

HPEV, INC.
Form 10-Q/A
March 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2013

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

For the transition period from _____ to _____.

Commission file number: 000-53443

HPEV, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

75-3076597
(I.R.S. Employer Identification No.)

8875 Hidden River Parkway, Suite 300
Tampa, FL
(Address of principal executive offices)

33637
(Zip Code)

Registrant's telephone number, including area code (813) 975-7467

(Former name, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

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

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

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

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. As of February 26, 2014 , there were 50,372,714 shares of common stock, \$0.001 par value, issued and outstanding.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 as originally filed with the Securities and Exchange Commission on August 19, 2013 (the "Original Form 10-Q"): (i) Item 1 of Part I "Financial Information," (ii) Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations,". The subsequent events footnote to the financial statements has been updated to reflect events that occurred after the filing date of the Quarterly Report. This Form 10-Q/A includes Exhibits 31.1, 31.2, 32.1 and 32.2, new certifications by the company's principal executive officer and principal financial officer as required by Rule 12b-15.

We have determined that our previously reported results for the quarter ended June 30, 2013 did not properly represent certain transactions related to shares and warrants issued for cash and services and accrued compensation and consulting fees. (See Note 12. Restatement). We have made necessary conforming changes in "Management's Discussion and Analysis of Financial Condition and Results of Operations" resulting from other minor changes, none of which were considered material.

HPEV, INC.

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PART I – FINANCIAL INFORMATION

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the “Exchange Act”). These statements are based on management’s beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning our possible or assumed future results of operations set forth under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements also include statements in which words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate,” “consider” or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Our future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

ITEM 1 Financial Statements

HPEV, INC.
(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

	As of June 30, 2013 (Restated)	As of December 31, 2012
ASSETS		
Current assets		
Cash	\$ 49,136	\$ 194,721
Prepaid expenses	-	373,679
Total current assets	49,136	568,400
Intangible	94,807	73,582
Total assets	143,943	\$ 641,982
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 159,730	\$ 177,280
Accounts payable – related party	174,979	52,305
Notes payable-related party	22,910	34,110
Total current liabilities	357,619	263,695
Total liabilities	357,619	263,695
Stockholders' equity		
Preferred stock: \$.001 par value: 15,000,000 shares authorized, 200 shares issued and outstanding as of June 30, 2013	-	-
Common stock; \$.001 par value; 100,000,000 shares authorized, 44,060,441 shares issued and outstanding as of June 30, 2013	44,060	42,970
Additional paid-in capital	6,852,228	6,116,420
Common stock held in escrow	8,441	39,469
Accumulated deficit during development stage	(7,118,405)	(5,820,572)
Total stockholders' equity (deficit)	(213,676)	378,287
Total liabilities and stockholders' equity	\$ 143,943	\$ 641,982

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

HPEV, INC.
(A Development Stage Company)
Condensed Consolidated Statement of Operations
(Unaudited)

	Three Months Ended June 30, 2013 (Restated)	Three Months Ended June 30, 2012 (Restated)	Six Months Ended June 30, 2013 (Restated)	Six Months Ended June 30, 2012 (Restated)	From inception (March 24, 2011) through June 30, 2013 (Restated)
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of goods sold	-	-	-	-	-
Gross profit	-	-	-	-	-
Operating expenses					
Director stock Compensation	-	-	-	(2,650,000)	-
Consulting	595,314	533,775	1,022,317	906,079	4,529,289
Professional fees	38,853	211,937	86,369	242,733	1,071,987
Research and development	87,700	105,898	89,700	449,131	446,772
General and administrative	66,912	38,936	118,922	59,866	270,786
Loss on deposit	-	-	-	-	100,000
Loss on intangible property	-	-	-	-	75,000
Total operating expenses	788,779	890,546	1,317,308	(992,191)	6,493,834
Other income and expenses					
Interest expense	-	(2,417)	-	(2,928)	(277,545)
Finance cost	-	(197,826)	-	(197,826)	(622,522)
Gain on settlement of debt	-	-	19,475	-	275,496
Net loss	\$ (788,779)	\$ (1,090,789)	\$ (1,297,833)	\$ 791,437	\$ (7,118,405)
Basic loss per common share					
Basic loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.02	
Fully diluted loss per common share					
Fully diluted loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.02	
Basic weighted average common shares outstanding					
Basic weighted average common shares outstanding	43,505,741	47,618,639	43,268,781	41,939,874	
Fully diluted weighted average common shares outstanding					
Fully diluted weighted average common shares outstanding	50,616,423	47,618,639	50,025,752	41,939,874	

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

HPEV, INC.
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2013 (Restated)	Six Months Ended June 30, 2012 (Restated)	From March 24, 2011 (Date of Inception) Through June 30, 2013 (Restated)
Operating Activities:			
Net income (loss)	\$ (1,297,833)	\$ 791,437	\$ (7,118,405)
Adjustments to reconcile net loss to Net cash used by operating activities:			
Stock issued to founder	-	-	22,000
Stock issued for consulting services	373,679	763,097	3,602,391
Gain on settlement of debt	(19,475)	-	(275,496)
Warrants issued for loan penalty	-	99,229	197,413
Warrants issued for services	349,370	-	349,370
Warrants issued for interest	-	-	390,426
Stock compensation	-	-	-
Director stock compensation from shareholder	-	(2,650,000)	-
Amortization of financing cost	-	197,826	622,522
Impairment of intangible asset and deposit	-	-	175,000
Changes in operating assets and liabilities:			
Increase in accrued interest	-	3,164	6,021
Increase in accounts payable related party	122,674	2,928	174,979
Increase in accounts payable	8,425	291,424	244,068
Net cash used by operating activities	(463,160)	(500,895)	(1,609,711)
Investing Activities:			
Increase of intangible assets	(21,225)	(19,767)	(94,807)
Cash acquired through reverse merger	-	-	37
Net cash used by investing activities	(21,225)	(19,767)	(94,770)
Financing Activities:			
Proceeds from sale of common stock	350,000	5,000	405,000
Proceeds from sale of preferred stock	-	-	500,000
Proceeds from loans payable	-	-	-
Proceeds from notes payable	-	-	439,722
Payments on notes payable	-	-	(189,722)
Proceeds from notes payable – related party	900	50,410	611,507
Payments on notes payable - related party	(12,100)	(200)	(13,300)
Bank Overdraft	-	869	410
Net cash (used) provided by financing activities	338,800	56,079	1,753,617
Net decrease/increase in cash	(145,585)	(464,583)	49,136

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Cash, beginning of period	194,721	78,361	-
Cash, end of period	49,136	(386,222)	49,136
Supplemental Information			
Interest paid with cash	\$ -	\$ -	\$ 1,327
Supplemental schedule of non –cash activities			
Shares issued to settle accounts payable	\$ (25,974)	\$ -	\$ (25,974)
Shares held in escrow	\$ (31,028)	\$ -	\$ (31,028)
Accrued interest forgiven	\$ -	\$ -	\$ 6,021
Related party accrued salary forgiven	\$ -	\$ -	\$ 70,000
Related party notes payable forgiven	\$ -	\$ -	\$ 911,894
Shares issued for services	\$ -	\$ -	\$ 1,358,016
Warrants issued for services	\$ 245,376	\$ -	\$ 245,376
Common stock receivable	\$ -	\$ (8,000,000)	\$ -
Warrants granted as finance cost	\$ -	\$ (583,173)	\$ (583,173)
Warrants granted to secure financing	\$ -	\$ (120,255)	\$ (120,255)
Assumed as part of reverse merger			
Intangible assets	\$ -	\$ -	\$ 75,000
Deposit	\$ -	\$ -	\$ 100,000
Prepaid asset	\$ -	\$ -	\$ 375,002
Accounts payable	\$ -	\$ -	\$ (11,637)
Notes payable – related party	\$ -	\$ -	\$ (336,187)
Shares issued for prepaid services	\$ -	\$ 1,090,000	\$ 1,090,000

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

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013
(Unaudited)

The accompanying condensed consolidated financial statements of HPEV, Inc. (“HPEV” or the “Company”) are unaudited, but in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary to fairly state the Company’s financial position, results of operations, and cash flows as of and for the dates and periods presented. The condensed consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the twelve months ended December 31, 2012, filed with the Securities and Exchange Commission (the “Commission”). The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2013 or for any future period.

NOTE 1 – DESCRIPTION OF BUSINESS

HPEV, Inc., a Nevada corporation (formerly known as Bibb Corporation and Z3 Enterprises) (hereinafter referred to as “HPEV” or “The Company”), was incorporated in the State of Nevada on July 22, 2002.

The Company’s principal operations were to produce fully integrated multi-media products targeting the marginally literate. The Company changed its focus to educational entertainment and reality show programming; feature films and special event marketing upon entering into a Joint Venture Agreement (the “Joint Venture Agreement”) with Phoenix Productions and Entertainment Group (PPEG) in September 2010.

From September 2010 through March 2011, Z3E pursued business opportunities, but agreements were never fulfilled and the entertainment projects have been terminated.

