

SEAWRIGHT HOLDINGS INC  
Form 10-K  
October 07, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2010

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-56848

SEAWRIGHT HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

54-1965220  
(I.R.S. Employer  
Identification No.)

600 Cameron Street, Alexandria, Virginia 22314  
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code:  
(703) 340-1629

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

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, par value \$.001 per share

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$492,477 as of June 30, 2010.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of September 20, 2011, 14,348,399 shares of the registrant's common stock, par value \$0.001 per share, were issued and outstanding.

Documents Incorporated by Reference: None.

SEAWRIGHT HOLDINGS, INC.

## 2010 FORM 10-K ANNUAL REPORT

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## PART I

### Cautionary Statement Concerning Forward-Looking Statements

Our representatives and we may from time to time make written or oral statements that are "forward-looking," including statements contained in this Annual Report on Form 10-K and other filings with the Securities and Exchange Commission, reports to our stockholders and news releases. All statements that express expectations, estimates, forecasts or projections are forward-looking statements within the meaning of the Act. In addition, other written or oral statements which constitute forward-looking statements may be made by us or on our behalf. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "projects," "forecasts," "may," "should," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict.

#### Item 1. Business

##### Overview

##### Introduction

Seawright Holdings, Inc. (the "Company", "Seawright", "we" or "our") was incorporated under the laws of the State of Delaware on October 14, 1999, originally under the name Pre-Settlement Funding Corporation. In September 2003, we changed our name to Seawright Holdings, Inc. Prior to October 2003, our business consisted of financing plaintiffs who are involved in personal injury claims. In October 2003, Seawright Springs, LLC, our wholly owned subsidiary, purchased the Mt. Sydney property described below. As a result of our acquisition of real property and improvements in October 2003, we restructured our operations to focus on the development of a spring water bottling and distribution business. We have since discontinued our strategy of trying to bottle and market spring water on a retail basis. Our current strategy is to focus on the bulk sale of natural spring water produced from our Mt. Sidney property in bulk to other bottlers, or to municipal, agricultural or commercial users. In 2008, we decided to enter into the business of owning oil and gas properties, and procured an option on certain properties in Knox County, Kentucky. However, we were unable to close on the purchase and the option lapsed in 2009. In 2010, we procured a new option on the oil and gas rights underlying the same properties, and shortly thereafter assigned the option to a third party.

##### Business and Basis of Presentation

From our inception through the date of these financial statements, we have recognized limited revenues and incurred significant operating expenses. Consequently, our operations are subject to all risks inherent in the establishment of a new business enterprise. For the period from inception through December 31, 2010, we have accumulated losses of \$8,947,362.

In October 2003, we acquired property that generates natural spring water. Through the acquisition of this property, we intend to enter into the business of producing and selling spring water in Mt. Sidney, Virginia, which is located in the Shenandoah Valley. The property has a natural flow of spring water in excess of 1,000,000 gallons of water daily.

The main focus of our current operations is the establishment of a business that produces and sells spring water from our Mt. Sidney property, although we may pursue other business opportunities that we deem appropriate.

Our strategy is to focus on the bulk sale of natural spring water produced from our Mt. Sidney property in bulk to other bottlers, or to municipal, agricultural or commercial users. We may also seek opportunities to enter into co-packing arrangements, where other bottlers bottle our water under our name, or private labeling agreements, where our water is bottled under another company's name. Selling our water under private labeling agreements will allow us to sell our water without incurring the high costs of advertising and distribution required to establish brand recognition and market identity.

We currently do not have our own bottling and packaging facilities. We have installed an updated bulk water loading facility at the Mt. Sidney spring site. Now, private labeled bottlers will be able to load water at our spring site and transport it to their bottling and packaging facilities.

#### Bottled Water Market Overview

Demand for bottled water has grown significantly in recent years, and in particular demand for products that contain spring water. In 2009, total U.S. bottled water volume surpassed 8.4 billion gallons, which was a 46% advance over 2002's volume level and bottled water remains the fastest growing major beverage segment. In 2009, the bottled water category continues as the second largest commercial beverage in the United States.

#### U.S. BOTTLED WATER MARKET Volume and Producer Revenues 2001 - 2009

| Year | Millions of<br>Gallons | Annual % | Millions of<br>Dollars | Annual % |
|------|------------------------|----------|------------------------|----------|
| 2001 | 5,185.2                | --       | \$6,880.6              | --       |
| 2002 | 5,795.7                | 11.8%    | \$7,901.4              | 14.8%    |
| 2003 | 6,269.8                | 8.2%     | \$8,526.4              | 7.9%     |
| 2004 | 6,806.7                | 8.6%     | \$9,169.4              | 7.5%     |
| 2005 | 7,537.1                | 10.8%    | \$10,012.5             | 9.1%     |
| 2006 | 8,255.0                | 9.5%     | \$10,857.8             | 8.5%     |
| 2007 | 8,757.6                | 6.1%     | \$11,551.5             | 6.4%     |
| 2008 | 8,669.3                | -1.0%    | \$11,178.5             | -3.2%    |
| 2009 | 8,454.0                | -2.5%    | \$10,595.0             | -5.2%    |

Source: Beverage Marketing Corporation

During the nine-year period from 2001 to 2009, bottled water volume increased by an average growth rate of 6.44%, which growth rate exceeded the growth rates of all other beverage categories.

Per capita consumption of bottled water has been growing by at least one gallon annually. In 2009, the per capita consumption of water in the United States increased 52% from 2001's rate, which means annual bottled water consumption by U.S. residents is second only to carbonated soft drinks.

#### U.S. BOTTLED WATER MARKET

##### Per Capita Consumption 2001 - 2009

| Year | Gallons<br>Per<br>Capita | Annual<br>%<br>Change |
|------|--------------------------|-----------------------|
| 2001 | 18.2                     | 8.6%                  |
| 2002 | 20.1                     | 10.6%                 |
| 2003 | 21.6                     | 7.2%                  |
| 2004 | 23.2                     | 7.5%                  |
| 2005 | 25.4                     | 9.7%                  |
| 2006 | 27.6                     | 8.4%                  |
| 2007 | 29.0                     | 5.3%                  |
| 2008 | 28.5                     | -1.8%                 |
| 2009 | 27.6                     | -3.2%                 |

Source: Beverage Marketing Corporation

The bottled water market comprises three major segments: still or non-sparkling, sparkling, and imported water, which includes both non-sparkling and sparkling segments. The Company's spring water may be used in both sparkling and non-sparkling applications.

The Beverage Marketing Corporation categorizes water into three main categories.

\* Non-sparkling or still water, which contains no carbonation and is consumed as an "alternative to tap water."

\* Sparkling water, which contains either natural or artificial carbonation and is positioned to compete in the broad "refreshment beverage" field.

\* Imported water, which includes both sparkling and non-sparkling water produced and bottled outside the U.S., and which is targeted to "image-conscious consumers."

## U.S. BOTTLED WATER MARKET

Volume & Growth by Segment  
2001 - 2009

| Year | Non-Sparkling |        | Domestic Sparkling |        | Imports |        | Total   |        |
|------|---------------|--------|--------------------|--------|---------|--------|---------|--------|
|      | Volume*       | Change | Volume*            | Change | Volume* | Change | Volume* | Change |
| 2001 | 4,917.3       | --     | 144.0              | --     | 123.9   | --     | 5,185.3 | --     |
| 2002 | 5,487.5       | 11.6%  | 149.5              | 3.8%   | 158.7   | 28.0%  | 5,795.6 | 11.8%  |
| 2003 | 5,923.9       | 8.0%   | 152.6              | 2.1%   | 193.3   | 21.8%  | 6,269.8 | 8.2%   |
| 2004 | 6,411.3       | 8.2%   | 166.8              | 9.3%   | 228.6   | 18.2%  | 6,806.7 | 8.6%   |
| 2005 | 7,171.4       | 11.9%  | 185.0              | 10.9%  | 182.5   | -20.2% | 7,538.9 | 10.8%  |
| 2006 | 7,901.4       | 10.2%  | 189.3              | 2.3%   | 164.3   | -10.0% | 8,255.0 | 9.5%   |
| 2007 | 8,376.6       | 6.0%   | 200.1              | 5.7%   | 180.9   | 10.1%  | 8,757.6 | 6.1%   |
| 2008 | 8,302.9       | -0.9%  | 204.7              | 2.3%   | 161.8   | -10.6% | 8,669.3 | -1.0%  |
| 2009 | 8,123.8       | -2.2%  | 202.2              | -1.2%  | 127.9   | -20.9% | 8,454.0 | -2.5%  |

\* Millions of gallons

Source: Beverage Marketing Corporation

Non-sparkling water (still water) remains the largest segment of bottled water.

The bottled still water business, which will represent our most significant product area, has been consistently growing at an average annual rate of 7.9% since 2001 according to the Beverage Marketing Corporation. Still water now comprises over 95% of all of the bottled water gallonage sold in the United States.

## Geographic Markets and Distribution Channels

Bottled water is sold through various channels, including:

Home Delivery (1 to 5 gallon bottles)

Commercial and Office Delivery (1 to 5 gallon bottles)

Off Premise Retail (supermarkets, convenience store, and drug store)

On-Premise Retail (restaurants)

Vending Machines

Institutional Usage (hospitals, schools)

Bulk Sales (Domestic and International sales of potable water)

## Bottled Water Classifications and Definitions

The Company's water qualifies as natural spring water and is a mineral water containing 300 parts per million (ppm) total dissolved solids (TDS). The various classifications of water are contained in the paragraphs that follow.

Bottled water or drinking water is water that is intended for human consumption and that is sealed in bottles or other containers with no added ingredients except that it may optionally contain safe and suitable anti-microbial agents. Fluoride may be optionally added within the limitations established by the U.S. Food and Drug Administration ("FDA"). Firms may manufacture non-standardized bottled water products with ingredients such as minerals for flavor. The common or usual name of the resultant product must reflect these additions. Bottled water or drinking water may be used as an ingredient in beverages (e.g., diluted juices or flavored bottled waters). It does not include those food ingredients that are declared in ingredient labeling as "water," "carbonated water," "disinfected water," "filtered water," "seltzer water," "soda water," "sparkling water," and "tonic water."

Natural water is bottled spring, mineral, artesian, or well water which is derived from an underground formation or water from surface water that only requires minimal processing. Natural water is not derived from a municipal system or public water supply, and is unmodified except for limited treatment (e.g., filtration, ozonation or equivalent disinfection process).

Spring water is water derived from an underground formation from which water flows naturally to the surface of the earth. Spring water must comply with the FDA standard of identity. Spring water must be collected only at the spring or through a borehole tapping the underground formation feeding the spring. There must be a natural force causing the water to flow to the surface through a natural orifice. The location of the spring must be identified and such identification must be maintained in a company's records. Spring water collected with the use of an external force must be from the same underground stratum as the spring, as shown by a measurable hydraulic connection using a hydro-geologically valid method between the bore hole and the natural spring, and must have all the physical properties, before treatment, and be of the same composition and quality, as the water that flows naturally to the surface of the earth. If spring water is collected with the use of an external force, water must continue to flow naturally to the surface of the earth through the spring's natural orifice.

Mineral water is water containing not less than 250 parts per million (ppm) total dissolved solids (TDS), coming from a source tapped at one or more boreholes or springs, originating from a geologically and physically protected underground water source. Mineral water shall be distinguished from other types of water by its constant level and relative proportions of minerals and trace elements at the point of emergence from the source, due account being taken of the cycles of natural fluctuations. No minerals may be added to this water.

Sparkling bottled water is bottled water that, after treatment and possible replacement of carbon dioxide, contains the same amount of carbon dioxide that it had at the emergence from the source. Manufacturers may add carbonation to previously non-carbonated bottled water products and label such water appropriately (e.g., sparkling spring water).



Well water or "Artesian" water is bottled water from a well tapping a confined aquifer in which the water level stands at some height above the top of the aquifer. Artesian water may be collected with the assistance of external force to enhance the natural underground pressure.

Ground water is water from a subsurface saturated zone that is under a pressure equal to or greater than atmospheric pressure. Ground water must not be under the direct influence of surface water.

Purified water is bottled water produced by distillation, de-ionization, reverse osmosis, or other suitable process and that meets the definition of purified water.

#### Government Regulation of Bottled Water

Prior to 1996, bottled water was regulated in the same fashion as municipal water. Municipal water is regulated not as a food by the FDA, but as a commodity by the Environmental Protection Agency ("EPA") pursuant to the Safe Drinking Water Act of 1974 ("SDWA"), which only provided for certain mineral/chemical content requirements so as to ensure water safety, not product definition.

In 1996, the United States enacted statutes and regulations to regulate bottled water as a food. Accordingly, the Company's water must meet FDA standards for manufacturing practices and chemical and biological purity. Furthermore, these standards undergo a continuous process of revision. The labels affixed to bottles and other packaging of the water is subject to FDA restrictions on health and nutritional claims for foods.

As of 1996, bottled water is fully regulated as a food by the FDA under the Federal Food, Drug, and Cosmetic Act, which defines food as "articles used for food or drink for man or other animals." This includes packaged (bottled) water sold in containers at retail outlets as well as containers distributed to the home and office market. This legislation was designed to ensure that bottled water companies clearly and accurately define the type of water that was being bottled and sold to the public. The FDA adopted the basic mineral/chemical guidelines employed by the EPA, while making some aspects more stringent.

In addition, all drinking water must meet EPA standards established under the SDWA for mineral and chemical concentration. The 1986 amendments to the SDWA mandated the establishment of new drinking water quality and treatment regulations. Most municipalities meet or exceed EPA drinking water regulations, many of that reflect recent public awareness of the issue of contaminated water. For example, EPA standards for lead in drinking water did not exist prior to 1986, when 50 ppb (parts per billion) was established. This standard was lowered to 15 ppb in 1991, because after five years the government still found 130 million people exposed to unacceptable lead levels.

The United States government also enacted Safe Drinking Water Reauthorization Act of 1996. This law requires all local water utilities to issue annual reports to their consumers disclosing all chemicals and bacteria in their water.

Bottled water is also subject to state and local regulation. Bottled water must originate from an "approved source" in accordance with standards prescribed by the state health department in each of the states in which our products will be sold. The source must be inspected and the water sampled, analyzed and found to be of safe and wholesome quality. There are annual "compliance monitoring tests" of both the source and the bottled water. The health departments of the individual states also govern water purity and safety, labeling of bottled water products and manufacturing practices of producers. Our Mt. Sidney property has been inspected and approved by the Virginia Department of Agriculture as a source of spring water. To the extent we market our water on a retail basis, we are required to make certain disclosures and disclaimers on our labels.

Compliance with these various regulations has not had, and we do not expect such compliance to have, any material adverse effect on our capital expenditures, net income or competitive position.

#### Competition

The beverage industry, and in particular the bottled water industry, is extremely competitive and seasonal. The leaders in the U.S. bottled water business, based on total estimated sales (at wholesale), according to the Beverage Marketing Corporation, are Aquafina, Dasani, Poland Spring, Arrowhead, Sparkletts, Deer Park and Crystal Geysers. We have determined that developing a proprietary brand of bottled water requires greater resources than we have to effectively compete in that market. Therefore, our current focus is to market our water supply on a bulk basis to other bottled water companies, or to municipal, commercial or agricultural uses.

#### Marketing Objectives and Advertising Strategy

Our initial marketing strategy is targeted primarily to marketing our natural spring water in bulk to private label bottlers, and secondarily to municipal, commercial or agricultural users. We do not plan to market our water through a dedicated salesforce, and instead intend to use market our water through our officers. We also do not intend to use any form of mass media to market our water supply.

#### Intellectual Property

In June 2005, we purchased intellectual property from Quibell Partners, L.L.C. relating to the creation and bottling of flavored and non-flavored bottled water, including, but not limited to, the following:

certain trademarks, service marks, trade names, service names and logos, including the trademark rights to the name "Quibell";

various glass bottle designs;  
bottle label designs and artwork for water bottle carrypacks;  
formulas for flavored sparkling water and for teas; and  
web site coding.

We also own the domain name [www.seawrightsprings.com](http://www.seawrightsprings.com).

Since our business plan no longer includes the retail distribution of bottled water, we have written off our investment in these assets during the year ended December 31, 2007.

#### Research and Development

We did not incur any research and development expenses in the last two years ended December 31, 2010 and 2009.

#### Employees

As of December 31, 2010, we had one employee, Joel Sens, who serves as our president, chief executive officer, secretary and treasurer.

#### Item 1A. Risk Factors.

An investment in our common stock is risky. You should carefully consider the following risks, as well as the other information contained in this Form 10-K, before investing. If any of the following risks actually occurs, our business, business prospects, financial condition, cash flow and results of operations could be materially and adversely affected. In this case, the trading price of our common stock could decline, and you might lose part or all of your investment.

We may amend or supplement the risk factors described below from time to time by other reports we file with the SEC in the future.

#### Risks Related To Our Business

Our accountants have indicated that if we do not generate enough cash from operations to sustain our business we may have to liquidate assets or curtail our operations.

The accompanying financial statements have been prepared assuming we will continue as a going concern. Since inception, we have accumulated substantial losses. Conditions exist that raise substantial doubt about our ability to continue as a going concern unless we are able to generate sufficient cash flows to meet our obligations and sustain our operations.

We have had losses since our inception, expect losses to continue in the future and may never become profitable.

We have historically generated substantial losses, which, if continued, could make it difficult to fund our operations or successfully execute our business plan, and could adversely affect our stock price. For the period from inception through December 31, 2010, we have accumulated losses totaling \$8,947,362.

We have a limited operating history, an unproven market for our spring water, and may never achieve or sustain profitable operations.

We have only been operating for a short time and have not yet achieved significant sales or made a profit from operations. We have generated limited revenues from our current products of \$19,611 from inception through December 31, 2010.

We initially tried to market our spring water as a proprietary brand, but decided that the marketing and distribution costs needed to build a consumer brand exceeded the capital resources available to us. Therefore, we have decided to focus on bulk sales of our water to other bottlers, and to municipal, commercial and agricultural users; however, to date, we have not reached any agreements to sell our water in bulk.

We have not conducted any market surveys or studies to determine if there is a market for our bulk sales of our water. Water is costly to transport in relation to its value, which may limit any potential bulk buyers of our water to users in our immediate geographic area, or users that are willing to locate their commercial establishment or bottling operations near our property to take advantage of our water supply. As a result of the above factors, we may never achieve or sustain profitable operations.

We have substantial indebtedness, which we may not be able to pay.

