation with the staff of the SEC. The maximum potential penalty under the registration rights agreement is 10%, which amounts \$682,500. As of March 29, 2009, the Company was in default regarding the registration rights agreement as the Company had not yet filed a registration statement covering the securities issued in the private placement.

Legal Matters

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of December 31, 2009, other than what is described in this section, “Legal Matters”, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on our results of operations.

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In September 2006, the Company entered into a five-year exclusive license agreement with an entity located in the Netherlands (the "Entity") to complete projects and develop the revenues and marketing presence of the Company in the Netherlands, France, and Germany. Though never consummated, it was the intent of the parties to enter into a joint venture. The parties completed one project, which has become the subject of a dispute. Each party has alleged certain damages and defenses as a result of the project. However, the parties are working together to resolve the matter. In order to conduct the project completed with the Entity, the Company relocated certain RDS equipment from the United States to the Netherlands. The RDS equipment transferred is currently under the control of the Entity, and is part of the dispute between the parties described above. During the year ended December 31, 2008, the Company wrote off \$174,125 in net book value of RDS equipment located in the Netherlands, which management of the Company believes is not in suitable operating condition, and provided a 50% reserve, in the amount of \$124,630, for impairment in the carrying value of other RDS equipment, which is also under control of the Entity. At December 31, 2009, the Company impaired the remaining net book value of the equipment and recognized an impairment loss of \$61,107. The extent of any additional loss, contingent or otherwise, was not determinable or probable of occurrence and as a result, no general reserve for the dispute has been recorded in the accompanying consolidated financial statements. Further, as of December 31, 2009, no formal legal claim had been filed with any jurisdiction by either party.

During 2009, the Company terminated a Reseller Agreement. The reseller has contested this termination, however, no formal legal claim had been filed as of December 31, 2009.

The former chief financial officer of the Company has claimed breach of his separation agreement. The Company has made certain counterclaims. As of December 31, 2009, no formal legal claim had been filed with any jurisdiction by either party (See Note 19).

Note 16. Stockholders' Equity (Deficiency)

Recapitalization

On October 30, 2009, Genesis Ltd. entered into a merger transaction with Holdings, an inactive publicly-held company. This transaction was treated as a recapitalization of Genesis Ltd. with 1,160,000 common shares deemed issued to the pre-merger stockholders of Holdings. The accounting effects of the recapitalization are reflected retroactively for all periods presented in the accompanying consolidated financial statements and footnotes (See Note 1).

As part of the Merger, 1,300,000 shares issuable to Michael Hodges, the founder and Chief Executive Officer of the Company, have been placed in escrow to be held for three years in order to cover certain liabilities, including potential tax liabilities of Genesis Ltd.

Upon completion of the Merger, on October 30, 2009, the Company amended its Articles of Incorporation whereby it changed its name to Genesis Fluid Solution Holdings, Inc. and revised its authorized capital to consist of 100,000,000 common shares at \$0.001 par value and 25,000,000 preferred shares at \$0.001 par value.

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Preferred Stock

The Company is authorized to issue up to 25,000,000 shares of preferred stock having a par value of \$0.001 per share, of which none was issued and outstanding at December 31, 2009 and December 31, 2008.

Common Stock

The Company is authorized to issue up to 100,000,000 shares of common stock having a par value of \$0.001 per share, of which 17,668,500 and 10,000,000 shares were issued and outstanding at December 31, 2009 and 2008, respectively.

During the year ended December 31, 2008, Michael Hodges, the Company's Chief Executive Officer and a Director of the Company, sold approximately 23,000 shares of Company common stock owned personally by him to third-party investors for cash proceeds of \$68,360, which was then contributed to Company.

During the year ended December 31, 2008, Michael Hodges, the Company's Chief Executive Officer and a Director of the Company, gave approximately 32,960 shares of Company common stock owned personally by him to certain creditors of the Company to serve as repayment of notes payable and related accrued interest of the note holders of \$187,940. Such conversions of the notes payable into common shares of the Company did not result in any cash received by the Company.

For the purpose of recording certain equity transactions, the Company obtained an independent certified valuation report of the value of its common stock for May 11, 2009 of \$0.01 per share and for October 30, 2009 of \$0.50 per share.