On March 24, 2011, Z3 Enterprises entered into a Share Exchange Agreement to acquire 100 shares, constituting all of the issued and outstanding shares of HPEV Inc. (“HPEV”) in consideration for the issuance of 22,000,000 shares of Z3E common stock. Upon closing of the Share Exchange on April 15, 2011, HPEV became a wholly owned subsidiary of Z3E.

The terms of the Share Exchange Agreement required the current board of directors of Z3E (the “Board”) to designate Quentin Ponder and Timothy Hassett as directors of Z3E, as well as two other directors to be named later by HPEV.

On April 5, 2012, the Company amended its Articles of Incorporation to change its name from Z3 Enterprises, Inc. to HPEV, Inc. On the same date, the board appointed Timothy Hassett as Chief Executive Officer, Quentin Ponder as Chief Financial Officer (he remains Treasurer), Theodore Banzhaf as President and Judson Bibb as Vice President (he remains Secretary).

On April 6, 2012, the Board of Directors amended the bylaws. Specifically, they voted to increase the number of directors, to enable the filling of vacancies on the board of directors by majority vote of the remaining directors or director and to appoint Timothy Hassett and Quentin Ponder to serve as Chairman of the Board and Vice Chairman, respectively.

Control of Z3E changed hands on April 15, 2011 with the issuance of 21,880,000 shares of Z3E common stock to the original shareholders of HPEV pursuant to the terms of the as amended Share Exchange Agreement. An additional 120,000 shares were issued on December 14, 2011 which completed the issuance of 22,000,000 shares of Z3E common stock to HPEV, Inc. under the terms of the as-amended Share Exchange Agreement.

HPEV, INC.
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(Unaudited)

For accounting purposes, the acquisition of HPEV, Inc. by Z3 Enterprises, Inc. has been recorded as a reverse acquisition of a public company and recapitalization of Z3 Enterprises, Inc. based on factors demonstrating that HPEV represents the accounting acquirer.

HPEV was incorporated under the laws of the State of Delaware on March 25, 2011 to commercialize the technology from patents developed by two of its shareholders. Activities during its start-up stage were nominal.

Subsequent to the closing of the Share Exchange, Z3E changed its business focus to attempting to commercialize the HPEV technologies in a variety of markets by licensing its heat pipe technologies to electric motor, generator and vehicle component manufacturers. The Company also plans to license its hybrid conversion system to fleet owners and service centers.

Effective April 23, 2012, the Financial Industry Regulatory Authority (“FINRA”) approved the Company’s name change and the symbol change from BIBB to WARM.

Pursuant to the Securities Purchase Agreement with Spirit Bear Limited, (See Note 5), Jay Palmer and Carrie Dwyer were appointed to our board of directors effective February 20, 2013 and Donica Holt was appointed to our board of directors on March 7, 2013.

On May 5, 2011, a total of 7 patents (1 granted, 6 pending) were assigned to HPEV by Thermal Motors Innovations, LLC, a company controlled by the developers of the patents. Since then, additional patents have been awarded and filed. Therefore, as of August 15, 2013, our subsidiary, HPEV, owns the rights to five patents, and five patent-applications pending with two remaining to be assigned. See Note 7 – Intellectual Property.

The patents and patents-pending owned by HPEV cover composite heat pipes and their applications, a parallel power platform and a parallel power gearing system. The utilization of composite heat pipes should increase the horsepower of electric motors and enhance the lifespan and effectiveness of heat-producing vehicle components. The parallel power platform enables vehicles to alternate between two sources of power and forms the basis of the electric load assist delivered to the engine. The parallel power input gearing unit enables vehicles to run an on-board generator to deliver mobile electric power.

The Company intends to license heat pipe technology to manufacturers of electric motors and generators as well as vehicle parts such as brakes, resistors and calipers. It also plans to commercialize the patents by implementing and licensing a plug-in hybrid electric vehicle conversion system based on the parallel vehicle platform.

The Company is currently sourcing or commissioning the components to perform its initial conversion. The conversion, if successful, will be used to showcase the effectiveness of the technology, generate data and function as a marketing tool to generate orders. The target markets include commercial and fleet vehicles ranging from heavy duty pick-ups to tractor-trailer trucks and buses.

The parallel power input gearing unit forms the basis of the Company’s Mobile Generator (MG) system. The Company is currently negotiating with a number of fleet owners and manufacturers to install the MG system into their work vehicles.

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013

(Unaudited)

To facilitate the incorporation of the Company's heat pipe technology in industrial electric motors and generators, the Company has signed product development agreements with two multi-national manufacturers.

To prove the effectiveness of heat pipe technology under extreme conditions, the Company has signed agreements with racing teams to test its technology in high performance vehicle components.

As operations have consisted of general administrative and pre-production activities, HPEV, Inc. is considered a development stage company in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 915.

On December 9, 2011, Z3E and PPEG mutually agreed to dissolve their Joint Venture Agreement. The reason was due to a change in business direction by Z3E as a result of its acquisition of HPEV, Inc. The Joint Venture Agreement did not provide for any termination penalties.

NOTE 2 – GOING CONCERN

The accompanying condensed, consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business. The Company incurred net losses of approximately \$7,118,405 during the period from March 24, 2011 (Date of Inception) through June 30, 2013 and has not fully commenced its operations. The Company is still in the development stages, raising substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing from shareholders or other sources to meet its obligations and repay its liabilities arising from normal business operations when they come due. At this time, the Company is seeking additional sources of capital through the issuance of debt, equity, or joint venture agreements, but there can be no assurance the Company will be successful in accomplishing its objectives.

These condensed, consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

As of the filing date of this report on Form 10-Q/A, management believes that it has adequate funding to ensure completion of the initial phases of its business plan: to license its thermal technologies and applications; to license a plug-in hybrid conversion system for heavy duty trucks, buses and tractor trailers; and to license or sell a mobile electric power system powered by the Company's proprietary gearing system.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of HPEV, Inc. is presented to assist in understanding the Company's condensed, consolidated financial statements. The condensed, consolidated financial statements and notes are representations of the Company's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the condensed, consolidated financial statements.

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013

(Unaudited)

Basis of Presentation

The accompanying unaudited condensed interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. All references to Generally Accepted Accounting Principles (“GAAP”) are in accordance with The FASB Accounting Standards Codification (“ASC”) and the Hierarchy of Generally Accepted Accounting Principles.

The unaudited condensed interim consolidated financial statements have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These condensed financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2012 included in Annual Report on Form 10-K. The results of the six month period ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year ending December 31, 2013.

Cash and Cash Equivalents

The Company considers all highly liquid investments and short-term debt instruments with original maturities of three months or less to be cash equivalents. There are \$49,136 and \$194,721 in cash and no cash equivalents as of June 30, 2013 and December 31, 2012, respectively.

Revenue Recognition

The Company recognizes revenue on arrangements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” and No. 104, “Revenue Recognition”. In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability is reasonably assured. For the periods ended June 30, 2013 and 2012, and for the period from inception to June 30, 2013, the Company did not report any revenues.

Earnings per Share

The Company has adopted the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) 260-10 which provides for calculation of “basic” and “diluted” earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income or loss available to common stockholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. The calculation of diluted net loss per share gives effect to common stock equivalents; however, potential common shares are excluded if their effect is anti-dilutive. As of June 30, 2013, 200 preferred shares (which can be converted into common shares at a ratio of 1 to 50,000) and 10,020,304 warrants were outstanding.

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013

(Unaudited)

Fair Value of Financial Instruments

The carrying amounts reflected in the balance sheets for cash, accounts payable, prepaid assets and accrued expenses approximate the respective fair values due to the short maturities of these items. The Company does not hold any investments that are available-for-sale.

As required by the Fair Value Measurements and Disclosures Topic of the FASB ASC, fair value is measured based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Income Taxes

The Company provides for federal and state income taxes payable, as well as for those deferred because of the timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled. The effect of a change in tax rates is recognized as income or expense in the period of the change. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount that is more likely than not to be realized.

Upon inception, the Company adopted the provisions of ASC 740-10. The Company did not recognize a liability as a result of the implementation of ASC 740-10. A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there is no unrecognized benefit as of the date of adoption. The Company did not recognize interest expense or penalties as a result of the implementation of ASC 740-10. If there were an unrecognized tax benefit, the Company would recognize interest related to unrecognized tax benefits in interest expense and penalties in other operating expenses.

HPEV, INC.
(A Nevada Corporation)
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June 30, 2013

(Unaudited)

Employee Stock Based Compensation

ASC 718-10 provides investors and other users of financial statements with more complete and neutral financial information, by requiring that the compensation cost relating to share-based payment transactions be recognized in the condensed, consolidated financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. ASC 718-10 covers a wide range of share-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. As of June 30, 2013, the Company has not implemented an employee stock based compensation plan.