We have substantial indebtedness which we are unable to pay from our operations or current assets. As of August 31, 2011, our property in Mt. Sydney, Virginia is subject to a first mortgage for \$750,000, and we have about \$847,000 in accounts payable and accrued expenses. In addition, we have over \$1,350,000 of other notes payable, many of which are past due or in default. We have also entered into put arrangements with prior noteholders who have converted their notes into common stock, which entitle the holders under certain circumstances to put their shares back to us for the amount of their original obligation. We currently do not have any revenue producing operations, and minimal cash. Accordingly, we are not able to pay all of our indebtedness according to its terms. We have succeeded in negotiating settlements with most of our creditors, under which the creditors have agreed to convert their debt into common stock or be repaid at a discount or both. However, if we are not able to negotiated settlements, or generate revenues or obtain new capital with which to pay our indebtedness, our creditors may commence legal action against us, which would leave our assets vulnerable to seizure.

Our revenues and operating results are likely to fluctuate significantly.

As a result of our limited operating history and inexperience in marketing our water in bulk, our future quarterly and annual revenues and operating results are difficult to predict, and may fluctuate greatly from period to period based on the nature of the parties that agree to purchase our water in bulk. These fluctuations may be caused by a number of factors, many of which are beyond our control. These factors include the following, as well as others discussed elsewhere in this section:

- how and when our customers introduce new products and services or enhance their existing products and services;

- our ability to attract and retain new customers and satisfy our customers' demands;

- our ability to establish and maintain strategic relationships;

- our ability to attract, train and retain key personnel;

- the emergence and success of new and existing competition;

- varying operating costs and capital expenditures related to the expansion of our business operations and infrastructure, domestically and internationally, including the hiring of new employees;

- Seasonal fluctuations in our customers' demand for water;

- costs and effects related to the acquisition of businesses or technology and related integration; and

- costs of litigation and intellectual property protection.

For these reasons, you should not rely on period-to-period comparisons of our financial results, if any, as indications of future results. Our future operating results could fall below the expectations of public market analysts or investors and significantly reduce the market price of our common stock. Fluctuations in our operating results will likely increase the volatility of our stock price.

We may be subject to product liability claims and our insurance may not be adequate to cover such claims.

The marketing and selling of our products will expose us to product liability risk. Any future claim against us for product liability could materially and adversely affect our business, financial condition, and results of operations and result in negative publicity. Even if we are not found liable, the costs of defending a lawsuit can be high.

We currently do not carry insurance for this type of liability.

We are subject to substantial competition and so may not have the ability or the capital to compete effectively.

The industry in which we expect our products to be sold is highly competitive. We may not have the ability or the capital to compete effectively in this environment.

The significant competition in our industry could harm our ability to win business and increase the price pressure on our products. We face strong competition from a wide variety of firms, including large, multinational firms with far greater resources than we possess.

Many of our competitors have considerably greater financial, marketing and technological resources than we do, which may make it difficult to sell our products. Many of our competitors also have longer operating histories and presence in key markets, greater name recognition, larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources. As a result, these competitors may also be able to devote greater resources to the promotion and sale of their products.

We must comply with environmental regulations or we may have to pay expensive penalties or clean-up costs

We are subject to federal, state and local laws, and regulations regarding protection of the environment, including air, water, and soil. We do not maintain insurance for pollutant cleanup and removal. If we are found responsible for any hazardous contamination, we may have to pay expensive fines or penalties or perform costly clean-up. Even if we are charged and later found not responsible for such contamination or clean up, the cost of defending the charges could be high.

If we do not comply with government regulations, we may be unable to ship our products or have to pay expensive fines or penalties

We are subject to regulation by state and federal governments and governmental agencies. If we fail to obtain regulatory approvals or suffer delays in obtaining regulatory approvals, we may not be able to market our bulk water generate revenues. Although we do not anticipate problems satisfying any of the regulations involved, we cannot foresee the possibility of new regulations that could adversely affect our business.

Insiders can exert significant control over our policies and affairs

As of September 20, 2011, our chief executive officer and principal stockholder, Joel Sens, beneficially owned approximately 17.3% of our outstanding common stock on a fully-diluted basis. As a result, Mr. Sens effectively controls all of our affairs and policies, including matters requiring stockholder approval, such as amendments to our certificate of incorporation, fundamental corporate transactions including mergers, acquisitions and the sale of the company, and other matters involving the direction of our business and affairs. Although you may vote your shares, you will have limited influence on our business and management.

We currently have one employee and we may not be able to execute our business plan without his services

Mr. Sens is presently our sole employee and is employed without any formal contract establishing terms of employment or compensation. We are therefore dependent upon Mr. Sens, who works for us as an at will employee, with respect to our operations and management. If Mr. Sens is unable to devote substantial time and attention to our operations for whatever reason or decides to change his employment, our business will be materially and adversely affected.

We believe that, as our activities increase and change in character, additional, experienced personnel will be required to implement our business plan. Competition for such personnel is intense and we may not be able to attract and retain such personnel.



We may not be able to successfully manage growth of our business

Our future success will be highly dependent upon our ability to successfully manage the anticipated expansion of our operations. Our ability to manage and support growth effectively will be substantially dependent on our ability to implement adequate financial and management controls, reporting systems and other procedures, and attract and retain sufficient numbers of qualified technical, sales, marketing, financial, accounting, administrative and management personnel.

Our future success also depends upon our ability to address potential market opportunities while managing expenses to match our ability to finance our operations. This need to manage our expenses will place a significant strain on our management and operational resources. If we are unable to manage our expenses effectively, our business, results of operations and financial condition will be materially and adversely affected.

Risks associated with acquisitions

Although we do not presently intend to do so, as part of our business strategy in the future, we could acquire assets and businesses relating to or complementary to our operations. Any acquisitions by us would involve risks commonly encountered in acquisitions of assets or companies. These risks would include, among other things, the following:

- we could be exposed to unknown liabilities of the acquired companies;
- we could incur acquisition costs and expenses higher than anticipated;
- fluctuations in our quarterly and annual operating results could occur due to the costs and expenses of acquiring and integrating new businesses or technologies;
- we could experience difficulties and expenses in assimilating the operations and personnel of any acquired businesses;
- our ongoing business could be disrupted and our management's time and attention diverted; and
- we could be unable to integrate with any acquired businesses successfully.

#### Risks Related to Seawright Holdings, Inc. Common Stock

"Penny Stock" rules may make buying or selling our securities difficult

Trading in our securities is subject to the SEC's "penny stock" rules and it is anticipated that trading in our securities will continue to be subject to the penny stock rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our securities and consequently adversely affect the market price for our securities.



Our securities have been thinly traded on the OTC Pink, which may not provide liquidity for our investors

Our securities are quoted on the OTC Pink. The OTC Pink is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market or other national or regional exchanges. Securities traded on the OTC Pink are usually thinly traded, highly volatile, have fewer market makers and are not followed by analysts. The SEC's order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the OTC Pink. Quotes for stocks included on the OTC Pink are not listed in newspapers. Therefore, prices for securities traded solely on the OTC Pink may be difficult to obtain and holders of our securities may be unable to resell their securities at or near their original acquisition price, or at any price.

A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline; we have recently settled debts by the issuance of shares.

If our stockholders sell substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options or warrants, the market price of its common stock could fall. In December 2010, we issued 750,000 shares in conversion of indebtedness, and in January 2011 we agreed to issue another 650,000 shares in conversion of indebtedness, which have not been issued to date. In general, the shares are eligible for sale immediately under Rule 144, and we expect the recipients to try and sell their shares. These sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. Stockholders who have been issued shares may be able to sell their shares pursuant to Rule 144 under the Securities Act of 1933, beginning six months after the stockholders acquired their shares if we are current on our reporting obligations under the Securities Exchange Act of 1934, or one year if we are not. We are not current with our reporting obligations under the Securities Exchange Act of 1934.

We have not paid dividends in the past and do not expect to pay dividends in the future. Any returns on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting it at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if its stock price appreciates.

Our stock price is volatile and you may not be able to sell your shares for more than what you paid

Our stock price has been subject to significant volatility, and you may not be able to sell shares of common stock at or above the price you paid for them. The trading price of our common stock has been subject to wide fluctuations in the past. During the year ended December 31, 2010, our common stock traded at prices as low as \$0.001 per share and as high as \$0.19 per share. Our stock price has historically fluctuated within a broad range each year.

The market price of the common stock could continue to fluctuate in the future in response to various factors, including, but not limited to:

- quarterly variations in operating results;
- our ability to control costs and improve cash flow;
- announcements of technological innovations or new products by us or by our competitors;

- changes in investor perceptions; and
- new products or product enhancements by us or our competitors.

The stock market in general has continued to experience volatility which may further affect our stock price. As such, you may not be able to resell your shares of common stock at or above the price you paid for them.

Item 1B. Unresolved Staff Comments.

Not applicable

Item 2. Properties.

Our principal executive offices are located at 600 Cameron Street, Alexandria, Virginia 22314. We lease these facilities on a month-to-month basis at a cost of \$192 per month. We believe these facilities are suitable for our current needs.

We own 145 acres of undeveloped raw land in Mt. Sidney, Virginia, which we acquired in 2003 for \$1,000,000.

Item 3. Legal Proceedings.

On August 10, 2009, Theodore Kanakis filed a lawsuit against the Company in the Circuit Court for Arlington County, Virginia to recover a loan in the original principal amount of \$300,000 that he made to the Company in 2007. The lawsuit was dismissed in January 2010 as part of a settlement under which Mr. Sens conveyed a coin collection that both parties valued at \$105,000 to Mr. Kanakis as partial payment of the amount owed Mr. Kanakis, and the Company issued a note to Mr. Kanakis for \$150,000 in settlement of the remainder of the liability.

Item 4. (Removed and Reserved).

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

## Market Information

Prior to January 9, 2004, there was no public trading market for our securities. On January 9, 2004, our securities began trading on the OTC Bulletin Board ("OTCBB") maintained by members of the National Association of Securities Dealers, Inc. ("NASD") under the symbol SWRI. On May 19, 2008, trading in our common stock moved to the OTC Pink (f/k/a as Pink Sheets), and our symbol remained SWRI.

The following table sets forth the range of high and low bid prices for our common stock for each applicable quarterly period. The table reflects inter-dealer prices without retail mark-up, mark-down or commissions and may not represent actual transactions.

|                | Fiscal Year<br>Ended<br>December 31,<br>2010 |          |
|----------------|--|----------|
|                | High(\$)*                                    | Low(\$)* |
| First Quarter  | 0.018  | 0.001    |
| Second Quarter | 0.08   | 0.007    |
| Third Quarter  | 0.05   | 0.025    |
| Fourth Quarter | 0.19   | 0.025    |

|                | Fiscal Year<br>Ended<br>December 31,<br>2009 |          |
|----------------|--|----------|
|                | High(\$)*                                    | Low(\$)* |
| First Quarter  | 0.08   | 0.01     |
| Second Quarter | 0.045  | 0.015    |
| Third Quarter  | 0.035  | 0.015    |
| Fourth Quarter | 0.03   | 0.016    |

The shares quoted are subject to the provisions of Section 15(g) and Rule 15g-9 of the Securities Exchange Act of 1934, as amended (the Exchange Act"), commonly referred to as the "penny stock" rule. Section 15(g) sets forth certain requirements for transactions in penny stocks and Rule 15g-9(d)(1) incorporates the definition of penny stock as that used in Rule 3a51-1 of the Exchange Act.

The Commission generally defines penny stock to be any equity security that has a market price less than \$5.0 per share, subject to certain exceptions. Rule 3a51-1 provides that any equity security is considered to be a penny stock unless that security is: registered and traded on a national securities exchange meeting specified criteria set by the Commission; authorized for quotation on The NASDAQ Stock Market; issued by a registered investment company; excluded from the definition on the basis of price (at least \$5.00 per share) or the registrant's net tangible assets; or exempted from the definition by the Commission. Trading in the shares is subject to additional sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors, generally persons with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000

together with their spouse.

For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of such securities and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a risk disclosure document relating to the penny stock market. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the securities. Finally, the monthly statements must be sent disclosing recent price information for the penny stocks held in the account and information on the limited market in penny stocks. Consequently, these rules may restrict the ability of broker dealers to trade and/or maintain a market in the company's common stock and may affect the ability of shareholders to sell their shares.

#### Number of Shareholders

As of September 20, 2011, there were 14,348,399 shares of our common stock issued and outstanding and 30 holders of record of our common stock. The transfer agent of our common stock is OTR, Inc., 1001 SW 5 Avenue, Suite 1550; Portland, OR 97204.

## Dividends

We have never paid cash dividends or distributions to our equity owners. We do not expect to pay cash dividends on our common stock, but instead, intend to utilize available cash to support the development and expansion of our business. Any future determination relating to our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including but not limited to, future operating results, capital requirements, financial condition and the terms of any credit facility or other financing arrangements we may obtain or enter into, future prospects and in other factors our Board of Directors may deem relevant at the time such payment is considered. There is no assurance that we will be able or will desire to pay dividends in the near future or, if dividends are paid, in what amount.

## Securities Issued in Unregistered Transactions

During the quarter ended December 31, 2010, we issued the following securities in unregistered transactions:

- In October 2010, we issued a convertible promissory note for \$20,000, which is convertible into common stock at 70% of the average market price fifteen trading days prior to notice of conversion.
- In December 2010, we issued 375,000 shares of common stock to each of two lenders in conversion of their notes into common stock. The shares were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

## Issuer Purchases of Equity Securities

During the quarter and year ended December 31, 2010, we did not purchase any shares of our common stock.

## Item 6. Selected Financial Data.

Not applicable.

## Item 7. Management's Discussion and Analysis of Financial Condition or Results of Operations.

WE URGE YOU TO READ THE FOLLOWING DISCUSSION IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO BEGINNING ON PAGE F-1. THIS DISCUSSION MAY CONTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE SUBSTANTIAL RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS COULD DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THE FORWARD-LOOKING STATEMENTS AS A RESULT OF A NUMBER OF FACTORS, INCLUDING BUT NOT LIMITED TO THE RISKS AND UNCERTAINTIES DISCUSSED UNDER THE HEADING "RISK FACTORS" IN THIS FORM 10-K AND IN OUR OTHER FILINGS WITH THE SEC. IN ADDITION, SEE "CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS" SET FORTH IN THIS REPORT.

## Plan of Operation

In 2003, we purchased property containing a spring located in Mt. Sidney, Virginia in the Shenandoah Valley with the intention of developing a spring water distribution business. The spring has a flow in excess of 1,000,000 gallons of water daily.



We chose to develop and acquire packaging for selling our water under the brand names Seawright Springs and Quibell. We developed two proprietary Polyethylene Terephthalate, or PET, bottles in a 16.9 ounce size and a 33.8 ounce size. In addition, in June 2005 we acquired from Quibell glass bottle designs for various sized bottles (including 237 ml, 385 ml, 750 ml and 1 liter sizes) as well as labels for various sized sparkling water bottles, spring water bottles and tea bottles (including 237 ml, 385 ml, 750 ml, 1 liter, 1.5 liter and 16.9 ounce bottles).

We ultimately determined that we did not have the capital resources to market and distribute our bottled water as a retail brand, and therefore we discontinued that business strategy. Our business strategy is now focused on negotiating bulk sales of our water to other bottlers, or to municipal, commercial or agricultural users.

We do not anticipate that our business will require substantial additional capital to the extent it involves the sale of water in bulk from our existing property, because we expect that such sales will be handled by our existing officer. However, we are also considering complimentary acquisitions of other natural resources properties, and will need to raise new capital to complete any acquisitions.

In 2008, we decided to enter the business of owning oil and gas properties, and procured an option on certain properties in Knox County, Kentucky. However, we were unable to close on the purchase and the option lapsed in 2009. In 2010, we procured a new option on the oil and gas rights underlying the same properties, and shortly thereafter assigned the option to a third party. Subsequent to the assignment of the option in 2010, the our President became a significant shareholder and a director of the entity to which the option was assigned. This 2010 option also lapsed later in 2010.

#### Product Research and Development

We do not anticipate performing research and development for any products during the next twelve months.

#### Acquisition or Disposition of Plant and Equipment

On September 30, 2009, the Company sold real estate property for net proceeds of \$56,477 for a net gain of \$32,940. We did not make any material acquisition or disposition of assets in 2010. We do not anticipate the purchase or sale of any significant property, plant or equipment during the next twelve months. We have made improvements to plant and equipment at the spring site, and we have spent approximately \$250,000 to complete the renovation of our spring catchment, which protects the water spring from outside elements.

#### Critical Accounting Policies

The Company's discussion and analysis of its consolidated financial condition and results of operations are based upon its consolidated financial statements that have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). This preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. US GAAP provides the framework from which to make these estimates, assumption and disclosures. The Company chooses accounting policies within US GAAP that management believes are appropriate to accurately and fairly report the Company's consolidated operating results and financial position in a consistent manner. Management regularly assesses these policies in light of current and forecasted economic conditions. While there are a number of significant accounting policies affecting our consolidated financial statements, we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments:

Revenue Recognition;

Stock Based Compensation; and

Use of Estimates.

#### Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification subtopic 605-10, Revenue Recognition ("ASC 605-10") which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and

determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. ASC 605-10 incorporates Accounting Standards Codification subtopic 605-25, Multiple-Element Arrangements ("ASC 605-25"). ASC 605-25 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets.

## Stock Based Compensation

Effective for the year beginning January 1, 2006, the Company adopted Accounting Standards Codification subtopic 718-10, Compensation (“ASC 718-10”). The Company made no employee stock-based compensation grants during the years ended December 31, 2010 and 2009, and all previously granted stock compensations have vested at the time of grant, therefore the Company had no stock based compensation related to options or warrants recorded during the years ended December 31, 2010 or 2009.

## Use of Estimates

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements. The Company analyzes its estimates, including those related to future contingencies and litigation. The Company bases its estimates on assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

## Comparison of Financial Results

### Years Ended December 31, 2010 and 2009

#### Revenues

During the years ended December 31, 2010 and 2009, we did not generate any revenues. We have discontinued trying to market our bottled water as a retail brand, and have shifted our focus to negotiating bulk sales of our water to other bottlers, or to municipal, commercial or agricultural users. Because of the change in our business strategy, we do not believe that past revenues are reflective of our future revenues.

#### Costs and Expenses

From our inception through December 31, 2010, we have incurred net losses of \$8,922,362. These losses were associated principally with maintenance and engineering costs associated with the spring site, including testing of water quality, stock issuances to our founders, legal, consulting and accounting fees and costs in connection with the development of our business plan, market research, and the preparation of our registration statement.

We incurred operating expenses of \$494,173 during the year ended December 31, 2010 as compared to \$502,004 of expenses during the year ended December 31, 2009. Expenses for the year ended December 31, 2010 and 2009 are composed principally of salary, legal and accounting fees, and consulting fees. The Company’s operations have been further reduced in the year ended December 31, 2010 as compared to the year ended December 31, 2009.