During the period from January 6, 2009 through July 11, 2009, Michael Hodges, the Company's Chief Executive Officer and a Director of the Company, sold 187,730 shares of Company common stock owned personally by him to third-party investors for cash proceeds of \$491,374, which was then contributed to Company.

During the period from March 10, 2009 through October 1, 2009, Michael Hodges, the Company's Chief Executive Officer and a Director of the Company, gave 160,600 shares of Company common stock owned personally by him to certain creditors of the Company upon conversion, at their contractual conversion rate of \$5.00 per share, of convertible notes payable of \$690,167 and related accrued interest of \$79,830. One creditor was given 6,700 additional shares, resulting in convertible debt inducement expense of \$66. Such conversions of the notes payable into common shares of the Company did not result in any cash received by the Company.

During the period from January 16, 2009 through July 7, 2009, Michael Hodges, the Company's Chief Executive Officer and a Director of the Company, gave 26,480 shares of Company common stock (having a fair value of \$265) owned personally by him to two individuals as loan origination fees.

On October 30, 2009, Michael Hodges, the Company's Chief Executive Officer and a Director of the Company, returned to the Company 1,232,730 shares of common stock owned personally by him. He received no compensation

and the shares were immediately cancelled. This transaction was recorded as an increase in additional paid-in capital of \$1,233 with a corresponding decrease in common stock.

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On October 30, 2009, several stockholders (comprised of a director, an officer, and several employees of the Company) agreed to return to the Company 1,972,000 shares of common stock in exchange for options to purchase 1,972,000 shares in the Company. The options have a term of ten years, of which (i) 1,272,000 vested immediately and have an exercise price of \$0.90 per share and (ii) 700,000 options will vest on April 30, 2010 and have an exercise price \$0.99 per share. Since the fair value of the common shares returned exceeded the fair value of the stock options issued on the exchange date, no additional expense was recognized. This transaction was recorded as an increase in additional paid-in capital of \$1,972 with a corresponding decrease in common stock.

During the period from October 1, 2009 through October 13, 2009, the Company issued 101,730 shares of common stock upon conversion of convertible notes payable of \$92,642 and accrued interest of \$9,079. The creditors' contractual conversion rate was \$5.00 per share, however, the creditors converted at \$1.00 per share, resulting in convertible debt inducement expense of \$40,693.

During the year ended December 31, 2009, the Company issued 2,584,000 shares of common stock (having a fair value of \$25,840) in exchange for cash proceeds of \$26 and services rendered. Accordingly, the Company recognized stock-based compensation expense of \$25,814.

On October 30, 2009, prior to the Merger, stockholders of the Company gave 50,000 shares of Company common stock (having a fair value of \$25,000) owned personally by them to a vendor of the Company to serve as payment on behalf of the Company for services rendered. The \$25,000 was recorded as contributed capital.

On October 30, 2009, prior to the Merger, stockholders of the Company gave 250,000 shares of Company common stock (having a fair value of \$125,000) owned personally by them to a vendor of the Company to serve as payment on behalf of the Company to settle accounts payable of \$243,910. Accordingly, the Company recognized a gain on settlement of accounts payable of \$118,910.

In May and June 2009, pursuant to Note Purchase Agreements (the "Agreements"), the Company sold \$600,000 of convertible notes ("bridge notes") to lenders. In September and October 2009, the Company sold an additional \$75,000 of bridge notes to lenders. The holders of \$275,000 of the bridge notes had the option and the holders of \$400,000 of the bridge notes had the obligation to convert on a dollar-for-dollar basis upon a Subsequent Financing (as defined in the Agreements) on the same terms and conditions as the Subsequent Financing. In addition, whether converted or not, upon the earlier of: (i) a Subsequent Financing or (ii) six months, the bridge note holders were entitled to additional interest in the form of common shares of the Company equal to 30% of the face value of the notes using a price per share based on: (a) the same price per share of a Subsequent Financing or (b) should the Subsequent Financing not have occurred within six months of the date of the respective agreement, a price per share based upon a \$15 million total market value of the Company. The bridge notes bore interest of 10% and were due and payable on the earlier of the completion of a reverse merger transaction (which occurred October 30, 2009) or November 9, 2009. All of the bridge note holders converted to the private placement that occurred on October 30, 2009. As a result, 675,000 common shares and warrants (having the same terms as those issued to investors under the private placement, as discussed below) to purchase 337,500 common shares were issued in exchange for the bridge notes (an aggregate principal amount of \$675,000) as payment in full. Additionally, 202,500 common shares (representing 30% of the face value of the bridge notes) (having a fair value of \$101,250), were issued and such value was included in interest

expense.