Non-Employee Stock Based Compensation

The Company accounts for stock based compensation awards issued to non-employees for services, as prescribed by ASC 718-10, at either the fair value of the services rendered or the instruments issued in exchange for such services, whichever is more readily determinable, using the measurement date guidelines enumerated in ASC 505-50. The Company issues compensatory shares for services including, but not limited to, executive, management, accounting, operations, corporate communication, financial and administrative consulting services.

Use of Estimates

The process of preparing condensed, consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the condensed, consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Recent accounting standards

The Company has evaluated the recent accounting pronouncements through ASU 2014 -05 and believes that none of them will have a material effect on the Company's condensed, consolidated financial statements.

HPEV, INC.
(A Nevada Corporation)
Notes to the Condensed Consolidated Financial Statements
June 30, 2013

(Unaudited)

NOTE 4 – INCOME (LOSS) PER SHARE

Components of net income (loss) per share for the three and six months ended June 30, 2013 and 2012 are as follows:

	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Net income (loss) attributable to common stockholders	\$ (788,779)	\$ (1,090,789)	\$ (1,297,833)	\$ 791,437
Basic loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.02
Fully diluted loss per common share	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ 0.02
Basic weighted average common shares outstanding	43,505,741	47,618,639	43,268,781	41,939,874
Fully diluted weighted average common shares outstanding	50,616,423	47,618,639	50,025,752	41,939,874

NOTE 5 – CAPITAL STOCK

Preferred Stock

The Company has 15,000,000 preferred shares authorized and 200 Series A Convertible Preferred Stock, issued and outstanding as of June 30, 2013.

On December 14, 2012, the Company entered into a Securities Purchase Agreement with Spirit Bear Limited (“Spirit Bear”) pursuant to which it sold to Spirit Bear 200 shares of the Company’s Series A Convertible Preferred Stock. Each share of the Preferred Stock was initially convertible into 20,000 shares of Company’s common stock and, under certain circumstances, the Preferred Stock is convertible into Senior Convertible Notes. The Conversion Price of the Preferred Stock is equal to the \$2,500.

In addition to the preferred stock, the Securities Purchase Agreement included warrants to purchase (i) 2,000,000 shares of the Company’s common stock at an exercise price of \$0.35 per share (subject to adjustment as provided in the warrant); (ii) 2,000,000 shares of the Company’s common stock at an exercise price of \$.50 per share (subject to adjustment as provided in the warrant); (iii) 2,000,000 shares of the Company’s common stock at an exercise of \$.75 per share (subject to adjustment as provided in the warrant). The purchase price for sale of the preferred stock and warrants was \$500,000, of which \$313,777 was paid in cash and \$186,222 was paid by cancelation of \$186,222 in outstanding indebtedness held by Spirit Bear.

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The Company and Spirit Bear also entered into a Registration Rights Agreement, dated December 14, 2012. Pursuant to the Registration Rights Agreement, the Company shall file a registration statement to register the shares issuable upon conversion of the Preferred Stock and the Debenture (described below) and the shares issuable upon the exercise of the Warrants. If the Registration Statement was not filed within thirty days of the Closing Date, then the number of Warrant Shares would be increased by 500,000 to 6,500,000. If the Securities and Exchange Commission had not declared the Registration Statement effective within 120 days of the Closing Date, then the Company would have to pay to each holder of Preferred Shares an amount in cash per Preferred Share held equal to the product of (i) \$5,000 multiplied by (ii) the product of (A) .02 multiplied by (B) the number of months after the Effectiveness Deadline that the Registration Statement is not declared effective by the SEC.

In connection with the sale of the Preferred Stock, on December 17, 2012, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation of the Rights, Preferences, Privileges and Restrictions, which have not been set forth in the Certificate of Incorporation of the Series A Convertible Preferred Stock (the "Certificate of Designation").

The Preferred Stock has voting rights as if each share of Series A Convertible Preferred Stock were converted into twenty thousand (20,000) shares of Common Stock (subsequently raised to 50,000. shares as described below).

The holders of each share of Preferred Stock then outstanding shall be entitled to be paid, out of the Available Funds and Assets (as defined in the "Certificate of Designation"), and prior and in preference to any payment or distribution (or any setting apart of any payment or distribution) of any Available Funds and Assets (as defined in the "Certificate of Designation") on any shares of Common Stock, an amount per share equal to the Liquidation Price (\$2,500 per share of the Preferred Stock) of the Series A Convertible Preferred Stock.

In the event a Registration Statement has not been declared effective by the United States Securities Exchange Commission within 180 calendar days from and after the Closing Date, the holders of at least two-thirds (2/3) of the then outstanding shares of Series A Convertible Preferred Stock may deliver a written notice to the Company electing the conversion of all Series A Convertible Preferred Stock to Debentures. Upon receipt of such notice, the outstanding shares of Series A Convertible Preferred Stock shall be converted to Debentures and as a result the Company would issue Debentures having a principal amount of up to \$1,000,000.

Pursuant to the Securities Purchase Agreement, which was subsequently amended in an April 12, 2013 Agreement, the Company may sell Spirit Bear up to 200 additional shares of Preferred Stock and warrants to purchase up to 6,000,000 shares of the Company's common stock. The Company shall have the option to require Spirit Bear to purchase up to these additional Two Hundred (200) Preferred Shares and associated Warrants at a Subsequent Closing in the event that written certification ("Certification Notice") shall have been received by the Company from a federally licensed testing facility reasonably acceptable to Spirit Bear (subsequently amended in the April 12, 2013 Agreement to read 'Mohler Technology, Inc., or a similar federally licensed testing facility acceptable to the Company'), evidencing that either (i) three motors or alternators or (ii) two motors and one AMP system (each motor, alternator or AMP system modified and tested pursuant to a distinct Memorandum of Understanding or other form of agreement) incorporating the Company's technology have been comprehensively tested in accordance with applicable NEMA, ANSI and IEEE standards and that the results of these tests meet or exceed the minimum requirements for certification under those standards; that those same motors, alternators or system incorporating the Company's

technology have passed tests with respect to (i) IEEE 112 in Methods E, E1, F or F1 with a maximum horsepower of 4,000 (or to be determined by agreement) for F or F1 , (ii) sound pressure testing to IEEE 85 and NEMA MG1 20 standards, (iii) bearing temperature testing, (iv) speed versus torque/current testing, (v) polarization index testing per IEEE 45 standards, and (vi) IEEE 112 Method B for full efficiency; and that testing evidences an improvement in power density of at least Twelve Percent (12.00%) compared to the same motor not incorporating HPEV technology. The Company shall give Spirit Bear at least seven business days' notice of any subsequent closing. In the event the Company shall not have received the Certification Notice by December 14, 2013, Spirit Bear shall, commencing on December 14, 2013, have a twelve (12) month option, exercisable during such period at its sole discretion by delivery of written notice to the Company, to purchase the additional Two Hundred (200) Preferred Shares and associated Warrants in a Subsequent Closing to be held within seven (7) days of such notice.

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In connection with the sale of the Preferred Stock and Warrants, the Company and Spirit Bear entered into a Patent and Securities Agreement. Pursuant to the Patent and Security Agreement, the Company may, under certain circumstances, grant to Spirit Bear a security interest in certain patents set forth in the Patent and Security Agreement.

On February 20, 2013, the Board of Directors, consisting at that time of Tim Hassett, Quentin Ponder and Judson Bibb, voted to decrease the milestone prices of the five options to purchase one million shares that would be granted to the President, Mr. Banzhaf, assuming the respective milestone prices are achieved. The milestone stock prices were reduced to \$2.00, \$3.00, \$4.00, \$4.50 and \$5.00 for 20 consecutive trading days each. These milestone stock prices have been changed from \$2.00, \$3.00, \$5.00, \$7.50 and \$10.00. Once the stock has traded at or above these prices for 20 consecutive trading days, Mr. Banzhaf has the right to exercise an option to purchase 1,000,000 shares of common stock at the closing price on the first day after the stock has traded for 20 consecutive days at or above each milestone stock price. These options expire one year after Mr. Banzhaf has been terminated without cause.

The board, consisting at that time of Tim Hassett, Quentin Ponder and Judson Bibb, also granted Judson Bibb an option to purchase 2,000,000 shares of the Company's common stock, at a purchase price of par value or \$0.001 per share. The options expire one year after Mr. Bibb has been terminated without cause. The options can be exercised on a cashless basis.

Despite electing two new board members at the first board meeting subsequent to the date the SPA was closed, the Company received another letter from counsel to Spirit Bear on March 7, 2013 indicating that the Company was still in default of its obligations under the SPA and the compensation authorized by the Board on February 20, 2013 (as disclosed in the Current Report on Form 8-K filed February 26, 2013) was self-dealing and resulted in the anti-dilution provision provided for in the SPA.

On March 21, 2013, the Company and Judson Bibb signed an agreement rescinding the options granted.

On March 24, 2013, the Company and Ted Banzhaf signed an agreement rescinding the decrease in the milestone price of the five options to purchase one million shares as well as the cashless exercise thereof awarded to the President.