We realized total other income of \$179,051 in the year ended December 31, 2010, as compared to total other expenses of (\$505,028) for the year ended December 31, 2009. Other income for the year ended December 31, 2010 was primarily attributable to a gain of approximately \$786,000 from the settlement of debt at a discount, net of interest expenses of approximately \$644,000. Other expenses for the year ended December 31, 2009 was mainly attributable to interest expenses for existing loans.

During the years ended December 31, 2010 and 2009, we incurred net losses of (\$315,122) and (\$1,007,032), respectively.



## Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash for our last two years ended December 31, 2010 and 2009:

|   | 2010         | 2009         |
|---|--------------|--------------|
| Net cash used in operating activities               | \$(737,902 ) | \$(196,849 ) |
| Net cash (used in) provided by investing activities | (100,000 )   | 56,477       |
| Net cash provided by financing activities           | 837,322      | 140,372      |
| Net increase in cash and cash equivalents           | (580 )       | -            |

As of December 31, 2010, we had working capital deficit (total current liabilities in excess of total current assets) of \$2,663,025, an available cash balance of \$0, capitalized financing costs – current portion of \$18,757 and an accounts payable and accrued liabilities balance of \$566,897, notes payable, line of credit and put liability of \$2,188,028 and other current liabilities of \$50,000.

While we have raised the capital necessary to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. Funds will be needed to meet certain of our obligations that are secured by our property in Mt. Sydney, Virginia, and to fund general and administrative expenses. We have been working on business development in recent years to fund our cash needs from the bulk sale of our spring water, but if we are not able to negotiate a bulk sales agreement in a timely fashion, we will need to raise new capital to fund our cash needs.

If we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition.

Our independent registered certified public accountants have stated in their report included herein that we have incurred operating losses since our inception, and that we are dependent upon management's ability to develop profitable operations. These factors among others may raise substantial doubt about our ability to continue as a going concern.

## New Accounting Pronouncements

See Note 1 of the Consolidated Financial Statements for a full description of new accounting pronouncements, including the respective expected dates of adoption and effects on results of operations and financial condition.

## Off-Balance Sheet Arrangements

We have not had, and at December 31, 2010, do not have, any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could adversely affect our business,

financial condition and results of operations.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable

Item 8. Financial Statements and Supplementary Data.

The financial statements required by Article 8 of Regulation S-X are attached hereto as Exhibit A.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

We have had no disagreements with our independent registered public accountants with respect to accounting practices or procedures or financial disclosure.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Joel Sens, who is both our chief executive officer and our chief financial officer, is responsible for establishing and maintaining our disclosure controls and procedures. Disclosure controls and procedures means controls and other procedures that are designed to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in those reports is accumulated and communicated to the our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2010. Based on that evaluation and because of the Company's limited resources and limited number of employees, it is concluded that our disclosure controls and procedures were ineffective as of December 31, 2010.

Changes in internal controls

There were no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our principal executive officer and principal financial officer and implemented by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

-



pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2010 we conducted an evaluation, under the supervision and with the participation of our chief executive officer (our principle executive officer), our chief operating officer and our chief financial officer (also our principal financial and accounting officer) of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

A material weakness is defined within the Public Company Accounting Oversight Board's Auditing Standard No. 5 as a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 upon this assessment, management concluded that our internal control over financial reporting was ineffective due to the Company's limited resources and limited number of employees.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

#### Plan for Remediation of Material Weaknesses

To mitigate the current limited resources and limited employees, we rely heavily on direct management oversight of transactions, along with the use of legal and outsourced accounting professionals. As we grow, we expect to increase our number of employees and engage outsourced accounting professionals, which will enable us to implement adequate segregation of duties within the internal control framework.

These control deficiencies could result in a misstatement of account balances that would result in a reasonable possibility that a material misstatement to our consolidated financial statements may not be prevented or detected on a timely basis. Accordingly, we have determined that these control deficiencies as described above together constitute a material weakness.

In light of this material weakness, we performed additional analyses and procedures in order to conclude that our consolidated financial statements for the fiscal year ended December 31, 2010 included in this Annual Report on Form 10-K were fairly stated in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). Accordingly, management believes that despite our material weaknesses, our consolidated financial statements for the fiscal year ended December 31, 2010 are fairly stated, in all material respects, in accordance with the US GAAP.

#### Limitations on Effectiveness of Controls and Procedures

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the group have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or

more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9A(T). Controls and Procedures.

None.

Item 9B. Other Information.

None.

## PART III

## Item 10. Directors, Executive Officers and Corporate Governance.

## Executive Officers and Directors

The names, ages, and respective positions of our directors, executive officers, and key employees are set forth below.

| Name      | Age | Present Positions with Company  |
|-----------|-----|---|
| Joel Sens | 46  | Chairman, Chief Executive Officer and Chief Financial Officer, Treasurer, Secretary |

Mr. Joel Sens, age 46, is the current president, chief executive officer, treasurer and secretary and has served in those positions since 2004. Mr. Sens has also been a director of the Company since our inception. Mr. Sens is an entrepreneur who was a founder of Next Generation Media Corp., a publicly held media holding company, in March 1997. From January 1994 through March 1997, Mr. Sens acted as a consultant specializing in barter transactions and engaged in financial transactions involving the purchase and sale of newspaper companies, radio stations, and barter companies.

We have no other promoters or control persons. The directors named below will serve until our next annual stockholders meeting or until their successors are duly elected and qualified. Directors are elected for a one-year term at the annual stockholders' meeting. Officers hold their positions at the will of the board of directors, absent any employment agreement.

## Board of Directors

Our board currently consists of one director. There have been no material changes to the procedures by which security holders may recommend nominees to the board of directors. Since January 1, 2007, our directors have not received any compensation for serving as directors. However, our directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in attending meetings of the board.

## Board Committees

We do not have an audit, nominating or compensation committee. We intend, however, to establish an audit committee and a compensation committee of our Board of Directors in the future, once we have independent directors. We envision that the audit committee will be primarily responsible for reviewing the services performed by our independent auditor, evaluating our accounting policies and our system of internal controls. The compensation committee will be primarily responsible for reviewing and approving our salary and benefits policies (including stock options) and other compensation of our executive officers.

We do not have an audit committee financial expert on our board because we do not have any independent directors.

## Section 16(a) Beneficial Ownership Reporting Compliance.

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than ten percent (10%) of a registered class of our equity securities (collectively, the "Reporting Persons") to file reports of changes in ownership of such securities with the Securities and Exchange Commission and the Company. Based solely on a review of (i) any Forms 3 and 4 and amendments thereto furnished to us pursuant to Rule 16a-3(e), promulgated under the Exchange Act, during our fiscal year ended December 31, 2010 and (ii) any Forms 5 and amendments thereto and/or written representations furnished to the Company by any Reporting Persons stating that such person was not required to file a Form 5 during our fiscal year ended December 31, 2010, it has been determined that Joel Sens, our chief executive officer, failed to file a file Form 4 or 5 with the respect to the following transactions in 2010:

- On November 10, 2010, Mr. Sens conveyed 791,000 shares owned by him in satisfaction of \$316,400 of debt owed by us to the recipient.

## Code of Ethics

We have not adopted a formal code of ethics that applies to our directors, officers or employees. We are a development stage company with no principal operating activities and limited resources. We also have only one employee, who holds all of our officer positions. Because of these factors, we have not yet adopted a formal code of ethics, but we expect to adopt such a code in the future.

## Item 11. Executive Compensation.

## Summary Compensation Table

The following table sets forth the compensation earned by our named Executive Officers during the last two fiscal years and other officers who received compensation in excess of \$100,000 during any of the last three fiscal years. In accordance with Item 402(a)(5), we have omitted certain columns from the table required by Item 402(c).

## SUMMARY COMPENSATION TABLE

| Name and<br>Principal<br>Position | Year | Annual Compensation |               |  | Other Annual<br>Compensation<br>(\$) | All<br>Other<br>Compensation | Total<br>Compensation |
|-----------------------------------|------|---------------------|---------------|--|--------------------------------------|------------------------------|-----------------------|
|                                   |      | Salary<br>(\$)(1)   | Bonus<br>(\$) |  |                                      |                              |                       |
| Joel Sens,<br>CEO                 | 2010 | 180,000             | 0             |  | 0                                    | 0                            | 180,000               |
|                                   | 2009 | 180,000             | 0             |  | 0                                    | 0                            | 180,000               |

- 1) We do not have a formal employment agreement with Mr. Sens. The salary for Mr. Sens was \$180,000 for the fiscal years 2010 and 2009.

We did not grant any stock options or stock appreciation rights to our named executive officers in the last fiscal year. We did not make any award to any named executive officer under any long-term incentive plan in the last fiscal year. We did not reprice any options or stock appreciation rights during the last fiscal year. We did not have any awards under any equity compensation plans to any of our executive officers as of the end of the last fiscal year.

#### Employment Agreements

We have not entered into an employment agreement with Mr. Sens or any other officer or director.

#### Director Compensation

We do not have any policy regarding the compensation of directors and paid no compensation for director services in the year ended December 31, 2010.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information regarding the beneficial ownership of shares of our common stock as of September 20, 2011 (issued and outstanding) by (i) all stockholders known to the Company to be the beneficial owner of more than five percent of the Company's outstanding common stock; and (ii) all directors and executive officers of the Company individually and as a group:

| Name and Address of<br>Beneficial Owner (1)                   | Amount and Nature of<br>Beneficial<br>Ownership (2) | Percent of<br>Class (2) |
|---|---|-------------------------|
| Joel Sens<br>600 Cameron Street<br>Alexandria VA 22314        | 2,489,214   | 17.3%                   |
| All executive officers and directors as a group<br>(1 person) | 2,489,214   | 17.3%                   |

(1) Each person has sole voting power and sole dispositive power as to all of the shares shown as beneficially owned by them. Other than as footnoted below, none of these security holders has the right to acquire any shares within sixty days from options, warrants, rights, conversion privilege, or similar obligations.

(2) Mr. Sens' shares include 85,800 shares owned by Stafford Street Capital LLC, an entity wholly owned by Mr. Sens.

(3) Based on 14,348,399 shares outstanding at September 20, 2011.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Related Party Transactions.

Our president and principal shareholder Joel Sens has advanced funds to us for working capital purposes from time to time. At times the total amount we repaid to Mr. Sens and (or) the funds Mr. Sens withdrew exceeded the total balance due. At the start of 2009, Mr. Sens owed us \$648,379. During the year ended December 31, 2009, Mr. Sens withdrew additional funds or incurred personal expenses in the net amount of \$18,568 from us, which brought the balance due at the end of 2009 to \$666,847. The Company has accounted for the excess payments to Mr. Sens as a nonreciprocal transfer to a shareholder for 2009 and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital. In 2010, Mr. Sens allowed Mr. Kanakis to retain a coin collection provided by Mr. Sens, valued at \$105,000, in partial settlement of our liability due to Mr. Kanakis. In addition, Mr. Sens provided 791,000 shares of our common stock that he personally owned to American Marketing and Capital, Inc. ("AMC") in settlement of \$316,400 of our liability due to AMC. Other net advances that Mr. Sens provided to us during the year ended December 31, 2010 were \$16,765. In addition, Mr. Sens paid expenses in the amount of \$14,539 on behalf of us. The aggregate contribution of \$452,704 made by Mr. Sens for our benefit in 2010 was accounted for as contributed capital and, accordingly, has reflected as an addition to additional paid-in capital. The balance owed to us by Mr. Sens at the end of 2010 was \$214,243.

From time to time, Mr. Sens has guaranteed certain loans to us, and/or pledged certain personal property to secure loans to us. During 2009 and 2010, Mr. Sens had guaranteed or pledged personal assets to secure the following loans:

- On September 30, 2008, we issued a \$47,300 note payable with 6% per annum interest due November 15, 2008 to vender, which note was guaranteed by Mr. Sens.
- On April 14, 2008, we borrowed \$375,000 from Pierre Palian, which loan was guaranteed by Mr. Sens.
- On August 28, 2008, we amended a revolving line of credit agreement with American Marketing and Capital, Inc., and as part of the amendment Mr. Sens pledged 980,000 shares of our common stock owned by Mr. Sens as additional collateral. The line of credit agreement was a joint and several obligation of us and Mr. Sens. In November 2010, Mr. Sens agreed to provide 791,000 of such shares to the creditor as part of a settlement of the creditor's claim against us.
- In September 29, 2009, Mr. Sens guaranteed our loan from Charter House, LLC, which had a principal balance of \$418,000 at the time.

As of December 31, 2010, we were indebted to Next Generation Energy Corp. ("NGEC") for \$125,000 under a promissory note dated March 25, 2010, which note bears interest at 6% per annum and is due 24 months after the date of the note. As of December 31, 2010, we were indebted to NGEC for \$17,500 for a loan that bears interest at 6% per annum and is due on demand. As of December 31, 2010, we were indebted to NGEC, for \$47,500, which loan is non-interest-bearing and due on demand. In May 2010, Mr. Sens became an officer and director of NGEC, and in October 2010 became a significant shareholder of NGEC.

On April 16, 2010 Knox Minerals entered into an Assignment and Assumption Agreement with NGEC, under which Knox Minerals assigned all of its right, title and interest under the 2010 Option to NGEC. Under the Assignment and Assumption Agreement, NGEC paid Knox Minerals \$600,000 in the form of a promissory note payable in full in sixty months with interest at 6% per annum. We have not netted the \$125,000, \$17,500 or \$47,500 loans from NGEC against NGEC's \$600,000 promissory note payable to Knox Minerals because the obligations are not mutual obligations that are subject to offset under the law. Furthermore, we did not recognize a gain or a note receivable for the \$600,000 promissory note due from NGEC, based on the assessment that NGEC had limited ability to repay this note and that collection could not be reasonably assured at that time the agreement was entered into. We will account for future amounts, if any, that it collects from NGEC as other income only at the time such collection occurs.

Joel Sens, our only officer and one of our directors, is engaged in other businesses, either individually or through partnerships and corporations in which he has an interest, holds office, or serves on a board of directors. As a result, certain conflicts of interest may arise between us and Joel Sens. We will attempt to resolve such conflicts of interest in our favor. Joel Sens is accountable to us and our stockholders as a fiduciary, and is required to exercise good faith and integrity in handling our affairs. A stockholder may be able to institute legal action on behalf of us or on behalf of himself or herself and other similarly situated stockholders to recover damages or for other relief in cases of the resolution of conflicts is in any manner prejudicial to us.

#### Review, Approval and Ratification of Related Party Transactions

The board of directors has responsibility for establishing and maintaining guidelines relating to any related party transactions between us and any of our officers or directors. Any conflict of interest between a director or officer and us must be referred to the non-interested directors, if any, for approval. We intend to adopt written guidelines for the board of directors which will set forth the requirements for review and approval of any related party transactions. Since February 2007, we have not had any disinterested directors, and since February 2008, Joel Sens has been the sole director. Accordingly, since February 2007, this policy has been held in abeyance. We plan to reinstitute the policy when and if we have disinterested directors.

#### Director Independence

We periodically review the independence of each director. Pursuant to this review, our directors and officers, on an annual basis, are required to complete a detailed questionnaire to determine if there are any transactions or relationships between any of the directors or officers (including immediate family and affiliates) and us. If any transactions or relationships exist, we then consider whether such transactions or relationships are inconsistent with a determination that the director is independent. Our only director at this time is Joel Sens, who is not independent. Since we have only had one director and officer since February 2008, this policy has been held in abeyance since February 2008.



### Conflicts Relating to Officers and Directors

To date, we do not believe that there are any conflicts of interest involving our officers or directors.

With respect to transactions involving real or apparent conflicts of interest, we have adopted policies and procedures which require that: (i) the fact of the relationship or interest giving rise to the potential conflict be disclosed or known to the directors who authorize or approve the transaction prior to such authorization or approval, (ii) the transaction be approved by a majority of our disinterested outside directors, and (iii) the transaction be fair and reasonable to us at the time it is authorized or approved by our directors.

### Item 14. Principal Accountant Fees and Services.

The following is a summary of the fees billed to the Company by RBSM LLP for professional services rendered for the fiscal years ended December 31, 2010 and 2009:

| Fee Category       | Fiscal 2010<br>Fees | Fiscal 2009<br>Fees |
|--------------------|---------------------|---------------------|
| Audit Fees         | \$ 66,932           | \$ 48,667           |
| Audit-Related Fees | -                   | -                   |
| Tax Fees           | -                   | -                   |
| All Other Fees     | -                   | -                   |
| Total Fees         | \$ 66,932           | \$ 48,667           |

Audit Fees consist of fees billed for professional services rendered for the audit of Seawright Holdings, Inc.'s consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by RBSM LLP in connection with statutory and regulatory filings or engagements.

Audit Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Seawright Holdings, Inc.'s consolidated financial statements and are not reported under "Audit Fees".

Tax Fees consist of fees billed for professional services for tax compliance, tax advice and tax planning.

All Other Fees consist of fees for products and services other than the services reported above. There were no management consulting services provided in fiscal 2010 or 2009.

### Pre-Approval Policies and Procedures

The Company currently does not have a designated Audit Committee, and accordingly, the Company's Board of Directors' policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Company's Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

The Board of Directors has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements. The following financial statements are included in this report:

Audited consolidated financial statements of Seawright Holdings, Inc. as of December 31, 2010 and 2009, and for the years ended December 31, 2010 and 2009, including consolidated balance sheets, statements of operations, statements of cash flows, and statements of changes in stockholders' deficit.

(a)(2) Financial Statement Schedules. The following financial statement schedules are included as part of this report: none.

(a)(3) Exhibits. The following exhibits are included as part of this report by reference:

EXHIBIT INDEX

Exhibit Description  
No.

