

Global Resource CORP
Form 10-Q
April 14, 2011

FORM 10-Q
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended September 30, 2010

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 000-50944

Global Resource Corporation
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation or organization)

84-1565820
(I.R.S. Employer Identification Number)

9400 Globe Center Drive, Suite 101, Morrisville, NC 27560
(Address of principal executive offices)

(856) 767-5665
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 website, 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 for such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated file. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING
THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No .

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 88,662,002 shares of common stock, par value \$.001 per share, and 6,229,997 preferred shares, par value \$.001, outstanding as of April 13, 2011.

GLOBAL RESOURCE CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, results of operations, and cash flows of the Company for the interim periods presented.

The results for the period ended September 30, 2010 are not necessarily indicative of the results of operations for the full year. These financial statements and related footnotes should be read in conjunction with the financial statements and footnotes thereto included in the Company's Form 10-K filed with the Securities and Exchange Commission for the period ended December 31, 2009.

Global Resource Corporation
(A Development Stage Company)
Consolidated Balance Sheets

| ASSETS | (unaudited) September 30, 2010 | December 31, 2009 |
|--|--------------------------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$75,130 | \$40,620 |
| Prepaid services | 161,125 | 577,250 |
| Total current assets | 236,255 | 617,870 |
| Property and equipment, net of depreciation | 1,003,571 | 1,430,201 |
| OTHER ASSETS | | |
| Deposits | 93,174 | 124,330 |
| Patents | 75,709 | 79,203 |
| Prepaid patent costs | 692,417 | 559,855 |
| Total other assets | 861,300 | 763,388 |
| TOTAL ASSETS | \$2,101,126 | \$2,811,459 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$1,467,530 | \$1,094,844 |
| Deferred revenue | 166,667 | 120,000 |
| Loans payable - equipment | - | 17,738 |
| Convertible promissory notes | 1,557,562 | - |
| Capital lease obligation - equipment | 7,919 | 12,250 |
| Royalty advance | - | 750,000 |
| Severance payable | 200,000 | 200,000 |
| Total current liabilities | 3,399,678 | 2,194,832 |
| LONG-TERM LIABILITIES | | |
| Capital lease obligation - equipment, net of current portion | - | 5,252 |
| Severance payable, net of current portion | 668,742 | 1,435,485 |
| Derivative financial instruments | 3,565 | - |
| Total long-term liabilities | 672,307 | 1,440,737 |
| Total liabilities | 4,071,985 | 3,635,569 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |

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| | | |
|--|--------------------|--------------------|
| Preferred stock A - \$.001 par value 100,000,000 shares authorized, none issued and outstanding at September 30, 2010, none were issued and outstanding at December 31, 2009 | - | - |
| Common stock, \$.001 par value; 200,000,000 shares authorized, 82,017,197 shares issued and 75,322,236 outstanding at September 30, 2010, 74,100,664 shares issued and 67,405,703 outstanding at December 31, 2009 | 82,017 | 74,100 |
| Additional paid-in capital | 47,515,010 | 42,880,641 |
| Deficit accumulated in the development stage | (47,851,413) | (42,062,378) |
| | (254,386) | 892,363 |
| Treasury Stock at cost | (1,716,473) | (1,716,473) |
| Total stockholders' equity (deficit) | (1,970,859) | (824,110) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$2,101,126 | \$2,811,459 |

See accompanying notes to consolidated financial statements.

Global Resource Corporation
(A Development Stage Company)
Consolidated Statements of Operations and Comprehensive Loss
(unaudited)

| | Three Months Ended | | Nine Months Ended | | July 19, 2002 (Inception) to September 30, 2010 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|---|
| | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 | |
| REVENUES | \$825,000 | \$90,000 | \$1,003,333 | \$90,000 | \$1,183,333 |
| COST OF REVENUES | - | - | - | - | - |
| GROSS PROFIT | 825,000 | 90,000 | 1,003,333 | 90,000 | 1,183,333 |
| OPERATING EXPENSES | | | | | |
| General and administrative expenses | 1,132,008 | 5,151,889 | 5,551,304 | 10,388,171 | 58,112,891 |
| Research and development expenses | 357,415 | 438,710 | 1,106,638 | 1,119,069 | 3,995,072 |
| Total operating expenses | 1,489,423 | 5,590,599 | 6,657,942 | 11,507,240 | 62,107,963 |
| OPERATING LOSS | (664,423) | (5,500,599) | (5,654,609) | (11,417,240) | (60,924,630) |
| OTHER INCOME (EXPENSE) | | | | | |
| Loss on deposit and other | - | - | - | - | (179,893) |
| Net realized loss on short-term investments | - | (2,589) | - | (20,027) | (901,795) |
| Change in fair value of derivative financial instruments | 27,487 | 1,713,449 | (74,042) | 1,460,684 | 13,877,637 |
| Interest expense | (42,552) | (1,515) | (60,701) | (9,124) | (130,979) |
| Interest income | 9 | 1,742 | 317 | 115,729 | 408,247 |
| Total other income (expense) | (15,056) | 1,711,087 | (134,426) | 1,547,262 | 13,073,217 |
| NET LOSS | (679,479) | (3,789,512) | (5,789,035) | (9,869,978) | (47,851,413) |
| OTHER COMPREHENSIVE LOSS | | | | | |
| Unrealized gain (loss) on short-term investments | - | - | - | 237,550 | |
| Realized loss on short-term investments, net of taxes, reclassified from accumulated other comprehensive loss | - | - | - | - | |

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| | | | | | |
|--------------------------------|--------------|----------------|----------------|----------------|----------------|
| COMPREHENSIVE LOSS | \$(679,479) | \$(3,789,512) | \$(5,789,035) | \$(9,632,428) | \$(47,851,413) |
| BASIC AND DILUTED LOSS | | | | | |
| PER COMMON SHARE | \$(0.01) | \$(0.06) | \$(0.08) | \$(0.16) | |
| WEIGHTED AVERAGE NUMBER | | | | | |
| OF COMMON SHARES | 74,867,106 | 63,609,236 | 73,665,263 | 63,301,437 | |

See accompanying notes to consolidated financial statements.

Global Resource Corporation
(A Development Stage Company)
Consolidated Statements of Cash Flows
(With Cumulative Totals Since Inception)

| | Nine Months Ended | | July 19, 2002 (Inception) |
|---|--------------------------|--------------------------|------------------------------|
| | September 30, 2010 | September 30, 2009 | to September 30, 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | \$(5,789,035) | \$(9,869,978) | \$(47,851,413) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation | 426,630 | 251,269 | 1,083,877 |
| Amortization | 3,494 | - | 3,494 |
| Preferred stock issued for services | - | - | 400,000 |
| Common stock issued for services | 1,656,676 | 155,750 | 24,041,985 |
| Amortization of prepaid common stock issued for services | 1,091,625 | 1,973,925 | 6,875,175 |
| Common stock warrants and options issued for services | 937,975 | 1,403,215 | 4,320,944 |
| Amortization of deferred compensation | - | - | 545,000 |
| Amortization of debt discount | 56,511 | - | 56,511 |
| Loss on sale of property and equipment | - | - | 51,441 |
| Loss on sale of real estate and forfeiture of deposit | - | - | 212,936 |
| Loss on sale of short-term investments | - | 17,438 | 17,438 |
| Change in severance payable non-cash | - | 3,654,714 | 1,035,485 |
| Change in fair value of derivative financial instruments | 3,565 | (1,460,684) | (13,948,114) |
| Other than temporary losses on short-term investments | - | - | 1,075,400 |
| Common stock issued as charitable contribution | - | - | 50,000 |
| Changes in operating assets and liabilities | | | |
| Prepaid services | - | 85,000 | 846,625 |
| Deposits | 31,156 | (301) | (148,174) |
| Prepaid patent costs | (132,562) | (174,935) | (771,620) |
| Accounts payable and accrued liabilities | 372,686 | (221,178) | 2,230,366 |
| Deferred revenue | 46,667 | 210,000 | 166,667 |
| Severance payable | (112,743) | (150,000) | 887,257 |
| Total adjustments | 4,381,681 | 5,744,213 | 29,032,693 |
| Net cash used in operating activities | (1,407,354) | (4,125,765) | (18,818,720) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment - equipment & machinery | - | (74,718) | (666,697) |
| Purchase of property and equipment - construction-in-progress | - | (422,908) | (1,352,987) |
| Proceeds from sale of property and equipment | - | - | 44,200 |
| Proceeds from sale of real estate | - | - | 617,864 |

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| | | | |
|---|------------|-------------|--------------|
| Purchase of short-term investments | - | - | (4,586,334) |
| Proceeds from sale of short-term investments | - | 2,779,993 | 3,510,934 |
| Net cash provided by (used in) investing activities | - | 2,282,367 | (2,433,020) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issuance of common stock for cash | 617,535 | - | 21,745,541 |
| Proceeds from stock subscription receivable | - | - | (130,518) |
| Proceeds from royalty advance | (750,000) | - | - |
| Purchase of treasury stock | - | - | (1,716,473) |
| Proceeds from borrowings | 1,601,650 | - | 1,601,650 |
| Repayment of loans payable and capital lease obligation | (27,321) | (35,922) | (173,330) |
| Net cash provided by (used in) financing activities | 1,441,864 | (35,922) | 21,326,870 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | 34,510 | (1,879,320) | 75,130 |
| CASH AND CASH EQUIVALENTS | | | |
| - BEGINNING OF PERIOD | 40,620 | 2,013,730 | |
| CASH AND CASH EQUIVALENTS | | | |
| - END OF PERIOD | \$75,130 | \$134,410 | \$75,130 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES: | | | |
| Interest Paid | \$4,190 | \$9,124 | \$69,786 |

See accompanying notes to consolidated financial statements.

Global Resource Corporation

(A Development Stage Company)
Consolidated Statements of Stockholders' Equity (Deficit)

| | (Restated) | | Deficit (Restated) | | | Accumulated (Restated) | | | |
|---|-------------------|-------------------|--------------------|--------------------|--|------------------------|-------------------------|-------|---------|
| | Preferred Stock A | Preferred Stock B | Common Stock | Additional Paid-In | Accumulated during the Development Stage | Deferred Compensation | Subscription Receivable | Other | |
| | Par Value | Par Value | Par Value | Capital | | | | | |
| | Shares | Shares | Shares | Amount | | | | Loss | |
| | Amount | Amount | Amount | | | | | Total | |
| Balance at July 19, 2002 (Inception) | \$ - | \$ - | - | \$ - | - | \$ - | \$ - | \$ - | \$ - |
| Issuance of initial founders' shares, September 9, 2002 net of subsequent cancellations | | | 2,555,000 | | | | | | - |
| Common stock shares issued for cash : | | | | | | | | | |
| Common stock issued for cash in November 2002, at \$.50 per share plus 29,000 warrants | | | 29,000 | | 14,500 | | | | 14,500 |
| Common stock shares issued for services rendered: | | | | | | | | | |
| Common stock issued for services rendered, on September 10, 2002, at \$0.472 per share | | | 1,000,000 | | 472,000 | | | | 472,000 |
| Common stock issued for services | | | 13,600 | | 6,800 | | | | 6,800 |

rendered, in
November and
December, 2002,
at \$0.50 per
share, plus
13,600 warrants

| | | |
|---|------------|------------|
| Net loss for the period July 19, 2002 (Inception) through December 31, 2002 (Restated, see Note 19) | (508,508) | (508,508) |
|---|------------|------------|

| | | | | | | | | | | | | | |
|---|---|---|---|---|-----------|---|---------|------------|---|---|---|---|-----------|
| Balance at December 31, 2002 (Restated, see Note 19) | - | - | - | - | 3,597,600 | - | 493,300 | (508,508) | - | - | - | - | (15,208) |
|---|---|---|---|---|-----------|---|---------|------------|---|---|---|---|-----------|

| | | | | | | | | | | | | | |
|--|--|--|--|--|-----------|--|--|--|--|--|--|--|---|
| Re-issuance of initial founders' shares, July 2003 | | | | | 1,455,000 | | | | | | | | - |
|--|--|--|--|--|-----------|--|--|--|--|--|--|--|---|

Common stock
shares issued for
cash :

| | | | | | | | | | | | | | |
|--|--|--|--|--|---------|--|---------|--|--|--|--|--|---------|
| Common stock issued for cash from January 2003 to December 2003, at \$.50 per share plus 519,800 warrants | | | | | 519,800 | | 259,900 | | | | | | 259,900 |
|--|--|--|--|--|---------|--|---------|--|--|--|--|--|---------|

| | | | | | | | | | | | | | |
|---|--|--|--|--|--|--|--|--|----------|--|--|--|-----------|
| Stock subscriptions receivable, net | | | | | | | | | (14,340) | | | | (14,340) |
|---|--|--|--|--|--|--|--|--|----------|--|--|--|-----------|

| | | |
|--|------------|------------|
| Net loss for the year ended December 31, 2003, (Restated, see Note 19) | (203,659) | (203,659) |
|--|------------|------------|

| | | | | | | | | | | | | | |
|---|---|---|---|---|-----------|---|---------|------------|---|----------|---|---|--------|
| Balance at December 31, 2003 (Restated, see Note 19) | - | - | - | - | 5,572,400 | - | 753,200 | (712,167) | - | (14,340) | - | - | 26,693 |
|---|---|---|---|---|-----------|---|---------|------------|---|----------|---|---|--------|

Common
stock shares
issued for cash
:

Common
stock issued
for cash from
January 2004
to December
2004, at \$.50
per share plus
917,645

| | | | | |
|----------|---------|---------|--|---------|
| warrants | 917,645 | 553,105 | | 553,105 |
|----------|---------|---------|--|---------|

Common
Stock Shares
issued for
services
rendered:

Common
stock issued
for services
rendered on
October 12,
2004, at \$1.00
per share

| | | | | |
|--|---------|---------|-----------|---|
| | 545,000 | 545,000 | (545,000) | - |
|--|---------|---------|-----------|---|

Other:

Common
stock issued in
exchange for
real estate on
August 25,
2004 at \$1.00
per share plus
500,000

| | | | | |
|----------|---------|---------|--|---------|
| warrants | 500,000 | 500,000 | | 500,000 |
|----------|---------|---------|--|---------|

Common
stock issued in
exchange for
real estate on
September 7,
2004 at \$1.00
per share plus
150,000

| | | | | |
|----------|---------|---------|--|---------|
| warrants | 150,000 | 150,000 | | 150,000 |
|----------|---------|---------|--|---------|

| | | | |
|---|-------------------|-------------|--|
| Common stock issued as charitable contribution on October 12, 2004, at \$1.00 per share | 50,000 | 50,000 | 50,000 |
| Initial founders' shares cancelled on October 28, 2004 | (250,000) | | - |
| Stock subscriptions receivable, net | | | (74,240) (74,240) |
| Net loss for the year ended December 31, 2004 | | (672,219) | (672,219) |
| Balance at December 31, 2004 | - - - - 7,485,045 | - 2,551,305 | (1,384,386) (545,000) (88,580) - - 533,339 |
| Common stock shares issued for cash : | | | |
| Common stock issued for cash from January 2005 to December 2005 at \$1.00 per share plus 163,980 warrants | 165,980 | 181,980 | 181,980 |
| Common stock issued for cash from September 2005 to December 2005 at \$2.00 per share plus | 270,470 | 443,930 | 443,930 |

| | | | |
|---|---------|---------|---------|
| 270,470 warrants | | | |
| Common stock issued for cash on December 30 and 31, 2005, at \$1.02 per share plus 126,705 warrants | 126,705 | 163,362 | 163,362 |
| Common stock issued for cash on December 30, 2005, at \$.99 per share plus 8,000 warrants | 2,000 | 1,985 | 1,985 |
| Common stock issued for cash on December 30, 2005, at \$.73 per share plus 66,000 warrants | 16,500 | 12,033 | 12,033 |
| Common stock issued for cash on December 30, 2005, at \$.70 per share plus 472,000 warrants | 118,000 | 82,808 | 82,808 |
| Common stock issued for cash on December 30, 2005, at \$.65 per share plus 105,200 warrants | 26,300 | 17,050 | 17,050 |
| Common stock issued for cash on December 30, 2005, at \$.64 per share plus 60,800 warrants | 15,200 | 9,750 | 9,750 |
| | 4,500 | 1,610 | 1,610 |

| | | | | |
|---|------------|--------|--|--------|
| Common stock issued for cash on December 30, 2005, at \$.36 per share plus 18,000 warrants | | | | - |
| Common Stock Shares issued for services rendered: | | | | |
| Common stock issued for services rendered from March 2005 to December 2005, at \$1.00 per share, plus 53,000 warrants | 53,500 | 53,500 | | 53,500 |
| Other: | | | | |
| Common stock issued in exchange for real estate on January 18, 2005 at \$1.00 per share plus 80,800 warrants | 80,800 | 80,800 | | 80,800 |
| Common stock issued to Careful Sell Holdings, LLC to acquire technology with zero value on February 23, 2005 | 7,500,000 | | | - |
| | 30,000,000 | | | - |

Common
stock issued
to Careful Sell
Holdings,
LLC to
acquire
technology
with zero
value on
March 29,
2005

Common
stock issued
for payment of
debts on
March 11,
2005, at \$1.00
per share plus
1,087 warrants

Stock
subscriptions
receivable,
net

Amortization
of deferred
compensation

Net loss for
the year ended
December 31,
2005

Balance at
December 31,
2005

1,087

1,087

1,087

10,398

10,398

109,000

109,000

(1,291,169)

(1,291,169)

- - - - 45,866,087 - 3,601,200 (2,675,555) (436,000) (78,182) - - 411,463

| | | |
|--|-----------|-----------|
| Common stock shares issued for cash : | | |
| Common stock issued for cash on February 9, 2006, at \$.31 per share plus 52,000 warrants | 26,000 | 8,125 |
| Common stock issued for cash on March 17, 2006, at \$.36 per share plus 308,000 warrants | 154,000 | 55,175 |
| Common stock issued for cash on May 20, 2006, at \$.49 per share plus 10,000 warrants | 6,436 | 3,148 |
| Common stock issued for cash on June 12, 2006, at \$.50 per share plus 50,000 warrants | 25,000 | 12,485 |
| Common stock issued for cash on September 14, 2006, at \$.35 per share plus 863,200 warrants | 431,600 | 288,207 |
| Common stock issued for cash from February 1, 2006 to September 15, 2006 at \$1.00 per share plus 1,337,450 warrants | 1,309,650 | 1,318,010 |
| Common stock issued for cash | 486,000 | 495,614 |

in February
2006 and
July 2006, at
\$1.02 per share
plus 922,000
warrants

Common stock
issued for cash
on January 9,
2006, at \$1.18
per share plus
61,000
warrants

61,000

72,000

Common stock
issued for cash
from January
2006 to
September 15,
2006 at \$2.00
per share plus
391,100
warrants

286,600

558,112

Common Stock
Shares issued
for services
rendered:

Common stock
issued for
services
rendered, on
September
22, 2006, at
\$1.04 per share
plus 14,123
warrants

14,123

14,746

Common stock
issued for
services
rendered to old
GRC (shell)'s
officer, on
September
23, 2006, at
\$2.00 per share

25,000

25

49,975

Other:

Common stock
issued in

22,500

45,000

exchange for
investment in
real estate on
September
18, 2006, at
\$2.00 per share,
plus 22,500
warrants

Common
stock issued
for conversion
of old GRC
(shell)'s debt on
September 26,
2006, at
approximately
\$0.05 per share

2,681,837 2,682 118,000

Stock
subscriptions
receivable, net

(582,511)

Reclass
deferred
compensation
due to adoption
of SFAS
123(R)

(436,000) 436,000

Amortization
of deferred
compensation

109,000

Effect of
reverse merger
September 22,
2006

72,241 48,761 (169,444)

Common and
Preferred Stock
A issued for
merger with
Mobilestream
Oil, Inc. on
December 31,
2006, at \$0.26
per share plus
27,205,867
warrants

35,236,188 35,236 11,145,255 11,145 3,310,274 (10,498)

| | | | | | | | | | | |
|--|------------|--------|---|---|--------------|----------|--------------|--------------|---|-------------|
| Cancellation of shares for merger with Mobilestream, Inc. on November 28, 2006 | | | | | (37,500,000) | (37,500) | 37,500 | | | |
| Reclassification of derivative liability on warrants | | | | | | | | (16,139,529) | | |
| Net loss for the year ended December 31, 2006 | | | | | | | | (5,010,541) | | |
| Balance at December 31, 2006 | 35,236,188 | 35,236 | - | - | 25,113,329 | 25,113 | (6,648,402) | (7,696,594) | - | (660,693) - |

Common stock
shares issued
for cash :Common stock
issued for cash
from January
29, 2007 to
February 21,
2007, at \$0.30
per share

17,500 18 5,232

Common stock
issued for cash
from April 2,
2007 to June
25, 2007 at
\$0.32 per share

499,564 500 157,709

Common stock
issued for cash
on March 7,
2007, at \$1.08
per share (from
stock to be
issued liability)

186,822 187 201,156

Common stock
issued for cash
on October
25, 2007, at
\$2.00 per share

2,500 2 4,998

Common stock
issued for cash
on December
20, 2007, at
\$1.00 per share
plus 625,000
warrants