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Following the closing of the Merger through December 29, 2009, the Company accepted subscriptions for an aggregate of 246 units in a private placement (each unit consisting of 25,000 shares of common stock and three-year warrants to purchase 12,500 common shares at an exercise price of \$2.00 per share) at a price of \$25,000 per unit for gross proceeds of \$6,150,000. As a result, the Company issued (i) 6,150,000 common shares and (ii) warrants to purchase 3,075,000 common shares. In connection with the private placement, the Company paid \$240,250 in offering costs and issued two-year warrants to purchase an aggregate of 107,500 common shares, exercisable at \$1.25 per share, to placement agents. All of the shares of common stock issued in the private placement as well as the shares of common stock underlying the warrants issued in the private placement and the shares of common stock underlying the placement agents' warrants are subject to a registration rights agreement (See Note 15). In addition, so long as the underlying shares of common stock are registered in an effective registration statement, if and when shares of the common stock are trading at or above \$3.50 per share for 20 consecutive trading days, we will have the option to redeem the three-year warrants from the investors for a purchase price of \$0.001 per share. A holder of three-year warrants will have 10 days following notice to convert their warrants or we may retire the warrants upon the payment of \$0.001 per share underlying each warrant. All of the warrants contain a cashless exercise provision whereby if at any time after twelve (12) months from the issuance date of the warrants there is no effective registration statement registering or no current prospectus available, for the resale of the shares of warrant stock issuable, then the holder may cashless exercise the warrants. All of the warrants contain a price protection provision whereby if from the warrant issuance date and through the earlier to occur of: (i) first anniversary of the date of issuance and (ii) the date there is an effective registration statement on file with the Securities and Exchange Commission covering the resale of all the shares of warrant stock and all the shares of common stock issued in the offering the Company issues or sells any shares of common stock or securities convertible into common stock, other than an exempt issuance, as defined in the warrant, for consideration per share of common stock less than \$1.00, then immediately after such dilutive issuance, the warrant price then in effect shall be reduced to an amount equal to the new issuance price multiplied by two. Due to the price protection clause, the warrants are deemed a derivative and, therefore, were reclassified from equity to a warrant derivative liability on each date of issuance resulting in an aggregate amount of \$826,678 being reclassified (See Note 8).

Common Stock Warrants

A summary of the Company's warrant activity during the year ended December 31, 2009 is presented below:

| | No. of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|--------------------|--|---|---------------------------------|
| Balance Outstanding, December 31, 2008 | — | — | — | — |
| Granted | 3,520,000 | \$ 1.98 | — | — |
| Exercised | — | — | — | — |
| Forfeited | — | — | — | — |
| Expired | — | — | — | — |

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| | | | | | | |
|--|-----------|----|------|-----|----|---|
| Balance Outstanding, December 31, 2009 | 3,520,000 | \$ | 1.98 | 2.9 | \$ | — |
| Exercisable, December 31, 2009 | 3,520,000 | \$ | 1.98 | 2.9 | \$ | — |

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Stock Incentive Plan and Stock Option Grants to Employees and Directors

On October 30, 2009, the Company's board of directors and stockholders adopted the 2009 Equity Incentive Plan (the "2009 Plan"). The purpose of the 2009 Plan is to provide an incentive to attract and retain directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage a sense of proprietorship and to stimulate an active interest of such persons into our development and financial success. Under the 2009 Plan, the Company is authorized to issue incentive stock options intended to qualify under Section 422 of the Code, non-qualified stock options, stock appreciation rights, performance shares, restricted stock and long-term incentive awards. The Company has reserved for issuance an aggregate of 4,542,000 shares of common stock under the 2009 Plan. The 2009 Plan will be administered by the Company's board of directors until such time as such authority has been delegated to a committee of the board of directors.