3.1 Amended and Restated Certificate of Incorporation of Pre-Settlement Funding Corporation.(1)

3.2 Certificate of Designation of Series A Convertible Preferred Shares of Seawright Holdings, Inc.(1)

3.3 Amended and Restated By-laws of Seawright Holdings, Inc.(1)

4.1 Form of Common Stock Certificate.(2)

10.1 Asset Purchase Agreement dated as of June 27, 2005, by and between Seawright Holdings, Inc. and QuiBell Partners, LLC(3)

10.2 Deed of Trust Note dated June 8, 2006, by and between Seawright Springs, Inc. and Charter House, LLC. (4)

10.3 Modification Agreement dated October 5, 2006 to the Deed of Trust Note dated June 8, 2006, by and between the Seawright Springs, Inc., Palma Collins as Trustee and Charter House, LLC. (5)

- 10.4 Forbearance Agreement among Seawright Springs, LLC, Seawright Holdings, Inc. and Charter House, LLC dated May 5, 2010 (6)
- 10.5 Deed of Trust Note executed by Seawright Holdings, Inc. and Seawright Springs, LLC to Pierre Palian in the original principal amount of \$375,000 dated April 14, 2008 (6)
- 10.6 Deed of Trust executed by Seawright Holdings, Inc. and Seawright Springs, LLC in favor of Pierre Palian dated April 14, 2008 (6)
- 10.7 Forbearance Agreement among Seawright Springs, LLC, Seawright Holdings, Inc. and Pierre Palian dated May 5, 2010 (6)
- 10.8 Note executed by Seawright Springs, LLC to Kent Carr in the original principal amount of \$750,000 dated May 5, 2010 (6)
- 10.9 Deed of Trust executed by Seawright Springs, LLC in favor of Kent Carr dated May 5, 2010 (6)
- 10.10 Confessed Judgment Promissory Note executed by Seawright Holdings, Inc. to Theodore J. Kanakis in the original principal amount of \$150,000 dated January 15, 2010 (6)
- 10.11 Deed of Trust executed by Seawright Springs, LLC in favor of Theodore J. Kanakis dated January 15, 2010 (6)
- 10.12 Settlement Agreement between Seawright Holdings, LLC, Joel Sens and Theodore J. Kanakis dated January 22, 2011 (6)
- 10.13 Promissory Note executed by Seawright Holdings, Inc. to Next Generation Media Corporation in the original principal amount of \$125,000 dated March 25, 2010
- 10.14 Settlement Agreement and Mutual Release of Claims between Seawright Holdings, Inc., Joel Sens and Amicus Funding, Inc. dated November 9, 2009 (6)
- 10.15 Letter Agreement between Seawright Holdings, Inc. and American Marketing and Capital, Inc. dated November 9, 2010 (6)
- 10.16 Letter Agreement between Seawright Holdings, Inc. and Amicus Funding, Inc. dated November 10, 2010 (6)
- 21 Subsidiaries of the Registrant (6)
- 31\* Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
- 32\* Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Filed herewith.

- (1) Incorporated by reference from Form 8-K as filed with the SEC on October 24, 2003.
- (2) Incorporated by reference from exhibit 4(i) of Form 10-QSB as filed with the SEC on May 23, 2005.

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- (3) Incorporated by reference from Form 8-K as filed with the SEC on June 30, 2005.
- (4) Incorporated by reference from Registration Statement on Form SB-2 as filed with the SEC on July 17, 2006.
- (5) Incorporated by reference from Form 8-K as filed with the SEC on October 11, 2006.
- (6) Incorporated by reference from Form 10-K for the fiscal year ended December 31, 2007 as filed with the SEC on June 14, 2011.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 7, 2011

Seawright Holdings, Inc.  
a Delaware Corporation

By: /s/ Joel Sens  
Name: Joel Sens  
Title: Chief Executive Officer (principal executive officer)

In accordance with the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: October 7, 2011

By: /s/ Joel Sens  
Name: Joel Sens  
Title: Chief Executive Officer,  
President, Treasurer  
(principal financial and  
accounting officer) and  
Director

EXHIBIT A

SEAWRIGHT HOLDINGS, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009

AND PERIOD FROM OCTOBER 14, 1999 (DATE OF INCEPTION)  
TO DECEMBER 31, 2010

WITH AUDIT REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

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SEAWRIGHT HOLDINGS, INC.

(A DEVELOPMENT STAGE COMPANY)  
INDEX TO FINANCIAL STATEMENTS

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| Report of Independent Registered Public Accounting Firm   | F-3            |
| Consolidated Balance Sheets as of December 31, 2010 and 2009  | F-4            |
| Consolidated Statements of Operations for the Years Ended December 31, 2010 and 2009 and for the Period From October 14, 1999 (Date of Inception) Through December 31, 2010 | F-5            |
| Consolidated Statements of Stockholders' Equity (Deficit) for the Period From October 14, 1999 (Date of Inception) Through December 31, 2010                                | F-6 – F-10     |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2010 and 2009 and for the Period From October 14, 1999 (Date of Inception) Through December 31, 2010 | F-11 -<br>F-12 |
| Notes to the Consolidated Financial Statements  | F-13 -<br>F-38 |



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Seawright Holdings, Inc.  
Arlington, Virginia

We have audited the accompanying consolidated balance sheets of Seawright Holdings, Inc. and its wholly owned subsidiaries (the "Company"), a development stage company as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended December 31, 2010 and the period from October 14, 1999 (date of inception) through December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seawright Holdings, Inc. as of December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2010 and the period from October 14, 1999 (date of inception) through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the accompanying consolidated financial statements, the Company has suffered recurring losses and is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM LLP  
New York, New York  
September 29, 2011



SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2010 AND 2009

|  | 2010         | 2009         |
|--|--------------|--------------|
| <b>ASSETS</b>  |              |              |
| Current assets:  |              |              |
| Cash and cash equivalents  | \$-          | \$580        |
| Capitalized financing costs  | 18,757       | 5,759        |
| Total current assets   | 18,757       | 6,339        |
| Property and equipment, net  | 1,233,520    | 1,248,284    |
| Other assets:  |              |              |
| Other assets   | 30,214       | 30,214       |
| Total assets   | \$1,282,491  | \$1,284,837  |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |              |              |
| Current liabilities:   |              |              |
| Bank overdraft   | \$1,857      | \$-          |
| Accounts payable and accrued expenses  | 566,897      | 936,192      |
| Line of credit   | -            | 700,427      |
| Convertible notes payable, net of debt discount  | 47,253       | 40,000       |
| Notes payable, current portion   | 1,800,775    | 1,193,606    |
| Notes payable due to related party, current portion  | 65,000       | -            |
| Put liability  | 150,000      | -            |
| Other liabilities  | 50,000       | 47,360       |
| Total current liabilities  | 2,681,782    | 2,917,585    |
| Long-term liabilities:   |              |              |
| Note payable due to related party, long term   | 125,000      | -            |
| Derivative liability   | 950          | -            |
| Total liabilities  | 2,807,732    | 2,917,585    |
| Commitments and contingencies  | -            | -            |
| <b>STOCKHOLDERS' DEFICIT</b>   |              |              |
| Preferred stock, par value \$0.001 per share; 100,000 shares authorized:   |              |              |
| Series A convertible preferred stock, par value \$0.001 per share; 60,000 shares authorized, none outstanding as of December 31, 2010 and 2009 | -            | -            |
| Common stock, par value \$0.001 per share; 19,900,000 shares authorized;   |              |              |
| 14,348,399 and 13,598,399 shares issued and outstanding as of December 31, 2010 and 2009, respectively   | 14,348       | 13,598       |
| Common shares to be issued   | 36,896       | 36,896       |
| Additional paid in capital   | 7,370,877    | 6,948,998    |
| Accumulated deficit during development stage   | (8,947,362 ) | (8,632,240 ) |
| Total stockholders' deficit  | (1,525,241 ) | (1,632,748 ) |

|   |             |             |
|---|-------------|-------------|
| Total liabilities and stockholders' deficit | \$1,282,491 | \$1,284,837 |
|---|-------------|-------------|

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

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SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Years ended December 31, |                | For the period<br>from<br>October 14,<br>1999<br>(date of<br>inception)<br>through<br>December 31,<br>2010 |
|---|--------------------------|----------------|--|
|   | 2010                     | 2009           |  |
| Revenue, net  | \$-                      | \$-            | \$19,611   |
| Cost and expenses:  |                          |                |  |
| Selling, general and administrative   | 479,409                  | 487,240        | 6,438,453  |
| Impairment of trade name  | -                        | -              | 19,529   |
| Gain on sale of trading securities  | -                        | -              | (37,356 )  |
| Depreciation and amortization   | 14,764                   | 14,764         | 79,486   |
|   | 494,173                  | 502,004        | 6,500,112  |
| Operating loss  | (494,173 )               | (502,004 )     | (6,480,501 )   |
| Other income (expense):   |                          |                |  |
| Other income  | -                        | 333            | 62,302   |
| Gain on sale of property  | -                        | 32,940         | 1,480,996  |
| Gain on settlement of debt  | 786,133                  | -              | 1,593,236  |
| Gain on change in fair value of debt derivative                                 | 37,366                   | -              | 37,366   |
| Interest expense, net   | (644,448 )               | (538,301 )     | (5,632,662 )   |
| Total other income (expense)  | 179,051                  | (505,028 )     | (2,458,762 )   |
| Loss from continuing operations before income taxes and discontinued operations | (315,122 )               | (1,007,032 )   | (8,939,263 )   |
| Provision for income taxes  | -                        | -              | -  |
| Loss from continuing operations before discontinued operations                  | (315,122 )               | (1,007,032 )   | (8,939,263 )   |
| Income from discontinued operations   | -                        | -              | 16,901   |
| Net loss  | (315,122 )               | (1,007,032 )   | (8,922,362 )   |
| Preferred stock dividend  | -                        | -              | (25,000 )  |
| Net loss attributable to common shareholders                                    | \$(315,122 )             | \$(1,007,032 ) | \$(8,947,362 )   |

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|  |            |            |
|--|------------|------------|
| Loss per common share, basic and fully diluted | \$ (0.02 ) | \$ (0.07 ) |
|--|------------|------------|

|   |            |            |
|---|------------|------------|
| Weighted average number of common shares outstanding, basic and fully diluted | 13,631,276 | 13,598,399 |
|---|------------|------------|

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

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SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM OCTOBER 14, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2010

|  | Preferred Stock |        | Common stock |        | Shares to be issued |        | Additional Paid in Capital | Common Stock Subscription | Deficit Accumulated During Development Stage | Total       |
|--|-----------------|--------|--------------|--------|---------------------|--------|----------------------------|---------------------------|--|-------------|
|  | Shares          | Amount | Shares       | Amount | Shares              | Amount |                            |                           |  |             |
| Net loss   | -               | \$ -   | -            | \$ -   | -                   | \$ -   | \$ -                       | \$ -                      | \$ (1,291 )                                  | \$ (1,291 ) |
| Balance, December 31, 1999   | -               | -      | -            | -      | -                   | -      | -                          | -                         | (1,291 )                                     | (1,291 )    |
| Common stock issued on September 30, 2000 in exchange for convertible debt at \$0.50 per share | -               | -      | 78,000       | 78     | -                   | -      | 38,922                     | -                         | -  | 39,000      |
| Common stock issued on November 27, 2000 in exchange for convertible debt at \$0.50 per share  | -               | -      | 26,000       | 26     | -                   | -      | 12,974                     | -                         | -  | 13,000      |
| Net loss   | -               | -      | -            | -      | -                   | -      | -                          | -                         | (157,734)                                    | (157,734)   |
| Balance, December 31, 2000   | -               | -      | 104,000      | 104    | -                   | -      | 51,896                     | -                         | (159,025)                                    | (107,025)   |
| Common stock issued January 1, 2001 in exchange for convertible                                | -               | -      | 174,000      | 174    | -                   | -      | 86,826                     | -                         | -  | 87,000      |

|   |   |      |           |          |   |      |            |      |              |              |
|---|---|------|-----------|----------|---|------|------------|------|--------------|--------------|
| debt at<br>\$0.50 per<br>share  |   |      |           |          |   |      |            |      |              |              |
| Common<br>stock<br>issued on<br>January 2,<br>2001 to<br>founders in<br>exchange<br>for services<br>rendered at<br>\$0.001 per<br>share | - | -    | 5,000,000 | 5,000    | - | -    | 20         | -    | -            | 5,020        |
| Common<br>stock<br>issued on<br>January 2,<br>2001 in<br>exchange<br>for services<br>rendered at<br>\$0.50 per<br>share                 | - | -    | 90,000    | 90       | - | -    | 44,910     | -    | -            | 45,000       |
| Net loss  | - | -    | -         | -        | - | -    | -          | -    | (556,921)    | (556,921)    |
| Balance,<br>December<br>31, 2001  | - | \$ - | 5,368,000 | \$ 5,368 | - | \$ - | \$ 183,652 | \$ - | \$ (715,946) | \$ (526,926) |

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



SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM OCTOBER 14, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2010

|   | Preferred Stock: |        | Common stock: |         | Shares to be issued |        | Additional Paid in Capital | Common Stock Subscription | Deficit Accumulated During Development Stage | Total        |
|---|------------------|--------|---------------|---------|---------------------|--------|----------------------------|---------------------------|--|--------------|
|   | Shares           | Amount | Shares        | Amount  | Shares              | Amount |                            |                           |  |              |
| Balance forward   | -                | \$-    | 5,368,000     | \$5,368 | -                   | \$-    | \$183,652                  | \$-                       | \$(715,946 )                                 | \$(526,926 ) |
| Net loss  | -                | -      | -             | -       | -                   | -      | -                          | -                         | (357,588 )                                   | (357,588 )   |
| Balance, December 31, 2002  | -                | -      | 5,368,000     | 5,368   | -                   | -      | 183,652                    | -                         | (1,073,534 )                                 | (884,514 )   |
| Preferred stock issued in exchange for cash at \$5.00 per share                         | 55,000           | 55     | -             | -       | -                   | -      | 274,945                    | -                         | -  | 275,000      |
| Stock options issued in exchange for services rendered                                  | -                | -      | -             | -       | -                   | -      | 5,276                      | -                         | -  | 5,276        |
| Net income  | -                | -      | -             | -       | -                   | -      | -                          | -                         | 506,846                                      | 506,846      |
| Balance, December 31, 2003  | 55,000           | 55     | 5,368,000     | 5,368   | -                   | -      | 463,873                    | -                         | (566,688 )                                   | (97,392 )    |
| Preferred stock cancelled in exchange for stock options exercised at \$0.5625 per share | (5,000 )         | (5 )   | 160,000       | 160     | -                   | -      | 64,845                     | -                         | -  | 65,000       |
| Common stock issued on April 8, 2004 in exchange for cash at \$0.30 per share           | -                | -      | 300,000       | 300     | -                   | -      | 89,700                     | -                         | -  | 90,000       |
| Common stock issued and subscribed in connection with private                           | -                | -      | 2,404,978     | 2,405   | -                   | -      | 1,359,491                  | 25,581                    | -  | 1,387,477    |

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|  |          |       |           |         |   |     |             |          |              |             |
|--|----------|-------|-----------|---------|---|-----|-------------|----------|--------------|-------------|
| placement  |          |       |           |         |   |     |             |          |              |             |
| Conversion of preferred stock to common stock                          | (50,000) | (50 ) | 500,000   | 500     | - | -   | (450 )      | -        | -            | -           |
| Preferred stock dividend   | -        | -     | 50,000    | 50      | - | -   | 24,950      | -        | (25,000 )    | -           |
| Warrants issued to consultants in exchange for services rendered       | -        | -     | -         | -       | - | -   | 545,460     | -        | -            | 545,460     |
| Beneficial conversion feature of convertible debentures                | -        | -     | -         | -       | - | -   | 274,499     | -        | -            | 274,499     |
| Value of warrants attached to convertible debentures                   | -        | -     | -         | -       | - | -   | 187,123     | -        | -            | 187,123     |
| Return of contributed capital to shareholder                           | -        | -     | -         | -       | - | -   | (144,006 )  | -        | -            | (144,006 )  |
| Reclassification of equity to liability upon issuance of put agreement | -        | -     | -         | -       | - | -   | (90,000 )   | -        | -            | (90,000 )   |
| Net loss   | -        | -     | -         | -       | - | -   | -           | -        | (331,449 )   | (331,449 )  |
| Balance, December 31, 2004   | -        | \$-   | 8,782,978 | \$8,783 | - | \$- | \$2,775,485 | \$25,581 | \$(923,137 ) | \$1,886,712 |

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

SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM OCTOBER 14, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2010

|   | Preferred Stock: |        | Common stock: |         | Shares to be issued |        | Additional Paid in Capital | Common Stock Subscription | Deficit Accumulated During Development Stage | Total        |
|---|------------------|--------|---------------|---------|---------------------|--------|----------------------------|---------------------------|--|--------------|
|   | Shares           | Amount | Shares        | Amount  | Shares              | Amount |                            |                           |  |              |
| Balance forward   | -                | \$-    | 8,782,978     | \$8,783 | -                   | \$-    | \$2,775,485                | \$ 25,581                 | \$(923,137 )                                 | \$1,886,712  |
| Common stock issued in connection with common stock subscribed in connection with private placement | -                | -      | 54,998        | 55      | -                   | -      | 25,526                     | (25,581 )                 | -  | -            |
| Common stock issued in connection with private placement  | -                | -      | 37,500        | 38      | -                   | -      | 25,150                     | -                         | -  | 25,188       |
| Fractional shares-return of proceeds  | -                | -      | -             | -       | -                   | -      | (13 )                      | -                         | -  | (13 )        |
| Beneficial conversion feature of convertible debentures   | -                | -      | -             | -       | -                   | -      | 5,708                      | -                         | -  | 5,708        |
| Value of warrants attached to convertible debentures  | -                | -      | -             | -       | -                   | -      | 3,020                      | -                         | -  | 3,020        |
| Expiration of put agreement   | -                | -      | -             | -       | -                   | -      | 90,000                     | -                         | -  | 90,000       |
| Contributed capital   | -                | -      | -             | -       | -                   | -      | 89,500                     | -                         | -  | 89,500       |
| Net loss  | -                | -      | -             | -       | -                   | -      | -                          | -                         | (1,116,048 )                                 | (1,116,048 ) |
| Balance, December 31, 2005  | -                | -      | 8,875,476     | 8,876   | -                   | -      | 3,014,376                  | -                         | (2,039,185 )                                 | 984,067      |
| Common stock issued   | -                | -      | 199,998       | 200     | -                   | -      | 89,800                     | -                         | -  | 90,000       |

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|   |   |     |            |         |   |     |             |     |               |              |
|---|---|-----|------------|---------|---|-----|-------------|-----|---------------|--------------|
| on May 1,<br>2006 in<br>exchange for<br>cash at \$0.45<br>per share                                 |   |     |            |         |   |     |             |     |               |              |
| Contributed<br>capital  | - | -   | -          | -       | - | -   | 54,505      | -   | -             | 54,505       |
| Stock options<br>issued to<br>consultants in<br>exchange for<br>services<br>rendered                | - | -   | -          | -       | - | -   | 38,490      | -   | -             | 38,490       |
| Common<br>stock issued<br>on September<br>1, 2006 in<br>exchange for<br>cash at \$0.45<br>per share | - | -   | 20,000     | 20      | - | -   | 8,980       | -   | -             | 9,000        |
| Return of<br>contributed<br>capital to<br>shareholder   | - | -   | -          | -       | - | -   | (42,951 )   | -   | -             | (42,951 )    |
| Reacquisition<br>of cancellation<br>of shares   | - | -   | (160,000 ) | (160 )  | - | -   | (81,440 )   | -   | -             | (81,600 )    |
| Net loss  | - | -   | -          | -       | - | -   | -           | -   | (1,785,386)   | (1,785,386)  |
| Balance,<br>December 31,<br>2006  | - | \$- | 8,935,474  | \$8,936 | - | \$- | \$3,081,760 | \$- | \$(3,824,571) | \$(733,875 ) |