1,000,000 1,000 999,000

Common Stock
Shares issued
for services
rendered:Common stock
issued for
services
rendered, on
March 19, 2007
and July 9,
2007, at \$1.00
per share9,700 10 9,690
31,000 31 20,969

| | | | |
|---|---------|-----|-----------|
| Common stock issued for services rendered, on March 19 and 20, 2007, at \$0.50 per share | | | |
| Common stock issued to employee for services rendered, on April 20, 2007, at \$1.38 per share | 250,000 | 250 | 344,750 |
| Common stock issued for services rendered, on May 30, 2007, at \$1.05 per share | 3,417 | 3 | 3,301 |
| Common stock issued to employee for services rendered, on June 1, 2007, at \$1.36 per share | 194,500 | 195 | 264,325 |
| Common stock issued for services rendered, on July 18, 2007, at \$0.80 per share | 37,500 | 37 | 29,963 |
| Common stock issued to employee for services rendered, on August 1, 2007, at \$4.43 per share | 100,000 | 100 | 442,900 |
| Common stock issued to employee for services rendered, on August 19, 2007, at | 250,000 | 250 | 1,124,750 |

| | | | |
|--|---------|-----|-----------|
| \$4.50 per share Common stock issued for services rendered, on August 30, 2007, at \$2.27 per share | 3,745 | 3 | 8,497 |
| Common stock issued for services rendered, on August 30, 2007, at \$0.69 per share | 30,041 | 30 | 20,698 |
| Common stock issued for services rendered, on August 31, 2007, at \$3.41 per share | 361,000 | 361 | 1,230,649 |
| Common stock issued for services to be performed, service valued on September 14, 2007, at \$2.29 per share | 150,000 | 150 | 343,350 |
| Common stock issued to employee for services rendered, on October 1, 2007, at \$2.60 per share | 300,000 | 300 | 779,700 |
| Common stock issued for services to be performed, service valued on October 02, 2007, at \$2.47 per share | 350,000 | 350 | 864,150 |
| Common stock issued for services to be performed, service valued | 75,000 | 75 | 179,926 |

| | | | |
|--|---------|-----|---------|
| on October 02, 2007, at \$2.40 per share | | | |
| Common stock issued for services rendered, on October 9, 2007, at \$2.69 per share | 47,579 | 47 | 127,703 |
| Common stock issued to employee for services rendered, on October 22, 2007, at \$1.86 per share | 50,000 | 50 | 92,950 |
| Common stock issued for services rendered, on October 29, 2007, at \$2.25 per share | 150,000 | 150 | 337,350 |
| Common stock issued for services rendered, on November 9, 2007, at \$3.23 per share | 130,000 | 130 | 419,770 |
| Common stock issued for services rendered, on November 19, 2007, at \$3.50 per share | 50,000 | 50 | 174,950 |
| Common stock issued for services rendered, on November 26, 2007, at \$3.01 per share | 30,000 | 30 | 90,270 |
| Common stock issued for services rendered, on December | 45,094 | 45 | 89,955 |

| | | | |
|--|---------|-----|---------|
| 3, 2007, at \$2.00 per share Common stock issued for services rendered, on December 4, 2007, at \$3.15 per share | 50,000 | 50 | 157,450 |
| Common stock issued for services rendered, on December 11, 2007, at \$2.50 per share | 200,000 | 200 | 499,800 |
| Common stock issued for services rendered, on December 17, 2007, at \$1.446 per share | 400,000 | 400 | 578,052 |
| Common stock issued for services rendered, on December 17, 2007, at \$2.50 per share | 100,000 | 100 | 249,900 |
| Common stock issued for services rendered, on December 18, 2007, at \$3.02 per share | 50,000 | 50 | 150,950 |
| Common stock issued for services rendered, on December 21, 2007, at \$3.00 per share | 40,000 | 40 | 119,960 |
| Common stock issued for services rendered, on December 27, 2007, at | 50,000 | 50 | 154,950 |

\$3.10 per share

Other:

Preferred Stock
B Shares issued
for settlement
of services

1,000 1 399,999

Treasury stock,
purchased from
former officer
on May 17,
2007, at \$.70
per share

(94,961) (66,47

Stock
subscriptions
receivable, net

475,000

Amortization
of deferred
compensation

109,000

Reclassification
of derivative
liability into
additional paid
in capital due
to cancellation
of warrants

2,187,850

Net loss for the
year ended
December 31,
2007 (Restated,
see Note 20)

(6,578,331)

Balance at
December 31,
2007 (Restated,
see Note 20)

35,236,188 35,236 1,000 1 30,263,330 30,358 6,328,170 (14,274,925) - (185,693) (66,47

| | | | | |
|---|-----------|-------|-----------|-----------|
| Common stock shares issued for cash : | | | | |
| Common stock issued for cash on February 19, 2008, at \$2.00 per share | 17,000 | 17 | 33,983 | 34,000 |
| Common stock issued for cash on March 5, 2008, at \$1.61 per share | 31,057 | 31 | 49,969 | 50,000 |
| Common stock issued for cash from March 18, 2008 to October 15, 2008 at \$1.00 per share, plus 6,081,768 warrants | 8,808,987 | 8,809 | 8,799,779 | 8,808,588 |
| Common stock issued for cash on March 26, 2008, at \$1.18 per share | 9,000 | 9 | 10,611 | 10,620 |
| Common stock issued for cash on April 11, 2008, at \$1.11 per share, plus 1,929,775 warrants | 1,929,775 | 1,930 | 2,148,662 | 2,150,592 |
| Common stock issued for cash on April 25, 2008, at \$1.19 per share, plus 1,487,139 warrants | 1,487,139 | 1,487 | 1,771,366 | 1,772,853 |
| Common stock issued for cash on May 15, 2008, at \$1.10 per share plus 39,100 warrants | 39,100 | 39 | 42,891 | 42,930 |
| Common stock issued for cash on August 21, 2008, at \$.88 per share | 10,000 | 10 | 8,740 | 8,750 |
| Common stock issued for cash on September 4, 2008, at \$1.04 per share | 13,867 | 14 | 14,384 | 14,398 |
| Common stock issued on December 16, 2008, at \$0 per share | 850,000 | 850 | 1,089 | 1,939 |
| Common stock shares issued for services rendered: | | | | |

| | | | | |
|---|-----------|-------|-----------|-----------|
| Common stock issued for services rendered, on February 1, 2008, at \$2.95 per share | 100,000 | 100 | 294,900 | 295,000 |
| Common stock issued for services rendered, on February 6, 2008, at \$2.63 per share | 150,000 | 150 | 394,350 | 394,500 |
| Common stock issued for services rendered, on February 13, 2008, at \$2.39 per share | 12,500 | 13 | 29,862 | 29,875 |
| Common stock issued for services rendered, on February 15, 2008, at \$2.42 per share | 20,000 | 20 | 48,380 | 48,400 |
| Common stock issued for services rendered, on February 28, 2008, at \$2.15 per share | 25,000 | 25 | 53,725 | 53,750 |
| Common stock issued for services rendered, on February 29, 2008, at \$2.19 per share | 175,000 | 175 | 383,075 | 383,250 |
| Common stock issued for services rendered, on March 14, 2008, at \$2.10 per share | 5,000 | 5 | 10,495 | 10,500 |
| Common stock issued for services rendered, on March 18, 2008 and March 19, 2008 at \$1.60 per share | 50,000 | 50 | 79,950 | 80,000 |
| Common stock issued for services rendered, on March 31, 2008 and April 4, 2008 at \$1.90 per share | 1,436,666 | 1,437 | 2,728,228 | 2,729,665 |
| Common stock issued for services rendered, on April 1, 2008, at \$1.95 per share | 70,000 | 70 | 136,430 | 136,500 |
| Common stock issued for penalty, on April 2, 2008, at \$1.84 per share | 50,000 | 50 | 91,950 | 92,000 |
| Common stock issued for services rendered, on April 14, 2008, at \$3.05 per share | 150,000 | 150 | 457,350 | 457,500 |

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| | | | | |
|---|-----------|-------|-----------|-----------|
| Common stock issued for services rendered, on April 29, 2008, at \$3.07 per share | 883,333 | 883 | 2,710,950 | 2,711,833 |
| Common stock issued for services rendered, on May 7, 2008, at \$2.55 per share | 1,000,000 | 1,000 | 2,549,000 | 2,550,000 |
| Common stock issued for services rendered, on May 12, 2008, at \$2.65 per share | 20,000 | 20 | 52,980 | 53,000 |
| Common stock issued for services rendered, on May 13, 2008, at \$2.79 per share | 50,000 | 50 | 139,450 | 139,500 |
| Common stock issued for services rendered, on June 3, 2008, at \$2.10 per share | 150,000 | 150 | 314,850 | 315,000 |
| Common stock issued for services rendered, on June 11, 2008 and June 13, 2008 at \$2.25 per share | 213,750 | 214 | 480,724 | 480,938 |
| Common stock issued for penalty to "POOF", on June 30, 2008, at \$2.09 per share | 650,000 | 650 | 1,357,850 | 1,358,500 |
| Common stock issued for services rendered, on July 14, 2008, at \$1.66 per share | 200,000 | 200 | 331,800 | 332,000 |
| Common stock issued for services rendered, on July 25, 2008, at \$1.40 per share | 75,000 | 75 | 104,925 | 105,000 |
| Common stock issued for services rendered, on August 8, 2008, at \$1.03 per share | 75,000 | 75 | 77,175 | 77,250 |
| Common stock issued for services rendered, on August 25, 2008, at \$1.25 per share | 6,000 | 6 | 7,494 | 7,500 |
| Common stock issued for services rendered, on September 8, 2008, at \$.96 per share | 1,500,000 | 1,500 | 1,438,500 | 1,440,000 |
| Common stock issued for services rendered, | 100,000 | 100 | 148,900 | 149,000 |

| | | | | |
|--|---------|-----|---------|---------|
| on October 7, 2008, at \$1.49 per share | | | | |
| Common stock issued for services rendered, on October 15, 2008, at \$1.25 per share | 60,000 | 60 | 74,940 | 75,000 |
| Common stock issued for services rendered, on October 20, 2008, at \$1.50 per share | 125,000 | 125 | 187,375 | 187,500 |
| Common stock issued for services rendered, on October 24, 2008, at \$1.37 per share | 100,000 | 100 | 136,900 | 137,000 |
| Common stock issued for services rendered, on October 31, 2008, at \$1.55 per share, plus 300,000 warrants | 150,000 | 150 | 232,350 | 232,500 |
| Common stock issued for services rendered, on December 16, 2008, at \$1.35 per share | 12,600 | 13 | 16,997 | 17,010 |
| Common stock issued for services rendered, on December 18, 2008, at \$1.08 per share | 100,000 | 100 | 107,900 | 108,000 |
| Common stock issued to employees for services rendered, on June 26, 2008, at \$2.08 per share | 7,500 | 8 | 16,632 | 16,640 |
| Common stock warrants and option activity: | | | | |
| Common Stock Warrants issued for services (BOD) on February 7, 2008, at \$2.43 per share (6,000 warrants) | | | 21,870 | 21,870 |
| Common Stock Warrants issued for services (BOD) on May 21, 2008, at \$2.47 per share (9,000 warrants) | | | 14,795 | 14,795 |

| | | | | | |
|---|---------|-----|-----------|---|-----------|
| Common Stock Warrants issued for services (BOD) on September 23, 2008, at \$2.25 per share (25,000 warrants) | | | 50,000 | | 50,000 |
| Common Stock Warrants issued for services (BOD) on November 13, 2008, at \$1.35 per share (20,000 warrants) | | | 24,600 | | 24,600 |
| Common Stock Warrants issued for services to non-employee on September 3, 2008, at \$2.75 per share (76,500 warrants) | | | 78,030 | | 78,030 |
| Common Stock Warrants issued for services to non-employee on October 1, 2008, at \$1.36 per share (300,000 warrants) | | | 102,285 | | 102,285 |
| Common Stock Warrants exercised cashless by Nutmeg/Black Diamond on April 2, 2008, at \$1.84 per share | 124,489 | 124 | (124 |) | - |
| Common Stock Warrants exercised cashless by POOF on July 3, 2008, at \$1.42 per share | 325,957 | 326 | (326 |) | - |
| Common Stock Options issued to employee on October 1, 2008, at fair value of \$1.04 per share | | | 1,040,000 | | 1,040,000 |

Other:

Preferred stock
B - converted to
common stock
on April 8, 2008

(1,000) (1) 206,559 207 (206)

Preferred stock
A - converted
by former
officer into
common stock
on June 25,
2008

(1,791,064) (1,791) 895,532 895 896

Preferred stock
A - converted
by former
officer into
common stock
on August 13,
2008

(33,440,124) (33,440) 16,720,062 16,720 16,720

Treasury stock,
purchased from
former officer
on August 13,
2008, for \$.25
per share

(6,600,000)

Stock
subscription
receivable, net

(130,518)

185,693

Record other
comprehensive
loss - net
unrealized gain
/(loss) on
short-term
investments :

Other
comprehensive
loss - net
unrealized loss
recorded at June
30, 2008

Other
comprehensive
loss - net
unrealized loss

recorded at
September 30,
2008

Other
comprehensive
loss - net
unrealized loss
recorded at
December
31, 2008

Reclassification
of unrealized
loss deemed to
be other than
temporary

Amortization
and write-off of
deferred
compensation

218,000

Net loss for the
year ended
December 31,
2008

(15,495,349)

Balance at
December 31,
2008

5,000

\$5

-

\$-

62,854,203

\$69,549

35,842,053

\$(29,770,274) \$- \$-

Common stock
shares issued
for cash :

Common stock
issued for cash
on December
15, 2009, at
\$0.50 per share

250,000

250

125,581

Common stock
shares issued
for services
rendered:

Common stock
issued for
services
rendered, on
January
8, 2009, at
\$1.17 per share
plus 150,000

60,000

60

70,140

warrants

| | | | |
|--|---------|-----|---------|
| Common stock issued for services rendered, on February 24, 2009, at \$1.30 per share | 15,000 | 15 | 19,485 |
| Common stock issued for services rendered, on March 20, 2009, at \$1.25 per share plus 60,041 warrants | 19,000 | 19 | 23,731 |
| Common stock issued for services rendered, on April 22, 2009, at \$1.13 per share | 225,000 | 225 | 254,025 |
| Common stock issued for services rendered, on March 24, 2009, at \$1.37 per share | 105,000 | 105 | 143,745 |
| Common stock issued for services rendered, on May 12, 2009, at \$1.64 per share | 300,000 | 300 | 491,700 |
| Common stock issued for services rendered, on September 10, 2009, at \$0.90 per share | 125,000 | 125 | 112,375 |
| Common stock issued for services rendered, on October 10, 2009, at | 600,000 | 600 | 647,400 |

| | | | |
|---|---------|-----|---------|
| \$1.08 per share Common stock issued for services rendered, on October 10, 2009, at \$1.08 per share | 450,000 | 450 | 485,550 |
| Common stock issued for services rendered, on November 20, 2009, at \$0.91 per share | 250,000 | 250 | 227,250 |
| Common stock issued for services rendered, on November 23, 2009, at \$0.87 per share | 250,000 | 250 | 217,250 |
| Common stock issued for services rendered, on November 30, 2009, at \$0.80 per share | 300,000 | 300 | 239,700 |
| Common stock issued for services rendered, on December 17, 2009, at \$0.62 per share | 400,000 | 400 | 231,600 |
| Common stock issued for services rendered, on December 15, 2009, at \$0.58 per share | 200,000 | 200 | 115,800 |
| Common stock issued for services rendered, on December 15, 2009, at \$0.58 per share | 200,000 | 200 | 115,800 |
| | 200,000 | 200 | 137,663 |

Common stock
issued for
services
rendered, on
December
16, 2009, at
\$0.58 per share

Common stock
issued for
services
rendered, on
December
17, 2009, at
\$0.62 per share

| | | |
|---------|-----|---------|
| 500,000 | 500 | 309,500 |
|---------|-----|---------|

Common stock
issued for
services
rendered, on
December
21, 2009, at
\$0.59 per share

| | | |
|---------|-----|--------|
| 100,000 | 100 | 58,900 |
|---------|-----|--------|

Common stock
warrants and
option activity:Common Stock
Warrants issued
for services to
non-employees
on January 2,
2009, at \$1.50
per share

103,147

Common Stock
Warrants issued
for services to
non-employees
on February 18,
2009, at \$2.50
per share

31,666

Common Stock
Warrants issued
for services to
non-employees
on March 2,
2009, at \$1.02
per share

54,618

Common Stock
Warrants issued
for services
(BOD) on
March 27,
2009, at \$1.04
per share
(30,000
warrants)

27,119

Common Stock
Warrants issued
for services
(BOD) on
August 5, 2009,
at \$1.10 per
share (25,000
warrants)

24,519

Common Stock
Warrants
amortization
expense for
warrants issued
for services to
non-employees

306,855

| | |
|--|-----------|
| on October 31, 2008, at \$1.58 per share | |
| Record | |
| Common Stock | |
| Options | |
| expense for | |
| options issued | |
| to former | |
| employee | |
| on October 5, 2009, at fair value of \$1.18 per share | 1,986,236 |
| Common Stock | |
| Warrants issued | |
| for services to | |
| non-employees | |
| on April 1, 2009, at \$1.50 per share | 98,661 |
| Common Stock | |
| Warrants issued | |
| for services to | |
| non-employees | |
| on April 1, 2009, at \$1.01 per share | 140,880 |
| Common Stock | |
| Warrants issued | |
| for services to | |
| non-employees | |
| on November 11, 2009, at \$0.58 per share | 54,653 |
| Common Stock | |
| Warrants issued | |
| for services to | |
| non-employees | |
| on November 23, 2009, at \$0.58 per share | 17,584 |
| Common stock | |
| Warrants issued | |
| for services to | |
| former | |
| employee on December 15, 2009 at \$0.58 per share | 93,836 |
| | 71,616 |

Common stock
Warrants issued
for services to
former
employee on
December 15,
2009 at \$0.58
per share

Other:

Preferred stock
A - converted
to common
stock on
January 6, 2009

(5,000) (5) 2,500 2 3

Record other
comprehensive
loss -
unrealized loss
recorded at July
31, 2009

237,550

Net loss for the
year ended
December 31,
2009

(12,292,104)

Balance at
December 31,
2009

- \$- - \$- 67,405,703 \$74,100 42,880,641 \$(42,062,378) \$- \$- \$(1,716,473) \$-

| | | | | |
|--|---------|-----|--------|---------|
| Common stock shares issued for cash : | | | | |
| Common stock issued for cash on January 14, 2010, at \$0.40 per share | 97,950 | 98 | 39,090 | 39,188 |
| Common stock issued for cash on January 25, 2010, at \$0.65 per share | 153,847 | 154 | 99,846 | 100,000 |
| Common stock issued for cash on January 28, 2010, at \$0.40 per share | 175,000 | 175 | 69,729 | 69,904 |
| Common stock issued for cash on February 5, 2010, at \$0.33 per share | 300,000 | 300 | 99,661 | 99,961 |
| Common stock issued for cash on February 9, 2010, at \$0.40 per share | 100,000 | 100 | 39,900 | 40,000 |
| Common stock issued for cash on February 23, 2010, at \$0.40 per share | 32,500 | 32 | 12,968 | 13,000 |
| Common stock issued for cash on | 156,000 | 156 | 46,644 | 46,800 |

| | | | | |
|--|---------|-----|---------|---------|
| February 23, 2010, at \$0.30 per share | | | | |
| Common stock issued for cash on February 26, 2010, at \$0.30 per share | 50,000 | 50 | 14,950 | 15,000 |
| Common stock issued for cash on March 5, 2010, at \$0.25 per share | 155,000 | 155 | 38,595 | 38,750 |
| Common stock issued for cash on March 10, 2010, at \$0.30 per share | 66,667 | 67 | 19,904 | 19,971 |
| Common stock issued for cash on March 12, 2010, at \$0.30 per share | 283,333 | 283 | 84,678 | 84,961 |
| Common stock issued for cash on March 25, 2010, at \$0.19 per share | 265,625 | 266 | 49,734 | 50,000 |
| Common stock shares issued for services rendered: | | | | - |
| Common stock issued for services rendered, on January 6, 2010, at | 725,000 | 725 | 419,775 | 420,500 |