The material terms of each option granted pursuant to the 2009 Plan by the Company shall contain the following terms: (i) that the purchase price of each share purchasable under an incentive option shall be determined by the Committee at the time of grant, but shall not be less than 100% of the Fair Market Value (as defined in the 2009 Plan) of such common share on the date the option is granted, (ii) the term of each option shall be fixed by the Committee, but no option shall be exercisable more than 10 years after the date such option is granted and (iii) in the absence of any option vesting periods designated by the Committee at the time of grant, options shall vest and become exercisable as to one-third of the total number of shares subject to the option on each of the first, second and third anniversaries of the date of grant.

On October 30, 2009, the Company issued, pursuant to the 2009 Plan, ten-year options to purchase 1,972,000 shares in the Company in exchange for the return of 1,972,000 shares of common stock (see above).

On October 30, 2009, the Company granted, pursuant to the 2009 Plan, ten-year stock options to purchase 1,250,000 common shares of the Company, of which (i) 580,000 are exercisable immediately at \$0.90 per share, (ii) 70,000 are exercisable on April 30, 2010 at \$0.99 per share, and (iii) 600,000 vest based on performance milestones, as stipulated in the option, and are exercisable at \$1.00 per share.

The total fair value of stock option awards (not including those issued in exchange for common stock returned to the Company) granted to employees during the year ended December 31, 2009 was \$251,871, which is being recognized over the respective vesting periods. The Company recorded compensation expense of \$233,900 for the year ended December 31, 2009 in connection with these stock options.

As of December 31, 2009, 1,320,000 shares were remaining under the 2009 Plan for future issuance.

The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of our stock price over the expected option term, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC Topic 718 requirements. These amounts are estimates and thus may not be reflective of actual future

results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite service period for each award. The following table summarizes the assumptions the Company utilized to record compensation expense for stock options granted during the year ended December 31, 2009:

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| | For the Year Ended December 31, 2009 |
|-----------------------------|--|
| Assumptions | |
| Expected term (years) | 5.0 – 10.0 |
| Expected volatility | 120.0% |
| Weighted-average volatility | 120.0% |
| | 2.31% – |
| Risk-free interest rate | 3.41% |
| Dividend yield | 0.00% |
| Expected forfeiture rate | 0.0% |

The expected life is computed using the simplified method, which is the average of the vesting term and the contractual term. The expected volatility is based on historical volatility. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected term of the related option at the time of the grant. Dividend yield is based on historical trends. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased.

A summary of the Company's stock option activity during the year ended December 31, 2009 is presented below:

| | No. of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|-------------------|--|---|---------------------------------|
| Balance Outstanding, December 31, 2008 | — | — | — | — |
| Granted | 3,222,000 | \$ 0.94 | — | — |
| Exercised | — | — | — | — |
| Forfeited | — | — | — | — |
| Expired | — | — | — | — |
| Balance Outstanding, December 31, 2009 | 3,222,000 | \$ 0.94 | 9.8 | \$ — |
| Exercisable, December 31, 2009 | 1,852,000 | \$ 0.90 | 9.8 | \$ — |

The weighted-average grant-date fair value of options granted to employees during the year ended December 31, 2009 was \$0.40. The Company expects all non-contingent outstanding employee stock options to eventually vest.

As of December 31, 2009, there were total unrecognized compensation costs related to nonvested share-based compensation arrangements of \$297,337, of which \$17,972 is expected to be recognized over a weighted-average period of 0.3 years and \$279,365 shall be recognized upon the satisfaction of a contingency.

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Other Stock-Based Option Awards to Nonemployees

On July 30, 2008, as part of a secured promissory note, the Company granted an option to purchase, for a period of one year after the repayment of the loan and interest (which occurred on August 31, 2009), shares of common stock of the Company, up to a total of the amount of the note, interest paid on the note and a premium of \$40,000 (approximately \$280,000 in total), at a rate of \$1 per share. As of December 31, 2009, the option has not yet been exercised.

On September 30, 2009, an option to purchase up to 5,000 common shares at \$5.00 expired unexercised.

Note 17. Income Taxes

The Company was originally formed in October 2005 as an “S” corporation and filed its federal and state income tax returns according to the rules and regulations of that section of the Internal Revenue Code. On October 31, 2007, the Company revoked its status as an “S” corporation and converted to a “C” corporation.