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

SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM OCTOBER 14, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2010

|   | Preferred Stock: |        | Common stock: |         | Shares to be issued |        | Additional Paid in Capital | Common Stock Subscription | Deficit Accumulated During Development Stage | Total       |
|---|------------------|--------|---------------|---------|---------------------|--------|----------------------------|---------------------------|--|-------------|
|   | Shares           | Amount | Shares        | Amount  | Shares              | Amount |                            |                           |  |             |
| Balance forward   | -                | \$-    | 8,935,474     | \$8,936 | -                   | \$-    | \$3,081,760                | \$-                       | \$(3,824,571)                                | \$(733,875) |
| Common stock issued in connection with put agreements for cash                | -                | -      | 243,542       | 244     | -                   | -      | 341,274                    | -                         | -  | 341,518     |
| Common stock issued in connection with put agreements, conversion of notes    | -                | -      | 756,459       | 756     | -                   | -      | 778,796                    | -                         | -  | 779,552     |
| Fair value of incremental consideration in connection with induced conversion | -                | -      | -             | -       | -                   | -      | 1,215,417                  | -                         | -  | 1,215,417   |
| Common stock issued in connection with exercise of warrants                   | -                | -      | 594,724       | 594     | -                   | -      | 347,912                    | -                         | -  | 348,506     |
| Common stock issued in connection with financing incentive                    | -                | -      | 340,000       | 340     | -                   | -      | 174,810                    | -                         | -  | 175,150     |
| Contributed capital   | -                | -      | -             | -       | -                   | -      | 42,951                     | -                         | -  | 42,951      |
| Common stock issued in connection with  | -                | -      | 2,628,200     | 2,628   | 13,407              | 11,396 | 1,583,125                  | -                         | -  | 1,597,149   |

|   |   |     |            |          |          |          |             |     |               |              |
|---|---|-----|------------|----------|----------|----------|-------------|-----|---------------|--------------|
| converted<br>notes payable  |   |     |            |          |          |          |             |     |               |              |
| Common<br>stock issued<br>in exchange<br>for services<br>rendered at<br>\$0.50 per<br>share | - | -   | 100,000    | 100      | -        | -        | 49,900      | -   | -             | 50,000       |
| Net loss  | - | -   | -          | -        | -        | -        | -           | -   | (3,952,959)   | (3,952,959)  |
| Balance,<br>December 31,<br>2007  | - | \$- | 13,598,399 | \$13,598 | \$13,407 | \$11,396 | \$7,615,945 | \$- | \$(7,777,530) | \$(136,591 ) |

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

SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM OCTOBER 14, 1999 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2010

|   | Preferred Stock: |        | Common stock: |          | Shares to be issued |          | Additional Paid in Capital | Common Stock Subscription | Deficit Accumulated During Development Stage | Total         |
|---|------------------|--------|---------------|----------|---------------------|----------|----------------------------|---------------------------|--|---------------|
|   | Shares           | Amount | Shares        | Amount   | Shares              | Amount   |                            |                           |  |               |
| Balance forward   | -                | \$-    | 13,598,399    | \$13,598 | \$13,407            | \$11,396 | \$7,615,945                | \$-                       | \$(7,777,530)                                | \$(136,591)   |
| Return of contributed capital to shareholder                | -                | -      | -             | -        | -                   | -        | (648,379)                  | -                         | -  | (648,379)     |
| Common stock to be issued in settlement of convertible debt | -                | -      | -             | -        | 100,000             | 25,500   | -                          | -                         | -  | 25,500        |
| Net Income  | -                | -      | -             | -        | -                   | -        | -                          | -                         | 152,322                                      | 152,322       |
| Balance, December 31, 2008                                  | -                | -      | 13,598,399    | 13,598   | 113,407             | 36,896   | 6,967,566                  | -                         | (7,625,208)                                  | (607,148)     |
| Contributed capital   | -                | -      | -             | -        | -                   | -        | (18,568)                   | -                         | -  | (18,568)      |
| Net loss  | -                | -      | -             | -        | -                   | -        | -                          | -                         | (1,007,032)                                  | (1,007,032)   |
| Balance, December 31, 2009                                  | -                | -      | 13,598,399    | 13,598   | 113,407             | 36,896   | 6,948,998                  | -                         | (8,632,240)                                  | (1,632,748)   |
| Common stock issued in settlement of debt                   | -                | -      | 750,000       | 750      | -                   | -        | 119,175                    | -                         | -  | 119,925       |
| Put liability   | -                | -      | -             | -        | -                   | -        | (150,000)                  | -                         | -  | (150,000)     |
| Contributed capital   | -                | -      | -             | -        | -                   | -        | 452,704                    | -                         | -  | 452,704       |
| Net loss  | -                | -      | -             | -        | -                   | -        | -                          | -                         | (315,122)                                    | (315,122)     |
| Balance, December 31, 2010                                  | -                | \$-    | 14,348,399    | \$14,348 | 113,407             | \$36,896 | \$7,370,877                | \$-                       | \$(8,947,362)                                | \$(1,525,241) |

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

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SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Years ended December 31, |                | For the period<br>From<br>October 14,<br>1999<br>(date of<br>inception)<br>through<br>December 31,<br>2010 |
|---|--------------------------|----------------|--|
|   | 2010                     | 2009           | 2010   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                          |                |  |
| Net loss  | \$(315,122 )             | \$(1,007,032 ) | \$(8,922,362 )   |
| Loss from discontinued operations   | -                        | -              | (16,901 )  |
| Net loss from continuing operations   | (315,122 )               | (1,007,032 )   | (8,939,263 )   |
| Adjustments to reconcile net loss to net cash used in operating activities:   |                          |                |  |
| Depreciation and amortization   | 14,764                   | 14,764         | 79,485   |
| Amortization of debt discounts  | 25,569                   | 2,188          | 786,870  |
| Amortization of deferred financing costs                                      | 20,102                   | 17,071         | 1,130,778  |
| Write off of investment in land purchase option                               | 100,000                  | 115,500        | 215,500  |
| Penalties and fees charged in connection with loan settlements, net           | -                        | -              | 3,882  |
| Fair value of consideration with induced note payable conversions             | -                        | -              | 1,215,417  |
| Gain on change in fair value of derivative                                    | (37,366 )                | -              | (37,366 )  |
| Interest expense financed through issuance of note payable                    | 208,684                  | -              | 248,684  |
| Accretion of interest on trade name liability                                 | 2,640                    | 4,871          | 20,938   |
| Gain on sale of property  | -                        | (32,940 )      | (1,480,996 )   |
| Gain on settlement of debt  | (786,133 )               | -              | (1,593,236 )   |
| Financing expense attributable to conversion of stock options to common stock | -                        | -              | 1,500  |
| Common stock issued to founders   | -                        | -              | 5,020  |
| Common stock issued as financing incentives                                   | -                        | -              | 47,650   |
| Common stock issued in exchange for services rendered                         | -                        | -              | 95,000   |
| Common stock issued for interest and penalties                                | -                        | -              | 216,649  |
| Impairment of trade name  | -                        | -              | 19,529   |
| Expenses paid by officer on behalf of the Company                             | 14,539                   | -              | 14,539   |
| Fair value of stock options issued in exchange for services rendered          | -                        | -              | 43,766   |
| Write off of claimed receivable   | -                        | -              | 6,000  |
| Changes in operating assets and liabilities:                                  |                          |                |  |
| Marketable securities-trading   | -                        | -              | (17,993 )  |
| Claims receivable   | -                        | -              | (6,000 )   |
| Capitalized financing costs   | -                        | -              | (32,647 )  |
| Deposits, prepaids and other assets   | -                        | 24,061         | (79,821 )  |
| Accounts payable and accrued expenses   | 14,421                   | 664,668        | 1,781,432  |
| Net cash used in continuing operating activities                              | (737,902 )               | (196,849 )     | (6,254,683 )   |
| Net cash provided by discontinued operations                                  | -                        | -              | 16,901   |
| Net cash used in operating activities   | (737,902 )               | (196,849 )     | (6,237,782 )   |

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

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SEAWRIGHT HOLDINGS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Year ended December 31, |           | For the period<br>From<br>October 14,<br>1999<br>(date of<br>inception)<br>through<br>December 31,<br>2010 |
|--|-------------------------|-----------|--|
|  | 2010                    | 2009      |  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                       |                         |           |  |
| Proceeds from sale of property, net  | -                       | 56,477    | 2,445,996  |
| Investment in land purchase option   | (100,000 )              | -         | (215,501 )   |
| Purchase of property, plant and equipment  | -                       | -         | (1,000,873 )   |
| Net cash (used in) provided by investing activities                                | (100,000 )              | 56,477    | 1,229,622  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                       |                         |           |  |
| Bank overdraft   | 1,857                   | (55 )     | 1,857  |
| Proceeds from sale of common stock, net  | -                       | -         | 2,006,683  |
| Proceeds from notes payable, net of repayments                                     | 616,200                 | 13,995    | 1,069,388  |
| Proceeds from related party loans, net of repayments                               | 182,500                 | -         | 182,500  |
| Proceeds from line of credit, net of repayments                                    | -                       | 145,000   | 583,571  |
| Proceeds from issuance of convertible notes, net                                   | 20,000                  | -         | 1,102,586  |
| Proceeds from issuance of warrants attached to convertible notes, net              | -                       | -         | 169,865  |
| Proceeds from exercise of options and warrants                                     | -                       | -         | 348,506  |
| Contribution made by (return of contributed capital to) shareholders               | 16,765                  | (18,568 ) | (650,196 )   |
| Reacquisition of shares  | -                       | -         | (81,600 )  |
| Proceeds from issuance of preferred stock, net                                     | -                       | -         | 275,000  |
| Net cash provided by financing activities  | 837,322                 | 140,372   | 5,008,160  |
| Net decrease in cash and cash equivalents  | (580 )                  | -         | -  |
| Cash and cash equivalents, beginning of period                                     | 580                     | 580       | -  |
| Cash and cash equivalents, end of period   | \$-                     | \$580     | \$-  |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                          |                         |           |  |
| Cash paid for interest   | \$466,900               | \$-       | \$1,951,963  |
| Cash paid for income taxes   | \$-                     | \$-       | \$-  |
| <b>Non cash investing and financing activities:</b>                                |                         |           |  |
| Common stock issued in exchange for notes payable and accrued interest             | \$59,963                | \$-       | \$761,515  |
| Common stock issued in exchange for convertible notes payable and accrued interest | \$59,963                | \$-       | \$1,507,067  |
| Common stock to be issued in exchange for convertible notes payable                | \$-                     | \$-       | \$11,396   |
| Notes payable and accrued interest settled by officer                              | \$421,400               | \$-       | \$421,400  |
| Common stock issued in connection with issuance of notes payable                   | \$-                     | \$-       | \$25,500   |

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|   |           |          |             |
|---|-----------|----------|-------------|
| Common stock issued in exchange for stock incentive liabilities | \$-       | \$-      | \$127,500   |
| Transfer of deposit to property and equipment                   | \$-       | \$-      | \$57,600    |
| Notes payable issued in exchange for accrued liabilities        | \$-       | \$24,113 | \$71,413    |
| Notes payable issued in connection with capital expenditures    | \$125,000 | \$-      | \$1,325,000 |
| Warrants issued in exchange for financing costs                 | \$-       | \$-      | \$545,460   |

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

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SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the presentation of the accompanying financial statements follows:

Seawright Holdings, Inc., (Company) was formed on October 14, 1999 under the laws of the state of Delaware. The Company is a development stage enterprise, as defined by Accounting Standards Codification subtopic 915-10, Development Stage Entities ("ASC 915-10") and is seeking to develop a spring water bottling and distribution business. From its inception through the date of these financial statements, the Company has recognized minimal revenues and has incurred significant operating expenses. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise. For the period from inception through December 31, 2010, the Company has accumulated losses of \$8,947,362.

In March 2008, the President of the Company formed Knox County Minerals, LLC pursuant to the Delaware Limited Liability Company Act and transferred his interest in Knox County Minerals, LLC to Seawright Holdings, Inc., as such the Company became the sole owner of Knox County Mineral, LLC.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Seawright Springs LLC and Knox County Minerals, LLC. Significant intercompany transactions have been eliminated in consolidation.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification subtopic 605-10, Revenue Recognition ("ASC 605-10") which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. ASC 605-10 incorporates Accounting Standards Codification subtopic 605-25, Multiple-Element Arrangements ("ASC 605-25"). ASC 605-25 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Fair Values

The Company applied Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10"). ASC 820-10 defines fair value, establishes a framework for measuring fair value, and enhances fair

value measurement disclosure. The Company's short-term financial instruments, including cash, prepaid expenses and other assets and accounts payable, consist primarily of instruments without extended maturities, the fair value of which, based on management's estimates, reasonably approximate their book value.

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SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives of 4 to 20 years.

Long-Lived Assets

The Company applies Accounting Standards Codification subtopic 360-10, Property, Plant and Equipment (“ASC 360-10”). ASC 360-10 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

Income Taxes

The Company applies Accounting Standards Codification subtopic 740-10, Income Taxes (“ASC 740-10”) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

Comprehensive Income

The Company does not have any items of comprehensive income in any of the periods presented.

Net Loss per Share

The Company applies Accounting Standards Codification subtopic 260-10, Earnings Per Share (“ASC 260-10”) specifying the computation, presentation and disclosure requirements of earnings per share information. Basic loss per share have been calculated based upon the weighted average number of common shares outstanding. The Company excluded 246,395 and 47,059 shares of common stock equivalents, that would be resulted from conversion of convertible debt, or exercise of stock options and warrants, from the diluted loss per share because their effect is anti-dilutive on the computation for the years ended December 31, 2010 and 2009, respectively.





SEAWRIGHT HOLDINGS, INC.  
(a development stage company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Reliance on Key Personnel and Consultants

The Company has only 1 full-time employee and no part-time employees. The Company is heavily dependent on the continued active participation of this current executive officer. The loss of senior management could significantly and negatively impact the business until adequate replacements can be identified and put in place.

Research and Development

The Company accounts for research and development costs in accordance with Accounting Standards Codification subtopic 730-10, Research and Development (“ASC 730-10”). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company did not incur any research and development expenses for the years ended December 31, 2010 and 2009 and for the period from October 14, 1999 (date of inception) through December 31, 2010.

Stock based compensation

Effective for the year beginning January 1, 2006, the Company applies Accounting Standards Codification subtopic 718-10, Compensation (“ASC 718-10”) which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in ASC 718-10. The Company implemented ASC 718-10 on January 1, 2006 using the modified prospective method.

Segment Information

Accounting Standards Codification subtopic Segment Reporting 280-10 (“ASC 280-10”) establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. ASC 280-10 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The information disclosed herein materially represents all of the financial information related to the Company’s principal operating segment.

Advertising Costs

The Company expenses advertising costs as incurred. The Company incurred advertising expense in the amount of \$-0-, \$-0-, and \$338,136, respectively, for the years ended December 31, 2010 and 2009, and for the period from October 14, 1999 (date of inception) through December 31, 2010.



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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Intangible Assets

The Company accounts for and reports intangible assets under Accounting Standards Codification subtopic 350-10, Intangibles, Goodwill and Other (“ASC 350-10”). In accordance with ASC 350-10, the Company tests its intangible assets for impairment on an annual basis and when there is reason to suspect that their values have been diminished or impaired. Any write-downs will be included in results from operations.

Reclassifications

Certain reclassifications have been made to prior year’s unaudited condensed consolidated financial statements and notes thereto for comparative purposes to conform to current year’s presentation. These reclassifications have no effect on previously reported results of operations.

Recent Accounting Pronouncements

There were various updates recently issued, the adoptions of the updates are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 2 – GOING CONCERN MATTERS

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements during year ended December 31, 2010, the Company incurred a loss attributable to common shareholders of \$315,122, had accumulated deficit since its inception from October 14, 1999 through December 31, 2010 in the amount of \$8,947,362, and used \$6,237,782 in cash for operating activities from its inception through December 31, 2010. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon management's ability to develop profitable operations. Management is devoting substantially all of its efforts to developing its products and services and there can be no assurance that the Company's efforts will be successful. However, the planned principal operations have not commenced and no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The Company is also pursuing additional debt or equity financing through discussions with private investors. There can be no assurance that the Company will be successful in its effort to secure additional financing. The accompanying statements do not include any adjustments that might result should the Company be unable to

continue as a going concern.

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## NOTE 3 – PROPERTY AND EQUIPMENT

In October, 2003, the Company acquired approximately 140 acres of land and related improvements in Augusta County, Virginia, in exchange for \$1,000,000, comprised of \$300,000 of cash and a \$700,000 promissory note payable. In June 2005, the Company purchased a parcel of land located approximately 10 miles south of the Augusta County, Virginia location in Staunton, Virginia. The purchased parcel is 33.52 acres which the Company acquired for \$725,000, comprised of \$225,000 of cash and a \$500,000 promissory note payable. The Company anticipates entering the sale of bulk spring water and retail bottling business utilizing the properties' water resources. The Company also completed the purchase of a second Staunton, Virginia property on April 10, 2006. The purchase price for the second property was \$240,000, less a previously made \$10,000 refundable deposit. The Company paid \$90,000 (excluding the \$10,000 refundable deposit made previously) of the remaining purchase price at settlement and financed the remaining \$140,000.

On July 8, 2008, the Company sold part of the land purchased during the years ended December 31, 2005 and 2006 with cost base of \$941,463 for net proceeds of \$2,389,519. This resulted in a net gain of \$1,448,056. In conjunction with the sale of the property, the Company paid off the existing mortgage and other existing notes and related fees in aggregate of \$1,845,135. On September 30, 2009, the Company sold the remaining acres of the land purchased in the years ended December 31, 2005 and 2006 for net proceeds of \$56,477 for a net gain of \$32,940.

Major classes of property and equipment at December 31, 2010 and 2009 consisted of the following:

|                                 | 2010         | 2009         |
|---------------------------------|--------------|--------------|
| Land                            | \$ 1,000,000 | \$ 1,000,000 |
| Equipment                       | 32,167       | 32,167       |
| Building improvements           | 261,307      | 261,307      |
|                                 | 1,293,474    | 1,293,474    |
| Less - accumulated depreciation | (59,954)     | (45,190)     |
|                                 | \$ 1,233,520 | \$ 1,248,284 |

Depreciation expense was \$14,764, \$14,764, and \$79,486 for the years ended December 31, 2010, 2009, and for the period from October 14, 1999 (date of inception) through December 31, 2010, respectively.