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| | | | | |
|---|---------|-----|---------|---------|
| Common stock issued for services rendered, on January 12, 2010, at \$.58 per share | 330,642 | 331 | 247,431 | 247,762 |
| Common stock issued for services rendered, on February 2, 2010, at \$.62 per share | 250,000 | 250 | 154,750 | 155,000 |
| Common stock issued for services rendered, on February 5, 2010, at \$.57 per share | 250,000 | 250 | 142,250 | 142,500 |
| Common stock issued for services rendered, on February 9, 2010, at \$.62 per share | 164,423 | 164 | 101,475 | 101,639 |
| Common stock issued for services rendered, on February 12, 2010, at \$.50 per share | 5,050 | 5 | 2,495 | 2,500 |
| Common stock issued for services rendered, on February 17, 2010, at \$.51 per share | 500,000 | 500 | 254,500 | 255,000 |
| | 300,000 | 300 | 134,700 | 135,000 |

| | | | | |
|---|---------|-----|---------|---------|
| Common stock issued for services rendered, on February 23, 2010, at \$.45 per share | | | | |
| Common stock issued for services rendered, on February 24, 2010, at \$.45 per share | 10,000 | 10 | 5,090 | 5,100 |
| Common stock issued for services rendered, on February 25, 2010, at \$.41 per share | 316,789 | 317 | 129,683 | 130,000 |
| Common stock issued for services rendered, on March 12, 2010, at \$.39 per share | 17,948 | 18 | 6,982 | 7,000 |
| Common stock issued for services rendered, on March 15, 2010, at \$.32 per share | 360,000 | 360 | 114,840 | 115,200 |
| Common stock issued for services rendered, on March 25, 2010, at \$.19 per share | 200,000 | 200 | 37,800 | 38,000 |
| Common stock issued for services | 28,000 | 28 | 6,972 | 7,000 |

| | | | | |
|---|---------|-----|--------|--------|
| rendered, on March 30, 2010, at \$.25 per share | | | | |
| Common stock issued for services rendered, on March 31, 2010, at \$.34 per share | 246,933 | 247 | 83,710 | 83,957 |
| Common stock issued for services rendered, on April 14, 2010, at \$.36 per share | 6,944 | 7 | 2,493 | 2,500 |
| Common stock issued for services rendered, on April 28, 2010, at \$.28 per share | 8,928 | 9 | 2,491 | 2,500 |
| Common stock issued for services rendered, on May 13, 2010, at \$.25 per share | 10,000 | 10 | 2,490 | 2,500 |
| Common stock issued for services rendered, on May 27, 2010, at \$.27 per share | 9,259 | 9 | 2,491 | 2,500 |
| Common stock issued for services rendered, on June 14, 2010, at | 9,259 | 9 | 2,491 | 2,500 |

| | | | | |
|---|---------|-----|--------|--------|
| Common stock issued for services rendered, on June 28, 2010, at \$.27 per share | | | | |
| Common stock issued for services rendered, on June 28, 2010, at \$.23 per share | 10,869 | 11 | 2,489 | 2,500 |
| Common stock issued for services rendered, on July 01, 2010, at \$.35 per share | 153,623 | 154 | 53,614 | 53,768 |
| Common stock issued for services rendered, on July 13, 2010, at \$.40 per share | 6,250 | 6 | 2,494 | 2,500 |
| Common stock issued for services rendered, on July 28, 2010, at \$.39 per share | 6,410 | 6 | 2,494 | 2,500 |
| Common stock issued for services rendered, on August 12, 2010, at \$.47 per share | 5,319 | 5 | 2,495 | 2,500 |
| Common stock issued for services rendered, on August 27, 2010, at \$.35 per share | 7,143 | 7 | 2,493 | 2,500 |
| | 8,333 | 8 | 2,492 | 2,500 |

Common stock issued for services rendered, on September 14, 2010, at \$.30 per share

| | | | | |
|--|---------|-----|--------|--------|
| Common stock issued for services rendered, on September 20, 2010, at \$.15 per share | 123,639 | 124 | 18,626 | 18,750 |
|--|---------|-----|--------|--------|

Common stock issued for services rendered, on September 21, 2010, at \$.23 per share

| | | | | |
|--|---------|-----|--------|--------|
| | 347,826 | 348 | 79,652 | 80,000 |
|--|---------|-----|--------|--------|

Common stock shares issued for severance:

| | | | | |
|--|-----------|-------|---------|---------|
| Common stock issued for severance, on January 27, 2010, at \$.63 per share | 1,400,000 | 1,400 | 880,600 | 882,000 |
|--|-----------|-------|---------|---------|

Common stock issued for severance, on January 29, 2010, at \$.78 per share

| | | | | |
|--|---------|-----|--------|--------|
| | 100,000 | 100 | 77,900 | 78,000 |
|--|---------|-----|--------|--------|

Common stock shares issued in replacement of warrants:

| | | | | |
|--|--------|----|--------|--------|
| Common stock issued in replacement of warrants, on January 29, 2010, at \$.63 per share | 36,667 | 37 | 23,064 | 23,101 |
| Common stock issued in replacement of warrants, on February 1, 2010, at \$.63 per share | 31,667 | 32 | 19,919 | 19,951 |
| Common stock issued in replacement of warrants, on February 2, 2010, at \$.63 per share | 4,999 | 5 | 3,144 | 3,149 |
| Common stock issued in replacement of warrants, on February 11, 2010, at \$.53 per share | 15,000 | 15 | 7,935 | 7,950 |
| Common stock issued in replacement of warrants, on March 22, 2010, at \$.63 per share | 35,934 | 36 | 22,601 | 22,637 |
| Common stock issued in replacement of warrants, on March | 37,757 | 38 | 9,401 | 9,439 |

29, 2010, at
\$.25 per
share

Common
stock
warrants and
option
activity:

| | | |
|---|---|-------------|
| Warrants for services q1 2010 | 406,100 | 406,100 |
| Warrants for services q2 2010 | 155,967 | 155,967 |
| Warrants for services q3 2010 | 289,681 | 289,681 |
| Debt issuance discount | 100,600 | 100,600 |
| | | - |
| Net loss for nine month period ended September 30, 2010 | (5,789,035) | (5,789,035) |
| | - - - - 75,322,236 82,017 47,515,010 (47,851,413) - - (1,716,473) - | (1,970,859) |

NOTES TO FINANCIAL STATEMENTS
Global Resource Corporation
(A Development Stage Company)
Notes to the Consolidated Financial Statements
September 30, 2010

NOTE 1 – NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

Global Resource Corporation's ("GRC" or the "Company") business plan is to research, develop and market the business of decomposing petroleum-based materials by subjecting them to a fixed-frequency microwave radiation (the "Technology") at specifically selected frequencies for a time sufficient to at least partially decompose the materials, converting the materials into hydrocarbons and fossil fuels from sources such as tires, oil shale, capped wells, shale deposits and waste oil streams.

The Company's business goals for exploitation of the Technology are as follows:

- 1) The design, manufacture and sale of machinery and equipment units, embodying the Technology.
- 2) The ownership and operation of plants to use the Technology in conjunction with other investors.
- 3) The formation of joint venture relationships with established companies.

The Company is considered to be in the development stage as defined the Financial Accounting Standards Board ("FASB") in accordance with Accounting Standards Codification ("ASC"), 915-205-45 "Accounting and Reporting by Development Stage Enterprises ". The Company has devoted substantially all of its efforts to business planning and development, as well as allocating a substantial portion of its time and resources in bringing its product to the market and the raising of capital. The Company has begun generating revenue from licensing agreements and has taken a conditional order for one development prototype machine related to one of those license agreements as of September 30, 2010 (see note 8 subsequent events).

Basis of Presentation

The accompanying consolidated balance sheet as of December 31, 2009, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information not misleading. All adjustments that, in the opinion of management and consisting only of a normal and recurring nature, are necessary for a fair presentation for the interim periods have been reflected as required by Regulation S-X, Rule 10-01.

Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. It is suggested that these financial statements should be read in conjunction with the Company's consolidated financial statements and related notes contained in the Company's latest shareholders' annual report and the Company's Form 10-K for the year ended December 31, 2009 as filed with Securities and Exchange Commission.

Prior to September 22, 2006, GRC was a shell company ("old GRC (shell)").

On September 22, 2006, the old GRC (shell) completed its merger with Carbon Recovery Corporation (“CRC”), a New Jersey corporation formed on July 19, 2002, pursuant to a July 2006 plan and agreement of reorganization (“July 2006 CRC Acquisition Agreement”).

On December 31, 2006, the Company completed the acquisition of Mobilestream Oil, Inc. (“Mobilestream”) in a transaction deemed to be a merger of entities under common control.

Recapitalization Transaction

Each of the foregoing transactions changed the reporting entity of the Company. As a result of the CRC transaction, the Company’s reporting reflected the historical accounts of CRC. Subsequently, as a result of the Mobilestream transaction, the Company’s financial statements were combined with Mobilestream on an “as-if” pooling basis since the date common control was established. As a result of a February 2006 recapitalization transaction between Mobilestream, legal acquirer, and

Global Resource Corporation
(A Development Stage Company)
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September 30, 2010

PSO Enterprises, Inc. (“PSO”) (surviving corporation of a January 2006 merger with a related party, Careful Sell Holdings, LLC (“Careful Sell”)), accounting acquirer, common control was established at February 17, 2005, the inception date of Careful Sell.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of GRC and its wholly-owned subsidiaries, Global Scientific Corporation and Global Heavy Oil Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Revenue Recognition

The Company recognizes revenues in accordance with the guidance in the Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 104. Accordingly, revenue is recognized when persuasive evidence of an arrangement exists, when the selling price is fixed or determinable, when shipment or delivery or performance of services has been rendered and collectability is reasonably assured.

Under the Company’s current strategy, its revenue is likely to be generated from the development, licensing or sale of proprietary Technology and/or design, manufacture and sale of machinery and equipment units. For machinery and equipment sales, revenue will be recognized when the machinery and equipment is shipped, installed and operating successfully at the destination site. For a licensing agreement, revenue is recognized when services have been rendered per the terms of the licensing agreement.

For the quarter ended and nine months ended September 30, 2010 \$75,000 and \$253,000, respectively, of the Company’s revenues were generated from a licensing agreement (see Note 7 – Commitments and Contingencies – Schlumberger Agreement). Additionally, during the third quarter of 2010, the Company recognized a one time license fee of \$750,000 upon termination of a license agreement (see Note 7 – Commitments and Contingencies – Joint Development Agreement).

Patents

Legal fees associated with patents, which are expected to be issued, are recorded as prepaid patent costs on the accompanying consolidated balance sheets. Upon approval by the relevant patent office, the prepaid patent costs will be reclassified to an intangible asset, and amortized over the expected life of the patent. The value of the patent(s) will be reviewed each year for possible impairment and expensed in the year it is determined that a write-down in the

value of the patent is required. Prepaid patent costs associated with patents which are not approved or abandoned are expensed in the period in which such patents are not approved.

Research and Development Costs

The Company complies with the accounting and reporting requirements of FASB ASC 730-10, “ Accounting for Research and Development Cost”. Research and development (“R & D”) costs consist of all activities associated with the development and enhancement of products using the Company’s microwave Technology. R & D costs consist primarily of contract engineer labor and salaries of our in-house engineers, lab supplies used in testing and expenses of equipment used to test and develop our Technology. R & D costs are expensed when incurred.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted FASB ASC No. 718 (formerly SFAS No. 123R), “ Share-Based Payment ,” requiring the expense recognition of the estimated fair value of all share-based payments issued to employees. Prior to this, the estimated fair value associated with such awards was not recorded as an expense, but rather was disclosed in a footnote to the Company’s consolidated financial statements. The compensation cost associated with these awards is recorded as an expense within the same functional expense category as cash compensation for the respective grantee. No tax benefit has been recognized with respect to this expense.

On January 1, 2006, the Company adopted the provisions of ASC 718 using the modified prospective transition method. The total expense associated with stock-based employee compensation was approximately \$0 and \$180,000 for the three months ended September 30, 2010 and 2009, respectively. The total expense associated with stock-based employee compensation was \$0 and \$960,000 for the nine months ended September 30, 2010 and 2009 and \$3,316,000 for the period July 19, 2002 (inception) to September 30, 2010.

For non-employees, stock grants and stock issued for services are valued at either the invoiced or contracted value of services provided, or to be provided, or the fair value of stock at the date the agreement is reached, whichever is more readily determinable. Warrants or options issued for services provided, or to be provided, are valued at fair value at the date the agreement is reached.

Earnings (Loss) Per Share of Common Stock

The Company complies with the accounting and reporting requirements of ASC No. 260, “ Earnings Per Share ”. Basic loss per share is calculated by dividing net loss attributable to common shares by the weighted average number of outstanding common shares for the period. Diluted earnings per common share includes dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants and the conversion of convertible preferred stock.

Unexercised common stock options and warrants to purchase common stock, and preferred stock convertible into common stock as of September 30, 2010 and 2009 respectively, are as follows:

| | 2010 | 2009 |
|-----------------------------|------------|------------|
| Options | 3,200,000 | 3,200,000 |
| Warrants | 24,278,732 | 22,075,836 |
| Convertible preferred stock | - | - |
| Total | 27,478,732 | 25,275,836 |

The foregoing common stock equivalents were excluded from the calculation of diluted net loss per common share because their inclusion would have been anti-dilutive as of September 30, 2010 and 2009.

Derivative Financial Instruments

The Company's derivative financial instruments include freestanding warrants and options to purchase the Company's common stock. The Company's derivative liabilities relate solely to the CRC Acquisition agreement Class B, class D and class E warrants. Under certain circumstances that would require the Company to settle these instruments in cash, and without regard to probability, the Company classifies all of these instruments as liabilities. The Company adjusts these financial instruments to fair value at each reporting date, with such adjustments reflected in the Company's consolidated statements of operations and comprehensive loss.

Fair Value Measurements

On January 1, 2008, the Company adopted FASB ASC 820-20-50 (formerly SFAS No. 157) "Fair Value Measurements". The FASB ASC provision defines fair value, provides a consistent framework for measuring fair value under generally accepted accounting principles and expands fair value financial statement disclosure requirements. Fair value valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. The provision classifies these inputs into the following hierarchy:

- Level 1 Inputs – Quoted prices for identical instruments in active markets
- Level 2 Inputs – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuation whose inputs are observable or whose significant value drivers are observable
- Level 3 Inputs – Instruments with primarily unobservable value drivers

NOTE 3-GOING CONCERN

As shown in the accompanying consolidated financial statements, the Company incurred substantial net losses in the amount of \$5,789,035 for the nine months ended September 30, 2010 and \$47,851,413 for the cumulative period from July 19, 2002 (inception) to September 30, 2010. The Company also had negative cash flows from its operations in the amount of \$1,407,354 and \$18,818,720 for the nine months ended September 30, 2010 and for the cumulative period from July 19, 2002 (inception) to September 30, 2010, respectively.

Based on the Company's current operating plan, total cash expenditures needed for the next twelve months are expected to exceed the Company's cash of approximately \$75,000 as of September 30, 2010. The Company's assessment of its cash needs may be affected by changes in the assumptions relating to the Company's strategy, technological and engineering requirements in the development of its products as well as payroll, staff and administrative related matters.

On April 23, 2009, the Company, through a wholly-owned subsidiary, entered into a Joint Development Agreement pursuant to which the Company received \$300,000 on May 22, 2009 and another \$300,000 in April 2010 and upon a successful completion of Phase I of the Agreement. Upon commencement of Phase II the Company is to receive a \$1,000,000 one-time engineering fee (See Note 7 – Commitments and Contingencies – Schlumberger Agreement). On October 14, 2009, the Company entered into a licensing and purchasing agreement and received a \$750,000 licensing fee (see Note 7 – Commitments and Contingencies – Universal Alternative Fuels Agreement).

The Company has completed a development prototype fixed frequency microwave reactor system, named "Patriot-1" which it has used to demonstrate the decomposition of tires into diesel oil, combustible gas and carbon char. Between May 4, 2009 and March 23, 2010, the Company provided public demonstrations of the Patriot-1 to prospects, partners and dignitaries at its outside contract manufacturer's facility (Ingersoll Production System) located in Rockford, Illinois and has since relocated the Patriot-1 to a new facility in North Carolina. As of September 30, 2010, the Company did not have any committed orders for its equipment. (However, see Note 7 - with respect to an order for a development prototype machine received on October 14, 2009 from Universal Alternative Fuels, Inc.). Management believes that it will take the Company approximately twelve months to deliver a system from the time the Company receives an order. Management currently anticipates that each order will be accompanied by a deposit from the purchaser which will be recorded as deferred revenue until the equipment is shipped, installed and operating successfully at the destination site.

The Company's plans to address the expected cash shortfall are dependent upon its ability to raise capital or to secure significant sales orders of our system as a source of revenue. Subsequent to the balance sheet date of September 30,

2010, the Company has raised approximately \$1,133,467 in cash from various equity and debt transactions. There is no guarantee that the Company will be able to raise enough capital or generate revenues to sustain its operations thus raising substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and liabilities in the normal course of business.

The consolidated financial statements do not include any adjustments relating to the recoverability or classification of recorded assets and liabilities that might result should the Company be unable to continue as a going concern.

NOTE 4- BALANCE SHEET COMPONENTS

Prepaid Services

During the nine months ended September 30, 2010, the Company issued an aggregate of 1,225,000 shares of common stock to non-employees for services to be performed under various agreements. The transactions were valued at the fair value of the common stock at the commitment date in the amount of \$675,500, as that was deemed to be the more readily determinable value.

During the three month and nine month periods ended September 30, 2010, the Company recorded an expense of \$238,000 and \$1,091,625, respectively, to the accompanying consolidated statement of operations and comprehensive loss for the amortization of stock issued for services during 2009 and 2010. The unamortized amount as of September 30, 2010 is \$161,125.

During the three month and nine month periods ended September 30, 2009, the Company recorded an expense of \$632,625 and \$1,933,925 to the accompanying consolidated statement of operations and comprehensive loss for the amortization of stock issued for services that were issued in 2009 and 2008.

Property and Equipment

Property and equipment as of September 30, 2010 and December 31, 2009 were as follows:

| | Estimated Useful Lives (Years) | 2010 | 2009 |
|--|-----------------------------------|--------------|--------------|
| Testing equipment | 5 – 7 | \$ 493,906 | \$ 493,906 |
| Office, future & computer equipment | 3 – 5 | 132,079 | 132,079 |
| Leasehold improvements | 3 | 17,820 | 17,820 |
| Phone equipment – Capital lease | 3 | 32,432 | 32,432 |
| Prototype – “Patriot-1” | 3 | 1,352,986 | 1,352,986 |
| | Total | 2,029,223 | 2,029,223 |
| | | | |
| Less accumulated depreciation and amortization | | 1,025,652 | 599,022 |
| Net Property and Equipment | | \$ 1,003,571 | \$ 1,430,201 |

Depreciation expense charged to operations for the quarters ended September 30, 2010 and 2009 was \$141,538 and \$141,527, respectively. Depreciation expense charged to operations for the nine months ended September 30, 2010 and 2009 and the cumulative period July 19, 2002 (inception) to September 30, 2010, was \$426,631, \$251,269 and \$1,083,877, respectively.

The prototype machine Patriot-1 was completed in second quarter 2009, prior to that it was consider Construction-in-progress. The completed commercial prototype machine will be used to demonstrate the capabilities of the Technology and will not be sold.

Patents

The Company currently has three utility patent applications pending in the United States Patent and Trademark Office (“USPTO”) and approximately ten corresponding utility patent applications pending in international patent offices in commercially relevant countries. In August 2009, the Company received a Notice of Allowance for its first application (Serial No 11/610,823) from the USPTO. A Notice of Allowance is issued if one or more of the claims of

an application are allowed and precedes the formal patent issuance. The Company's patent applications cover its proprietary microwave technology for recovering hydrocarbons and fossil fuels from sources such as tires, oil shale, capped wells, shale deposits, and waste oil streams. Legal fees associated with the above mentioned patent applications are recorded as prepaid patent costs on the accompanying condensed consolidated balance sheets. Upon final approval by the USPTO, the prepaid patent costs will be reclassified to an intangible asset and amortized over the expected life of the patent.

On December 8, 2009, the U.S. Patent and Trademark Office issued U.S. Patent No. 7,629,427 to the Company. The Company anticipates that this technology will be the core of the Company's Patriot 2™ Tire-to-Fuel Oil Recycling System, in addition to other potential future applications. This patent was determined to have a value of \$79,203 and reclassified from prepaid patent to patents on the December 31, 2009 Consolidated Balance Sheet.

The prepaid patent costs are \$692,417 and \$559,855 at September 30, 2010 and December 31, 2009, respectively. Patent amortization expense charged to operations for the nine months ended September 30, 2010 and 2009 and the cumulative period July 19, 2002 (inception) to September 30, 2010, was \$3,494, \$0, and \$3,494, respectively.

Royalty Advance Related to Joint Development Agreement (Universal Alternative Fuels Agreement)

As more fully described in Note 7 – Commitments and Contingencies, on October 14, 2009, the Company entered into a license agreement with Universal Alternative Fuels (“UAF”) and during the fourth calendar quarter of 2009 received \$750,000 as a license fee.

As of December 31, 2009, the \$750,000 paid to the Company from UAF has been recognized on the Consolidated Balance Sheet as a current liability (Royalty Advance fee). During the third quarter of 2010, the Company recognized this advance as revenue upon termination of the underlying license agreement (see Note 7 – Commitments and Contingencies – Joint Development Agreement).

Deferred Revenue Related to Joint Development Agreement (Schlumberger Agreement)

As more fully described in Note 7 – Commitments and Contingencies, on April 23, 2009, Global Heavy Oil Corporation, a wholly-owned subsidiary of the Company (“GHO”), entered into a Joint Development Agreement (the “JDA”) with Schlumberger Technology Corporation and Schlumberger Holdings Limited (collectively, “Schlumberger”; together with GHO, the “JDA Parties”).

Pursuant to the JDA, on May 22, 2009 Schlumberger made a non-refundable payment of \$300,000 to GHO and another \$300,000 on the first anniversary of the JDA. These moneys are non-refundable. As of December 31, 2009, the Company recognized \$180,000 of it as revenue, with the remaining \$120,000 remaining on the accompanying consolidated balance sheet as deferred revenue. On March 4, 2010, the Company received the second \$300,000 payment from Schlumberger. During the three and nine month periods ended September 30, 2010, the Company recognized \$75,000 and \$253,333, respectively, of it as revenue. As of September 30, 2010, \$166,667 remained on the accompanying consolidated balance sheet as deferred revenue.

Convertible Promissory Notes

Between April 2010 and September 30, 2010, the Company issued convertible promissory notes to various parties in exchange for \$1,501,650 in cash. Additionally, during the third quarter of 2010, the Company issued an additional convertible note in exchange for \$100,000 of cash. As of September 30, 2010 and December 31, 2009, convertible promissory notes payable consists of the following:

| | 2010 | 2009 |
|---|--------------|------|
| Noninterest-bearing, unsecured convertible promissory notes | \$ 1,601,650 | \$ - |
| Less unamortized discount | 44,088 | - |
| Convertible promissory notes, net | \$ 1,557,562 | \$ - |

As issued, these promissory notes were mandatorily convertible into our Series A Preferred Stock upon the earliest to occur of the attainment of a specified level of total financing or May 31, 2011. Upon conversion, the note holder was to receive a number of shares of Series A Preferred Stock equal to the amount computed by dividing (1) the value of the note being converted by (2) the Series A financing selling price and a warrant for common stock. When issued, the warrants are expected to have an exercise price equal to the par value of the Company's common stock (\$0.001). See note 8 for additional discussion.