The Company files a consolidated U.S. income tax return that includes its U.S. subsidiary. The amounts provided for income taxes are as follows:

| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 |
|---|--|--|
| Current (benefit) provision: federal | \$ — | \$ — |
| Current (benefit) provision: state | — | — |
| Total current provision | — | — |
| Deferred (benefit) provision | — | — |
| Deferred (benefit) provision relating to reduction of valuation allowance | — | — |
| Total deferred provision | — | — |
| Total provision (benefit) for income taxes from continuing operations | \$ — | \$ — |

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Significant items making up the deferred tax assets and deferred tax liabilities as of December 31, 2009 and 2008 are as follows:

| | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Deferred tax assets: | | |
| Net operating loss carryforward | 1,315,280 | 588,181 |
| Accrued severance | 26,341 | — |
| Impairment — patents and patents pending | 63,961 | — |
| Stock-based compensation | 88,017 | — |
| | 1,493,599 | 588,181 |
| Less: valuation allowance | (1,473,655) | (588,181) |
| Total deferred tax assets | 19,944 | — |
| Deferred tax liabilities: | | |
| Depreciation | (11,680) | — |
| Other temporary differences | (8,264) | — |
| Total deferred tax liabilities | (19,944) | — |
| Total net deferred tax assets (liabilities) | \$ | —\$ |

A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. Accordingly, a valuation allowance was established in 2009 and 2008 for the full amount of our deferred tax assets due to the uncertainty of realization. Management believes that based upon its projection of future taxable operating income for the foreseeable future, it is more likely than not that the Company will not be able to realize the benefit of the deferred tax asset at December 31, 2009. The net change in the valuation allowance during the years ended December 31, 2009 and 2008 was an increase of \$885,474 and \$521,696, respectively.

At December 31, 2009, the Company had \$3,495,295 of net operating loss carryforwards which will expire in various years through 2029. Under the provision of the Tax Reform Act of 1986, when there has been a change in an entity's ownership of 50 percent or greater, utilization of net operating loss carry forwards may be limited. As a result of the Company's equity transactions, the Company's net operating losses may be subject to such limitations and may not be available to offset future income for tax purposes. Utilization of the net operating losses and credits may be subject to a substantial annual limitation due to the ownership change provisions of the Internal Revenue Code of 1986, as amended. The annual limitation may result in the expiration of net operating losses and credits before utilization and in the event we have a change of ownership, utilization of the carryforwards could be restricted.

The Company's effective income tax expense (benefit) differs from the statutory federal income tax rate of 34% as follows:

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| | For the Year Ended December 31, 2009 | For the Year Ended December 31, 2008 |
|--|--|--|
| Federal tax rate applied to loss before income taxes | 34.0% | 34.0% |
| State income taxes, net of federal benefit | 3.5% | -3.3% |
| Permanent differences | -0.9% | -2.0% |
| Change in valuation allowance | -39.4% | -28.7% |
| Other | 2.8% | 0.0% |
| Income tax expense (benefit) | 0.0% | 0.0% |

Note 18. Concentrations

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited in the local currency in three financial institutions in the United States. The balance, at any given time, may exceed Federal Deposit Insurance Corporation insurance limits. As of December 31, 2009 and 2008, there was \$4,508,514 and \$0, respectively, in excess of insurable limits.

Note 19. Related Party Transactions

On November 28, 2008, the Company entered into a loan agreement with Maria Hodges, the wife of the Company's Chief Executive Officer, Michael Hodges for \$9,800. The note bears an annual 4.29 percent interest rate and is due on November 28, 2018. The note does not have any conversion feature and is unsecured. Accrued and unpaid interest is due at the termination of the loan. At December 31, 2008, no principal or interest had been paid on the note. During 2009, principal and accrued interest on this note was paid in full.

On September 29, 2008, the Company entered into a loan agreement with Maria Hodges, wife of the Company's Chief Executive Officer Michael Hodges for \$9,000. The note bears an annual 4.29 percent interest rate and is due on September 29, 2019. The note does not have conversion feature and is unsecured. Accrued and unpaid interest is due at the termination of the loan. At December 31, 2008, no principal interest had been paid on the note. During 2009, principal and accrued interest on this note was paid in full.