## NOTE 4 – INTANGIBLE ASSETS AND RELATED LIABILITIES

In June 2005, the Company purchased intellectual property including trademarks, service marks, trade dress, trade names, brand names, designs and logos as well as formulas for flavored sparkling waters and teas from a competitor. Under the terms of the agreement, the Company paid a purchase price of \$10,000 with royalties to be paid for the first 4,000,000 cases of bottled water or tea sold under the trademarks. As of the fifth anniversary of the effective date of the purchase, if the Company has not sold 4,000,000 cases of product under the trademark, the seller shall be entitled to a payment of \$50,000 less any royalties previously paid under the agreement. The royalty payable under this intangible has been recorded at its present value of \$50,000 and \$47,360 at December 31, 2010 and 2009, respectively.



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NOTE 4 – INTANGIBLE ASSETS AND RELATED LIABILITIES (continued)

In accordance with ASC 350-10, the Company periodically tests its intangible assets for impairment. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets are tested for impairment, and write-downs will be included in results from operations. During the year ended December 31, 2007, the Company management performed an evaluation of its intangible assets for purposes of determining the implied fair value of the assets at December 31, 2007. The test indicated that the recorded remaining book value of the intangibles exceeded its fair value at December 31, 2007. As a result, upon completion of the assessment, management recorded a non-cash charge to operations of \$19,529 during the year ended December 31, 2007 to reduce the carrying value to \$0. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates.

NOTE 5 – LAND PURCHASE OPTIONS

On May 6, 2008, the Company's wholly owned subsidiary, Knox County Minerals, LLC ("Knox Minerals"), entered into an Agreement Regarding Option (the "Assignment Agreement") with James R. Golden and John C. Slusher (the "Option Holders"), under which Knox Minerals agreed to acquire the Option Holders' rights under a Real Estate Purchase Option dated August 2, 2004 (the "Original Option Agreement") with Dan D. Stewart and Betsy Stewart (the "Stewarts") regarding certain land owned by the Stewarts in Knox County, Kentucky (the "Knox Land"). At the time the parties entered into the Assignment Agreement, the Option Holders had allegedly exercised their option to acquire the Knox Land under the Original Option Agreement, which was contested by the Stewarts, and the dispute was before the Kentucky Supreme Court.

Under the Assignment Agreement, the parties agreed that the purchase price for the Option Holder's rights under the Original Option Agreement was \$3,000,000. Knox Minerals deposited \$100,000 in escrow, and had 30 days to conduct due diligence to determine whether it wanted to complete the purchase. If Knox Minerals notified the Option Holders that it was declining to complete the purchase within 35 days after the date of the Assignment Agreement, then it was entitled to a full refund of the \$100,000 deposit. If it did not elect to terminate the Assignment Agreement, the \$100,000 deposit was to be paid to the Option Holders, and would be credited against the purchase price. Knox Minerals was obligated to close within 30 days after the end of the due diligence period in the event it did not elect to terminate the Assignment Agreement. The \$100,000 deposit was included in other noncurrent assets of the Company's consolidated balance sheet as of December 31, 2008.

On June 12, 2008, Knox Minerals and the Option Holders entered into a First Amendment to the Assignment Agreement, under which the parties agreed that the due diligence period would be extended to June 30, 2008, and the deadline for Knox Minerals to terminate the Assignment Agreement would be extended to June 30, 2008.

On July 28, 2008, Knox Minerals and the Option Holders entered into a Second Amendment to the Assignment Agreement, under which the parties agreed that the \$100,000 deposit would be paid to the Option Holders and the deposit would be credited against the purchase price, the due diligence period and closing date would be extended to August 14, 2008, and that Knox Minerals had the option to extend the due diligence period to September 2, 2008 provided it notified the Option Holders in writing that it was exercising said option prior to August 14, 2008 and paid the Option Holders an extension fee of \$1,000 for each day the periods were extended. Knox Minerals subsequently

exercised its option to extend the due diligence date to September 2, 2008, and paid the Option Holders an extension fee of \$18,000. The extension fees paid were charged to operations during the year ended December 31, 2008.

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NOTE 5 – LAND PURCHASE OPTIONS (Continued)

On August 25, 2008, Knox Minerals and the Option Holders entered into a Third Amendment to the Assignment Agreement, under which the parties agreed that the due diligence period would be extended to September 30, 2008 in consideration for an additional extension fee of \$28,000. The extension fees paid were charged to operations during the year ended December 31, 2008.

On September 30, 2008, Knox Minerals and the Option Holders entered into a Fourth Amendment to the Assignment Agreement, under which the parties agreed that the due diligence period would be extended to October 31, 2008 in consideration for an additional extension fee of \$31,000, that 50% of the extension fee of \$31,000 would be credited against the purchase price, and that Knox Minerals had the option to extend the due diligence period to December 31, 2008 provided it notified the Option Holders in writing that it was exercising said option prior to October 31, 2008 and paid the Option Holders an extension fee of \$61,000. The Company paid the extension fees of \$31,000 which extended the option through October 31, 2008, the \$61,000 extension fees was not paid as the Fifth Amendment to the Assignment Agreement was entered into (see below) on October 31, 2008. The Company accounted for \$15,500 (50% of the extension fee of \$31,000 paid) as other noncurrent assets as of December 31, 2008.

On October 31, 2008, Knox Minerals and the Option Holders entered into a Fifth Amendment to the Assignment Agreement, under which the parties agreed that the due diligence date would be extended to January 30, 2009 if Knox Minerals paid an extension fee of \$91,000 within five days, which Knox Minerals paid. The Company charged \$60,000 of this extension fee to operations for the year ended December 31, 2008, and accounted for the remaining \$31,000 as prepaid expense and included in other current assets of the Company's consolidated balance sheet as of December 31, 2008. The \$31,000 prepaid expense was amortized and charged to operations in January 2009.

On January 23, 2009, Knox Minerals and the Option Holders entered into a Sixth Amendment to the Assignment Agreement. Prior to the execution of the Sixth Amendment, on January 10, 2009, the Option Holders acquired the Knox Land from the Stewarts. Under the Sixth Amendment, the parties agreed to increase the purchase price for the Knox Land by the amount the Option Holders paid the Stewarts for the Knox Land. However, the parties also agreed that the total final purchase price would be reduced by \$140,000 as compared to the original purchase price due to the decline in market value of real estate since the time the option agreement was entered into. In addition, the parties agreed that the due diligence date would be extended to February 28, 2009. No additional consideration was required by the Option Holders for this extension. The parties further agreed that if the closing occurred, Knox Minerals would be entitled to a credit against the purchase price of \$155,500. That is, the original agreed deposit of \$100,000, together with credit of \$15,500 (50% of the extension fee of \$31,000 from the Fourth Amendment), and additional credit of \$40,000 the Option Holders granted to Knox Minerals. In addition, certain parts of the Knox Land would be conveyed subject to a 1/32 royalty on any oil and gas produced from the property, or 1% of the gross proceeds paid by a subsequent purchaser of the property. Knox Minerals ultimately did not close on Knox Land by the deadline therefore, and the Assignment Agreement lapsed. The Company wrote off and charged to operations an aggregate of \$115,500 (deposit of \$100,000 from the Assignment Agreement and the \$15,500 of potential credit from the Fourth Amendment) upon the expiration of the Sixth Amendment in the year ended December 31, 2009.



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## NOTE 5 – LAND PURCHASE OPTIONS (Continued)

On March 25, 2010, Knox Minerals entered into a Real Estate Purchase Option (the “2010 Option”) with the Option Holders, under which Knox Minerals agreed to pay the Option Holders \$100,000 for an option to purchase the oil and gas (including coal bed methane) rights under the Knox Land for an aggregate price of \$1,575,000. The option period was 120 days, except that Knox Minerals had the right to extend the closing date for four additional 30 day periods upon payment of \$25,000 for each period. Next Generation Media Corp., n/k/a Next Generation Energy Corp. (“NGEC”), loaned the Company \$125,000, of which \$100,000 used by Knox Minerals to make the initial option payment to the Option Holders and the remaining \$25,000 was used to pay a brokerage commission due to a broker who arranged the 2010 Option. NGEC’s loan is evidenced by a promissory note dated March 25, 2010 in the principal amount of \$125,000 that is payable in full with interest at 6% per annum twenty-four months after the date of the note (see Note 7).

On April 16, 2010, Knox Minerals entered into an Assignment and Assumption Agreement with NGEC, under which Knox Minerals assigned all of its right, title and interest under the 2010 Option to NGEC. Under the Assignment and Assumption Agreement, NGEC paid Knox Minerals \$600,000 in the form of a promissory note payable in full in sixty months with interest at 6% per annum. NGEC also agreed to grant Knox Minerals a 9% overriding royalty in the property, and to convey to Knox Minerals one of the parcels covered by the option. NGEC made one extension payment to extend the closing date under the 2010 Option, but did not close and the 2010 Option lapsed by its terms.

Subsequent to the assignment and before the expiration of the 2010 Option to NGEC, the President of the Company, Joel Sens, became a significant shareholder and a director of NGEC.

The Company has not netted the \$125,000 loan from NGEC against NGEC’s \$600,000 promissory note payable to Knox Minerals because the obligations are not mutual obligations that are subject to offset under the law. A note payable of \$125,000 due to NGEC was accounted for in March 2010, however, the Company did not recognize a gain or a note receivable for the \$600,000 promissory note due from NGEC, based on the assessment that NGEC had limited ability to repay this note and that collection could not be reasonably assured at that time the agreement was entered into. The Company will account for future amounts, if any, that it collects from NGEC as other income only at the time such collection occurs.

## NOTE 6 – DEFERRED FINANCING COSTS

Deferred financing costs associated with the Company’s convertible and various notes payable are deferred and amortized over the life of the loan. Deferred financing costs consisted of the following at December 31:

|                                      | 2010         | 2009         |
|--------------------------------------|--------------|--------------|
| Deferred financing costs             | \$ 1,149,535 | \$ 1,116,435 |
| Less - accumulated amortization      | (1,130,778)  | (1,110,676)  |
|                                      | 18,757       | 5,759        |
| Less - current portion               | (18,757)     | (5,759)      |
| Deferred financing costs - long-term | \$ -         | \$ -         |

Amortization expense on deferred financing costs was \$20,102, \$17,071 and \$1,130,778 for the years ended December 31, 2010 and 2009, and for the period from October 14, 1999 (date of inception) through December 31, 2010, respectively.

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## NOTE 7 – NOTES PAYABLE

Notes payable at December 31, 2010 and 2009 are as follows:

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| 15% per annum note payable, monthly interest payments, principal due June 8, 2008, collateralized by land. \$645,000 of this note was settled and paid upon sale of real estate property in July 2008. The remaining principal of \$283,000 was in default under the terms of the note agreement at December 31, 2009. The note and unpaid accrued interest was settled in May 2010 with a new principal of \$375,000, interest at 21% per annum. The lender added additional \$45,000 to the principal in November 2010 when interest payment to Kent Carr loan (see below) was made on behalf of the Company | \$ 420,000           | \$ 283,000           |
| 24% per annum (default rate 30%) note payable, due September 19, 2008, collateralized by common stock of principle stockholder. The Company was in default under the terms of the note agreement prior to repayment and at December 31, 2009. The note was repaid in full in May 2010.   | -                    | 135,000              |
| 7% per annum note payable, due on or before July 1, 2008, uncollateralized. This note was partially paid during the year ended December 31, 2008, with the remaining principal in default under the terms of the note agreement at December 31, 2009. The note and unpaid accrued interest was settled in January 2010, with partial repayment made by the Company's officer, resulted in a new principal of \$150,000 that is subject to adjustment in accordance with gold price. At December 31, 2010, the adjusted principal amount is \$189,000.  | 189,000              | 187,530              |
| 6% per annum note payable due to related party, due March 25, 2012, uncollateralized   | 125,000              | -                    |
| 12% per annum (default rate 18%) note payable, due November 1, 2011, collateralized by land  | 750,000              | -                    |
| Noninterest bearing notes payable due to related party, due on demand, uncollateralized  | 47,500               | -                    |
| 15% per annum (default rate 21%) note payable, due October 13, 2008, collateralized by land; The Company was in default under the terms of the note agreement at December 31, 2010 and 2009.   | 375,000              | 375,000              |



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## NOTE 7 – NOTES PAYABLE (continued)

| (Continued)  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| 6% per annum note payable, due November 15, 2008, collateralized by personal guarantee of principle stockholder. The Company was in default under the terms of the note agreement at December 31, 2010 and 2009. | 47,300               | 47,300               |
| Loan against cash value of principle stockholder's life insurance  | 19,475               | 18,276               |
| 6% per annum note payable due to related party, due on demand, uncollateralized  | 17,500               | 7,500                |
| 10% per annum note payable, extended due date was January 29, 2010, uncollateralized, in default at December 31, 2009. The note was settled in full in November 2010 with the Company's common stock             | -                    | 140,000              |
| Total  | 1,990,775            | 1,193,606            |
| Less: notes payable, current portion   | (1,800,775)          | (1,193,606)          |
| Less: notes payable due to related party, current portion  | (65,000)             | -                    |
| Note payable due to related party– long term   | \$ 125,000           | \$ -                 |

## Charter House, LLC Loan

On June 8, 2006, the Company issued a note to Charter House, LLC in the amount of \$350,000. The note bore interest at 15% per annum, and matured on December 8, 2006, subject to the Company's right to extend the maturity date for six months and payment of an extension fee of 3% of the outstanding principal balance. The note provided for monthly payments of interest. The note was secured a lien on certain real estate of the Company in Augusta County, Virginia.

On October 5, 2006, the Company and Charter House, LLC modified the note to increase the principal balance to \$515,000. On February 1, 2007, the Company and Charter House, LLC modified the note to increase the principal balance to \$645,000. On November 27, 2007, the Company and Charter House, LLC modified the note to increase the principal balance to \$928,000. The note as modified matured on June 8, 2008. Upon sale of certain real estate in July 2008, the Company repaid \$645,000 of the Charter House loan with the remaining balance of \$283,000 being due and payable on demand. In August 2008, Charter House advanced additional \$135,000 to the Company. The note was due on September 19, 2008 and collateralized by common stock of principle stockholder.

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NOTE 7 – NOTES PAYABLE (continued)

On May 10, 2010, the Company repaid the \$135,000 note in full and the Company and Charter House, LLC entered into a forbearance agreement with regards to the outstanding liability related to the \$283,000 loan. The unpaid principal, accrued interest, penalty and fees were partially repaid by the Company pursuant to the agreement, and Charter House, LLC agreed not to exercise any remedies under the note until December 31, 2010. The new principal amount was agreed to be \$375,000 with interest rate agreed to be 21% per annum. The Company recorded additional interest and financing expense in the amount of \$124,684 in connection with the settlement. The Company also prepaid interest that would accrue under the note from May 10, 2010 to December 31, 2010 in the amount of \$51,478. The forbearance agreement defined the default rate of interest as 24% per annum, and provided that a default on a note to Kent Carr in the amount of \$750,000 (see below) would constitute a default under the note. If the Company fails to make payment in full of the amount due on or before December 31, 2010, a late charge of 10% of such payment will be added to the amount due. The Company did not repay the loan as of December 31, 2010 and is currently in default. In November 2010, Charter House paid interest of \$45,000 to Kent Carr on behalf of the Company, and therefore the principal amount due to Charter House is \$420,000 at December 31, 2010.

Theodore J. Kanakis Loan

On March 30, 2007, Theodore J. Kanakis (“Kanakis”) loaned the Company \$300,000 pursuant to an unsecured promissory note bearing interest at 7% per annum and due July 1, 2008. The Company made partial repayment of this note during the year ended December 31, 2008, with the remaining unpaid principal balance of \$187,530 at December 31, 2008. On January 15, 2010, the Company entered into a settlement agreement with Kanakis with regards to the outstanding loan balance and unpaid accrued interest. In connection with the settlement, the President of Company repaid Kanakis on behalf of the Company with gold coins of his own, with a value of \$105,000 agreed by Kanakis, and the remaining balance was converted to a new promissory note in the amount of \$150,000. The promissory note dated January 15, 2010 was secured by a subordinate lien on certain property of the Company.

On January 15, 2010, the Company, Mr. Kanakis and Mr. Sens entered into a settlement agreement, under which Mr. Sens allowed Mr. Kanakis to retain a coin collection, which the parties agreed and had a fair value of \$105,000, Mr. Sens pledged as part of the settlement agreement. In addition, the Company issued Mr. Kanakis a note in the amount of \$150,000 in settlement of the Company’s remaining liability to Mr. Kanakis. The note is secured by a subordinate lien on certain property of the Company in Augusta County, Virginia. The note entitled the Company to satisfy the entire amount due under the note by a payment of \$125,000 on or before March 30, 2010. If the note is not paid by March 30, 2010, interest began to accrue on the note at the rate of 1% per month, with monthly interest payments being due on the 5th day of each month. In addition, note provided that if the price of gold increased by more than 10% from the date of execution of the note, the principal amount due on the note would increase by the same percentage that the price of gold increased. The note was due and payable on December 31, 2010. In addition, Mr. Kanakis granted Mr. Sens an option to purchase 500,000 shares (the “Option Shares”) of the Company’s common stock owned by Mr. Kanakis for \$51,000. The principal amount of the note was adjusted to \$189,000 at December 31, 2010 in accordance of the gold price clause, the \$39,000 of increase in the principal amount was charged to interest expense during the year ended December 31, 2010.



On January 22, 2011, the Company entered into an agreement with Kanakis to convert the outstanding balance of the promissory note to the Company's common stock. (See Note 18 – Subsequent Events).

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NOTE 7 – NOTES PAYABLE (continued)

Amicus Funding, Inc. Loan

On February 26, 2008, the Company issued a \$50,000 unsecured note payable with 12% per annum interest rate due June 26, 2008. On March 3, 2008, the Company issued a \$50,000 unsecured note payable with 12% per annum interest rate due July 3, 2008. The Company did not pay either note on its maturity date. Amicus Funding, Inc. (“Amicus”) later acquired both notes from the original lenders. The Company agreed to issue to the noteholders an aggregate of 100,000 shares of common stock in connection with issuance of these two notes as incentives. The fair value of the common shares amounted to \$25,500, and was accounted for as a debt discount and amortized over the term of the notes. Interest expense of \$25,500 was charged to operations during the year ended December 31, 2008.