On April 12, 2013, the Company and Spirit Bear Limited reached agreement regarding the settlement of allegations that the Company did not perform certain obligations pursuant to the Securities Purchase Agreement dated December 14, 2012 with Spirit Bear, and with respect to certain actions taken by the Company with respect to providing compensation to its management. Spirit Bear agreed to discharge the Company from all claims Spirit Bear may have had as well as to forgo all actions of any kind related to those claims which existed on or prior to April 12, 2013. Both parties also agreed that the signing of the agreement did not constitute an admission of wrongdoing or liability.

To satisfy the allegations, the Company and Spirit Bear agreed to amend the Certificate of Designation to provide that each share of Series A Convertible Preferred Stock can be converted into 50,000 shares of common stock and have the voting rights equal to 50,000 shares.

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On June 24, 2013, as contemplated by the April 12, 2013 Agreement, an Amendment to the Certificate of Designation was filed with the Secretary of State of the State of Nevada. The amendment effectuated the change (i) to the conversion rate of each share of Series A Preferred Stock from being convertible at the rate of 20,000 shares to 50,000 shares of common stock and (ii) to the voting right of each share of Series A Preferred Stock from 20,000 shares to 50,000 shares of the common stock. There are currently 200 shares of Series A Preferred Stock issued and outstanding, all which are held by Spirit Bear Limited and its assignees.

The Company and the holders of the Series A Preferred Stock also amended the bylaws of the Company to provide that the Board shall, irrespective of the number of members, at all times be composed of an even number of members of which at least 50% shall be individuals designated by Spirit Bear. If Spirit Bear does not respond to a written request to designate one or more nominees to the Board within 10 days, this right shall no longer have any effect until the number of directors of the Board shall change thereafter (whether by resignation, appointment, removal or otherwise). This right survives until the earlier of December 14, 2015 and the date that Spirit Bear ceases to be an affiliate of the Company.

Common Stock

On February 11, 2012, the Board of Directors authorized the issuance of 1,000,000 shares of restricted common stock to Lagoon Labs, LLC in exchange for consultations with management as well as providing investor communications and public relations, with an emphasis on digital and social media, for 12 months. The shares were issued on March 23, 2012.

On February 17, 2012 an additional 83,350 shares belonging to IFMT, Inc. were returned to the transfer agent and canceled. The shares were originally issued as part of the Usee transaction which was subsequently terminated. Prior to the reverse merger with HPEV, Inc. the Company entered into an acquisition agreement with Usee, Inc. and Usee CA, Inc. Upon further due diligence investigation the Company cancelled the agreement and all the shares were required to be returned.

On April 5, 2012, a Certificate of Amendment to the Articles of Incorporation was filed with the Nevada Secretary of State noting the increase in authorized common stock to 100,000,000 shares.

On April 13, 2012, Judson Bibb returned the 5,000,000 shares he had received from Phoenix Productions and Entertainment Group (PPEG) back to PPEG resulting in a reversal of the expense in the quarter ending June 30, 2012, as such the Company recognized a gain due to the return of shares of \$2,650,000.

On June 8, 2012, the Board of Directors authorized the issuance of 26,666 shares of restricted common stock valued at \$0.75 totaling \$20,000 to Wayne Wilcox of Geartech Heavy Duty in lieu of payment for work performed on a component of the initial hybrid conversion vehicle. The Board of Directors also authorized the issuance of 10,000 shares of restricted common stock valued at \$0.50 to an accredited investor in exchange for \$5,000 in funding.

A number of warrants were also included in the Securities Purchase Agreement. (See below under Warrants and Options)

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On December 21, 2012, pursuant to the Debt Settlement Agreement, \$911,894 outstanding under the PPEG Loan Agreement was forgiven. The debt forgiveness was accounted for as contributed capital as PPEG was a significant shareholder. In addition, the Debt Holders also agreed to deposit 4,676,000 shares of common stock in escrow. Upon the filing of a registration statement with the SEC, 3,676,000 shares were to be canceled and returned to treasury (See Note 11). The remaining 1,000,000 shares will be purchased by the Company or a nominee of the Company at \$0.40 per share at the rate of \$10,000 per month commencing within 90 days after HPEV achieves \$1,000,000 in gross revenues for products or services from business operations. PPEG and Action Media will divide the \$400,000 on a pro rata basis based on each company's respective amount of debt forgiven. As of December 31, 2012 the 4,676,000 were removed from outstanding and classified as held in escrow in the amount of \$39,469 based on the historical value of shares.

Pursuant to the Debt Settlement Agreement signed with Phoenix Productions and Entertainment Group, Action Media Group and Spirit Bear Limited signed on December 11, 2012, 3,676,000 shares of common stock that were being held in escrow were cancelled on January 14, 2012. That left 1,000,000 shares remaining in escrow and a total of 43,970,411 shares of common stock outstanding.

Pursuant to a debt settlement with the Crone Law Group, on February 13, 2013, the Board of Directors approved the issuance of 25,000 shares of restricted common stock to Mark Crone, the owner of the law group, to satisfy an outstanding balance of \$25,975.

On February 13, 2013, the Board of Directors authorized the cashless exercise of 200,000 option held by Crone Law Group. The cashless exercise resulted in the issuance of 90,000 shares of Common stock. (See Note 6: Warrants and Options.)

On May 16, 2013, the Company issued 750,000 shares of restricted common stock valued at \$0.23 per share and warrants to purchase 750,000 shares of common stock at a purchase price of forty eight cents (\$0.48) per share to an accredited investor in exchange for \$250,000 in funding. (See Note 6: Warrants and Options).

The accredited investor's stock subscription agreement includes a reset provision which states that if on the ninetieth business day from the closing date of May 16, 2013, the market price per share of the Common Stock is not trading at \$0.77 or higher, the Company will issue to the investor up to 336,956 shares, or an amount such that the investor would have received had he invested \$577,500 on May 16, 2013, whichever amount is lower.

The Company also agreed that within 45 business days of the consummation of the offer and sale of \$1,000,000 of Common Stock and Warrants, the Company shall file a registration statement on Form S-1 with the Securities and Exchange Commission to register the Common Stock and the Warrant Shares purchased for resale. The issuance was conducted in reliance upon an exemption from registration provided under Section 4(2) of the Securities Act of 1933, as amended.

On June 10, 2013, the Company issued 225,000 shares of restricted common stock valued at \$0.44 per share and warrants to purchase 225,000 shares of common stock at a purchase price of sixty six cents (\$0.66) per share to an accredited investor in exchange for \$100,000 in funding. (See Note 6: Warrants and Options).

The accredited investor's stock subscription agreement includes a reset provision which states that if on the ninetieth business day from the closing date of June 10, 2013, the market price per share of the Common Stock is not trading at \$0.75 or higher, the Company will issue to the investor up to 200,000 shares, or an amount such that the investor would have received had he invested \$168,750 on June 10, 2013, whichever amount is lower.

The Company also agreed that within 45 business days of the consummation of the offer and sale of \$1,000,000 of Common Stock and Warrants, the Company shall file a registration statement on Form S-1 with the Securities and Exchange Commission to register the Common Stock and the Warrant Shares purchased for resale. The issuance was conducted in reliance upon an exemption from registration provided under Section 4(2) of the Securities Act of 1933, as amended.

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For all investments received in the 2nd quarter of 2013, the cash received from the investors was for the value of both the common stocks and warrants. The common stock value was known per the subscription agreements. As that was equal to the total cash received from the investor; no additional value for the warrants was recorded.

Consequently, the investments were reflected in an increase in cash and an increase to stock and/or additional paid-in capital.

NOTE 6 – WARRANTS AND OPTIONS

Warrants

On June 4, 2012, the Company issued a warrant for 303,569 shares of common stock to McMahon Serepca, LLP with an exercise price of \$0.275. The vesting period on these grants was immediate. The value of these warrants were estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 2.5 years; risk free interest rate of 0.62%; dividend yield of 0% and expected volatility of 225%. To account for such grants to non-employees, we recorded the issuance as interest expense in the amount of \$99,229.

On August 6, 2012, the Company issued a warrant for 303,569 shares of common stock to McMahon Serepca, LLP with an exercise price of \$0.39. The vesting period on these grants was immediate. The value of these warrants was estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 2.5 years; risk free interest rate of 0.62%; dividend yield of 0% and expected volatility of 218%. To account for such grants to non-employees, we recorded the issuance as interest expense in the amount of \$110,029.

On November 9, 2012, the Company issued a warrant for 303,569 shares of common stock to McMahon Serepca, LLP with an exercise price of \$0.18. The vesting period on these grants was immediate. The value of these warrants was estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 2.5 years; risk free interest rate of 0.62%; dividend yield of 0% and expected volatility of 280%. To account for such grants to non-employees, we recorded the issuance as interest expense in the amount of \$72,748.