At issuance, the Company discounted the notes at an imputed interest rate of 12% and recorded a debt discount in the amount of \$100,600 which amount is being amortized as interest expense over the expected term of the notes. Interest expense associated with the debt discount amortization totaled \$39,750 and \$56,511 for the quarter and nine months ended September 30, 2010.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Company engaged Clark Resources, Inc. ("Clark"), a governmental relations consulting firm located in Harrisburg, Pennsylvania, to provide consulting services with respect to governmental issues concerning permits and funding. The Company has a monthly retainer agreement with Clark and for the nine months ended September 30, 2010 and 2009, and for the cumulative period July 12, 2002 (inception) to September 30, 2010, paid Clark Resources a total of \$0, \$15,000, and \$169,670, respectively. The president and CEO of Clark is Frederick A. Clark, who has served as a director of the Company since December 2006. On March 8, 2010, Mr. Clark resigned as a member of the Board of Directors.

In November 2007, the Company entered into a six month consulting agreement with Worldwide Strategic Partners, Inc. ("Worldwide"), a corporation in which General Lincoln Jones III, one of our directors, has an ownership interest in excess of ten percent. The consulting agreement was executed and delivered approximately six-months before General Jones became a director of our Company. Subsequent to the execution of the consulting agreement with Worldwide, the Company issued a total of 150,000 shares of its common stock to Worldwide and its assignees valued at \$448,000 through June 30, 2008, of which 31,250 shares were distributed to General Jones. On May 26, 2008, the Company and Worldwide terminated the November 2007 consulting agreement by agreeing to pay Worldwide a total of 275,000 shares of its common stock for services rendered, inclusive of the 150,000 shares previously issued. The residual expense of \$281,250 associated with consulting services was recorded to the consolidated statement of operations and comprehensive loss in general and administrative expenses in the third quarter of 2008. On May 26, 2008, the Company entered into a new five-year consulting agreement with Worldwide expiring on May 26, 2013, pursuant to which Worldwide will identify potential acquisition candidates or joint venture partners for the Company, and upon closing a transaction with any such candidate, the Company will pay Worldwide a fee based upon a percentage of the value of the transaction beginning with 5% of the first \$1,000,000 dollars, and declining 1% for each successive \$1,000,000 increase in transaction value until Worldwide receives 1% of the transaction value in excess of \$4,000,000. On March 8, 2010, General Jones III resigned as a member of the Board of Directors.

On September 4, 2008, the Company entered into a consulting agreement with Paul Sweeney for services relating to investor relations and other investment banking services. On September 8, 2008, the Company issued 1,500,000 shares of its common stock to Mr. Sweeney valued at \$1,440,000 for his consulting services. The Company recorded an expense of \$960,000, for the year ended December 31, 2009 and \$480,000 for the year ended December 31, 2008 respectively in the consolidated statements of operations and comprehensive loss for the twelve month periods ended December 31, 2009. The Company recorded an expense of \$240,00 for the three months ended September 30, 2009 and \$120,000 for the three months ended September 30, 2008. For the nine months ended September 30, 2009 and September 30, 2008 the Company recorded expense of \$960,000 and \$120,000 respectively. Mr. Paul Sweeney has served as a director of the Company since August 2008.

On October 1, 2008, the Company entered into a four month consulting agreement with LP (Origination) Limited ("LP"), a company incorporated in the United Kingdom, to provide consulting services relating to the oil and gas industries. The Company issued 100,000 shares of its common stock to LP on October 7, 2008 for payment of these consulting services, and \$37,250 of the total charge of \$149,000 was recorded as prepaid services on the condensed consolidated balance sheet at December 31, 2008. The president of LP is Peter A. Worthington, who has served as a director of the Company since August 2008. On May 28, 2009, the Board of Directors of the Company appointed Mr. Worthington as Interim Chairman of the Board of Directors. On July 6, 2009, the Board of Directors appointed Mr.

Worthington as the Company's Chief Executive Officer. In addition to the common shares issued to LP, the Company also paid a fee in December 2008 in the amount of \$90,000 to Mr. Worthington for the services provided under the agreement. On May 11, 2009, the Company entered into another consulting agreement with LP with an effective date of April 7, 2009, pursuant to which LP has agreed to perform management advisory, strategic planning and other consulting services as the Company may request from time to time for a term ending on April 6, 2010, in return for (i) a payment of \$100,000 conditioned upon and to be paid after a specified amount of sales have been made and for which LP had some significant involvement as set forth in the consulting agreement, and (ii) 300,000 shares of the Company's common stock, which was issued on May 12, 2009. The latest consulting agreement may be renewed by either party for an additional one year term. For the twelve months periods ended December 31, 2009, a charge of approximately \$492,250, was made to operations with respect to consulting expense, which is reflected in general and administrative expenses on the consolidated statements of operations and comprehensive loss. Mr. Worthington did not collect a salary for his work as interim CEO and Chairman of the Board of directors, he was only reimbursed for living and travel expenses on behalf of the Company but the Company did record an accrual and an expense of \$45,000 for projected compensation costs for his services as CEO and Chairman of the Board of directors. On November 11, 2009, Mr. Worthington resigned from the position of Chief Executive Officer of the Company as well as from its Board of Directors, including as Interim Chairman of the Board. On December 15, 2009, the Board of Directors awarded Mr. Worthington 200,000 warrants of the Company's common stock with an exercise price of \$.40 per share, an expense of \$93,836 was recorded to the consolidated statement of operations and comprehensive loss for the year ended December 31, 2009, these warrants were not excisable until April 7, 2010, and expire on April 7, 2012.

During the twelve months year ended December 31, 2009 Jonathan Simon, a member of the Board of Directors since 2007, incurred expenses in the amount of \$54,900 on the behalf of the Company. The Company recorded an accrual to accounts payable and expensed \$54,900 to the financial statements for the year ended December 31, 2009. This obligation was settled in January 2010 by the Company issuing Mr. Simon 75,000 shares of the Company's common stock.

On November 11, 2009, the Board elected Mr. Brian Ettinger to the Board of Directors of the Company and appointed him as the Chairman of the Board, filling the vacancy created by the resignation of Mr. Worthington. Mr. Ettinger, a consultant to the Company since 2008, currently serves as the CEO and General Counsel for Worldwide Strategic Partners, Inc. ("WSP"). General Lincoln Jones III, a former director of the Company, owns in excess of ten percent of WSP. The Company currently has a consulting agreement in place with WSP. Since January 1, 2008, in connection with consultant services provided by Mr. Ettinger to the Company, the Company issued to Mr. Ettinger the following securities: (i) on June 13, 2008, the Company issued 57,500 shares of its Common Stock to Mr. Ettinger as payment for consulting services rendered valued at \$129,375; (ii) on October 1, 2008, the Company issued to Mr. Ettinger warrants to purchase 300,000 shares of its Common Stock in partial payment of consulting services to be performed, which warrants have an exercise price of \$2.00, with 100,000 warrants vesting on each of June 10, 2009, January 10, 2010 and June 10, 2010; (iii) on October 31, 2008, the Company issued 150,000 shares of its Common Stock to Mr. Ettinger for consulting services rendered valued at \$232,500; (iv) on April 1, 2009, the Company issued to Mr. Ettinger warrants to purchase 200,000 shares of its Common Stock in partial payment of consulting services to be performed, which warrants have an exercise price of \$1.10 per share and expire on varying dates ranging from January 10, 2012 to June 10, 2012; and (v) on April 22, 2009, the Company issued 225,000 shares of its Common Stock to Mr. Ettinger for consulting services rendered valued at \$254,250. On December 15, 2009, the Company issued Mr. Ettinger 250,000 shares of its Common Stock for consulting services rendered in November 2009, the services were valued at \$145,000 using the closing day stock price and recorded to the financial statements. Also on December 15, 2009 the Company issued Mr. Ettinger 150,000 shares of its Common Stock for becoming the Company's Chairman of the Board of Directors, an expense of \$87,000, using the closing day stock price, was recorded to the statement of operations and comprehensive loss for the year ended December 31, 2009. On January 1, 2010, the Company entered into another Consulting Services Agreement with Brian Ettinger, the Chairman of the Board of Directors of the Company. Pursuant to the Consulting Services Agreement, (A) Mr. Ettinger agreed to provide the Company with certain consulting services outside his duties as Chairman of the Board of Directors of the Company and (B) as compensation for the consulting services to be provided by Mr. Ettinger pursuant to the Consulting Services Agreement, the Company agreed to issue to Mr. Ettinger (i) 375,000 shares of its Common Stock (valued at \$0.58 per share, the last sale price per share of the Company's Common Stock as reported by the Pink Sheets on December 31, 2009), which shares may be required to be assigned back to the Company in the event of the termination of the Consulting Services Agreement under certain circumstances, and (ii) warrants to purchase a total of 500,000 shares of the Company's Common Stock at an exercise price of \$0.58 per share, half of which warrants vest on each of July 1, 2010 and January 1, 2011 and which warrants are exercisable for a 24 month period following the respective vesting dates. On July 16, 2010 Mr. Ettinger resigned as Chairman of the Board of Directors and the Company entered into a new consulting service agreement with Mr. Ettinger (See Note 8 – Subsequent Events).

NOTE 6 - STOCKHOLDERS' EQUITY

Rights Dividend

The Board of Directors (the "Board") of Global Resource Corporation (the "Company") declared a dividend, payable to stockholders of record on March 11, 2010 (the "Record Date"), of one right (a "Right") per each share of outstanding Common Stock of the Company, par value \$0.001 per share ("Common Stock"), to purchase 1/1,000th of a share of Series I Preferred Stock, par value \$0.001 per share, of the Company (the "Preferred Stock"), at a price of \$100.00 per share (such amount, as may be adjusted from time to time as provided in the Rights Agreement, the "Purchase Price"). In connection therewith, the Company entered into a Rights Agreement, dated March 11, 2010 (as the same

may be amended from time to time, the “Rights Agreement”) with Olde Monmouth Stock Transfer Co., Inc., as Rights Agent (the “Rights Agent”).

The Rights are not exercisable until the earlier of the following dates (each a “Distribution Date”):

(a) such date the Company learns that a person or group (including any affiliates or associate of such person or group) has acquired, or obtained the right to acquire, beneficial ownership (as defined in the Rights Agreement) of more than 20% of the outstanding Common Stock of the Company (or, in the case of any person with beneficial ownership of more than 20% at the time the Rights Agreement is entered into, any additional Common Stock is acquired by such person (except upon exercise of certain stock options or vesting of restricted shares) (any person or group specified in the foregoing bullet point, an “Acquiring Person”); and

(b) such date, if any, as may be designated by the Board following the commencement of, or first public disclosure of an intention to commence, a tender or exchange offer for outstanding Common Stock which could result in a person or group becoming the beneficial owner of more than 20% of the outstanding Common Stock of the Company.

The Rights will expire on March 11, 2013 (the “Expiration Date”), unless earlier redeemed or cancelled by the Company.

The Rights are redeemable by the Board at a redemption price of \$0.00001 per Right (the “Redemption Price”) any time prior to the earlier of (i) the Distribution Date and (ii) the Expiration Date. Immediately upon the action of the Board ordering the redemption of the Rights, and without any further action and without any notice, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

As of the date of filing, no Rights have been exercised or become exercisable.

Common stock financing

Between January 1, 2010 and September 30, 2010, the Company sold 1,835,922 shares of its common stock for \$617,535 in cash.

During the year ended December 31, 2009, the Company issued 250,000 shares of common stock at an average of approximately \$0.50 per share for a total of \$125,830 in cash. The issuance with a private investor and were sold at a discount on the market price.

Common stock issued for services to non-employees

During the nine months ended September 30, 2010, the Company issued an aggregate of 4,418,587 shares of common stock to non-employees for services to be performed under various agreements. The transactions were valued at the fair value of the common stock at the commitment date in the amount of \$2,026,176, as that was deemed to be the more readily determinable value. Included in the 4,418,587 shares of Common Stock issued to non-employees are 1,225,000 shares for services to be provided through December 2010. The unamortized amount of prepaid services at September 30, 2010 is \$161,125 (see Note 4). The Company recorded \$1,091,625 as general and administrative expenses related to the amortization of prepaid stock for services in the accompanying consolidated statement of operations and comprehensive loss for the nine months ended September 30, 2010. The Company also issued 1,400,000 shares of Common Stock valued at \$882,000 to Eric Swain, a former CEO of the Company as part of a severance agreement and 100,000 shares of Common Stock valued at \$78,000 to Frank Pringle, another former CEO of the Company, as part of a severance agreement (see Note 7).

Additionally, on February 1, 2010, the Company issued, pursuant to January 19, 2010 approvals of the Board of Directors of the Company, the following shares of the Company’s Common stock: (i) 10,000 shares of its Common

Stock to General Lincoln Jones III, a director of the Company, (ii) 10,000 shares of its Common Stock to Frederick A. Clark, a director of the Company, (iii) 15,000 shares of its Common Stock to Kim Thorne O'Brien, a director of the Company, and (iv) 75,000 shares of its Common Stock to Jonathan Simon, a director of the Company. On March 8, 2010, the Board of Directors of the Company elected Paul Somerville and Edward Szofer to its Board of Directors. They each received 100,000 shares of the Company's Common stock.

During the year ended December 31, 2009, the Company issued a total of 2,699,000 shares of its common stock to non-employees for services rendered during the year or to be rendered. These services were valued at \$2,431,050. Included in the 2,699,000 shares of common stock issued to non-employees is 850,000 shares for services to be provided through December 2010. The unamortized amount of prepaid services at December 31, 2009 is \$577,250 (see Note 4). The Company recorded \$1,853,800 as general and administrative expenses related to these issuances in the accompanying consolidated statement of operations and comprehensive loss for the year ended December 31, 2009. The Company also issued 1,050,000 shares of common stock to a former employee as part of a severance agreement the value of the stock issue was \$1,134,000 (see Note 7).

Warrants

During the period from July 19, 2002 (inception) to September 30, 2010, the Company granted two types of warrants: (a) Purchase warrants – sold in conjunction with the sale of common stock and (b) Compensation warrants – grants to non-employee consultants for services provided or to be provided. Warrants issued in association with the sale of common stock have no related expense, and accordingly no effect on the Company's results of operations. Fair value for each warrant is calculated using the Black-Scholes option-pricing model and a debit and credit is recorded to additional paid-in capital.

For Compensation warrants, the Company records the expense of options granted to non-employee consultants for services based on the estimated fair value of the warrants using the Black-Scholes option-pricing model on the grant date. The Company believes that the estimated fair value of the warrants is more readily measurable than the fair value of services rendered.

The fair value of the warrants was determined using the Black-Scholes option-pricing model with the following assumptions:

| | 2010 | 19-July-2002 (inception) to 30-September-2010 |
|--------------------------|-------------|---|
| Dividend yield | 0% | 0% |
| Expected volatility | 111%-137% | 100% - 240% |
| Risk-free interest rate | 0.84%-2.36% | 0.78% - 4.97% |
| Expected life | 2.93 years | 0.5 - 7 years |
| Expected forfeiture rate | 0% | 0% |

A summary of the status of the Company's stock warrants for the nine month period ended September 30, 2010 is as follows:

| | Warrants | Range of Exercise Price | Weighted Average Exercise Price |
|---|------------|-------------------------------|--|
| Balance at December 31, 2009 | 22,500,836 | \$.40 - \$4.75 | \$ 2.71 |
| Granted | 2,820,002 | \$.45 - 1.30 | .98 |
| Cancelled – Warrants Exchanged for Shares of Common Stock | 1,042,106 | \$.80 - 2.75 | 1.93 |
| Exercised | - | | |
| Balance at September 30, 2010 | 24,278,732 | \$.40 - \$4.75 | \$ 2.54 |
| Exercisable at September 30, 2010 | 13,119,325 | | \$ 1.77 |

| Exercise Price | Warrants Outstanding | | | Warrants Exercisable | | |
|----------------|-------------------------------|---|---------------------------------|----------------------------|---------------------------------|--|
| | Number Outstanding at 9/30/10 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable 9/30/10 | Weighted Average Exercise Price | |
| \$ 0.40 | 200,000 | 2.52 | \$ 0.40 | 200,000 | \$ 0.40 | |
| \$ 0.45 | 150,000 | 1.44 | \$ 0.45 | 150,000 | \$ 0.45 | |
| \$ 0.58 | 850,000 | 2.05 | \$ 0.58 | 600,000 | \$ 0.58 | |
| \$ 0.85 | 200,000 | 1.14 | \$ 0.85 | 200,000 | \$ 0.85 | |
| \$ 1.02 | 60,000 | 3.42 | \$ 1.02 | 60,000 | \$ 1.02 | |
| \$ 1.04 | 30,000 | 3.49 | \$ 1.04 | 30,000 | \$ 1.04 | |
| \$ 1.10 | 225,000 | 1.75 | \$ 1.10 | 225,000 | \$ 1.10 | |
| \$ 1.18 | 1,400,000 | 4.03 | \$ 1.18 | 900,000 | \$ 1.18 | |
| \$ 1.30 | 420,002 | 1.30 | \$ 1.30 | 420,002 | \$ 1.30 | |
| \$ 1.35 | 20,000 | 3.12 | \$ 1.35 | 20,000 | \$ 1.35 | |
| \$ 1.50 | 300,000 | 1.35 | \$ 1.50 | 300,000 | \$ 1.50 | |
| \$ 2.00 | 9,837,782 | 0.28 | \$ 2.00 | 9,837,782 | \$ 2.00 | |
| \$ 2.25 | 25,000 | 2.98 | \$ 2.25 | 25,000 | \$ 2.25 | |
| \$ 2.50 | 60,041 | 0.25 | \$ 2.50 | 60,041 | \$ 2.50 | |
| \$ 2.63 | 6,000 | 2.36 | \$ 2.63 | 6,000 | \$ 2.63 | |
| \$ 2.75 | 5,382,440 | 0.28 | \$ 2.75 | 76,500 | \$ 2.75 | |
| \$ 2.83 | 9,000 | 2.64 | \$ 2.83 | 9,000 | \$ 2.83 | |
| \$ 4.00 | 1,397,600 | 0.25 | \$ 4.00 | - | \$ 4.00 | |
| \$ 4.75 | 3,705,867 | 0.25 | \$ 4.75 | - | \$ 4.75 | |
| | 24,278,732 | | \$ 2.54 | 13,119,325 | \$ 1.77 | |

Warrant Cancellation and Exchange Agreements

On January 29, 2010, the Company entered into an agreement with the holders of Company's stock warrants pursuant to the agreement the holders of the Company's \$.80 stock warrants agreed to the cancellation of 400,000 warrants to purchase Common Stock of the Company at \$0.80 per share in exchange for the issued 40,000 shares of its Common Stock.

On February 1, 2010, the Company entered into an agreement with the holders of Company's stock warrants pursuant to the agreement the holders of the Company's \$2.50 stock warrants agreed to the cancellation of 290,000 warrants to purchase Common Stock of the Company at \$2.50 per share in exchange for the issued 48,333 shares of its Common Stock, of which, 85,000 of the cancelled warrants and 14,167 of the common shares were for Jonathan Simon, a director of the company.

On March 29, 2010, the Company entered into an agreement with the holders of Company's stock warrants pursuant to the agreement the holders of the Company's \$2.75 stock warrants agreed to the cancellation of 352,106 warrants to purchase Common Stock of the Company at \$2.75 per share in exchange for the issued 73,691 shares of its Common Stock.

Purchased warrants

During the nine months ended September 30, 2010, the Company issued warrants to purchase 307,694 shares of Common Stock at \$1.30 per share to three individuals in conjunction with the sale of Common Stock. These warrants expire January 22, 2012. During the year ended December 31, 2009 no purchase warrants were issued in conjunction with the sale of common stock.

CRC and Mobilestream Warrants (Derivative Liabilities)

In conjunction with the CRC Acquisition Agreement and the Mobilestream Acquisition Agreement (together, “the 2006 Acquisition Agreements”) (see Note 1 – Nature of Business and Basis of Presentation), the Company issued common stock purchase warrants (“Acquisition Warrants”). The Acquisition Warrants consisted of 3,908,340 Carbon Recovery Class B Acquisition Warrants (“Class B Warrants”), 1,397,600 Carbon Recovery Class D Acquisition Warrants (“Class D Warrants”), 1,397,800 Carbon Recovery Class E Acquisition Warrants (“Class E Warrants”) and 27,205,867 Mobilestream Acquisition Warrants, of which 23,500,000 Mobilestream Acquisition Warrants were issued directly to Mr. Frank Pringle and on October 23, 2007, the Company cancelled the 23,500,000 Mobilestream Acquisition Warrants which were voluntary return to the Company by Mr. Pringle. The Class B Warrants and the Class D Warrants each have an exercise price of \$2.75 and had an original expiration date of September 21, 2007. The Class E warrants have an exercise price of \$4.00 and had an original expiration date of September 21, 2007. The Mobilestream Acquisition Warrants have an exercise price of \$4.75 and had an original expiration date of December 31, 2007. On September 21, 2007, the Board of Directors extended the expiration date of all of the Acquisition Warrants to December 31, 2007 and on December 31, 2007, the expiration date was further extended until December 31, 2008. In November 2008, the Board of Directors amended the expiration date to 120 days subsequent to the effective date of a successful registration statement filed with the SEC covering the Acquisition Warrants. On July 13, 2009, the Board of Directors extended the expiration date of all of the Acquisition Warrants to March 31, 2010. As of September 30, 2010 and through the date of this filing, the Company has not had registration statements with respect to any of the Acquisition Warrants declared effective by the SEC. On January 19, 2010 the Board of Directors again extended the expiration date of all the Acquisition Warrants to December 31, 2010.