On February 10, 2009, the Company, Amicus and the President of the Company, Joel Sens, entered into a settlement agreement with respect to the two notes owned by Amicus, in which the Company paid Amicus \$12,000 in cash and executed a note payable to Amicus in the amount of \$112,000. As part of the same settlement, Mr. Sens executed a promissory note payable to Amicus in the amount of \$85,000 to evidence a personal debt Mr. Sens owed to Amicus resulting from options and a stock purchase agreement between Amicus and Mr. Sens. The note executed by the Company bore interest at 12% per annum. All principal and interest due under the note was due and payable on March 31, 2009.

On November 10, 2009, the Company, Amicus and Mr. Sens entered into a settlement agreement with respect to the notes issued to Amicus under the February 10, 2009 settlement agreement. Under the November 10, 2009 settlement agreement, the Company issued Amicus a note in the amount of \$140,000 which bore interest at 10% per annum and was due and payable on January 29, 2010. The note was subject to a late charge of 5% for any payment not received by its due date. The note was also secured by a subordinate lien on the certain property of the Company located in Augusta County, Virginia.

On November 10, 2010, Amicus agreed to convert the \$140,000 note and total unpaid accrued interest of \$10,000 into 375,000 shares of the Company’s common stock. Amicus has the right, until March 30, 2011 (subsequently extended to December 31, 2011, to put any of the shares back to the Company for cash in the amount of \$0.40 per share. The note was converted and the common shares were issued to Amicus in December 2010 in settlement of this note and unpaid accrued interest. The Company recognized gain of \$90,038 in connection with the settlement as a result of the difference between of agreed conversion price of \$0.40 per share and the market value of approximately \$0.16 per share at the time of the settlement. In addition, the Company recorded put liability in the amount of \$150,000 as part of the settlement.

Pierre Palian Loan Transactions

On April 14, 2008, the Company issued a note to Pierre Palian in the amount of \$375,000. The note bore interest at 15% per annum, and matured on October 13, 2008. The note was secured by a lien on certain real estate of the Company in Augusta County, Virginia. The note was guaranteed by Mr. Sens.



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NOTE 7 – NOTES PAYABLE (continued)

On May 5, 2010, the Company and Mr. Palian entered into a forbearance agreement with regards to the outstanding liability. The unpaid accrued interest, penalty and fees were partially repaid by the Company pursuant to the agreement, and Mr. Palian agreed not to exercise any remedies under the note until December 31, 2010, and increased the interest rate under the note to 21% per annum. The Company also prepaid interest that would accrue under the note from May 10, 2010 to December 31, 2010 in the amount of \$48,972. The forbearance agreement also increased the default rate of interest to 24% per annum, and provided that a default on a note to Kent Carr in the amount of \$750,000 (see below) would constitute a default under the note. The Company did not repay the loan as of December 31, 2010 and is currently in default.

Kent Carr Loan Transaction

On May 5, 2010, the Company issued a note to Kent Carr in the amount of \$750,000 secured by a first lien on certain real estate property of the Company in Augusta County, Virginia. The note bore interest at 12% per annum and is due on November 1, 2011. The proceeds of the note were used to partially repay indebtedness to Charter House, LLC and Pierre Palian, and miscellaneous fees and charges. As part of the transaction, Charter House, LLC and Mr. Palian subordinated their first mortgage on certain property of the Company in Augusta County, Virginia to the mortgage lien of Mr. Carr.

Next Generation Energy Corporation and related Parties

On March 25, 2010, the Company through its wholly owned subsidiary, Knox Minerals, entered into a Real Estate Purchase Option (the “2010 Option”) with the Option Holders, under which Knox Minerals agreed to pay the Option Holders \$100,000 for an option to purchase the oil and gas (including coal bed methane) rights under the Knox Land for an aggregate price of \$1,575,000. The option period was 120 days, except that Knox Minerals had the right to extend the closing date for four additional 30 day periods upon payment of \$25,000 for each period. Next Generation Media Corp., n/k/a Next Generation Energy Corp. (“NGEC”), loaned the Company \$125,000, of which \$100,000 used by Knox Minerals to make the initial option payment to the Option Holders and the remaining \$25,000 was used to pay a brokerage commission due to a broker who arranged the 2010 Option. NGEC’s loan is evidenced by a promissory note dated March 25, 2010 in the principal amount of \$125,000 that is payable in full with interest at 6% per annum for a term of twenty-four months after the date of the note. In May 2010, the President of the Company became an officer and director of NGEC, and in October 2010 became a significant shareholder of NGEC.

NGEC also advanced the Company an aggregate of \$17,500 and \$7,500 as of December 31, 2010 and 2009, respectively, for working capital purposes. The loan bears interest at 6% per annum, is due on demand and unsecured.

During the year ended December 31, 2010, NGEC advanced the Company in the amount of \$47,500 for working capital purpose. The advance is non-interest bearing and due on demand.

Miscellaneous Notes

On September 30, 2008, the Company issued a \$47,300 note payable with 6% per annum interest due November 15, 2008, secured by personal guarantee of Mr. Sens. The note was issued to a vendor to settle an account payable due to the vendor.

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NOTE 7 – NOTES PAYABLE (continued)

In January 2008, the Company borrowed against the cash value of the life insurance policy of the President of the Company. Interest is approximately at 6% per annum. Total amount of borrowing at December 31, 2010 and 2009 was \$19,475 and \$18,276, respectively.

NOTE 8 – PRIVATE PLACEMENT AND CONVERTIBLE PROMISSORY NOTES PAYABLE

Private Placement in fiscal year 2004 and 2005

The Company entered into a Private Placement Memorandum in August 2004 to offer up to 1,000 units at \$3,000 per unit of equity/notes payable instrument. Each unit consists of 2,500 shares of common stock of the Company, \$1,500 of convertible promissory notes (“Convertible Notes”), and 1 warrant to purchase 300 shares of the Company’s common stock at \$0.85 per share. The Convertible Notes accrues interest at 11% per annum, payable and due in September 2009. The note holder has the option to convert any unpaid note principal and accrued interest to the Company’s common stock at a rate of \$0.85 per share anytime after six months from the issuance date of the note.

As of December 31, 2005, the Company received total proceeds of \$2,665,116, net of placement costs and fees of \$331,884, for 999 units subscribed. Pursuant to the terms of the Private Placement Memorandum, the Company issued to the investors Convertible Notes in an aggregate of \$1,498,500. The Company is obligated to issue 2,497,500 shares of its common stock, valued at \$1,563,376, to the investors in connection with the private placement. The Company also issued to investors an aggregate of 999 warrants to purchase 299,700 shares of common stock as of December 31, 2005.

In accordance with Accounting Standards Codification subtopic 470-20, Debt With Conversions and Other Options (“ASC 470-20”), the Company allocated, on a relative fair value basis, the net proceeds amongst the common stock, convertible notes and warrants issued to the investors. As of December 31, 2005, the Company had recognized a discount to the notes in the amount of \$280,207. The note discount is being amortized over the maturity period of the notes, being five years. As of December 31, 2005, the Company had recognized a total of \$280,207 of the proceeds, which is equal to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a discount against the Convertible Note. The debt discount attributed to the beneficial conversion feature is amortized over the Convertible Notes’ maturity period, being five years, as interest expense.

In connection with the placement of the Convertible Notes, the Company issued detachable warrants granting the holders the right to acquire a total of 299,700 shares of the Company’s common stock at \$0.85 per share as of December 31, 2005. The warrants expire five years from their issuance. As of December 31, 2005, the Company had recognized the value attributable to the warrants, being \$190,143, to additional paid-in capital. The Company valued the warrants in accordance with ASC 470-20 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 3.38%, a dividend yield of 0%, and volatility of 296%.



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## NOTE 8 – PRIVATE PLACEMENT AND CONVERTIBLE PROMISSORY NOTES PAYABLE (Continued)

During the year ended December 31, 2007 the Company offered additional consideration on the convertible debt in an effort to induce conversion. The majority of converting note holders agreed to a conversion rate of one share of common stock for each \$0.60 of principal and unpaid interest accrued through the closing date while the minority of converting note holders retained the original conversion rate of one share of common stock for each \$0.85 of principal and unpaid interest accrued through the closing date. All converting note holders received an additional six months of interest at the rate of 11% per annum. The Company accounted for the conversion in accordance with ASC 470-20 by recognizing an expense of \$1,215,417 which is equal to the excess of the fair value of the additional consideration issued pursuant to the original conversion terms. The note holders agreed to convert a total of \$1,458,500 of convertible notes and accrued interest of \$138,649 into 2,641,611 shares of common stock. The Company issued 2,628,204 shares of common stock as of December 31, 2007, with the remaining 13,407 shares of common stock accounted for as stock to be issued. The remaining unpaid balance of the convertible debt is \$40,000 at December 31, 2010 and 2009.

The Company amortized and wrote off the convertible notes discount and debt discount attributed to the beneficial conversion feature and recorded non-cash interest expense of \$-0- and \$2,188 for the years ended December 31, 2010 and 2009, respectively.

Financing costs attributable to the equity portion of the private placement totaled \$175,899 and were netted against the amount attributable to common stock. Deferred financing costs of \$155,985 attributable to the debt portion of the private placement are being amortized over the life of the debt instrument, being 5 years. The Company amortized and wrote off \$-0- and \$3,152 for the years ended December 31, 2010 and 2009, respectively, in relation to the deferred financing costs.

## Sisler Convertible Note

On October 26, 2010, the Company issued a \$20,000 convertible promissory note due April 26, 2011, unsecured. The note bears interest at a rate of 12% per annum and will be convertible into the Company's common stock at any time after the maturity date of the note at the holder's option, into common stock at the conversion rate of 70% of average market price fifteen trading days prior to notice of conversion.

The Company is in default under the terms of the notes. The Company has identified embedded derivatives related to the convertible promissory note entered into on October 26, 2010. These embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments requires that the Company record fair value of the derivatives as of the inception date of the convertible promissory note and to fair value as of each subsequent balance sheet date. At the inception of the convertible promissory note, the Company determined a fair value \$38,316 of the embedded derivative. The fair value of the embedded derivative was determined using the Binomial Option Pricing Model based on the following assumptions:

|                 |         |
|-----------------|---------|
| Dividend yield: | -0-%    |
| Volatility      | 279.98% |
| Risk free rate: | 0.17%   |



The initial fair value of the embedded debt derivative of \$38,316 was allocated as a debt discount up to the proceeds of the note (\$20,000) with the remainder (\$18,316) charged to operations as interest expense for the year ended December 31, 2010. During the year ended December 31, 2010, the Company amortized \$7,253 of the debt discount to current period operations as interest expense.

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## NOTE 8 – PRIVATE PLACEMENT AND CONVERTIBLE PROMISSORY NOTES PAYABLE (Continued)

A summary of convertible promissory notes payable at December 31, 2010 and 2009 are as follows:

|  | 2010      | 2009      |
|--|-----------|-----------|
| Convertible notes payable (“Convertible Notes”); 11% per annum; matured in September 2009; note holder has the option to convert unpaid note principal and interest to the Company’s common stock at \$0.85 per share. | \$ 40,000 | \$ 40,000 |
| Convertible promissory note – 12% per annum, due April 26, 2011, net of unamortized debt discount of \$12,747 at December 31, 2010   | 7,253     | -         |
| Total  | \$ 47,253 | \$ 40,000 |
| Less: current portion  | (47,253)  | (40,000)  |
| Convertible Note- long term portion  | \$ -      | \$ -      |

## NOTE 9 – DERIVATIVE LIABILITY

As described in Note 8 above, on October 26, 2011, the Company issued a 12% convertible promissory note that contained embedded derivatives. The embedded derivatives included certain conversion features. The accounting treatment of derivative financial instruments required that the Company record the derivatives at their fair values as of the inception date of the convertible promissory note in the amount of \$38,316 and at fair value as of each subsequent balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives was higher at the subsequent balance sheet date, the Company recorded a non-operating, non-cash charge. If the fair value of the derivatives was lower at the subsequent balance sheet date, the Company recorded non-operating, non-cash income.

The Company recorded a gain on change in fair value of derivative liability of \$37,366 for the year ended December 31, 2010.

The fair value of the reset liability at December 31, 2010 was determined using the Binomial Option Pricing Model with the following assumptions:

|                 |         |
|-----------------|---------|
| Dividend yield: | -0-%    |
| Volatility      | 279.98% |
| Risk free rate: | 0.03%   |

At December 31, 2010, the derivative liability valued at \$950, the Company believes an event under the contract that would create an obligation to settle in cash or other current assets is remote and has classified the obligation as a long term liability.



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NOTE 10 – COMMON STOCK

The Company was incorporated under the laws of the State of Delaware on October 14, 1999 under the name of Pre-Settlement Funding Corporation. The Company has authorized 100,000 shares of preferred stock, with a par value of \$0.001 per share. The Company has designated 60,000 shares of its preferred stock at par value of \$0.001 per share as Series A Convertible Preferred Stock. As of December 31, 2010 and 2009, the Company does not have any shares of Series A Convertible Preferred Stock issued and outstanding. The Company has authorized 19,900,000 shares of common stock, with a par value of \$0.001 per share. As of December 31, 2010 and 2009, there were 14,348,399 and 13,598,399 shares of common stock issued and outstanding, respectively.

In March 2000, the Company issued \$124,000 of notes payable convertible into common stock at a price equal to \$0.50 per share. As of December 31, 2000, the holders of the notes payable converted \$52,000 of the notes, net of costs, in exchange for 104,000 shares of the Company's common stock.

In January 2001, the holders of the \$72,000 of convertible Notes Payable, exercised their rights to convert the unpaid principal to 144,000 shares of the Company's common stock at the conversion price of \$0.50 per share.

In January 2001, \$15,000 of convertible notes payable were issued and converted to 30,000 shares of the Company's common stock.

In January 2001, the Company issued 5,000,000 shares of its common stock to the Company's Founders in exchange for services provided to the Company from its inception. The Company valued the shares issued at \$0.001 per share, which approximated the fair value of the services rendered. The compensation costs of \$5,020 were charged to operations during the year ended December 31, 2001.

In January 2001, the Company issued 90,000 shares of its common stock to consultants in exchange for services provided to the Company. The Company valued the shares issued at \$ .50 per share, which approximated the fair value of the shares issued during the period the services were rendered. The compensation costs of \$45,000 were charged to income during the year ended December 31, 2001.

During the year ended December 31, 2003, the Company authorized the issuance of 60,000 shares of newly designated Series A Convertible Preferred stock, with a par value of \$0.001 per share. As of December 31, 2003 the Company issued 55,000 shares of the Series A Convertible Preferred stock in exchange for \$275,000, net of costs and fees. The Series A Convertible Preferred Stock was convertible into the Company's common stock at the option of the holder at a ratio of ten (10) shares of common stock for each share of preferred stock if converted before the first anniversary of the original issue date and at a ratio of five (5) shares of common stock for each share of preferred stock if conversion is made after the first anniversary but before the second anniversary.

The Series A Convertible Preferred Stock was redeemable for cash at the option of the Company, any time after the first anniversary of the original issue date but before the second anniversary. The Series A Convertible Preferred Stock was entitled to cumulative dividends when and if declared by the Company's Board of Directors at a per share rate of 10% per annum of the original issue price. At the option of the holders of the Series A Convertible Preferred Stock, accrued and unpaid cumulative dividends could be applied to the purchase of additional shares of the Company's

common stock upon conversion of the Series A Convertible Preferred Stock to common stock. The Series A Convertible Preferred Stock ranked senior to the common stock. The Series A Convertible Preferred Stock had a liquidation preference of payment of the original purchase price of the Series A Convertible Preferred Stock plus all declared but unpaid dividends on such shares.

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NOTE 10 – COMMON STOCK (continued)

The fair value of the Company's common stock at the time the conversion option was granted was below the value of the Preferred Stock if converted. Accordingly, the Company recognized no beneficial conversion feature embedded in the Series A Preferred Stock.

In April 2004, the Company issued 160,000 shares of its common stock to a shareholder in exchange for previously issued stock options exercised at \$0.5625 per share, for a total of \$90,000. In exchange for the shares, the holder of the options paid \$63,500 in cash, and tendered 5,000 shares of the Company's previously issued Series A preferred stock valued at \$5 per share. The remaining balance of \$1,500 was accounted for as financing expenses and was charged to operations during the year ended December 31, 2004. The preferred shares tendered were subsequently cancelled by the Company.

In April 2004, the Company issued an aggregate of 300,000 shares of its restricted common stock to an investor in exchange for \$90,000 of proceeds, net of costs and fees.

Pursuant to the Private Placement Memorandum, the Company was obligated to issue an aggregate of 2,460,000 shares of its common stock, valued at \$1,387,477 net of placement costs attributable to the equity portion of the private placement, to the investors in connection with 984 units sold in the private placement as of December 31, 2004. The Company has issued an aggregate of 2,404,978 shares to the investors at December 31, 2004, and the remaining aggregate of 54,998 shares were issued to the investors in January 2005 (fractional shares of 24 shares of common stock will not be issued). The Company has accounted for the shares not issued at December 31, 2004 as common stock subscription payable in the amount of \$25,581.

In December 2004, the Company's Series A Preferred Stock holders elected to convert an aggregate of 50,000 shares of Preferred Stock into 500,000 shares of the Company's common stock, at a ratio of ten (10) shares of common stock for each share of preferred stock. In connection with the conversion, the Company also issued an aggregate of 50,000 shares of its common stock in exchange for \$25,000 of dividends in arrears. As of December 31, 2004, all Series A Convertible Preferred Stock has been converted to the Company's common stock, and there was no Preferred Stock issued and outstanding at December 31, 2004.

In January 2005, pursuant to the Private Placement Memorandum, the Company was obligated to issue an aggregate of 37,500 shares of its common stock, valued at \$25,188 to the investors in connection with 15 units sold in the private placement as of December 31, 2005.

During the year ended 2006, the Company issued an aggregate of 219,998 shares of common stock in exchange for \$99,000 of proceeds, net of costs and fees.

In December 2006, the Company repurchased 160,000 shares of common stock from a former employee for \$1.25 per share. In accordance with FASB Technical Bulletin 85-6, the amount paid per share was considered to be significantly in excess of the current market price of \$0.51 per share thereby creating a presumption that the purchase price is not attributable to the stock value alone. As such, the excess amount of \$0.74 per share is deemed to be attributable to a severance payment and \$118,400 was charged to compensation expense in 2006. The shares were retired by the Company immediately after repurchase.



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NOTE 10 – COMMON STOCK (continued)

During the year ended December 31, 2007, the Company issued an aggregate 243,542 shares of common stock for net cash proceeds of \$341,518. The Company also issued an aggregate of 756,459 shares of common stock in exchange for repayment of notes payable in the amount of \$701,552 and \$78,000 of penalty and fees.