On June 17, 2008, the Company entered into a loan agreement with Jack Speer, who was then a member of the Genesis Ltd. board of directors, for \$5,000. The note bears an annual 4.29 percent interest rate and is due on June 17, 2018. The note does not have conversion feature and is unsecured. Accrued and unpaid interest is due at the termination of the loan. In September 2008, the Company paid Mr. Speer \$2,925 which was recorded as a reduction of

the outstanding principal balance.

On May 28, 2008, the Company entered into a loan agreement with Jack Speer, who was then a member of the Genesis Ltd. board of directors, for \$1,075. The note had no stated interest rate or maturity date. The note does not have any conversion feature and is unsecured. In September 2008, the Company paid Mr. Speer \$1,075 and cancelled the note.

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On February 4, 2008, the Company entered into a loan agreement with Greg Rankin, who has provided legal services to the Company, for \$5,000. The note had no stated interest rate or maturity date. The note does not have conversion feature and was unsecured. On July 23, 2008, the principal balance plus \$600 of accrued and unpaid interest was converted into 1,120 shares of common stock.

On August 9, 2007, the Company entered into a loan agreement with Michael Whaley, the former Chief Financial Officer of the Company, for \$50,000. The note originally bore an annual interest rate of 20 percent, which was later amended to 80 percent, and subsequently, in combination with his separation, was revised to a 15 percent interest rate and was due on November 5, 2007. The note does not have a conversion feature and is unsecured. Accrued and unpaid interest is due at maturity date of the loan. At December 31, 2008, \$37,500, respectively, had been repaid under the note. At December 31, 2009, \$12,500 of principal plus accrued interest was due on the note. On September 17, 2009, Michael Whaley, the former chief financial officer of the Company, resigned. As part of his separation agreement and in exchange for mutual releases, the Company is required to deliver the following to Mr. Whaley after completion of the Merger: (i) \$40,000 in cash, (ii) \$30,000 shares of common stock of the Company, and (iii) payment of all amounts due under his loan agreement. As of December 31, 2009, all of the amounts due under the separation agreement were outstanding as the separation agreement is in dispute (See Note 15).

On August 9, 2007, the Company entered into a loan agreement with Larry McCurry, who was then a member of the Genesis Ltd. board of directors, for \$25,000. The note bears an annual 40 percent interest rate and was due on November 10, 2007. The note does not have conversion feature and was unsecured. Accrued and unpaid interest is due at the termination of the loan. At December 31, 2008, the Company had made payments of \$22,500 of which approximately \$13,000 had been applied against principal and the remaining amount recognized as interest. During 2009, principal and accrued interest on this note was paid in full.

On January 5, 2009, the Company entered into a loan agreement with Larry McCurry, who was then a member of the Genesis Ltd. board of directors, for \$50,000. The note was unsecured, bore 40% interest and was due on February 3, 2009. During 2009, principal and accrued interest on this note was paid in full.

Note 20. Subsequent Events

On February 15, 2010, the Company entered into an agreement with a vendor for the vendor to perform marketing services. On March 2, 2010, the Company terminated its agreement with the vendor. On March 23, 2010, the vendor filed suit for breach of contract claiming amounts owed of approximately \$41,000. The Company disputes this claim and intends to rigorously defend its position.

On March 19, 2010, the Company entered into a settlement agreement with an individual that had been engaged May 11, 2009 to perform financial advisory services for the Company. As a result of the settlement, the Company issued 83,000 shares of the Company's common stock.

As of March 29, 2009, the Company was in default regarding the registration rights agreement as the Company had not yet filed a registration statement covering the securities issued in the private placement.

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

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Item 15. Exhibits and Financial Schedules.

Exhibit Description

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Henderson, State of Nevada on the 11th day of April, 2011.

BLUE EARTH, INC.

By: /s/ Johnny R. Thomas
Name: Johnny R. Thomas
Title: Chief Executive Officer
(Principal Executive Officer and
Principal Accounting Officer)

Pursuant to the requirements of Section 13 or 15(d) the Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|---|----------------|
| /s/ Laird Q. Cagan Laird Q. Cagan | Chairman of the Board | April 11, 2011 |
| /s/ Johnny R. Thomas Johnny R. Thomas | Chief Executive Officer and Director | April 11, 2011 |