In April, May, June and July of 2012, Spirit Bear Limited made cash advances for and funded loans to the Company in the total amount of \$186,222, creating direct financial obligations of the Company. On August 8, 2012, The Company and Spirit Bear reached a definitive agreement concerning the terms of the loans, including the Company's obligations to repay Spirit Bear within 180 days from each date of funding, and the Company's obligation to issue warrants to Spirit Bear to purchase 3.5714 shares of common stock per dollar of consideration provided by Spirit Bear, subject to certain adjustments, at the per share price of \$.35, as partial consideration for the loans. The warrants granted to Spirit Bear totaled 665,374 shares. The value of these options was estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 2 years; risk free interest rate of 0.33%; dividend yield of 0% and expected volatility of 250%. These options were valued at \$622,522 and the aggregate value was capitalized as financing cost and has been amortized and charged to financing cost expense in the amount of \$622,522 as of December 31, 2012.

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In the event payment was not made within 90 days of the receipt of each loan, the Company was required to provide penalty warrants.

On December 14, 2012, the penalty warrants for all four loans owed to Spirit Bear totaled 819,223. The value of these options was estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 2 years; risk free interest rate of 0.62%; dividend yield of 0% and expected volatility of 245%. These options were charged to interest expense in the amount of \$197,413 as of December 31, 2012.

On December 14, 2012, the Company entered into a Securities Purchase Agreement with Spirit Bear pursuant to which it sold to Spirit Bear (i) 200 shares of the Company's Series A Convertible Preferred Stock (the "Preferred Stock") and (ii) warrants to purchase an aggregate of 2,000,000 shares of the Company's common stock at an exercise price of \$0.35 per share (subject to adjustment as provided in the warrant); 2,000,000 shares of the Company's common stock at an exercise price of \$0.50 per share (subject to adjustment as provided in the warrant); and 2,000,000 shares of the Company's common stock at an exercise of \$0.75 per share (subject to adjustment as provided in the warrant). The aggregate purchase price for sale of the Preferred Stock and warrants was \$500,000, of which \$313,777 was paid in cash and \$186,222 was paid by cancelation of \$186,222 in outstanding indebtedness held by Spirit Bear.

The warrants may be exercised on a cashless basis in which the holder may be entitled to obtain a certificate of shares of the Company's common stock equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the average of the daily VWAPs for the three (3) Trading Days immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

On May 6, 2013, the Company issued a warrant for 450,000 shares of common stock to a consultant for corporate development advisory services with an exercise price of \$0.48. The vesting period on these grants was immediate. The warrants will remain effective for 30 months and may be exercised on a cashless basis. The value of these warrants were estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 2.5 years; risk free interest rate of 0.165%; dividend yield of 0% and expected volatility of 327%. To account for such grants to non-employees, we recorded the issuance as consulting expense in the amount of \$245,376.

On May 16, 2013, the "Company agreed to sell to an accredited investor 750,000 fully paid and non-assessable shares of common stock, par value \$0.001 per share at a purchase price of thirty three cents (\$0.33) per share. The investor also received warrants to purchase 750,000 shares of common stock at a purchase price of forty eight cents (\$0.48) per share. The warrants will remain effective for 30 months and may be exercised on a cashless basis.

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The accredited investor's stock subscription agreement includes a reset provision which states that if on the ninetieth business day from the closing date of May 16, 2013, the market price per share of the Common Stock is not trading at \$0.77 or higher, the Company will issue to the investor up to 336,956 shares, or an amount such that the investor would have received had he invested \$577,500 on May 16, 2013, whichever amount is lower. Additional warrants will also be due the investor pending the determination of the reset.

The Company also agreed that within 45 business days of the consummation of the offer and sale of \$1,000,000 of Common Stock and Warrants, the Company shall file a registration statement on Form S-1 with the Securities and Exchange Commission to register the Common Stock and the Warrant Shares purchased for resale.

On May 28, 2013 the Company executed an agreement with Monarch Bay Securities, LLC which required the issuance of 400,000 warrants at an exercise price of (\$0.49) as a retainer for their services. 200,000 of the warrants were considered fully vested upon execution of the agreement, however, the warrants were not issued to the company until July 24, 2013 (See Note 13 – Subsequent Events). The remaining 200,000 warrants will not vest until the consultant has directly assisted the company is raising \$750,000 in financing. The value of these warrants were estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 5 years; risk free interest rate of 1.02%; dividend yield of 0% and expected volatility of 358%. To account for such grants to non-employees, we recorded the issuance of the initial 200,000 shares as consulting expense in the amount of \$103,994.

On June 10, 2013, the "Company agreed to sell to an accredited investor 225,000 fully paid and non-assessable shares of common stock, par value \$0.001 per share at a purchase price of forty four cents (\$0.44) per share. The investor also received warrants to purchase 225,500 shares of common stock at a purchase price of \$0.66 per share. The warrants will remain effective for 30 months and may be exercised on a cashless basis.

The accredited investor's stock subscription agreement includes a reset provision which states that if on the ninetieth business day from the closing date of June 10, 2013, the market price per share of the Common Stock is not trading at \$0.75 or higher, the Company will issue to the investor up to 200,000 shares, or an amount such that the investor would have received had he invested \$168,750 on June 10, 2013, whichever amount is lower. Additional warrants will also be due the investor pending the determination of the reset.

The Company also agreed that within 45 business days of the consummation of the offer and sale of \$1,000,000 of Common Stock and Warrants, the Company shall file a registration statement on Form S-1 with the Securities and Exchange Commission to register the Common Stock and the Warrant Shares purchased for resale.

For all investments received in the 2nd quarter of 2013, the cash received from the investors was for the value of both the common stocks and warrants. The common stock value was known per the subscription agreements. As that was equal to the total cash received from the investor; no additional value for the warrants was recorded.

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The following is a summary of the status of all of the Company's stock warrants as of June 30, 2013 and changes during the six months ended on that date:

	Number of Warrants	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at December 31, 2012	8,395,304	\$ 0.48	3.71
Granted	1,625,000	\$ 0.50	2.75
Exercised	-	\$ -	-
Expired	-	\$ -	-
Outstanding at June 30, 2013	10,020,304	\$ 0.50	2.67
Exercisable at June 30, 2013	10,020,304	\$ 0.50	2.67

Options

On October 31, 2011, stock options to purchase 200,000 shares at \$0.55 were issued to The Crone Law Group. These options were issued in order to satisfy a penalty for services rendered and payments defrayed. The value of these options was estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 3 years; risk free interest rate of 0.41%; dividend yield of 0% and expected volatility of 289%. These options were valued at \$108,420 and charged to professional fees.

Mark Crone elected to convert the options by cashless exercise. Therefore, on February 13, 2013, the Board of Directors also approved the issuance of 90,000 shares of common stock to the Crone Law Group.

On February 20, 2013, the board of directors, consisting at that time of Tim Hassett, Quentin Ponder and Judson Bibb, granted Judson Bibb an option to purchase 2,000,000 shares of the Company's common stock, at a purchase price of par value or \$0.001 per share. The options expire one year after Mr. Bibb has been terminated without cause. The options can be exercised on a cashless basis.

Also, on February 20, 2013, the Board of Directors, consisting at that time of Tim Hassett, Quentin Ponder and Judson Bibb, voted to decrease the milestone prices of the five options to purchase one million shares that would be granted to the President, Mr. Banzhaf, assuming the respective milestone prices are achieved. The milestone stock prices were reduced to \$2.00, \$3.00, \$4.00, \$4.50 and \$5.00 for 20 consecutive trading days each. These milestone stock prices were reduced from \$2.00, \$3.00, \$5.00, \$7.50 and \$10.00. Once the stock has traded at or above these prices for 20 consecutive trading days, Mr. Banzhaf has the right to exercise an option to purchase 1,000,000 shares of common stock at the closing price on the first day after the stock has traded for 20 consecutive days at or above each milestone stock price. These options expire one year after Mr. Banzhaf has been terminated without cause.

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On March 21, 2013, the Company and Judson Bibb signed an agreement rescinding the options granted.

On March 24, 2013, the Company and Ted Banzhaf signed an agreement rescinding the decrease in the milestone price of the five options to purchase one million shares as well as the cashless exercise thereof awarded to the President.

The following is a summary of the status of all of the Company's stock option as of June 30, 2013 and changes during the six months ended on that date:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)
Outstanding at December 31, 2012	200,000	\$ 0.55	1.8
Granted	-	\$ -	-
Exercised	(200,000)	\$ 0.55	1.68
Cancelled	-	\$ -	-
Outstanding at June 30, 2013	-	\$ -	-
Exercisable at June 30, 2013	-	\$ -	-

NOTE 7 – RELATED PARTY TRANSACTIONS

As a consequence of the reverse merger, HPEV took over the obligations of Z3E consisting of accounts payable of \$11,637 (non-related party) and a note payable balance of \$313,687 due to Phoenix Productions and Entertainment Group, Inc., a significant shareholder of the Company's common stock. The terms of the loan agreement do not require payment of interest and repayment of the loan is to begin 15 days after receipt of initial revenues related to projects funded by PPEG loans. Maturity of the loan is perpetual or upon mutual agreement of both parties or if conditions are breached or default.

Subsequent to the reverse merger, Phoenix Productions and Entertainment Group, Inc. made loans to the Company of \$598,207 leaving a balance due as of December 11, 2012 of \$911,894. On that date, the Company signed a debt settlement agreement and the loan was forgiven. (See Note 5).