During the year ended December 31, 2007, the Company issued an aggregate of 594,720 shares of common stock as a result of the exercise of 175,000 stock options and 594,921 warrants. The options and warrants had exercise prices ranging \$0.56 to \$0.85 per share. The Company received total proceeds of \$348,506. The 175,000 options exercised were one option for one share of common stock, and 921.17 warrants exercised were one warrant for 300 shares of common stock and 594,000 warrants exercised on a cashless basis in exchange for 143,370 shares of common stock (see Note 10)

During the year ended December 31, 2007 the Company issued an aggregate of 340,000 shares of common stock to a note holder in exchange for financing incentives. The shares were valued at \$175,150, of which \$127,500 was accrued during the year ended December 31, 2006 and \$47,650 was charged to interest expense during the year ended December 31, 2007.

During the year ended December 31, 2007, the Company issued 100,000 shares of the Company's common stock for services rendered valued at \$50,000, which approximately the fair value of the shares at the time the shares were issued.

During the year ended December 31, 2007, the Company issued an aggregate 2,628,204 shares of its common stock and agreed to issue 13,407 shares of common stock in connection with conversion of notes payable. The common shares issued and to be issued settled convertible notes in the amount of \$1,458,500 and interest expense of \$138,649.

During the year ended December 31, 2008, the Company agreed to issue an aggregate of 100,000 shares of common stock in connection with issuance of notes payable. The fair value of the common shares amounted \$25,500 was accounted for as a debt discount and amortized over the term of the notes. Interest expense of \$25,500 was charged to operations during the year ended December 31, 2008. The common shares had not been issued as of December 31, 2010 and were accounted for as common stock to be issued.

During the year ended December 31, 2010, the Company issued an aggregate 750,000 shares of its common stock in connection with conversion of debt (see Note 7 and Note 16). The common shares issued settled debt and accrued interest in the amount of \$300,000. The Company recorded gain of \$180,075 from settlement of debt which was resulted from the difference between the conversion price of \$0.40 per share and the fair market value of approximately \$0.16 per share at the time of settlement.

Put Agreements

As described above, in April 2004, the Company issued 160,000 shares of its common stock to a shareholder in exchange for previously issued stock options exercised at \$0.5625 per share, for a total of \$90,000. In exchange for the shares, the holder of the options paid \$63,500 in cash, and tendered 5,000 shares of the Company's previously



issued Series A preferred stock valued at \$5 per share. The remaining balance of \$1,500 was accounted for as financing expense and was charged to operations during the year ended December 31, 2004.

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## NOTE 10 – COMMON STOCK (continued)

## Put Agreements (Continued)

In October 2004, the Company entered into an agreement (termination agreement) granting the shareholder an option to put the 160,000 shares of common stock to the Company one year from the date of the agreement for \$1.25 per share. The shareholder agreed to cancel 677,500 stock options exercisable at \$0.5625 per share. The Company accounted for the puts and classified the fair value attributable to the put option as an accrued liability, as the puts issued under the termination agreement embody an obligation to repurchase the Company's equity shares which would require the Company to settle the agreement by transferring its assets. The put option was initially measured using Black Scholes pricing model at its fair value of \$170,256 as of the date of the agreement. And the equity was reduced by the original value of the shares, being \$90,000, with the remaining value of \$80,256 being charged to other expense during the year ended December 31, 2004.

In October 2005, the termination agreement and puts expired without being exercised. At the time of expiration, the fair value of the accrued liability attributable to the puts was \$87,984. Accordingly, equity has been increased by the original value of the shares, being \$90,000, with the remaining value of \$2,016 being charged to other expense during the year ended December 31, 2005.

On November 10, 2010, Amicus Funding, Inc. converted \$140,000 debt and total unpaid accrued interest of \$10,000 into 375,000 shares of the Company's common stock (see Note 7). In connection with this transaction, Amicus has the right, until March 30, 2011 (subsequently extended to December 31, 2011), to put any of the shares back to the Company for cash in the amount of \$0.40 per share. The note was converted and the common shares were issued to Amicus in December 2010. As such, the Company recorded the potential liability of \$150,000.

## NOTE 11 – STOCK OPTIONS AND WARRANTS

## Stock Options

All outstanding stock options expired during the year ended December 31, 2010.

Transactions involving options issued to employees and consultants are summarized as follows:

|                                  | Number of<br>Shares | Weighted<br>Average<br>Price Per<br>Share |
|----------------------------------|---------------------|---|
| Outstanding at December 31, 2008 | 1,500,000           | \$ 1.35                                   |
| Granted                          | -                   | -   |
| Exercised                        | -                   | -   |
| Canceled or expired              | -                   | -   |
| Outstanding at December 31, 2009 | 1,500,000           | \$ 1.35                                   |

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|                                  |             |      |
|----------------------------------|-------------|------|
| Granted                          |             | -    |
| Exercised                        | -           | -    |
| Canceled or expired              | (1,500,000) | 1.35 |
| Outstanding at December 31, 2010 | -           | \$   |

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SEAWRIGHT HOLDINGS, INC.  
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NOTE 11 – STOCK OPTIONS AND WARRANTS (Continued)

Warrants

All previously granted warrants expired as of December 31, 2009, and the Company does not have any warrants issued and outstanding at December 31, 2010 and 2009.

NOTE 12 – RELATED PARTY TRANSACTIONS

From time to time, the Company's President, Joel Sens, has advanced funds to the Company for working capital purposes. At times the total payment the Company repaid to the Company's President and (or) the funds the President of the Company withdrew exceeded the total balance due. The Company accounted for the excess payments to the Company's President as a nonreciprocal transfer to a shareholder and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital.

During the year ended December 31, 2009, the Company's President withdrew additional funds or incurred personal expenses in the net amount of \$18,568 from the Company. The Company has accounted for the excess payments to the Company's President as a nonreciprocal transfer to a shareholder for 2009 and, accordingly, has reflected the overpayment as a direct reduction of additional paid-in capital.

As described in Note 7, during the year ended December 31, 2010 Mr. Sens allowed Mr. Kanakis to retain a coin collection provided by Mr. Sens, valued at \$105,000, in settlement of the Company's liability due to Mr. Kanakis. In addition, Mr. Sens provided 791,000 shares of the Company's common stock that he personally owned to American Marketing and Capital, Inc. ("AMC") in settlement of \$316,400 of the Company's liability due to AMC (Note 16). Other net advances that Mr. Sens provided to the Company during the year ended December 31, 2010 was \$16,765. In addition, Mr. Sens paid expenses in the amount of \$14,539 on behalf of the Company. The aggregate contribution of \$452,704 to the benefit of the Company was accounted for as contributed capital and, accordingly, has reflected as an addition to additional paid-in capital.

As described in Note 7, the Company's President has guaranteed certain loans to the Company, and/or pledged certain personal property to secure loans to the Company. The President of the Company pledged certain of his personal property including common shares of the Company he owned in connection with certain loan transactions.

As of December 31, 2010, the Company was indebted to Next Generation Energy Corp. ("NGEC") for \$125,000 under a promissory note dated March 25, 2010, which note bears interest at 6% per annum and is due 24 months after the date of the note (Note 5 and Note 7). As of December 31, 2010, the Company was indebted to NGEC for \$17,500 for a loan that bears interest at 6% per annum and is due on demand. As of December 31, 2010, the Company was indebted to NGEC, for \$47,500, which loan is non-interest-bearing and due on demand. In May 2010, Mr. Sens became an officer and director of NGEC, and in October 2010 became a significant shareholder of NGEC.

As described in Note 5, on April 16, 2010 Knox Minerals entered into an Assignment and Assumption Agreement with NGEC, under which Knox Minerals assigned all of its right, title and interest under the 2010 Option to NGEC. Under the Assignment and Assumption Agreement, NGEC paid Knox Minerals \$600,000 in the form of a

promissory note payable in full in sixty months with interest at 6% per annum. The Company has not netted the \$125,000 loan from NGENC against NGENC's \$600,000 promissory note payable to Knox Minerals because the obligations are not mutual obligations that are subject to offset under the law. Furthermore, the Company did not recognize a gain or a note receivable for the \$600,000 promissory note due from NGENC, based on the assessment that NGENC had limited ability to repay this note and that collection could not be reasonably assured at that time the agreement was entered into. The Company will account for future amounts, if any, that it collects from NGENC as other income only at the time such collection occurs.

#### NOTE 13 – LOSS PER SHARE

The following table presents the computation of basic and diluted income (loss) per share:

|  | For the Year<br>Ended<br>December 31,<br>2010 | For the Year<br>Ended<br>December 31,<br>2009 |
|--|---|---|
| Loss available for common shareholders                             | \$ (315,122)                                  | \$ (1,007,032)                                |
| Basic income (loss) per share                                      | \$ (0.02)                                     | \$ (0.07)                                     |
| Weighted average common shares outstanding-basic and fully diluted | 13,631,276                                    | 13,598,399                                    |

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## NOTE 14 – INCOME TAXES

The Company has adopted Accounting Standards Codification subtopic 740-10, Income Taxes (“ASC 740-10”) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences primarily include stock compensation and other equity-related non-cash charges, capitalized financing costs, the basis difference of derivative liabilities and certain accruals.

At December 31, 2010, the Company has available for federal income tax purposes a net operating loss carry forward of approximately \$7,400,000, expiring through the year 2030, that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized. Due to possible significant changes in the Company's ownership, the future use of its existing net operating losses may be limited. All or portion of the remaining valuation allowance may be reduced in future years based on an assessment of earnings sufficient to fully utilize these potential tax benefits.

Deferred net tax assets consist of the following at December 31, 2010 and 2009:

|                          | 2010         | 2009         |
|--------------------------|--------------|--------------|
| Deferred tax asset       | \$ 2,880,000 | \$ 2,452,000 |
| Less valuation allowance | (2,880,000)  | (2,452,000)  |
| Net deferred tax asset   | \$ 0         | 0            |

The provision for income taxes consists of the following:

|  | 2010         | 2009         |
|--|--------------|--------------|
| Current tax (benefit)  | \$ (428,000) | \$ (391,000) |
| (Decrease) increase to deferred tax valuation allowance for net operating loss carry forward | 428,000      | 391,000      |
| Net provision  | \$ 0         | 0            |

The provision for Federal taxes differs from that computed by applying Federal statutory rates to the loss before any Federal income tax (benefit), as indicated in the following:

|   | 2010  | 2009  |
|---|-------|-------|
| Federal statutory rate                    | 35.0% | 35.0% |
| State income taxes net of Federal benefit | 3.9%  | 3.9%  |
|   | 38.9% | 38.9% |



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## NOTE 14 – INCOME TAXES (Continued)

Net operating loss carry forwards expiring through 2030 are summarized below:

|  |                     |
|--|---------------------|
| Estimated net operating loss carry forwards 2008 and prior | \$ 5,300,000        |
| Estimated net operating loss carry forwards 2009           | 1,000,000           |
| Estimated net operating loss carry forwards 2010           | 1,100,000           |
| <b>Total</b>   | <b>\$ 7,400,000</b> |

The Company is required to file income tax returns in the U.S. Federal jurisdiction, and various state jurisdictions. The Company has not filed its tax returns since year ended December 31, 2007, but is in the process of having them filed with the appropriate U.S. Federal, and state and local tax authorities.

All tax years for the Company remain subject to future examinations by the applicable taxing authorities.

The Company follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification 740-10-65-1. The Company recognized no increase in the liability for unrecognized tax benefits. The Company has no tax position for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at December 31, 2010 and 2009. The Company's utilization of any net operating loss carry forward may be unlikely as a result of the continuing operating losses.

## NOTE 15 – COMMITMENTS AND CONTINGENCIES

## Lease commitments

The Company leases office space for its corporate offices in Alexandria, Virginia on a month to month basis. Rental expense for the years ended December 31, 2010 and 2009 was \$3,819 and \$2,288, respectively, and was charged to operations in the period incurred.

## Consulting agreements

The Company has consulting agreements with outside contractors to provide web development, business development, and investment banking services. The agreements are generally for a term of 12 months from inception and renewable automatically from year to year unless either the Company or Consultant terminates such engagement with written notice. Compensation under each agreement varies in accordance with the terms of each engagement.

## Litigation



As of December 31, 2010, the Company is not a party to any legal proceedings, nor are there any judgments against the Company. However, the Company may be subject to legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

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NOTE 16 – INVESTMENT AGREEMENT AND LINE OF CREDIT

On April 14, 2008, the Company issued a promissory note to American Marketing and Capital, Inc. (“AMC”) in the amount of \$300,000 note. The note was due October 13, 2008 and was secured by certain real estate of the Company and 2,100,000 common shares of the Company personally owned by the President of the Company. On May 16, 2008, the Company modified the previously issued \$300,000 note, adding additional borrowing of \$178,800 with the maturity date of the note remained unchanged. On May 30, 2008, the Company modified again the previously issued \$300,000 note, adding an additional borrowing of \$166,500, with the maturity date of the note remained unchanged. The note was repaid in full on July 8, 2008 upon sale of real estate property of the Company (see Note 3).

On August 28, 2008, the Company entered into a new revolving line of credit agreement with AMC and issued a Revolving Credit promissory note to AMC in the amount of \$200,000. The note bore interest at 2% per month, and matures on October 27, 2008. The note was secured by all non-real estate assets of the Company, and by 980,000 shares of common stock of the Company owned by Joel Sens. On November 7, 2008, the Company and AMC amended their line of credit agreement to increase the amount that the Company could borrow by \$360,000, to a maximum of \$560,000. The amendment also extended the maturity date of the note to January 6, 2009. Under the amendment, the Company granted AMC a lien on the certain property of the Company located in Augusta County, Virginia to secure the loan, in addition to the collaterals as defined pursuant to the original line of credit agreement dated August 28, 2008. The Company's outstanding balance as of December 31, 2009 was \$700,427.

On May 5, 2010 AMC settled and converted the old outstanding principal amount of \$700,427 together with unpaid accrued interest of \$343,802 into a Convertible Note in the principal amount of \$440,000. The Company recognized gain from settlement of debt in the amount of \$604,229. The Convertible Note was due on October 30, 2010, bore interest at 6% per annum, and was convertible into the Company's common stock at \$0.40 per share. In November 2010, the Company and AMC entered into an agreement under which AMC converted all principal and interest due under the Convertible Note, which was \$466,400, into 1,166,000 shares of the Company's common stock. Of the shares issued to AMC, 375,000 shares were issued by the Company in December 2010 and 791,000 shares were provided by Mr. Sens. The common shares provided Mr. Sens settled \$316,400 of the Company's liability due to AMC, and was accounted for as contributed capital to the Company (Note 12).

NOTE 17 – FAIR VALUE

ASC 825-10 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance. ASC 825-10 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 825-10 establishes three levels of inputs that may be used to measure fair value:

A) Market approach—Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

B) Cost approach—Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

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## NOTE 17 – FAIR VALUE (continued)

C) Income approach—Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

The Company adopted the provisions of ASC 825-10 prospectively effective as of the beginning of its Fiscal 2008. For financial assets and liabilities included within the scope of ASC 825-10, the Company will be required to adopt the provisions of ASC 825-10 prospectively as of the beginning of Fiscal 2009. The adoption of ASC 825-10 did not have a material impact on our consolidated financial position or results of operations.

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings (including convertible notes payable), and other current assets and liabilities approximate fair value because of their short-term maturity.

Items recorded or measured at fair value on a recurring basis in the accompanying consolidated financial statements consisted of debt derivative liabilities.

|                                       | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Instruments<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 | Assets at<br>fair Value |
|---------------------------------------|---|---|--|-------------------------|
| <b>Liabilities:</b>                   |   |   |  |                         |
| Convertible debt derivative liability | \$ -  | \$ -  | \$ (950)   | \$ (950)                |
| Total                                 | \$ -  | \$ -  | \$ (950)   | \$ (950)                |

The following table provides a summary of changes in fair value of the Company's Level 3 financial liabilities as of December 31, 2010:

|  | Convertible<br>Debt<br>Derivative |
|--|-----------------------------------|
| Balance, December 31, 2009   | \$ -                              |
| Total gains:   |                                   |
| Initial fair value of debt derivative at note issuance   | 38,316                            |
| Mark-to-market at December 31, 2010:   |                                   |
| - Debt Derivative  | (37,366)                          |
| Balance, December 31, 2010   | \$ 950                            |
| Net gain for the period included in earnings relating to the liabilities held at December 31, 2010 | \$ 37,366                         |



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NOTE 18 – SUBSEQUENT EVENTS

Theodore J. Kanakis Loan Transactions

On January 22, 2011, the Company, Mr. Kanakis and Mr. Sens entered into an agreement, under which Mr. Kanakis agreed to convert the January 15, 2010 note and unpaid accrued interest and fees into 650,000 shares of the Company's common stock (the "Conversion Shares"). Mr. Kanakis has the right to put the Conversion Shares back to the Company at any time from March 31, 2011 to June 30, 2011 in the event he does not receive total proceeds of \$186,500 from the sale of the Conversion Shares and the Option Shares, in which event the put price for the Conversion Shares shall be the January 15, 2010 note. Mr. Kanakis had sold 100,000 of the Option Shares for \$12,500, and the parties agreed as part of the settlement that he could sell the remaining Option Shares, subject to a limit price of \$0.16 per share. Mr. Kanakis has a potential buyer to purchase the Conversion Shares for \$110,000, and if Mr. Kanakis is not paid by the buyer of the Conversion Shares, he has the right to put his rights and claims against the buyer to the Company in lieu of the Conversion Shares. If Mr. Kanakis is able to sell the remaining Option Shares, but does not sell or receive payment for the Conversion Shares, then Mr. Kanakis may put the Conversion Shares back to the Company for the January 15, 2010 note, in which event the Company shall be entitled to a credit of \$15,000 on the note. To date the 650,000 shares of common stock have not been issued to Mr. Kanakis.

None of the transactions contemplated by the January 22, 2011, were completed. On June 29, 2011, the Company, Mr. Kanakis and Mr. Sens entered into a modification to the January 22, 2011 agreement. Under the modification, Mr. Kanakis agreed that he would sell the remaining Option Shares to an investor identified by Mr. Sens for \$0.18 per share, or \$72,000 by August 15, 2011; provided that he could sell any Option Shares on the open market at a price greater than \$0.18 per share prior to such investor purchasing the Option Shares. The parties also agreed that Mr. Kanakis would sell the Conversion Shares to an investor identified by Mr. Sens for \$110,000 by July 31, 2011. No shares were issued under the June 29, 2011 modification agreement and that agreement has since expired.