Compensation warrants

Between January 1, 2010 and September 30, 2010, the Company issued 962,308 common stock warrants to various vendors for services rendered or for services to be rendered. The warrants have an exercise price ranging from \$.58 to \$1.30 and all warrants expire within thirty months from date of issuance.

On August 5, 2009 the Company issued an aggregate of 25,000 warrants in connection with the compensation to Board of Directors. The warrants have exercise prices of \$1.10 and expire on August 5, 2014. An expense of \$24,519 was charged to general and administrative expenses in the accompanying consolidated statement of operations and comprehensive loss for year ending December 31, 2009. The fair value of the warrants was determined using the Black-Scholes option-pricing model.

On March 27, 2009 the Company issued an aggregate of 30,000 warrants in connection with the compensation to Board of Directors. The warrants have exercise prices of \$1.04 and expire on March 27, 2014. An expense of \$27,119 was charged to general and administrative expenses in the accompanying consolidated statement of operations and comprehensive loss for year ending December 31, 2009. The fair value of the warrants was determined using the Black-Scholes option-pricing model.

On October 1, 2008, the Company granted a non-employee 300,000 common stock warrants as a portion of the payment for services to be performed. These warrants have an exercise price of \$2.00, and 100,000 warrants vest on each of the following dates: June 10, 2009, January 10, 2010 and June 10, 2010. An expense of \$102,285 was recorded for each of the four consecutive quarters starting with the quarter ended December 31, 2008 through September 30, 2009, to general and administrative expenses in the accompanying consolidated statement of operations and comprehensive loss for the years ended December 31, 2008 and 2009.

Employee Options

On September 23, 2008, as part of a series of employment term sheets, the Company authorized the grant of a total of 8,500,000 stock options to four key executives. 5,000,000 of those stock options were granted to Eric Swain, the Company's Chief Executive officer. The other 3,500,000 stock options were granted to three other officers of the Company and remain subject to stockholders' approval of an amendment to the Company's stock option plan increasing the number of authorized shares available for issuance under the plan. All of these options have an exercise price of \$1.18 per share and expire ten years after the vesting date. 1,000,000 of Mr. Swain's options vested immediately and the balances were scheduled to vest in equal annual installments of 1,000,000 options on September 23, 2009 and on each anniversary thereafter for the three years thereafter. On July 6, 2009, Mr. Swain's employment with the Company was terminated and a subsequent severance agreement was entered into between the Company and Mr. Swain on October 2, 2009. As part of the severance agreement, 2,000,000 of Mr. Swain's options were cancelled. (See Note 7 – Commitments and Contingencies – Severance Agreements). The assumptions used in the Black-Scholes option-pricing model used to determine the fair value of the options are: a dividend yield of 0%; an expected volatility rate of 123.5%; a risk-free interest rate of 2.93%; and an expected life of approximately six years. Expected forfeitures were estimated to be 0%.

On February 9, 2010 the Company entered into an agreement with Mr. Jeffrey Andrews to exchange the 1,000,000 previously granted employee stock option which were subject to shareholders approval for Company warrants. Mr. Andrews was issued 1,000,000 warrants with an exercise price of \$1.18 per share, of these warrants 400,000 are exercisable immediately and the 600,000 remaining become exercisable on January 31, 2011, except that the remaining warrants will become immediately exercisable in full in the event that the Company terminates the consulting services of Mr. Andrews at any time after six months. The warrants have an expiration date of January 31, 2013.

On April 27, 2009, with the retirement of Mr. Wayne Koehl, 600,000 of his options still waiting stockholders' approval were cancelled (see Note 7 for details). Of the combined 2,900,000 options granted to Mr. Koehl and the two other executives, one-fifth of these options will vest immediately upon approval of the amendment of the Company's stock option plan, and the remainder are scheduled to vest one-fifth on September 23, 2009, and an additional one-fifth on each anniversary thereafter, for the next three years, provided that the executives are employed by the Company at each vesting date, or the options are subject to the terms of a retirement or severance agreement. On February 4, 2010 the Company entered into an agreement to exchange previously granted employee stock options which were subject to shareholders approval for Company warrants. Mr. Koehl was issued 400,000 warrants with an exercise price of \$1.18 per share in exchange for the 400,000 options, these warrants are exercisable immediately and have an expiration date of December 31, 2018.

In March 2005, CRC issued 200,000 stock options to the CFO. The options have an exercise price of \$1.00 per share and expire on December 31, 2014. The options are fully vested as of December 31, 2008. Prior to March 2005, the Company had not issued any employee common stock purchase options.

A summary of the status of the Company's outstanding employee stock options as of September 30, 2010 is as follows:

| | Number of Option Shares | Weighted Average Exercise price | Number of Vested Option shares |
|-----------------------------------|----------------------------|--|--------------------------------------|
| Outstanding at December 31, 2008 | 5,200,000 | \$ 1.17 | 1,200,000 |
| Granted | - | \$ - | - |
| Exercised | - | \$ - | - |
| Forfeited/expired | (2,000,000) | \$ 1.18 | - |
| Outstanding at December 31, 2009 | 3,200,000 | \$ 1.17 | 3,200,000 |
| Granted | - | \$ - | - |
| Exercised | - | \$ - | - |
| Forfeited/expired | - | \$ - | - |
| Outstanding at September 30, 2010 | 3,200,000 | \$ 1.17 | 3,200,000 |

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has four separate lease agreements including two separate facilities in New Jersey, one in Rockford, Illinois, and its new corporate headquarters in North Carolina. The North Carolina lease for lab space and office space and the Company's new corporate headquarters was entered into in June 2010. The lease is for five years with monthly payments beginning at \$13,613 per month and the lease expires June 2015. With all leases, the Company is required to pay property taxes, utilities, insurance and other costs relating to the leased facilities. See Note 8 – Subsequent Events.

In June of 2010, as a result of the new North Carolina new lab facility, the Company negotiated a settlement for the former R&D lab lease in Berlin, New Jersey; under the terms of this settlement the Company will pay \$16,200 between July 1, 2010 and May 1, 2011. On June 25, 2010 the leaseholder of the Mount Laurel, New Jersey exercised its right to the \$47,500 letter of credit for delinquent payments of rent. The Company has engaged a commercial real estate broker to market the in Mount Laurel New Jersey for sublet.

Rent expense for the nine months ended September 30, 2010 and 2009, and for the cumulative period July 19, 2002 (inception) to September 30, 2010, was approximately \$231,276, \$138,469, and \$630,276, respectively.

Severance Agreement

On July 6, 2009, the Company terminated the employment of Eric Swain, its Chief Executive Officer, and removed him from the Company's Board of Directors. On October 2, 2009, the Company finalized a Severance Agreement with Mr. Swain (the "Swain Severance Agreement"). The Swain Severance Agreement replaced the prior terms of employment that the Company had with Mr. Swain. Pursuant to the terms of the Swain Severance Agreement, among other things, (a) of the options to purchase 5,000,000 shares of the Company's common stock at an exercise price of \$1.18 per share previously granted to Mr. Swain, Mr. Swain retained 1,000,000 shares that previously vested, 1,000,000 that vested on December 1, 2009 and 1,000,000 that will vest on December 1, 2010, the remaining 2,000,000 being cancelled, (b) the Company agreed, subject to Mr. Swain's continued compliance with the terms of the Swain Settlement Agreement, (i) to pay to Mr. Swain certain bonuses, if earned, payable to him under the prior terms of his employment through January 6, 2011, and (ii) to issue to Mr. Swain an aggregate of 2,250,000 shares of its common stock on certain dates starting on October 6, 2009 and ending on October 6, 2011, of which 1,800,000 shares are to be registered under the Securities Act of 1933 pursuant to an effective registration statement on Form S-8 filed on January 29, 2008 ("S-8 Shares"); (c) Mr. Swain has agreed not to sell more than 35,000 S-8 shares during any calendar week; (d) the Company will continue to provide full health insurance benefits to Mr. Swain through July 5, 2010; and (e) the Company transferred to Mr. Swain the title of ownership of the Company's car then in Mr. Swain's possession. In compliance with the terms of the Swain Severance Agreement, on October 5, 2009, the Company issued to Mr. Swain 450,000 restricted shares of its common stock. In September of 2009, the Company recorded a severance expense of \$3,654,714 for the payments to be paid by the Company to Mr. Swain pursuant to the Swain Settlement Agreement. The liability for the undelivered option shares as of December 31, 2009, was revalued to its fair value at December 31, 2009 and the compensation expense was reduced by \$568,000 in the financial statements. The expenses recorded were valued using the present value of expected future outflows. The Swain Severance Agreement was amended on January 26, 2010 pursuant to which the remaining 1.2 million shares of its registered common stock to be issued on future dates in 2010 and 2011 was replaced by issuing Mr. Swain 1.4 million shares of its restricted common stock subject to SEC rule 144 on January 27, 2010.

On November 12, 2008, the Company entered into a severance agreement with Pringle, and 888 Corporation, a New Jersey corporation owned directly or indirectly by Pringle (the "Severance Agreement"). The Severance Agreement replaces a prior consulting agreement with 888 Corporation, which was approved by the Board of Directors on May 21, 2008. Pursuant to the Severance Agreement, the Company has agreed to pay Pringle \$200,000 per year for the six-year period commencing on January 1, 2009 subject to Pringle and 888 Corporation's continued compliance with the terms of the Severance Agreement. Pursuant to the Severance Agreement, Pringle returned 225,000 shares of the Company's common stock previously issued to him, and he resigned as a member of the Company's Board of Directors and in all other capacities. Pringle also agreed to restrict the amount of shares of the Company's common stock that he or his affiliates may sell to during certain periods of 2009 and an aggregate of 250,000 shares of the Company's common stock in any three-month period beginning August 1, 2009. The foregoing restrictions remain in place until Pringle has less than 5,000,000 shares of Company's common stock. Any transfers by Pringle in accordance with the foregoing restrictions remain subject to the Company's right of first refusal to purchase the stock. The Severance Agreement also provides for: (i) the immediate termination of the consulting agreement between the Company and 888 Corporation dated as of January 1, 2008 (though the Company has agreed to pay 888 Corporation the remainder of any payments otherwise due them through December 31, 2008); (ii) a nine year non-compete and non-solicitation agreement from Mr. Pringle; (iii) certain representations, warranties and covenants from Pringle and associated indemnification obligations; and (iv) mutual general releases and non-disparagement provisions. During 2008, the Company recorded a charge in the amount of \$1,200,000 to expense related to the Severance Agreement. The Company's pledge of its pending patents as collateral for the payments to Pringle was eliminated. On September 29, 2009, (i) the Company declined to exercise its right of first refusal to purchase a total of 950,000 shares from Mr. Pringle and (ii) the Company and Pringle agreed to amend the Severance Agreement with respect to the selling restrictions (the "Amendment"). Pursuant to the Amendment, (i) Mr. Pringle agreed not to sell, assign, transfer, pledge

or encumber more than 20,000 shares of the Company's common stock per week commencing on September 28, 2009 and continuing for the following 78 weeks thereafter, (ii) any transfers of shares that Mr. Pringle agreed to make prior to September 28, 2009 would be made from the 950,000 shares that were permitted to be sold pursuant to the Severance Agreement prior to November 1, 2009 and (iii) in all other respects, the terms of the original Severance Agreement remain unchanged. On January 7, 2010, the Company entered into an addendum to the Severance Agreement whereby the severance agreement was amended as follows: (i) reduce the current monthly cash payments to \$10,000 per month retroactively to December 2009, (ii) accruing the difference of \$6,667 per month as a liability, (iii) in consideration for this forbearance the Company issued to Mr. Pringle, during January 2010, 100,000 shares of the Company's common stock, (iii) agreed to pay 100% of Mr. Pringle's health insurance coverage for the 12 month period covering 2010; (iv) once the Company has raised a total of \$1.0 million dollars in new equity investments, the full payments to Mr. Pringle shall recommence as of the first month of the succeeding month and accrued liability shall be paid in six equal installments also beginning as of the first month of the succeeding month; (v) all restrictions of when Mr. Pringle can sell his stock are rescinded; (vi) the Company has had ample opportunity to investigate any claims of Mr. Pringle or a Pringle related party for which an offset would be made. In May 2010 the Company has raised a total of \$1.0 million dollars in new financing, consequently the full payments to Mr. Pringle shall recommence at \$16,666 per month and the accrued liability will begin to be paid in six equal installments.

Employment / Compensation Agreements

On December 15, 2009 the Board of Directors approved the compensation packages for the Chairman of the Board, the Chief Executive Officer and members of the Board of directors. The compensation packages are contingent upon the Company achieving certain financial and operation milestones and are not effective until the Company reaches predetermined Milestones. Definition of Milestone: Milestone 1 is defined as having the Company raising \$2.0 million dollars of capital infusion and entering into a business agreement for the sale of a 1 ton production microwave unit machine. Milestone 2 is defined as having the Company raising \$5.0 million dollars of capital infusion (the \$5.0 million dollars include the \$2.0 million from milestone 1) and enters into a business agreement for the sale of three 1 ton production microwave unit machines or one 3 ton production microwave unit machine.

As of September 30, 2010, the Company had not achieved any of the milestone levels.

The following is a summary of the contingent compensation packages:

Mr. Brian Ettinger, the Company's then Chairman of the Board : When milestone 2 objective is achieved Mr. Ettinger will receive:

- (i) 100,000 shares of its unregistered (rule 144 shares) common stock shares each quarter. If the average stock price remains above a \$1.50 per share for three consecutive months, the 100,000 shares of common stock issued per quarter will increase to 200,000 shares of its common stock.
- (ii) 100,000 stock option shares each quarter. If the average stock price remains above a \$1.50 per share for three consecutive months, the 100,000 stock options shares issued per quarter will increase to 200,000 stock options.
- (iii) Mr. Ettinger is entitled to receive a bonus of 1.5% of the profit before taxes for any joint ventures and/or strategic alliances the Company enters into when the venture becomes operational.
- (iv) If the Company is sold for over \$100,000,000 (not including a hostile takeover) during Mr. Ettinger's tenure as Chairman of the Board, he is entitled to receive a 1.5% bonus of the net proceeds from the sale of the Company.
- (v) If Mr. Ettinger is terminated as Chairman of the Board of Directors without cause, Mr. Ettinger is entitled to 500,000 shares of its restricted common stock and 1.0 million stock option shares valued at the stock price on the termination date.

Mr. Ken Kinsella, the Company's Chief Executive Officer : When milestone 1 objective is achieved Mr. Ken Kinsella will receive:

- (i) a compensation package of \$300,000 a year, this compensation includes a salary of \$277,200 per _____ year, car allowance of \$900 per month and a living allowance of \$1,000 per month,
- (ii) 3,000,000 stock options will be granted at the closing share price on the date that the milestone 1 is achieved and these stock options are 100% vested on the grant date and have a three year expiration date, an expense of \$71,616 was recorded to the consolidated statement of operations and comprehensive loss (see note No. 11 above for detail under Employee options)
- (iii) Mr. Kinsella is eligible to receive health insurance coverage provided by the company
- (iv) If Mr. Kinsella is terminated as CEO without cause, he will be entitled to an additional 2.0 million common stock options valued at the stock price on the termination date. If the Company reaches a milestone 2 objective the Board of Directors may award Mr. Kinsella additional compensation at the discretion of the Board.

Mr. Paul Sweeney, a member of the Board : When milestone 2 objective is achieved Mr. Sweeney will receive:

- (i) \$25,000 per quarter for services he is currently providing as a consultant,
- (ii) a grant of 50,000 common stock shares (unregister-Rule 144 shares) each quarter and if the average stock price remains above a \$1.50 per share for three consecutive months, the 100,000 shares of common stock issued per quarter will increase to 200,000 shares of its common stock,
- (iii) 100,000 stock option shares each quarter and if the average stock price remains above a \$1.50 per share for three consecutive months, the 100,000 stock options shares issued per quarter will increase to 200,000 stock options.

Further, contingently upon the Company achieving milestone 2, the current compensation for the Board of Directors of receiving 5,000 stock warrants for attending a Board meeting will change to the following:

- (i) Chairman will receive \$50,000 in cash based on approximately 20 days full time work per year comprising Board and shareholders meetings and general interaction with CEO, executive team, other directors and Company shareholders;
- (ii) Board members will receive \$25,000 in cash based on approximately 10 days full time work per year comprising Board and shareholders meetings and general interaction with CEO, executive team, other directors and Company shareholders;
- (iii) if a Board member is a committee chairman will receive \$3,000 per meeting held as per charter and if a Board member is a member of a committee will receive \$2,500 per meeting as per charter;
- (iv) for all Board members reasonable expenses will be reimbursed as approved by nominations and compensation committee.
- (v) Board member will be entitled to receive a bonus of 1.5% of the profit before taxes for any joint ventures and/or strategic alliances the Company enters into when the venture becomes operational for five years;
- (vi) If the Company is sold for over \$100,000,000 (not including a hostile takeover) during the Board members tenure, the member is entitled to receive a 1.5% bonus of the net proceeds from the sale of the Company.

On November 11, 2009, the Board of Directors approved the appointment of Mr. Ken Kinsella to the position of Chief Executive Officer ("CEO") of the Company. Mr. Kinsella is currently receiving the following compensation: A salary of \$12,000 per month, a car allowance of approximately \$900 per month, and a living allowance of approximately \$1,000 per month for a total compensation of approximately \$167,000, per year. He is eligible to receive health insurance coverage provided by the company.

On November 11, 2009, the Board of Directors elected Mr. Brian Ettinger to the Board of Directors of the Company and appointed him as the Chairman of the Board of Directors for a one year term. On December 15, 2009, the Company issued 150,000 shares of its common stock to Mr. Ettinger, (ii) the Company renewed a consulting agreement with Mr. Ettinger, pursuant to the consulting agreement Mr. Ettinger agreed to provide the Company with certain consulting services outside his duties as Chairman of the Board of Directors of the Company.

On July 6, 2009, the Board of Directors approved the appointment of Mr. Peter A. Worthington as its Interim Chairman of the Board and to the position of Chief Executive officer of the Company. Mr. Worthington has been a member of the Board of Directors since August 13, 2008. Mr. Worthington received no compensation for being interim chairman of the Board and CEO of the Company, other than being reimbursed for living and travel expenses. The Company did accrue an expense of \$45,000 for potential compensation to be agreed upon which was recorded the statement of operations as of December 31, 2009. On November 11, 2009, Mr. Worthington resigned from the position of CEO as well as from its Board of Directors, including as Interim Chairman of the Board. On December 15, 2009, the Board approved 200,000 common stock options with an option price of \$.40, are vested immediately and have expire of three years from date of issuance for his efforts as interim Chairman of the Board and CEO. As of December 31, 2009, the Company had accrued an expense of \$45,000 for potential compensation to be agreed upon which was recorded the statement of operations as of December 31, 2009. The Board also determined that Mr. Worthington was owed \$45,000 as salary compensation which can be paid upon the Company reaching a milestone objective of the Company raising or having available \$5.0 million dollars of capital infusion.

On September 23, 2008, the Board of Directors approved employment letter agreements with (i) the president of the Company, Jeffrey Kimberly, (ii) the Chief Operating Officer (“COO”) of the Company, Wayne Koehl, and (iii) the CFO of the Company, Jeffrey Andrews. These letter agreements amended and restated the terms and conditions of employment of each of these executives of the Company.

Mr. Kimberly's employment letter provides for an employment term of five years at an annual salary beginning January 1, 2009 of \$300,000, with an increase to \$375,000 if the Company reaches certain sales goals. Any other increase in annual salary is subject to approval of the CEO of the Company and the Board of Directors. Subject to approval by the stockholders of the Company, Mr. Kimberly will be granted an option to purchase 1,500,000 shares of the Company's common stock. The exercise price for these options was set at the market closing bid quotation on September 15, 2008 of \$1.18. The options will be exercisable from and after their respective vesting date, and for a period of ten years thereafter. Options for 300,000 shares of common stock shall vest immediately on September 23, 2008, and options for 300,000 additional shares of common stock shall vest on September 23rd of each successive year between 2010 and 2013 inclusive, provided that Mr. Kimberly is still employed on the relevant vesting date. These stock options are not deemed to be granted until stockholder approval is obtained. Mr. Kimberly will be entitled to receive bonuses of between 0.75% and 1.00% of the Company's gross profits on sales of equipment after the Company reaches certain sales milestones. The Company shall pay the monthly loan payments on Mr. Kimberly's car for two years and then pay off all of the remaining loan balance on this automobile provided he is still employed by the Company. On March 25, 2010, the Company terminated Mr. Kimberly's contract. In April 2010 Mr. Jeff Kimberly filed a lawsuit against the Company for wrongful termination of his employment contract. In Mr. Kimberly's lawsuit he is asking for the remaining salary and stock option due him per his employment contract of September 23, 2008. The Company is currently in settlement negotiation with Mr. Kimberly.