Beginning on January 15, 2013, compensations of (i) \$ 13,500 per month for Timothy Hassett, the Chairman and Chief Executive Officer, (ii) \$10,000 per month for Quentin Ponder, the Chief Financial Officer and Treasurer, (iii) \$ 12,500 per month for Theodore Banzhaf, the President, (iv) \$14,500 per month for a still undesignated Chief Technical Officer and (v) \$8,000 per month for Judson Bibb, the Vice-President and Secretary began to accrue.

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With the exception of \$70,000 in accrued compensation forgiven by two officers on December 17, 2012, the accruals for all unpaid compensation dating back to May 2012 are reflected in the Consolidated Balance Sheets under "Short term loans - related party".

During the period from inception (March 24, 2011) to June 30, 2013, Judson Bibb, Director, advanced \$22,910 in interest free, unsecured, due on demand funds. As of June 30, 2013, \$22,910 remains due and payable. Consequently, it is also reflected in the Consolidated Balance Sheets under "Short term loans - related party".

As an affiliate with representation on the Board of Directors by three individuals, Spirit Bear Limited is considered a related party. Complete information about Spirit Bear's transactions with the Company can be found under Note 5 -- Capital Stock, Note 6 -- Warrants and Options and Note 8 -- Notes Payable as well as following Note 11 under Certain Relationships and Related Transactions.

During the quarter ended March 31, 2013, Quentin Ponder, Director and Chief Financial Officer, was repaid \$12,100 on interest-free, unsecured, due-on-demand loans issued to the Company. As of June 30, 2013, \$0 remained due and payable.

Entities under the control of certain officers and directors hold consulting agreements with the Company. In the six months ended June 30, 2013, \$263,750 in consulting fees were incurred as a result of these agreements and payments of \$120,000 were made to these entities. The officers are considered independent contractors under these agreements and therefore no payroll taxes were incurred by the Company for the six months ending June 30, 2013.

NOTE 8 – NOTES PAYABLE

On September 7, 2010, the Company entered into a loan agreement with Phoenix Productions and Entertainment Group ("PPEG") for an interest-free loan up to \$1,000,000 (the "PPEG Loan Agreement"). Up to December 21, 2012, the Company borrowed an aggregate of \$911,894 under the PPEG Loan Agreement which was used for the Company's operations, potential acquisitions, acquisition of intellectual property rights and HPEV, Inc.

On March 3, 2012, the Company entered into a loan agreement with Action Media Group, LLC, an Arizona limited liability company ("Action Media") for \$500,000 but under which it only borrowed \$250,000. The terms of the loan included 3% annual interest and payment of principal and interest to begin upon a mutual agreed upon date in the future. Maturity of the loan was perpetual or upon mutual agreement of both parties or if conditions were breached or in default.

In April, May, June and July of 2012, Spirit Bear Limited made cash advances for and funded loans to the Company in the total amount of \$186,222, creating direct financial obligations of the Company. On August 8, 2012, the Company and Spirit Bear reached a definitive agreement concerning the terms of the loans, including the Company's obligations to repay Spirit Bear within 180 days from each date of funding, and the Company's obligation to issue warrants to Spirit Bear to purchase 3.5714 shares of common stock per dollar of consideration provided by Spirit Bear, subject to certain adjustments, at the per share price of \$.35, as partial consideration for the loans. The warrants granted to Spirit Bear totaled 665,374 shares. The value of these warrants was estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 2 years; risk free interest rate of 0.33%;

dividend yield of 0% and expected volatility of 250%. These options were valued at \$622,523 and the aggregate value was capitalized as a financing cost and has been accreted and charged to financing cost expense in the amount of \$622,523 as of December 31, 2012.

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In the event payment is not made within 90 days of the receipt of each loan, the Company was required to provide penalty warrants. On December 14, 2012, the penalty warrants for all four loans owed to Spirit Bear totaled 819,223. The value of these warrants was estimated by using the Black-Scholes option pricing model with the following assumptions: expected life of 2 years; risk free interest rate of 0.62%; dividend yield of 0% and expected volatility of 245%. These options were charged to interest expense in the amount of \$197,413 as of December 31, 2012.

On December 14, 2012, the Company entered into a Securities Purchase Agreement with Spirit Bear pursuant to which it sold to Spirit Bear 200 shares of the Company's Series A Convertible Preferred Stock (the "Preferred Stock") and 3 sets of warrants to purchase an aggregate of 2,000,000 shares of the Company's common stock at the respective exercise prices of \$0.35, \$0.50 and \$0.75 per share (See Note 5). The aggregate purchase price for sale of the Preferred Stock and warrants was \$500,000, of which \$313,777 was paid in cash and \$186,222 was paid by cancelation of \$186,222 in outstanding indebtedness held by Spirit Bear.

On December 21, 2012, the Company concluded negotiations on a debt settlement agreement by and among the Company, PPEG, Action Media (PPEG and Action Media collectively, the "Debt Holders") and Spirit Bear. To help induce Spirit Bear to invest in the Company, the Debt Holders agreed to forgive debt of \$1,161,894 and accrued interest owed to them by the Company (the "Debt") and release the Company of (i) any future liability or claim related to the Debt, (ii) any future liability or claim related to shares of any class of equity in the Company, and (iii) any obligation or liability of the Company.

Pursuant to the Debt Settlement Agreement, \$911,894 outstanding under the PPEG Loan Agreement was forgiven. Action Media agreed to forgive all outstanding debt and accrued interest under the loan. The Debt Holders also agreed to deposit 4,676,000 shares of common stock in escrow. Upon the filing of a registration statement with the SEC, 3,676,000 shares were to be canceled and returned to treasury (See Note 11). The remaining 1,000,000 shares will be purchased by the Company or a nominee of the Company at \$0.40 per share at the rate of \$10,000 per month commencing within 90 days after HPEV achieves \$1,000,000 in gross revenues for products or services from business operations. PPEG and Action Media will divide the \$400,000 on a pro rata basis based on each company's respective amount of debt forgiven.

Pursuant to the Debt Settlement Agreement signed with Phoenix Productions and Entertainment Group, Action Media Group and Spirit Bear Limited signed on December 11, 2012, 3,676,000 shares of common stock that were being held in escrow were canceled on January 14, 2012. That left 1,000,000 shares remaining in escrow and a total of 43,970,411 shares of common stock outstanding.

NOTE 9 – INTELLECTUAL PROPERTY

As of June 30, 2013, HPEV Inc.'s wholly owned subsidiary was assigned the rights to five patents and five patents-pending with two remaining to be assigned. The issued patents and the majority of the patents-pending relate to the utilization of heat pipes to remove heat from various types of electric motors, generators and a brake resistor. By removing heat in a more efficient manner, the heat pipes provide lower costs, improved performance benefits and longer product life. Another patent-pending is an electric load assist that makes it possible for plug-in hybrid electric vehicles to utilize power in any combination from the gas or diesel engine and an electric motor installed on-board. The patent-pending for the parallel power input gearbox enables work vehicles to run an on-board generator which

provides mobile electric power. The direct cost (since inception) for legal services related to the patents was \$94,807. This amount was capitalized as an asset.

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NOTE 10 – PREPAID EXPENSE

On May 11, 2011, 1,823,185 common shares valued at \$0.75 per share were issued to Capital Group Communication, Inc. in exchange for investor relations services valued at \$1,367,389. The services are for a 24 month term. During the six months ended June 30, 2013 \$245,045 was accreted and recorded as consulting expense. As of June 30, 2013, the prepaid balance is \$0.

On March 23, 2012, 1,000,000 shares of restricted common stock valued at \$1.07 per were to Lagoon Labs, LLC in exchange for consultations with management as well as providing investor communications and public relations, with an emphasis on digital and social media. During the three months ended March 31, 2013 \$128,634 was accreted and recorded as consulting expense. As of June 30, 2013, the prepaid balance remaining was \$0.

NOTE 11 – COMMON STOCK RECEIVABLE

On September 2, 2011, the Company and Richard Glisky signed a Rescission Agreement (“the Agreement”) to rescind an Agreement for the Acquisition of Harvest Hartwell CCP, LLC (HHCCP), a Michigan limited liability company. The Agreement for Acquisition was originally signed on September 30, 2010.

As called for in the Rescission Agreement, the Company assigned 100% of its interests in HHCCP to the previous owner, Richard Glisky. Richard Glisky, in turn, assigned 1,920,000 shares of Company common stock back to the Company which the Company intended to have cancelled. On February 23, 2012, 1,920,000 shares of the Company common stock was returned to the Company and canceled. Consequently, the Company had an \$8,000,000 stock receivable removed from its books.

Certain Relationships and Related Transactions

The following includes a summary of transactions since inception (April 15, 2011), or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two fiscal years (\$8,382), and in which any related person had or will have a direct or indirect material interest (other than compensation described under “Executive Compensation”). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm’s-length transactions.

Phoenix Productions and Entertainment Group, LLC, (PPEG), a company with whom Z3 Enterprises, Inc. (“Z3E”, a company with whom HPEV executed a reverse merger with) signed a joint venture agreement and with whom Z3E once shared office space. PPEG was a major shareholder in the Company.

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On September 7, 2010, Z3E and PPEG entered into a Loan Agreement pursuant to which PPEG is to lend the Company up to \$1,000,000 (the "PPEG Loan Agreement"). Loans under the PPEG Loan Agreement were interest-free and were not convertible into the common stock of the Company as provided in the PPEG Joint Venture Agreement. All loans through December 11, 2012 from PPEG to the Company were made pursuant to the PPEG Loan Agreement.

As of December 11, 2012, the Company had \$862,094 in loans outstanding under the PPEG Loan Agreement. The proceeds were used for all aspects of the operations of Z3 Enterprises including the acquisition of HPEV, Inc. which was treated as a reverse merger for accounting purposes. In the fiscal year ended December 31, 2011, PPEG loaned the Company \$548,407.

In return for the loans, PPEG was due to receive the full amount of its loans or investment upon receipt of revenues by Z3E. As no revenues had been received by Z3E since the loans were provided, no repayments or interest payments were made.

On March 7, 2012, the Company signed a loan agreement with Action Media Group, LLC (a former shareholder) for \$250,000. The terms of the loan included: 3% annual interest and payment of principal and interest to begin at a mutually agreed upon date in the future. Maturity of the loan was perpetual or upon mutual agreement of both parties or if conditions were breached or in default.

On December 11, 2012, HPEV, Inc. (the "Company") entered into a Debt Settlement Agreement (the "Agreement") with Phoenix Productions and Entertainment Group ("PPEG"), Action Media Group, LLC ("AMG")(PPEG and AMG together, the "Debt Holders"), and Spirit Bear Limited. Prior to execution of the Agreement, the Debt Holders were owed an aggregate of \$1,161,894 in principal and accrued interest (the "Debt") by the Company. The Debt Holders also owned an aggregate of 4,676,000 shares (the "Total Shares") of the Company's common stock.

Pursuant to the Agreement, the Debt Holders agreed (i) to forgive the Debt and (ii) to transfer the Total Shares to the Company's transfer agent to be held in escrow and to be cancelled as provided for in the Agreement. Accordingly, the Debt holders have returned the notes evidencing the Debt, which notes were received by the Company on December 17, 2012; and have delivered the Total Shares to the escrow agent by book-entry transfer on December 20, 2012. As provided for in the Agreement, Debt Holders have released the Company of (i) any future liability or claim related to the Debt, (ii) any future liability or claim related to shares of any class of equity in the Company, and (iii) any obligation or liability of the Company.

The Total Shares will be held in escrow until the Company files a registration statement on Form S-1 with the Securities and Exchange Commission (the "SEC") in connection with the December 14, 2012, purchase by Spirit Bear Limited of unregistered securities of the Company (the "Registration Statement"). Upon the filing of the Registration Statement with the SEC, 3,676,000 shares of the Total Shares will be cancelled and 1,000,000 shares of the Total Shares (the "Consideration Shares") will continue to be held in escrow. The Company, or a nominee of the Company, will then purchase the Consideration Shares at the price of Forty Cents (\$.40) per share. The Consideration Shares will be purchased at the rate of Ten Thousand Dollars (\$10,000.00) per month until the purchase of all of the Consideration Shares shall have been completed. The first purchase will commence within ninety (90) days after HPEV shall have achieved One Million Dollars (\$1,000,000.00) in gross revenues for products or services from business operations.

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The S-1 was filed January 11, 2013. Therefore, on January 14, 2013, 3,676,000 shares were cancelled and returned to treasury.

In 2010 and part of 2011, Z3E shared office space with PPEG. In consideration for the use of such space, Z3E paid approximately \$1,925 in 2011 through August 31, 2011. The sharing of office space officially ended on February 17, 2012.

The Joint Venture Agreement with PPEG was dissolved on December 9, 2011 by mutual agreement.

In October 2011, Judson Bibb, Director, received a gift of 5,000,000 shares from PPEG a significant shareholder. This gift was deemed as compensation. The shares were subsequently returned on April 13, 2012 and no financial benefit was accrued.

On April 12, 2011, Judson Bibb, the Secretary and a Director of the Company, provided an interest-free loan to the Company in the amount of \$22,910, which remains outstanding. The loan was secured by the placement of a mortgage lien in favor of Mr. Bibb on real property owned by Harvest Hartwell while it was a subsidiary of the Company. On August 10, 2011, Mr. Bibb executed the necessary documents to discharge the mortgage lien in order to facilitate the rescission of the acquisition agreement pursuant to which Z3E acquired Harvest Hartwell. The rescission took place on September 2, 2011. The Secretary/Director and the Company have yet to make new arrangements for repayment of the loan.

On February 20, 2013, the board of directors, consisting at that time of Tim Hassett, Quentin Ponder and Judson Bibb, voted to establish compensation levels for the officers of the Company.

Starting to accrue on January 15, 2013, compensations of (i) \$ 13,500 per month for Timothy Hassett, the Chairman and Chief Executive Officer, (ii) \$10,000 per month for Quentin Ponder, the Chief Financial Officer and Treasurer, (iii) \$ 12,500 per month for Theodore Banzhaf, the President, and (iv) \$8,000 per month for Judson Bibb, the Vice-President and Secretary.

The board, consisting at that time of Tim Hassett, Quentin Ponder and Judson Bibb, also resolved that when and if the Company achieves certain milestones, the compensation to the officers shall be increased. The milestones are as follows: (1) generating \$1 million in additional funding, (2) generating \$100,000 in revenue or an additional \$1 million in funding, (3) achieving profitability (which is defined as being cash flow positive for three consecutive months) and (4) maintaining profitability for four consecutive quarters. With the achievement of the first milestone, the compensation for the President and the Chief Technical Officer will increase to \$17,500 per month. With the achievement of the second milestone, the compensation for the Chief Executive Officer shall increase to \$17,500 per month, the compensation for the Chief Financial Officer and Treasurer shall increase to \$12,000 per month, the compensation for the President and the Chief Technical Officer shall increase to \$20,000 per month, and the compensation for the Vice President and Secretary shall increase to \$10,000 per month. With the achievement of the third milestone, the compensation for the Chief Executive Officer shall increase to \$25,000 per month, the compensation for the Chief Financial Officer and Treasurer shall increase to \$18,000 per month, the compensation for the President shall increase to \$24,000 per month, the compensation for the Chief Technical Officer shall increase to \$25,000 per month, and the compensation for the Vice President and Secretary shall increase to \$12,000 per month.

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With the achievement of the fourth milestone, the compensation for the Chief Executive Officer shall increase to \$30,000 per month, the compensation for the Chief Financial Officer and Treasurer shall increase to \$24,000 per month, the compensation for the President shall increase to \$29,000 per month, the compensation for the Chief Technical Officer shall increase to \$30,000 per month, and the compensation for the Vice President and Secretary shall increase to \$15,000 per month.

Spirit Bear contests the validity of the February 20, 2013, resolutions concerning officer compensation; such compensation levels are not accepted by the three directors of the Company appointed by Spirit Bear. This dispute is currently pending in the Lawsuit, described herein below. (For additional details please see Note. 13 - Subsequent Events.)

In addition, the board authorized the Chief Executive Officer to make quarterly bonuses of \$50,000 and/or 50,000 shares of, or options for common stock available for each officer plus, special payments from 5% of the Company's net income to be given for individual contributions, such as the awarding of patents or the signing of major customer contracts.

As of July 24, 2013, the Company has raised \$1 million. Therefore, as per the board resolution passed on February 20, 2013, the President, Ted Banzhaf's, compensation increased from \$12,500 to \$17,500 per month in consulting fees. Compensation for the other officers, which began accruing on January 15, 2013 remained the same. Specifically, Tim Hassett is to receive \$13,500 per month in consulting fees, Quentin Ponder is to receive \$10,000 per month in consulting fees and Judson Bibb is to receive \$8,000 per month in consulting fees. Entities under the control of certain officers and directors hold consulting agreements with the Company and will receive this compensation. In the six months ended June 30, 2013, \$263,750 in consulting fees were incurred as a result of these agreements and payments of \$120,000 were made to these entities. The unpaid compensation as of June 30, 2013 has been accrued as accounts payable- related parties. The officers are considered independent contractors under these agreements and therefore no payroll taxes were incurred by the Company for the six months ending June 30, 2013.

Spirit Bear Limited Transaction

HPEV entered into a Securities Purchase Agreement on December 14, 2012 (the "Closing Date"), pursuant to which it sold to Spirit Bear Limited (i) 200 shares of the Company's Series A Convertible Preferred Stock, \$.001 per share (the "Preferred Stock") and (ii) warrants to purchase (i) 2,000,000 shares of the Company's common stock at an exercise price of \$0.35 per share (subject to adjustment as provided in the warrant); (ii) 2,000,000 shares of the Company's common stock at an exercise price of \$.50 per share (subject to adjustment as provided in the warrant); (iii) 2,000,000 shares of the Company's common stock at an exercise of \$.75 per share (subject to adjustment as provided in the warrant). The purchase price for sale of the preferred stock and warrants was \$500,000, of which \$313,777.62 was paid in cash and \$186,222.38 was paid by cancelation of \$186,222.38 in outstanding indebtedness held by the Spirit Bear.