Mr. Andrews' employment letter provides for an employment term of five years at an annual salary for 2008 of \$180,000, with an increase to \$225,000 if the Company reaches certain sales goals. Any other increase in annual salary is subject to the approval of the CEO of the Company and the Board of Directors. Subject to approval by the stockholders of the Company, Mr. Andrews will be granted an option to purchase 1,000,000 shares of the Company's common stock. The exercise price for these options was set at the market closing bid quotation on September 15, 2008 of \$1.18. The options will be exercisable from and after their respective vesting date, and for a period of ten years thereafter. Options for 200,000 shares of common stock vested immediately on September 23, 2008, and options for 200,000 additional shares of common stock shall vest on September 23rd of each successive year between 2010 and 2013 inclusive, provided that Mr. Andrews is still employed on the relevant vesting date. These stock options are not deemed to be granted until stockholder approval is obtained. Mr. Andrews will be entitled to receive bonuses of between 0.75% and 1.00% of the Company's gross profits on sales of equipment after the Company reaches certain sales milestones. Mr. Andrews shall also receive a monthly automobile allowance of \$500. On February 9, 2010 the Company entered into a consultant agreement with Mr. Andrews, this new consultant agreement replaces the prior terms of employment that the Company had with Mr. Andrews. Effective February 1, 2010, as of which date Mr. Andrews is no longer an employee of the Company and is continuing to provide his services to the Company as a consultant. Further, pursuant to the Consulting Services Agreement, stock options to purchase 1,000,000 shares of the Company's Common Stock previously granted to Mr. Andrews exercisable at \$1.18 per share, of which the option to purchase 400,000 shares had already vested, subject to stockholder approval of an amendment to the plan pursuant to which they were issued, was replaced with a Warrant to purchase 1,000,000 shares of the Company's Common Stock at \$1.18 per share, of which 400,000 is immediately exercisable and the remainder of which is exercisable on January 31, 2011, except that the Warrant will become immediately exercisable in full in the event that the Company terminates the Consulting Services Agreement at any time or Mr. Andrews terminates the Consulting Services Agreement after six months. The Warrant expires on January 31, 2013.

In addition, the Company acknowledged that it owed Andrews \$139,000 for past services performed by Mr. Andrews outside the scope of his employment with the Company and consequently agreed with Mr. Andrews to issue to Mr.

Andrews (i) 250,000 S-8 Shares and (ii) 250,000 shares of its Common Stock not registered under the Securities Act, which shares were issued February 2, 2010 and February 5, 2010, respectively.

Pursuant to the Consulting Services Agreement, the Company acknowledged and agreed that \$204,485 is due to Mr. Andrews as a result of the severance provisions of Mr. Andrews' employment agreement previously in effect and consequently agreed to (i) pay to Mr. Andrews \$120,000 in cash over a twelve month period split evenly into 24 payments payable twice per month and (ii) issue to Mr. Andrews shares of the Company's Common Stock valued at \$84,845, split into 24 issuances contemporaneous with the payments made pursuant to the previous clause, which shares would be valued at a 10% discount to the public market price of a share of the Company's Common Stock (the "Market Price") at the time of each issuance and which shares would be shares previously registered under the Securities Act of 1933, as amended (the "Securities Act"), on Form S-8 ("S-8 Shares"). Mr. Andrews Consulting Services Agreement was terminated on September 21, 2010; all amounts owed were settled with common stock.

Mr. Koehl's employment letter provides for an employment term of five years at an annual salary for 2009 of \$225,000, with an increase to \$250,000 if the Company reaches certain sales goals. Any other increase in annual salary is subject to the approval of the CEO of the Company and the Board of Directors. Subject to approval of the stockholders of the Company, Mr. Koehl will be granted an option to purchase 1,000,000 shares of common stock of the Company. The exercise price for these options was set at the market closing bid quotation on September 15, 2008 of \$1.18. The options will be exercisable from and after their respective vesting date, and for a period of ten years thereafter. Options for 200,000 shares of common stock shall vest immediately on September 23, 2008, and options for 200,000 additional shares of common stock shall vest on September 23rd of each successive year between 2010 and 2013 inclusive, provided that Mr. Koehl is still employed on the relevant vesting date. These stock options are not deemed to be granted until stockholder approval is obtained. Mr. Koehl will be entitled to receive bonuses of between 0.75% and 1.00% of the Company's gross profits on sales of equipment after the Company reaches certain sales milestones. Mr. Koehl shall also receive a monthly automobile allowance of \$500. On April 27, 2009, the Company entered into a new agreement with Mr. Koehl. This new agreement replaces the prior employment agreement discussed above. Pursuant to the new agreement, Mr. Koehl no longer works for the Company, the Company has agreed to pay Mr. Koehl his current salary for a period of approximately six months, ending on October 31, 2009. The new agreement also provides that: (a) Mr Koehl will be entitled to receive a bonus based upon sales of equipment made by the Company solely to one certain customer; (b) Mr. Koehl shall be entitled to retain the options to purchase 200,000 shares of the Company's common stock previously granted which are vested but are subject to the shareholders approval and the options to purchase an additional 200,000 shares of the Company's common stock previously granted, also subject to the shareholders approval, which were to vest on September 23, 2009 but shall now be immediately vested; (c) the Company will continue to provide medical coverage under the Company's current health care benefits plan for period of approximately six months ending on October 31, 2009. Thereafter Mr. Koehl shall be entitled to elect to continue such COBRA coverage for the remainder of the COBRA period, at Mr. Koehl's own expense. On February 4, 2010 the Company entered into an second agreement to exchange previously granted employee stock option which were subject to shareholders approval for Company warrants. Mr. Koehl was issued 400,000 warrants with an exercise price of \$1.18 per share, this warrants are exercise immediately and have an expiration date of December 31, 2018.

On July 16, 2010 Brian Ettinger resigned as Chairman of the Board. Upon his resignation the company deemed all shares issued and options granted in his consulting agreement as earned. The company also agreed to pay him \$80,000 which includes approximately \$53,000 for an outstanding invoice for legal services. The Company entered into a one year consulting agreement with Mr. Ettinger. For all opportunities agreed upon in writing by the Company, Mr. Ettinger shall receive a consulting fee equal to 5% of the gross revenues received by the Company.

Joint Development Agreement (Schlumberger Agreement)

On April 23, 2009, Global Heavy Oil Corporation, a wholly-owned subsidiary of the Company ("GHO"), entered into a Joint Development Agreement (the "JDA") with Schlumberger Technology Corporation and Schlumberger Holdings Limited (collectively, "Schlumberger"; together with GHO, the "JDA Parties"). Pursuant to the JDA, the JDA Parties agreed to use reasonable efforts to collaborate in order to develop Surface Upgrading products and services in Heavy Oil oilfield operations (the "Products and Services"). Surface Upgrading are processes and technologies using microwaves to increase the gravity of Heavy Oil above the surface of the Earth. Heavy Oil is petroleum with an American Petroleum Institute gravity of 22.3 degrees or less.

In consideration of the time, effort and expense that Schlumberger will expend in connection with the activities contemplated by the JDA, and in exchange for the payments to be made by Schlumberger to GHO described in the next paragraph, the Company agreed not to engage in the research, development, manufacturing, marketing or exploitation of Products and Services during the term of the JDA and for two years thereafter, except pursuant to the JDA.

Pursuant to the JDA, Schlumberger agreed to pay \$300,000 to GHO within thirty days of the execution of the JDA and another \$300,000 on the first anniversary of the JDA. These moneys are non-refundable. The first \$300,000 was received on May 22, 2009. As of December 31, 2009, the Company recognized \$180,000 of it as revenue, with the remaining \$120,000 remaining on the accompanying consolidated balance sheet as deferred revenue. On March 4, 2010, the Company received the second \$300,000 payment from Schlumberger. The Company recognizes revenue in accordance with Securities and Exchange Commission guidance Staff Accounting Bulletin 104 "Revenue Recognition in Financial Statements" (SAB 104) guidance on revenue recognition. Revenue is recognized when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured. Revenue is recognized as services are rendered in accordance with the terms of the JDA. As more fully described in Note 4, the Company began recognizing revenue during the third quarter of 2009.

Pursuant to the terms of the JDA, each JDA Party granted to the other JDA Party an exclusive, worldwide, royalty-free license to use such JDA Party's intellectual property applicable to Surface Upgrading in Heavy Oil oilfield operations during the term of the JDA.

Pursuant to the JDA, the collaboration between the JDA Parties is to be implemented in three distinct phases as follows:

Phase I - Research and Development . During this Phase, the concept of the Products and Services will be designed and developed, and the efficacy thereof will be tested. Phase I continues until the earlier of (i) the date on which the JDA Parties agree that the Phase I objectives have been satisfied or (ii) the second anniversary of the JDA, subject to extension at the option of either JDA Party until the third anniversary of the JDA. During this Phase, each JDA Party shall pay its own expenditures incurred pursuant to the JDA.

Phase II - Prototype . During this Phase, the JDA Parties will design and test a prototype device or system to deliver Products and Services as a prelude to commercial exploitation of Products and Services. Phase II commences immediately upon agreement of the JDA Parties that the Phase I objectives have been timely satisfied (though Schlumberger has the option to terminate the JDA upon completion of Phase I by providing notice to GHO within thirty days of such completion) and continues until the earlier of (i) the date on which the JDA Parties agree that the Phase II objectives have been satisfied or (ii) the second anniversary of the date of commencement of Phase II, subject to extension at the option of either JDA Party until the third anniversary of commencement of Phase II. During this Phase, Schlumberger shall pay for all qualifying expenditures incurred by the JDA Parties pursuant to the JDA, except that if this Phase is extended at the option of GHO, during such extension GHO shall pay all such expenditures. Within thirty days of the commencement of Phase II, Schlumberger shall pay to GHO \$1,000,000 as a Non-Recurring Engineering Charge.

Phase III – Joint Venture . During this Phase, the JDA Parties will enter into a joint venture for the commercial exploitation of Products and Services, which joint venture shall include provisions set forth in the JDA and such terms as mutually agreed upon by the JDA Parties. Phase III commences if, and when, the Phase II objectives have been timely satisfied. However, Schlumberger has the option to terminate the JDA upon completion of Phase II by providing notice to GHO within thirty days of such completion; GHO does not have such an option. Pursuant to the terms of the JDA, the Phase III joint venture will be owned jointly by the JDA Parties in proportion to the amount of qualifying expenditures each JDA Party spent during Phases I and II, but in no event will GHO own more than 40% of the joint venture. If GHO's proportion of qualifying expenditures is less than 40% of total qualifying expenditures, then GHO shall have the option of acquiring an additional interest in the Joint Venture so that its interest in the joint venture will be 40% by paying to Schlumberger an amount such that GHO's qualifying expenditures (including such payment) reaches 40% of total qualifying expenditures (including such payment). If GHO's proportion of total qualifying expenditures is more than 40%, then Schlumberger shall pay to GHO an amount such that Schlumberger's qualifying expenditures (including such payment) as a proportion of total qualifying expenditures (including such payment) is reduced to 60%.

The costs being incurred by GHO for the research and development to be performed by it under the JDA are being funded by the Company out of its working capital. The Company's current expectation is that such costs will total approximately \$600,000 during Phase I.

Joint Development Agreement (Universal Alternative Fuels Agreement)

On October 14, 2009, the Company entered into a license agreement with Universal Alternative Fuels ("UAF"). Pursuant to the terms of the license agreement, in material part, (i) UAF purchased an exclusive, world-wide, royalty-free license, with the right to sub-license and effective for an unlimited time, to use and exploit the Company's

intellectual property and technological know-how for the microwave processing of oil shale and coal and the recovery of energy, energy-producing materials and by-products from oil shale and coal for a license fee of \$750,000; (ii) UAF paid to the Company a license fee of \$750,000 and will issue to the Company shares of common stock of UAF equal to 20% of the issued and outstanding shares of UAF common stock; and (iii) UAF agreed to purchase exclusively from the Company all machines to be manufactured for UAF (or its sub-licensees) under the license agreement, subject to the Company's ability to manufacture such machines.

In connection with the execution of the license agreement, the Company entered into a security agreement with UAF granting to UAF first priority security interests in (i) the Company's existing prototype machine (the "Existing Prototype Machine") and (ii) the Company's patent rights, technology and trademarks as applied to the oil shale and coal fields of use. The security interests secure the amount of \$1.7 million, and in connection with the execution of the License Agreement, the Company granted to UAF a first priority security interest in the Company's patent rights, technology and trademarks as applied to the oil shale and coal fields of use. The security interests granted pursuant to the security Agreement will terminate and be released upon acceptance by UAF of the initial machine described in the next paragraph. Contemporaneous with the execution of the license agreement, UAF issued a purchase order to the Company for an initial machine capable of processing one ton per hour of oil shale (the "Purchase Order"). The purchase price for the initial machine is based on a formula related to the Company's cost to manufacture the initial machine and will not exceed \$3.5 million. Payment of the purchase price is as follows: (i) UAF will pay \$500,000 to the Company six months from the date of the Purchase Order, (ii) UAF will pay \$500,000 to the Company nine months from the date of the purchase order, (iii) a deemed purchase discount by UAF of \$843,000 was credited against the purchase price on the date of the Purchase Order, and (iv) the balance of the purchase price will be paid upon completion of the initial machine, demonstration that it meets the warranted purpose and acceptance of it by UAF.

Contemporaneous with the execution of the Purchase Order to the Company for an initial machine UAF shall have a “wait and see” period of 180 days from the date of license agreement to terminate that purchase order for the initial machine; but such right to terminate is dependent upon the Company’s failure, within 150 days from the date of the license agreement, to raise at least \$3.4 million in additional equity capital. If the Company fails to achieve such financing, UAF shall have the right (but not the obligation) to terminate the Purchase order. If UAF so elects to terminate the purchase order the Company has a 30 day period to repurchase this License and retain the existing Prototype Machine. The repurchase and retention price shall be \$1.7 million. If the repurchase/retention is not timely accomplished by the Company, its option to repurchase/retain shall be null and void and then UAF will retain the license and will have the right to foreclose on the collateral under the security agreement and take immediate and exclusive possession and ownership of the Existing Prototype Machine.

The Company understands that Mr. Thomas Vieweg, who owns 125,000 shares of Common Stock of the Company and was a former consultant to the Company, is a principal in UAF. In addition, the Company understands that certain other principals of UAF currently are either principals or affiliates of Professional Offshore Opportunity Fund, Ltd. (“POOF”). POOF previously provided certain financing to, and was a securityholder of the Company.

As of December 31, 2009 the Company and UAF was in the “wait and see” period and the Company was not in default and UAF had not terminated the purchase order. No machine was built and delivered, consequently no activity was done that would allow the Company to recognize any revenue in 2009. On July 26, 2010, the Company issued a notice of default to UAF as a result of UAF's failure to issue the Equity Interests and make the required Purchase Price payments pursuant to the terms of the License Agreement and Purchase Order. UAF had 60 days from the date of the Default Notice to cure such breach. The 60 day time frame elapsed as of September 26, 2010 thereby terminating the License Agreement, Purchase Order, and UAF's lien pursuant to the Security Agreement. As a result of these events, in September 2010, the Company recognized as revenue the \$750,000 that was previously reported as a royalty advance. The Company has not recognized the 20% interest in UAF since UAF has not shared and will not share their financial statements and since we do not have any significant control over UAF the value of this potential asset is undeterminable.

On March 15, 2010 the company and UAF agreed to extend the notice, demand, and default provision dates on the agreements to 120 days from the date of the addendum.

This agreement has been cancelled and the outcome of the cancellation will be determined by the court system in Wake county North Carolina. A hearing is scheduled for May 1, 2011. See note 8 for additional discussion.

CRC and Mobilestream Asset Acquisitions

With respect to the Company’s past acquisitions of the assets of CRC and Mobilestream Oil, Inc. and the registration of securities issued to the Carbon Recovery Liquidating Trust and the Mobilestream Liquidating Trust in connection therewith, specifically (i) the distribution of 22,334,221 shares of the Company’s common stock (the “Shares”) and warrants to purchase a total of 10,409,407 shares of the Company’s common stock (the “Warrants”) to the beneficiaries of such liquidating trusts, (ii) the issuance of 10,409,407 shares of the Company’s common stock upon exercise of the Warrants (the “Warrant Shares”) and (iii) the resale of the Shares and the Warrant Shares by the initial recipients thereof (the “Acquisition and Registration”), the Staff of the Securities and Exchange Commission (the “SEC”) has advised the Company that in the view of the Staff the Acquisition and Registration may, in substance, be an attempt to complete a business combination transaction via a registered offering when it was already started without registration and has further advised the Company to include the Staff’s view in the Registration Statement, and the risks to and potential liability of the Company, if any, associated therewith. The Company is continuing to evaluate the view of the Staff of the SEC in this matter and the Company’s options with respect to the Registration Statement. In addition, the 35,236,188 shares of Preferred Stock A issued directly to Mr. Pringle as part of the

acquisition of the assets of Mobilestream were not held in a liquidating trust and the Staff has advised the Company that such fact should be disclosed in the Registration Statement. The Company is continuing to evaluate the view of the Staff and it is not clear whether the Company faces any potential liability as a result of such shares being issued directly to Mr. Pringle and not included in the liquidating trust as may have been required pursuant to the terms of the acquisition documents and therefore the Company has not recorded the fair value of any potential liability resulting therefrom. The Company recognizes that there may be a probable contingency loss but the amount of the contingency loss cannot be reasonably estimated. Per FASB ASC 450-20 a potential contingency loss must be both probable and reasonable estimated for the company to record the loss to the financial statements.

NOTE 8 - SUBSEQUENT EVENTS

Between October 1, 2010 and December 31, 2010, the Company has received approximately \$178,000 in cash in exchange for numerous convertible promissory notes payable. These convertible promissory notes were identical to the promissory notes issued during the second and third quarters of 2010 as more fully described in Note 4 above. In December 2010, all of the promissory notes were amended and restated to clarify the level of funding required as a condition of conversion and removing the requirement that the notes mandatorily convert upon attainment of a specified level of funding. Concurrent with the amendment and restatement of the notes, the Company issued the note holders warrants equivalent to the number of warrants that were previously issuable upon the conversion of the notes into preferred stock. Upon issuance of the warrants, in December 2010 the Company recorded approximately \$1.0 million of interest expense associated with the beneficial conversion feature of the issued warrants. As of March 12, 2011 approximately \$1.5 million worth of these convertible promissory notes, including approximately \$1.2 million received prior to June 30, 2010, were converted into 6,229,997 shares of the Company's preferred stock and the associated warrants were converted into 6,185,497 common shares.

Between October 1, 2010 and April 13, 2011, the Company raised \$150,000 from various convertible notes payable. These convertible notes payable can be converted to common stock. 1,000,000 common stock warrants were issued with these convertible notes. The warrants have an exercise price of \$.25 all warrants expire thirty months from date of issuance.

Between October 1, 2010 and April 13, 2011, the Company issued 3,309,306 shares of common stock for services.

On December 28, 2010 the Company executed \$1.6 million revolving line of credit. The line of credit matures June 30, 2011 and secured by the company's assets. As of April 13, 2011 there was \$805,664 outstanding on the line of credit.

During the fourth quarter of 2010, the Company received from UAF a notice of termination (the "Termination Notice") of the License Agreement and Purchase Order and a notice of foreclosure ("Foreclosure Notice") in connection with the Security Agreement. The Company believes that, for a number of reasons, pursuant to the terms of the License Agreement and all related agreements, the Termination Notice and Foreclosure Notice are invalid. On July 26, 2010, the Company issued a notice of default ("Default Notice") to UAF as a result of UAF's failure to issue the Equity Interests and make the required Purchase Price payments pursuant to the terms of the License Agreement and Purchase Order. UAF has 60 days from the date of the Default Notice to cure such breach. If UAF has not cured the breach within the 60 day time frame the Default Notice serves as notice of termination by the Company of the License Agreement and Purchase Order. Upon such termination UAF's lien pursuant to the Security Agreement would terminate. There are no assurances as to whether UAF will cure the breach, or whether UAF will recognize and honor the Default Notice or seek to enforce its Termination Notice and Foreclosure Notice, which the Company believes are invalid. We cannot predict the outcome of this dispute.

On January 14, 2011, the Company filed a complaint in the Supreme Court of the State of New York (1) seeking compensatory damages for breach of contract in an amount to be determined at trial and (2) seeking a declaratory judgment that UAF (a) did not and does not have the right to terminate the Purchase Order; (b) did not validly exercise the purported termination right; (3) is not entitled to seize, attempt to seize, sell, attempt to sell, transfer or request the transfer of, auction or attempt to auction any property, including without limitation any property identified in the License Agreement, Purchase Order and or Security Agreement; and (4) permanently enjoining UAF from seizing, selling, transferring, or attempting to auction any property.

On February 28, 2011, UAF filed a complaint in the state of North Carolina General Court of Justice in Wake County (1) for breach of contract, alleging damages in the amount of \$1,713,000; (2) seeking possession of the Company's prototype or in the alternative, damages for its conversion; (3) treble damages and attorney's fees as a result from an alleged violation of the Uniform Fraudulent Act; (4) the appointment of a receiver and (5) seeking a preliminary injunction enjoining the Company and its insiders, employees and or/agents from transferring or disposing of any property or assets of the Company including patents or its prototype. Additionally, on March 3, 2011, UAF filed a temporary restraining order (the "Restraining Order") in the state of North Carolina in the General Court of Justice in Wake County restraining the Company from selling, disposing, moving or relocating any of the Company's assets. The Restraining Order is in effect for ten (10) days from March 3, 2011.

There are no assurances as to the outcome of this dispute.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statement Notice

Certain statements made in this Quarterly Report on Form 10-Q are "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Global Resource Corporation ("we", "us", "our" or the "Company") to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. The Company's plans and objectives are based, in part, on assumptions involving the continued expansion of business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance the forward-looking statements included in this Quarterly Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

Description of Business

Global Resource Corporation's ("GRC" or "the Company") business plan is to research, develop and market the business of decomposing petroleum-based materials by subjecting them to a fixed-frequency microwave radiation (the "Technology") at specifically selected frequencies for a time sufficient to at least partially decompose the materials, converting the materials into hydrocarbons and fossil fuels from sources such as tires, oil shale, capped wells, shale deposits and waste oil streams.

The Company's business goals for exploitation of the Technology are as follows:

- 1) The design, manufacture and sale of machinery and equipment units embodying the Technology.
- 2) The ownership and operation of plants to use the Technology in conjunction with other investors.
- 3) The formation of joint-venture and licensing relationships with established companies for exploitation of the Technology.

The Company is considered to be in the development stage. Currently, our efforts are directed principally at the design, manufacture and sale of machinery and equipment, as well as the licensing of the Technology. Under the Company's current strategy, the Company's revenue is likely to be generated from the development and licensing or sale of our proprietary Technology and/or design, manufacture and sale of machinery and equipment units. For machinery and equipment, sales revenue will be recognized when the machinery and equipment is shipped, installed and operating successfully at the destination site. For licensing agreements, revenue is recognized when services have been rendered or obligations fulfilled per the terms of the licensing agreements.

We have no manufacturing capability of our own. Accordingly, we entered into an agreement with Ingersoll Production Systems for research on and the manufacture of our machines. In October 2008, we completed our first commercial prototype machine that uses our Technology for decomposing tires, named "Patriot-1," at the Ingersoll Production Systems facility in Rockford, Illinois. As of March 31, 2010, the Rockford facility was closed. As of September 2, 2010, the prototype has been moved to a new facility located in Morrisville, North Carolina. The prototype is being tested initially to apply our Technology to the decomposition of tires as waste and to retrieve

commercially viable components therefrom in the form of carbon, liquid hydrocarbons and gas which can be converted to electricity and gas. We use our prototype primarily to confirm and refine the principles that will be utilized in commercial scale operations of our Technology. We also use it to test various feedstocks, materials that can benefit from the application of our Technology, prior to releasing processes for production. The prototype will also be used on a limited basis with a goal to show customers that the process works as applied to a specific feedstock and is viable for commercialization.

There are other potential applications for our Technology covered by the pending patents. These include:

1. Reduction of hydrocarbons in drilling cuttings to permit on-site disposal;
2. Volatilization of heavy or slurry oil;
3. Recovery of oil from oil shale and oil sands; and
4. Medical applications.

Each potential application will require additional testing and refinement in the laboratory, creation and design of equipment that will use the Technology to recover hydrocarbons from these alternate sources, the construction of test units that are sufficiently large to determine whether the application works on a large scale and has commercial value, securing orders for the manufacture of machines designed to implement the process, and the manufacture, sale and distribution of such equipment. Currently, we do not have adequate funds available to take these steps for any of these alternate applications. Therefore, our ability to expand our business in any such direction will depend upon our success in finding joint venture or strategic alliance partners to underwrite these activities, or licensees with the resources to develop these applications while paying us royalties and similar fees and our ability to raise capital. There can be no assurance that we will succeed.

We do not intend to research nor represent to potential customers the commercial uses or revenues they may derive from the end-products generated using our Technology. Each potential customer will be expected to evaluate for itself whether the commercialization and disposition of the end products justifies the cost to purchase and install one of our machines.

We have begun our marketing efforts in various industry sectors and have entered into an exclusive marketing agreement with C6 Engineering Pty Ltd. for marketing rights in certain geographical areas outside the United States. We intend to actively seek other marketing agreements with partners who have demonstrable economic and marketing contact resources.

We also intend to consider the development of additional machines and equipment using our core Technology in areas outside of the tire recycling industry, but we will require the assistance of outside capital equity investments on a large scale, or we will need to align ourselves with joint venture or strategic alliance partners in order to have the funds available to exploit these other potential applications.

We are not presently devoting any time or funds to the construction of plants to exploit our Technology. Any such effort will require capital in excess of funds available to us, and will require us to "partner" with a company with much larger resources.

As an additional, but not complete, alternative we may enter into strategic alliances, joint ventures and similar arrangements for the development, testing, construction, marketing and sale of our machines. In each such arrangement we will likely be required to share our revenues from sale of our products with the other party or parties to the arrangement. The methods, terms and amounts of these arrangements may vary greatly for each such transaction.

We are considered to be in the development stage. We have devoted substantially all of our efforts to business planning and development, as well as allocating a substantial portion of our time and resources in bringing our product to the market and the raising of capital.

Carbon Recovery Acquisition and Mobilestream Acquisition Warrants

On or about July 26, 2006, we entered into a plan and agreement of reorganization (the "CRC Acquisition Agreement") with Carbon Recovery Corporation, a New Jersey corporation formed on July 19, 2002 ("Carbon Recovery" or "CRC"), pursuant to which we agreed to purchase substantially all of the assets of, and assume certain specified liabilities of, Carbon Recovery, in exchange for the consideration described below. The acquisition was completed on September 22, 2006 (the "CRC Acquisition Closing"). At the time of the acquisition, Mobilestream Oil, Inc., a Delaware corporation ("Mobilestream") owned 37,500,000 shares of the common stock of CRC, which represented a controlling block of the issued and outstanding common stock of CRC. As part of the transaction, we also issued to CRC 3,908,340 Class B warrants, 1,397,600 Class D warrants and 1,397,800 Class E warrants (collectively, the "CRC Acquisition Warrants") to purchase shares of our common stock. In January of 2010, the expiration date of the CRC Acquisition Warrants was extended from March 31, 2010 to December 31, 2010.

On December 31, 2006, we acquired the assets of Mobilestream, pursuant to a plan and agreement of reorganization dated November 28, 2006 (the "Mobilestream Acquisition Agreement") between the Company and Mobilestream. Mobilestream was a development stage company which owned the Technology, consisting of certain proprietary technology and related custom software for the use of microwaves to break down petroleum-based products, such as used tires, into their component parts, and capturing those components in usable form for resale. At the closing of the purchase of Mobilestream's assets (the "Mobilestream Acquisition Closing"), we (i) acquired all of the Technology and (ii) assumed Mobilestream's liabilities, which were minimal. Upon the Mobilestream Acquisition Closing, Mobilestream's sole assets were the shares and warrants (the "Mobilestream Acquisition Warrants") we issued to Mobilestream at and in connection with the Mobilestream Acquisition Closing. In January of 2010, the expiration date of the Mobilestream Acquisition Warrants was extended from March 31, 2010 to December 31, 2010.

Universal Alternative Fuels

On October 14, 2009, the Company entered into a License Agreement with UAF, as amended by Amendment No. 1 to the License Agreement dated October 14, 2009 (the "UAF License Agreement"). Pursuant to the terms of the UAF License Agreement, the Company granted UAF an exclusive world-wide, royalty free license for the application of the Technology in recovering commercially usable energy, energy producing material and by products from oil shale and coal (the "Licensed Field of Use"), including, (i) the right to sublicense in the Licensed Field of Use; (ii) to practice the method or process required for the Licensed Field of Use and covered by the Company's patents or the Technology (the "Licensed Process") as a service to others or for UAF itself; (iii) to make, have made and use in the practice of the Licensed Process and to sell, offer to sell, lease, distribute, export and import licensed products in the country or countries in which the patent are effective and (iv) to use the Company's trademarks. UAF was required to pay a one time license fee equal to \$750,000 (the "License Fee") upon the execution and delivery of the UAF License Agreement and receive restricted shares aggregating to 20% of the issued and outstanding shares of common stock of UAF (the "Equity Interest") of UAF on the date of issuance.

In connection with the UAF License Agreement, UAF issued a purchase order, dated October 14, 2009, for an initial machine capable of processing one ton per hour of oil shale (the "Purchase Order") to the Company. The purchase price for the initial machine is based on a formula related to the Company's cost to manufacture the initial machine and will not exceed \$3.5 million. Payment of the purchase price is as follows: (i) UAF was required to pay \$500,000 to the Company six months from the date of the Purchase Order (ii) and \$500,000 nine months from the date of the Purchase Order, (iii) a deemed deposit by UAF of \$843,000 was credited against the purchase price on the date of the Purchase Order, and (iv) the balance of the purchase price will be paid upon completion of the initial machine, demonstration and acceptance by UAF. As of the date of this filing, UAF has not paid the initial \$500,000 payment due in April of 2010, nor has it paid the second \$500,000 payment due in July of 2010.

The Purchase Order was subject to a 180 day “wait and see” period from the date of the Purchase Order upon which UAF had the right to terminate the Purchase Order only if the Company has not raised at least \$3,400,000 in additional equity capital (which shall include debt, if convertible into Common Stock of the Company) within 150 days from the date of the UAF License Agreement. If UAF had exercised its right to terminate the Purchase Order, the Company had a ten day period in which it could repurchase the license granted to UAF and retain the existing prototype machine for an aggregate of \$1,700,000 (the “Repurchase Price”) which included the return of the \$750,000 license fee and reimbursement to UAF of the \$843,000 in costs incurred in connection with the License Agreement to be paid within twenty days from the end of the ten day period.

Prior to the date of this filing, the Company received from UAF a notice of termination (the "Termination Notice") of the License Agreement and Purchase Order and a notice of foreclosure ("Foreclosure Notice") in connection with the Security Agreement. The Company believes that, for a number of reasons, pursuant to the terms of the License Agreement and all related agreements, the Termination Notice and Foreclosure Notice are invalid. On July 26, 2010, the Company issued a notice of default ("Default Notice") to UAF as a result of UAF's failure to issue the Equity Interests and make the required Purchase Price payments pursuant to the terms of the License Agreement and Purchase Order. UAF has 60 days from the date of the Default Notice to cure such breach. If UAF has not cured the breach within the 60 day time frame the Default Notice serves as notice of termination by the Company of the License Agreement and Purchase Order. Upon such termination UAF's lien pursuant to the Security Agreement would terminate. The 60 day time frame has elapsed as of September 26, 2010 thereby terminating the License Agreement and Purchase Order. On October 20, 2010, UAF sent to the Company a Notice of Disposition of Collateral notifying the Company that certain of its patent applications and other items as identified in the Security Agreement would be offered for sale at a public auction on November 4, 2010. On December 16, 2010 UAF issued a press release announcing a change in the date of the public auction to December 22, 2010. Representatives of the Company attended the auction held by UAF at which UAF auctioned certain of the Company's assets to itself. Additionally, on November 4, 2010 the Company received a copy of a written consent executed by the board of directors of UAF authorizing the issuance of the Equity Interest together with an unsigned copy of a stock certificate in the Company's name for an aggregate of 40 shares of the common stock of UAF.

On January 14, 2011, the Company filed a complaint in the Supreme Court of the State of New York (1) seeking compensatory damages for breach of contract in an amount to be determined at trial and (2) seeking a declaratory judgment that UAF (a) did not and does not have the right to terminate the Purchase Order; (b) did not validly exercise the purported termination right; (3) is not entitled to seize, attempt to seize, sell, attempt to sell, transfer or request the transfer of, auction or attempt to auction any property, including without limitation any property identified in the License Agreement, Purchase Order and or Security Agreement; and (4) permanently enjoining UAF from seizing, selling, transferring, or attempting to auction any property. There are no assurances as to the outcome of this dispute.

On February 28, 2011, UAF filed a complaint in the state of North Carolina General Court of Justice in Wake County (1) for breach of contract, alleging damages in the amount of \$1,713,000; (2) seeking possession of the Company's prototype or in the alternative, damages for its conversion; (3) treble damages and attorney's fees as a result of an alleged violation of the Uniform Fraudulent Act; (4) the appointment of a receiver and (5) seeking a preliminary injunction enjoining the Company and its insiders, employees and or/agents from transferring or disposing of any property or assets of the Company including patents or its prototype. Additionally, on March 3, 2011, UAF filed a temporary restraining order (the "Restraining Order") in the state of North Carolina in the General Court of Justice in Wake County restraining the Company from selling, disposing, moving or relocating any of the Company's assets. The Restraining Order is in effect for ten (10) days from March 3, 2011. The Restraining Order has temporarily been extended until a hearing in the Wake County courts scheduled for May 2, 2011.

Joint Ventures and Strategic Alliances

We currently have limited funds available to pursue research and development of our Technology in other potential areas of application. These additional applications require the investment of large amounts of capital over extended time periods to investigate, refine and eventually develop the correct techniques for the use of microwave technology for the relevant application, build test units to evaluate the viability of the techniques on a large scale, determine the commercial usefulness of the application, and develop a sales and marketing force with expertise in the intended area of use. Accordingly, our strategy will be to negotiate collaborative agreements with large industrial and manufacturing companies, governments, or other parties to pursue opportunities in these areas of application.

On April 23, 2009, Global Heavy Oil Corporation, a wholly-owned subsidiary of the Company, entered into a Joint Development Agreement with Schlumberger Technology Corporation and Schlumberger Holdings Limited (the "Joint Development Agreement"). The parties to the Joint Development Agreement agreed to use reasonable efforts to collaborate in order to develop surface upgrading products and services in heavy oil oilfield operations (the "Products and Services"). Surface upgrading are processes and technologies using microwaves to increase the gravity of heavy oil above the surface of the Earth. Heavy oil is petroleum with an American Petroleum Institute gravity of 22.3 degrees or less. Pursuant to the Joint Development Agreement, we agreed not to engage in the research, development, manufacturing, marketing or exploitation of Products and Services during its term and for two years thereafter, except pursuant to the Joint Development Agreement.

Pursuant to the Joint Development Agreement, Schlumberger agreed to pay \$300,000 within thirty days of its execution and another \$300,000 on its first anniversary. These moneys are non-refundable. The first \$300,000 was received on May 22, 2009. The Company received the second payment of \$300,000 on March 4, 2010.

Rights Dividend

On March 11, 2010, the board of directors of the Company declared a dividend, payable to stockholders of record on March 11, 2010 (the "Record Date") and for all shares of Common Stock issued after the Record Date, of one right (the "Rights") per each share of the Company's outstanding Common Stock, to purchase 1/1,000 th of a share of Series I Preferred Stock, par value \$0.001 per share, of the Company at a price of \$100.00 per share (such amount may be adjusted from time to time, in accordance with the terms and conditions of that certain Rights Agreement, dated March 11, 2010 (the "Rights Agreement") by and between the Company and Olde Monmouth Stock Transfer Co., Inc. as Rights Agent). The Rights Agreement was filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2010 and is incorporated herein by reference.

The Rights are not exercisable until the earlier of the following dates (each a "Distribution Date"):

(a) such date the Company learns that a person or group (including any affiliates or associate of such person or group) has acquired, or obtained the right to acquire, beneficial ownership (as defined in the Rights Agreement) of more than 20% of the outstanding Common Stock of the Company (or, in the case of any person with beneficial ownership of more than 20% at the time the Rights Agreement is entered into, any additional Common Stock is acquired by such person (except upon exercise of certain stock options or vesting of restricted shares) (any person or group specified in the foregoing bullet point, an "Acquiring Person"); and

(b) such date, if any, as may be designated by the Board following the commencement of, or first public disclosure of an intention to commence, a tender or exchange offer for outstanding Common Stock which could result in a person or group becoming the beneficial owner of more than 20% of the outstanding Common Stock of the Company.

The Rights will expire on March 11, 2013 (the "Expiration Date"), unless earlier redeemed or cancelled by the Company.

The Rights are redeemable by the Board at a redemption price of \$0.00001 per Right (the "Redemption Price") any time prior to the earlier of (i) the Distribution Date and (ii) the Expiration Date. Immediately upon the action of the Board ordering the redemption of the Rights, and without any further action and without any notice, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

As of the date of filing, no Rights have been exercised or become exercisable.

Results of Operations

Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009

(A) REVENUES

The Company earned \$825,000 in revenues from operations for the quarter ended September 30, 2010 as compared to \$90,000 in revenues for the quarter ended September 30, 2009.

During the third quarter of 2009, the Company began recognizing revenue pursuant to the Joint Development Agreement discussed above. Pursuant to the Joint Development Agreement, we received \$300,000 on May 22, 2009 and \$300,000 on March 4, 2010 which was recorded as deferred revenue at the time of receipt and is being recognized as revenue ratably over the term of the contact. All of the revenue reported during 2009 and \$75,000 of the revenue reported during the third quarter of 2010 relate to fees earned under this development agreement. As of September 30, 2010, a balance of \$166,667 remains in the deferred revenue account on the consolidated balance sheet.

As noted above, on October 14, 2009 the Company entered into a License Agreement with UAF, as amended by Amendment No. 1 to the License Agreement dated October 14, 2009 and received a one time license fee of \$750,000 which the Company reported as a royalty advance on the consolidated balance sheet. On July 26, 2010, the Company issued a notice of default to UAF as a result of UAF's failure to issue the Equity Interests and make the required Purchase Price payments pursuant to the terms of the License Agreement and Purchase Order. UAF had 60 days from the date of the Default Notice to cure such breach. The 60 day time frame elapsed as of September 26, 2010 thereby terminating the License Agreement, Purchase Order, and UAF's lien pursuant to the Security Agreement. As a result of these events, in September 2010, the Company recognized as revenue the \$750,000 that was previously reported as a royalty advance.

(B) TOTAL OPERATING EXPENSES

Total operating expenses consist of professional fees, investor relations and investment banking fees, other general and administrative expenses, and research and development costs. Total operating expenses were \$1,489,423 for the three months ended September 30, 2010 compared to \$5,500,599 for the three months ended September 30, 2009, a decrease of approximately \$4,011,000 or approximately 73%.

Changes in General and Administrative Expenses for the quarter ended September 30, 2010 versus the quarter ended September 30, 2009 were the following:

For the quarter ended September 30, 2010, general and administrative expenses decreased by approximately \$4,020,000 for a total of approximately \$1,132,000, as compared to approximately \$5,152,000 for the quarter ended September 30, 2009. The decrease in general and administrative expenses was primarily attributable to reductions in severance, consulting, and legal and professional fees. Severance expense totaled \$3.1 million during the third quarter of 2009 as compared to \$0 during the third quarter of 2010. The 2009 severance expense was due primarily to a severance liability accrual relating to Mr. Eric Swain the amount of approximately \$3.1 million. Consulting expense decreased by \$670,000 to \$410,000 for the quarter ended September 30, 2010 compared to \$1,080,000 for the same period in 2009. Legal and professional fees decreased by \$208,000 to \$101,000 for the quarter ended September 30, 2010 compared to \$309,000 for the same period in 2009. The 2009 period included significant accounting fees attributable to costs associated with the Company's S-1 registration filings.

Research and development ("R&D") costs consist of all activities associated with the development and enhancement of products using the Company's Technology. R&D costs consist primarily of contract engineer labor and salaries of our

in-house engineers, lab supplies used in testing and expenses of equipment used to test and develop our Technology. Research and development costs are expensed when incurred. R&D costs for the three months ended September 30, 2010 and 2009 were \$357,415 and \$438,710, respectively. The decrease of \$81,295 as compared to the prior year's fiscal quarter for the same period can be attributed primarily to a \$48,000 decrease in salaries and wages expense and a \$31,000 reduction in supplies expense due to a reduction in development activities following the Company's Patriot I prototype being completed and placed in service in June 2009.

(C) OPERATING LOSS

Operating loss for the quarter ended September 30, 2010 was \$664,423 compared to \$5,500,599 for the three months ended September 30, 2009. The decrease in operating loss of \$4,836,176 was primarily attributable to the decrease in general and administrative expenses as described above in paragraph (B) and the decrease in research and development expenses as well as the revenue from the Joint Development Agreement and UAF licensing agreements. The operating loss from July 19, 2002 (inception) to September 30, 2010 was approximately \$60.9 million which was mostly attributable from the general and administrative expenses with only \$1.2 million of offsetting revenue for this period.

(D) OTHER INCOME (EXPENSE)

Interest expense, interest income, realized gains/(losses), change in fair value of derivative financial instruments and other income are included in other income (expense). Total other expense was \$15,056 for the three months ended September 30, 2010 compared to other income of \$1,711,087 for the three months ended September 30, 2009. The decrease of \$1,726,143 is primarily due to the fair value change in the derivative financial instruments.

Interest expense for the three months ending September 30, 2010 and 2009 was \$42,552 and \$1,515, respectively. The increase of \$41,037 in interest expense is primarily attributed to the 2010 period including \$39,750 of debt discount amortization related to convertible promissory notes issued during the second and third quarters of 2010.

Interest income for the three months ending September 30, 2010 and 2009 was \$9 and \$1,742, respectively.

At September 30, 2010 the change in the fair value of derivative financial instruments resulted in income of \$27,487 for the period ended September 30, 2010 versus income of \$1,713,449 for the period ended September 30, 2009, for a change of \$1,685,962.

(E) NET LOSS

The net loss for the three months ended September 30, 2010 was \$679,479 (\$0.01 per share) compared to \$3,789,512 (\$0.06 per share) for the three months ended September 30, 2009, a change of \$3,110,033. The Company losses are attributable to significant expenditures as the Company is still in development stage. As a development stage company that began operations in 2002, the Company has incurred approximately \$47.9 million in cumulative total net losses from inception through September 30, 2010.

Results of Operations

Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

(A) REVENUES

The Company earned \$1,003,333 in revenues from operations for the nine months ended September 30, 2010 as compared to \$90,000 in revenues for the nine months ended September 30, 2009.

During the third quarter of 2009, the Company began recognizing revenue pursuant to the Joint Development Agreement discussed above. All of the revenue reported during 2009 and \$253,000 of the revenue reported during the first nine months of 2010 are related to fees earned under this development agreement.

As noted above, on October 14, 2009 the Company entered into a License Agreement with UAF, as amended by Amendment No. 1 to the License Agreement dated October 14, 2009 and received a one time license fee of \$750,000 which the Company reported as a royalty advance on the consolidated balance sheet. On July 26, 2010, the Company issued a notice of default to UAF as a result of UAF's failure to issue the Equity Interests and make the required Purchase Price payments pursuant to the terms of the License Agreement and Purchase Order. UAF had 60 days from the date of the Default Notice to cure such breach. The 60 day time frame elapsed as of September 26, 2010 thereby terminating the License Agreement, Purchase Order, and UAF's lien pursuant to the Security Agreement. As a result of these events, in September 2010, the Company recognized as revenue the \$750,000 that was previously reported as a royalty advance.

(B) TOTAL OPERATING EXPENSES

Total operating expenses consist of professional fees, investor relations and investment banking fees, other general and administrative expenses, and research and development costs. Total operating expenses were \$6,657,942 for the nine months ended September 30, 2010 compared to \$11,507,240 for the nine months ended September 30, 2009, a decrease of approximately \$4,849,299 or approximately 42%.

Changes in General and Administrative Expenses for the nine months ended September 30, 2010 versus the nine months ended September 30, 2009 were the following:

For the nine months ended September 30, 2010, general and administrative expenses decreased by approximately \$4,837,000 for a total of approximately \$5,551,000, as compared to approximately \$10,388,000 for the nine months ended September 30, 2009. The decrease in general and administrative expenses was primarily attributable to reductions in severance, consulting, and legal and professional fees. Severance expense totaled \$3.1 million during the first three quarters of 2009 as compared to \$360,000 during the first three quarters of 2010. The 2009 severance expense was due primarily to a severance liability accrual relating to Mr. Eric Swain the amount of approximately \$3.1 million. Consulting expense decreased by \$1,307,000 to \$1,488,000 for the nine months ended September 30, 2010 compared to \$2,795,000 for the same period in 2009. Legal and professional fees decreased by \$551,000 to \$487,000 for the nine months ended September 30, 2010 compared to \$1,038,000 for the same period in 2009. The 2009 period included significant accounting fees attributable to costs associated with the Company's S-1 registration filings and significant accounting fees due to additional audit work needed to be performed by our former auditors in connection with the reauditing and restatement of the Company's previously issued financial statements (see the Company's Current Report on Form 8-K filed on April 2, 2009). The aforementioned decreases in general and administrative expenses were offset in part by increases in Board of Directors compensation expense, rent expense, and insurance expense. Board compensation expense increased by \$43,000 for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily as a result of the issuance of 310,000 shares of common stock to directors during the first quarter of 2010 for their service on the Board. Rent expense included in general and administrative expenses increased by \$110,000 from \$113,000 for the first nine months of 2009 to \$223,000 for the first nine months of 2010. Approximately, \$34,500 of the increase relates to the early termination and forfeiture of the deposit at the Company's former New Jersey facilities as well as approximately \$52,000 of rent expense related to the Company's new North Carolina headquarters. Additionally, health insurance and liability insurance increase by approximately \$63,000 and \$91,000, respectively with regard to the first nine months of 2010 as compared to the first nine months of 2009.

Research and development ("R&D") costs consist of all activities associated with the development and enhancement of products using the Company's Technology. R&D costs consist primarily of contract engineer labor and salaries of our

in-house engineers, lab supplies used in testing and expenses of equipment used to test and develop our Technology. Research and development costs are expensed when incurred. R&D costs for the nine months ended September 30, 2010 and 2009 were \$1,107,000 and \$1,119,000, respectively. The decrease of \$12,000 as compared to the prior year for the same period can be attributed to a \$177,000 increase in depreciation expense on the on the Patriot I prototype unit placed in service in September 2009 resulting in 9 months depreciation during the 2010 period as compared to four months during the 2009 period. This increase was offset in part by a \$90,000 decrease in salaries and wages expense, a \$50,000 reduction in consulting expense, and a \$70,000 reduction in supplies and equipment expense resulting from the completion of the Company's Patriot I prototype during the second quarter of 2009.

(C) OPERATING LOSS

Operating loss for the nine months ended September 30, 2010 was \$5,654,609 compared to \$11,417,240 for the nine months ended September 30, 2009. The decrease in operating loss of \$5,762,631 was primarily attributable to the decrease in general and administrative expenses as described above in paragraph (B) and the decrease in research and development expenses as well as the revenue from the Joint Development Agreement and UAF licensing agreements.

(D) OTHER INCOME (EXPENSE)

Interest expense, interest income, realized gains/(losses), change in fair value of derivative financial instruments and other income are included in other income (expense). Total other expense was \$134,426 for the nine months ended September 30, 2010 compared to other income of \$1,547,262 for the nine months ended September 30, 2009. The decrease of \$1,681,688 is primarily due to the fair value change in the derivative financial instruments.

Interest expense for the nine months ending September 30, 2010 and 2009 was \$60,701 and \$9,124, respectively. The increase of \$51,577 in interest expense is primarily attributed to the 2010 period including \$56,511 of debt discount amortization related to convertible promissory notes issued during the second and third quarters of 2010.

Interest income for the nine months ending September 30, 2010 and 2009 was \$317 and \$115,729, respectively.

At September 30, 2010 the change in the fair value of derivative financial instruments resulted in expense of \$74,042 for the period ended September 30, 2010 versus income of \$1,460,684 for the period ended September 30, 2009, for a change of \$1,534,726.

(E) NET LOSS

The net loss for the nine months ended September 30, 2010 was \$5,789,035 (\$0.08 per share) compared to \$9,869,978 (\$0.16 per share) for the nine months ended September 30, 2009, a change of \$4,080,943. The Company losses are attributable to significant expenditures as the Company is still in development stage.

OPERATING ACTIVITIES

Net cash used in operating activities was \$1,407,354 for the nine months ended September 30, 2010 compared to \$4,125,765 for the nine months ended September 30, 2009, a decrease of approximately \$2,718,411. As a development stage company that began operations in 2002, the Company has used net cash in operating activities of approximately \$18.8 million from inception through September 30, 2010.

INVESTING ACTIVITIES

Net cash provided by investing activities was \$0 for the nine months ended September 30, 2010 and net cash provided by investing activities was \$2,282,367 for the nine months ended September 30, 2009. Cash provided by investing activities for period ended September 30, 2009 was mainly the proceeds from the sales of the Company's short-term investments.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2010, the Company had total current assets of approximately \$236,000 and total current liabilities of approximately \$3,400,000, resulting in negative working capital of \$3,164,000. At September 30, 2010, the Company's current assets consisted of \$75,130 in cash and \$161,125 in prepaid services. As a development stage company that began operations in 2002, the Company has incurred \$47.9 million in cumulative total losses from inception through September 30, 2010.

As of September 30, 2010, the Company had approximately \$75,000 in cash and cash equivalents. The Company has taken extreme measures in reducing operating expenses, particularly payroll expenditures by reducing salaries and by cutting staff to bare minimum. Our actual operations will be affected by reduction in our payroll and staff related matters. Technological or engineering difficulties are being solved by use of outside consultants. Due to the fact that the Company incurred substantial net losses for the cumulative period from July 19, 2002 (inception) to September 30, 2010 and that it currently has only a small revenue stream to support itself, there is substantial doubt about the Company's ability to continue as a going concern.

The Company has been successful in obtaining the required cash resources by issuing stock and convertible promissory notes to service some of the Company's operations for the nine month period ended September 30, 2010 and 2009. Net cash provided by(used in) financing activities was approximately \$1,441,864 for the nine month period ended September 30, 2010 and (\$35,922) for the nine month period ended September 30, 2009. During the nine months ended September 30, 2010, the Company sold 1,835,922 shares of common stock for gross proceeds of \$617,535. The Company did not have any cash provided from financing activities for the three months ended September 30, 2009. Additionally, during the 2010 period, the Company borrowed \$1,601,650 pursuant to various convertible promissory notes. The Company did not sell any stock for cash for the three months period ended September 30, 2009, instead it used cash in the amount of \$35,922 for payment on loans.

During the nine months ended September 30, 2010, the Company issued an aggregate of 4,418,587 shares of common stock to non-employees for services to be performed under various agreements. The transactions were valued at the fair value of the common stock at the commitment date in the amount of \$2,026,176, as that was deemed to be the more readily determinable value. Included in the 4,418,587 shares of Common Stock issued to non-employees are 1,225,000 shares for services to be provided through December 2010. The unamortized amount of prepaid services at September 30, 2010 is \$161,125 (see Note 4). The Company recorded \$1,091,625 as general and administrative expenses related to the amortization of prepaid stock for services in the accompanying consolidated statement of operations and comprehensive loss for the nine months ended September 30, 2010. The Company also issued 1,400,000 shares of Common Stock valued at \$882,000 to Eric Swain, a former CEO of the Company as part of a severance agreement and 100,000 shares of Common Stock valued at \$78,000 to Frank Pringle, another former CEO of the Company, as part of a severance agreement. In the nine months ended September 30, 2009, the Company issued 849,000 shares of common stock in payment of services valued at approximately \$1.115 million. \$60,800 was recorded as expense in the statement of operations and comprehensive loss and \$942,120 was recorded a prepaid expense.

Between January 1, 2010 and September 30, 2010, the Company issued 962,308 common stock warrants to various vendors for services rendered or for services to be rendered. The warrants have an exercise price ranging from \$.58 to \$1.30 and all warrants expire within thirty months from date of issuance. Warrants issued for services were valued using the Black-Scholes option-pricing model, with expected volatility ranging from 111% to 137%, risk-free interest rate ranging from .84% to 2.36% and expect life of two years. An expense of \$328,287 [Q1=95,883 + Q2=91,993 + Q3=140,411] was recorded to the statement of operations and comprehensive loss for the nine months ended September 30, 2010 for the value of these warrants. For the nine months ended September 30, 2009, the Company also granted 650,041 warrants with an average excise price of \$1.30 for services rendered or to be performed. An

expense of approximately \$227,000 was recorded to the statement of operations and comprehensive loss for the value of these warrants.

CAPITAL RESOURCES

(A) CAPITAL LEASES

The Company leases certain phone and computer equipment under an agreement that is classified as a capital lease. The cost of equipment under capital leases is included in the balance sheets as part of property and equipment. The monthly lease payments are \$1,293 per month, until June 2011.

(B) OPERATING LEASES

The Company has four separate lease agreements. The Company leases two separate facilities in New Jersey. (i) The lab and office space in New Jersey under a lease agreement that commenced June 1, 2006, the monthly lease payments were \$5,000 per month and the lease expired on May 31, 2009. The Company entered into a new lease on May 12, 2009 to rent only a portion of the current space, the monthly lease payments are approximately \$1,700 per month and the lease expires on May 31, 2012. (ii) The Company also leased manufacturing space in Rockford, Illinois under a lease agreement that commenced May 1, 2008, the monthly lease payments are \$2,703 per month and the lease expired on April 30, 2010. (iii) In October 2008, the Company entered into a new lease for new corporate headquarters office space in New Jersey, and a deposit of \$47,500 was made in October 2008. The Company moved into the 5,124 square feet of office space in March 2009. The lease is for five years with monthly payments beginning at \$6,567 per month and the lease expires April 2014. (iv) The Company entered into a new lease for lab and office space in North Carolina in June of 2010. The lease is for five years with monthly payments beginning at \$13,613 per month and the lease expires June 2015. With all leases, the Company is required to pay property taxes, utilities, insurance and other costs relating to the leased facilities. In June of 2010, as a result of the North Carolina lab facility, the Company negotiated a settlement for the former R&D lab lease in Berlin, New Jersey; under the terms of this settlement the Company will pay \$16,200 between July 1, 2010 and May 1, 2011. On June 25, 2010 the leaseholder of the Mount Laurel, New Jersey exercised its right to the \$47,500 letter of credit for delinquent payments of rent. The Company has engaged a commercial real estate broker to market the in Mount Laurel New Jersey for sublet.

Rent expense for the periods ended September 30, 2010 and 2009, and for the cumulative period July 19, 2002 (inception) to September 30, 2010 was approximately \$231,276, \$138,470 and \$630,276, respectively.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet guarantees, interest rate swap transactions or foreign currency contracts. We do not engage in trading activities involving non-exchange traded contracts.

Contractual Obligations

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of September 30, 2010, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and our principal financial officer of the effectiveness of the design and operation of our disclosure controls and procedures. During this evaluation, several material weaknesses were identified. As a result of the material weaknesses, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were ineffective as of the end of the period covered by this report.

A material weakness is a deficiency, or combination of deficiencies, in disclosure controls and procedures, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. Based on management’s assessment over financial reporting, management believes as of September 30, 2010, the Company’s disclosure controls and procedures were not effective due to the following material weaknesses:

- The Company lacks adequate accounting resources to address non routine and complex transactions and financial reporting matters on a timely basis.
- The Company lacks adequate journal entry approval and disclosure controls needed to identify and prevent misstatements in the consolidated financial statements and accompanying footnotes.
- During part of the year the Board of Directors lacked a director qualified as an audit committee expert.
- The Company lacks adequate controls to prevent double counting of transactions.
- The Company lacks adequate controls to capture and record transactions accurately.
- The Company’s control environment does not have adequate segregation of duties; the Company only had one person performing all accounting-related on-site duties.

Changes in Internal Control over Financial Reporting

Except as described above, there have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2010 that have materially affected or are reasonably likely to materially affect our internal controls.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

Jeff Kimberly

In April 2010, Mr. Jeff Kimberly, the Company's former President, filed a lawsuit in the Superior Court of New Jersey in Burlington County against the Company, Brian Ettinger and Ken Kinsella, the Company's former Chairman of the Board and Chief Executive Officer, respectively, for wrongful termination of his employment contract. Mr. Kimberly is asking for the remaining salary in the amount of approximately \$225,000, and stock options to purchase up to 1,500,000 shares of the company's Common Stock, allegedly owned to him under his employment contract dated September 23, 2008. As of the date of the filing of this report, the Company is in settlement negotiations with Mr. Kimberly.

UAF

Prior to the date of this filing, the Company received from UAF a Termination Notice with respect to the License Agreement and Purchase Order and a Foreclosure Notice in connection with the Security Agreement. The Company believes that, for a number of reasons, pursuant to the terms of the License Agreement and all related agreements, the Termination Notice and Foreclosure Notice are invalid. On July 26, 2010, the Company issued a Default Notice to UAF as a result of UAF's failure to issue the Equity Interests and make the required Purchase Price payments pursuant to the terms of the License Agreement and Purchase Order. UAF has 60 days from the date of the Default Notice to cure such breach. If UAF has not cured the breach within the 60 day time frame, the Default Notice serves as notice of termination by the Company of the License Agreement and Purchase Order. Upon such termination, UAF's lien pursuant to the Security Agreement would terminate. The 60 day time frame has elapsed as of September 26, 2010 thereby terminating the License Agreement and Purchase Order. On October 20, 2010, UAF sent a Notice of Disposition of Collateral to the Company notifying the Company that certain of its patent applications and other items as identified in the Security Agreement would be offered for sale at a public auction on November 4, 2010. To the Company's knowledge such auction was not held. On December 16, 2010 UAF issued a press release announcing a change in the date of the public auction to December 22, 2010. Representatives of the Company attended the auction held by UAF at which UAF auctioned certain of the Company's assets to itself. On January 14, 2011, the Company filed a complaint in the Supreme Court of the State of New York (1) seeking compensatory damages for breach of contract in an amount to be determined at trial and (2) seeking a declaratory judgment that UAF (a) did not and does not have the right to terminate the Purchase Order; (b) did not validly exercise the purported termination right; (3) is not entitled to seize, attempt to seize, sell, attempt to sell, transfer or request the transfer of, auction or attempt to auction any property, including without limitation any property identified in the License Agreement, Purchase Order and or Security Agreement; and (4) permanently enjoining UAF from seizing, selling, transferring, or attempting to auction any property. There are no assurances as to the outcome of this dispute.

On February 28, 2011, UAF filed a complaint in the state of North Carolina General Court of Justice in Wake County (1) for breach of contract, alleging damages in the amount of \$1,713,000; (2) seeking possession of the Company's prototype or in the alternative, damages for its conversion; (3) treble damages and attorney's fees as a resulting from an alleged violation of the Uniform Fraudulent Act; (4) the appointment of a receiver and (5) seeking a preliminary injunction enjoining the Company and its insiders, employees and or/agents from transferring or disposing of any property or assets of the Company including patents or its prototype. Additionally, on March 3, 2011, UAF filed a temporary restraining order (the "Restraining Order") in the state of North Carolina in the General Court of Justice in Wake County restraining the Company from selling, disposing, moving or relocating any of the Company's assets. The Restraining Order is in effect for ten (10) days from March 3, 2011. The Restraining Order has temporarily been extended until a hearing in the Wake County courts scheduled for May 2, 2011.

There are presently no other material pending legal proceedings to which the Company, any of its subsidiaries, any executive officer, any owner of record or beneficially of more than five percent of any class of voting securities is a party or as to which any of its property is subject, and no such proceedings are known to the Company to be threatened or contemplated against it.

Item 1A. Risk Factors.

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the quarter ended September 30, 2010, the Company issued an aggregate of 55,259 shares of Common Stock in connection with services rendered with a value equal to approximately \$15,000. The securities were issued in connection with an exemption from registration provided by Section 4(2) of the Securities Act.

During the quarter ended September 30, 2010, the Company issued an aggregate of 3,900,000 shares of Common Stock in exchange for a subscription receivable. The funds for these shares were never received and the shares have been returned to the Company.

Private Placement

During the quarter ended September 30, 2010, the Company issued Convertible Promissory Notes, as amended in substantially the form attached hereto as Exhibit 4.1 (collectively, the “Notes”) in an aggregate principal amount equal to \$298,644 pursuant to the terms and conditions of those Securities Purchase Agreements, as amended by Amendment No.1 to the Securities Purchase Agreement, in substantially the form attached hereto as Exhibit 10.1 (the “Purchase Agreement”) with certain investors (collectively, the “Investors”), in connection with a private placement offering of up to \$2,000,000 (the “Offering”) in the Notes. The Notes mature on May 31, 2011 (the “Maturity Date”) and, at the option of the lender, are convertible into shares of the Company’s Series A Preferred Stock (as defined below) at a conversion price equal to the “Series A Financing Selling Price“, upon the earlier to occur of (1) the Maturity Date or (2) the date on which the Company has raised at least \$1,000,000 (the “Minimum Amount Closing Date”) in the Offering (the “Conversion Date”). The Company has filed a Certificate of Designations a copy of which is attached hereto as Exhibit 3.2 (the “Certificate of Designations”), which designates 10,000,000 shares of the Company’s preferred stock, par value \$0.001 per share (the “Series A Preferred Stock“), with such rights and designations as provided in the Certificate of Designations. As of the Conversion Date, the Investors are entitled to receive a number of shares of Series A Preferred Stock equal to (1) the principal amount of the Note divided by (2) the Conversion Price. Upon conversion of the Notes, the Company will also issue to the Investors, warrants, in the form attached hereto as Exhibit 4.2, to purchase the Company’s common stock, par value \$.001 (the “Common Stock“), in an amount equal to the number of shares of the Company’s Series A Preferred Stock into which the Notes converted, with the exercise price of such warrants equal to the par value of the Common Stock (\$0.001). The Certificate of Designations provides that the Series A Preferred Stock are convertible into such number of shares of the Company’s Common Stock equal to the number that is (i) the number of Series A Preferred Shares to be converted multiplied by (x) the Original Purchase Price (which is defined as the applicable conversion price of the Series A Preferred Stock under the Notes) divided by (ii) the Conversion Price (which is defined as the Original Purchase Price as adjusted from time to time), then in effect. The Series A Preferred Stock will vote together with the Common Stock as a single class, but the holders of Series A Preferred Stock will be entitled to ten (10) times the number of votes such holders would be entitled to on an as-converted basis.

During the quarter ended September 30, 2010, the Company issued Notes to Investors for an aggregate principal amount of approximately \$298,644 convertible at the option of the lender, pursuant to the terms and conditions of the Company's Series A Preferred Stock. As of the date of the filing of this report, the Company has issued Notes to Investors for an aggregate principal amount of approximately \$1.7 million. As of April 14, 2011, approximately \$1.5 million worth of these convertible promissory notes were converted into 6,229,997 shares of the Company's preferred stock and the associated warrants were converted into 6,185,497 common shares. The Company sold the Notes under the exemption from registration provided by Section 4(2) of the Securities Act.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed and Reserved.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) Exhibits required by Item 601 of Regulation S-K.

| Exhibit No | Description |
|------------|--|
| 3.1 | Articles of Incorporation of the Company, filed as Exhibit 3.1 to Amendment No. 5 to the Company's Registration Statement on Form S-1, SEC File Number 333-149199 and incorporated herein by this reference. |
| 3.2 | Certificate of Designations, filed with the State of Nevada on May 28, 2010 filed as Exhibit 3.2 to the Company's Form 10-Q filed on April 6, 2011. |
| 3.3 | Amended and Restated By-laws of the Company, incorporated herein by reference to Exhibit 3.2(iii) to Amendment No. 1 to the Company's Registration Statement on Form S-1, SEC File Number 333-151584, filed on October 22, 2008. |
| 4.1 | Form of Amended and Restated Convertible Promissory Notes filed as Exhibit 4.1 to the Company Form 10-Q filed on April 6, 2011. |
| 4.2 | Form of Warrant issued in connection with Amended and Restated Convertible Promissory Notes filed as Exhibit 4.1 to the Company Form 10-Q filed on April 6, 2011. |
| 10.1 | Form of Securities Purchase Agreement, as amended pursuant to which the Company issued the Convertible Promissory Notes. |
| 31.1 | Certification of the Company's Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. |
| 31.2 | Certification of the Company's Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. |
| 32.1 | Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

Pursuant to the requirements of 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.

GLOBAL RESOURCE CORPORATION

Date: April 14, 2011

By: /s/ Ken Kinsella
Ken Kinsella
President and Director
Principal Executive Officer
Principal Financial Officer
Principal Accounting Officer