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The Company and the Spirit Bear also entered into a Registration Rights Agreement, dated December 14, 2012 (the "Registration Rights Agreement"). Pursuant to the Registration Rights Agreement, the Company shall file a registration statement to register the shares issuable upon conversion of the Preferred Stock and the Debenture (described below) and the shares issuable upon the exercise of the Warrants. If the Registration Statement is not filed within thirty days of the Closing Date, then the number of Warrant Shares shall be increased by 500,000 to 6,500,000. If the Securities and Exchange Commission has not declared the Registration Statement effective within 120 days of the Closing Date, then the Company shall pay to each holder of Preferred Shares an amount in cash per Preferred Share held equal to the product of (i) \$5,000 multiplied by (ii) the product of (A) .02 multiplied by (B) the number of months after the Effectiveness Deadline that the Registration Statement is not declared effective by the SEC.

Each share of the Preferred Stock is convertible into 20,000 shares of Company's common stock and under certain circumstances the Preferred Stock is convertible into Senior Convertible Notes. The Conversion Price of the Preferred Stock is equal to the \$2,500.

In connection with the sale of the Preferred Stock, on December 17, 2012, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation of the Rights, Preferences, Privileges and Restrictions, which have not been set forth in the Certificate of Incorporation of the Series A Convertible Preferred Stock (the "Certificate of Designation").

The Preferred Stock has rights as if each share of Series A Convertible Preferred Stock were converted into twenty thousand (20,000) shares of Common Stock.

The holders of each share of Preferred Stock then outstanding shall be entitled to be paid, out of the Available Funds and Assets (as defined in the "Certificate of Designation"), and prior and in preference to any payment or distribution (or any setting apart of any payment or distribution) of any Available Funds and Assets (as defined in the "Certificate of Designation") on any shares of Common Stock, an amount per share equal to the Liquidation Price (\$2,500 per share of the Preferred Stock) of the Series A Convertible Preferred Stock.

In the event a Registration Statement has not been declared effective by the United States Securities Exchange Commission within 180 calendar days from and after the Closing Date, the holders of at least two-thirds (2/3) of the then outstanding shares of Series A Convertible Preferred Stock may deliver a written notice to the Company electing the conversion of all Series A Convertible Preferred Stock to Debentures. Upon receipt of such notice, the outstanding shares of Series A Convertible Preferred Stock shall be converted to Debentures and as a result the Company would issue Debentures having a principal amount of up to \$1,000,000.

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The warrants may be exercised on a cashless basis in which the holder may be entitled to obtain a certificate of shares of the Company's common stock equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the average of the daily VWAPs for the three (3) Trading Days immediately preceding the date of such election;

(B) = the Exercise Price of this Warrant, as adjusted; and

(X) = the number of Warrant Shares issuable upon exercise of this Warrant in accordance with the terms of this Warrant by means of a cash exercise rather than a cashless exercise.

Pursuant to the Securities Purchase Agreement, the Company may sell the Spirit Bear up to 200 additional shares of Preferred Stock and warrants to purchase up to 6,000,000 shares of the Company's common stock. The Company shall have the option to require Spirit Bear to purchase up to these additional Two Hundred (200) Preferred Shares and associated Warrants at a Subsequent Closing in the event that written certification ("Certification Notice") shall have been received by the Company from a federally licensed testing facility reasonably acceptable to Spirit Bear (subsequently amended in the April 12th Agreement to read 'Mohler Technology, Inc., or a similar federally licensed testing facility acceptable to the Company'), evidencing that either (i) three motors or alternators or (ii) two motors and one AMP system (each motor, alternator or AMP system modified and tested pursuant to a distinct Memorandum of Understanding or other form of agreement) incorporating the Company's technology have been comprehensively tested in accordance with applicable NEMA, ANSI and IEEE standards and that the results of these tests meet or exceed the minimum requirements for certification under those standards; that those same motors, alternators or system incorporating the Company's technology have passed tests with respect to (i) IEEE 112 in Methods E, E1, F or F1 with a maximum horsepower of 4,000 (or to be determined by agreement) for F or F1, (ii) sound pressure testing to IEEE 85 and NEMA MG1 20 standards, (iii) bearing temperature testing, (iv) speed versus torque/current testing, (v) polarization index testing per IEEE 45 standards, and (vi) IEEE 112 Method B for full efficiency; and that testing evidences an improvement in power density of at least Twelve Percent (12.00%) compared to the same motor not incorporating HPEV technology. The Company shall give the Spirit Bear at least seven business days' notice of any subsequent closing. In the event the Company shall not have received the Certification Notice by December 14, 2013, Spirit Bear shall, commencing on December 14, 2013, have a twelve (12) month option, exercisable during such period at its sole discretion by delivery of written notice to the Company, to purchase the additional Two Hundred (200) Preferred Shares and associated Warrants in a Subsequent Closing to be held within seven (7) days of such notice.

In connection with the sale of the Preferred Stock and Warrants, the Company and the Spirit Bear entered into a Patent and Securities Agreement. Pursuant to the Patent and Security Agreement, the Company may, under certain circumstances, grant to the Spirit Bear a security interest in certain patents set forth in the Patent and Security Agreement.

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On February 6, 2013, the Company received a letter from Spirit Bear which stated that the Company was in default of the Stock Purchase Agreement. According to Spirit Bear, the Company had not acted promptly to make 50% of the board of directors Spirit Bear designees. In addition, Spirit Bear stated that the company had not amended its bylaws with respect to Special Meetings and Meeting Adjournments nor had it provided a certified copy of its Articles of Incorporation within 10 days of the closing of the Stock Purchase Agreement. Pursuant to the Securities Purchase Agreement with Spirit Bear Limited, ("Spirit Bear"), the bylaws relating to Special Meetings and Meeting Adjournments were amended, effective February 20, 2013, verbatim with what was required in the Stock Purchase Agreement. Jay Palmer and Carrie Dwyer were appointed to the board of directors on the same date and Donica Holt was appointed to the board of directors on March 7, 2013.

On February 20, 2013, the Board of Directors, consisting at that time of Tim Hassett, Quentin Ponder and Judson Bibb, voted to decrease the milestone prices of the five options to purchase one million shares that would be granted to the President, Mr. Banzhaf, assuming the respective milestone prices are achieved. The milestone stock prices were reduced to \$2.00, \$3.00, \$4.00, \$4.50 and \$5.00 for 20 consecutive trading days each. These milestone stock prices have been changed from \$2.00, \$3.00, \$5.00, \$7.50 and \$10.00. Once the stock has traded at or above these prices for 20 consecutive trading days, Mr. Banzhaf has the right to exercise an option to purchase 1,000,000 shares of common stock at the closing price on the first day after the stock has traded for 20 consecutive days at or above each milestone stock price. These options expire one year after Mr. Banzhaf has been terminated without cause.

The board, consisting at the time of Tim Hassett, Quentin Ponder and Judson Bibb, also granted Judson Bibb an option to purchase 2,000,000 shares of the Company's common stock, at a purchase price of par value or \$0.001 per share. The options expire one year after Mr. Bibb has been terminated without cause. The options can be exercised on a cashless basis.

Despite electing two new board members at the first board meeting subsequent to the date the SPA was closed, the Company received another letter from counsel to Spirit Bear on March 7, 2013 indicating that the Company was still in default of its obligations under the SPA and the compensation authorized by the Board on February 20, 2013 (as disclosed in the Current Report on Form 8-K filed February 26, 2013) was self-dealing and resulted in the anti-dilution provision provided for in the SPA.

On March 21, 2013, the Company and Judson Bibb signed an agreement rescinding the options granted.

On March 24, 2013, the Company and Ted Banzhaf signed an agreement rescinding the decrease in the milestone price of the five options to purchase one million shares as well as the cashless exercise thereof awarded to the President.

On April 12, 2013, the Company and Spirit Bear Limited reached agreement regarding the settlement of allegations that the Company did not perform certain obligations pursuant to the Securities Purchase Agreement dated December 14, 2012 with Spirit Bear, and with respect to certain actions taken by the Company with respect to providing compensation to its management. Spirit Bear agreed to discharge the Company from all claims Spirit Bear may have had as well as to forgo all actions of any kind related to those claims which existed on or prior to April 12, 2013. Both parties also agreed that the signing of the agreement did not constitute an admission of wrongdoing or liability.

To satisfy the allegations, the Company and Spirit Bear agreed to amend the Certificate of Designation to provide that each share of Series A Convertible Preferred Stock can be converted into 50,000 shares of common stock and have the voting rights equal to 50,000 shares.

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The Company and Spirit Bear also agreed to change the terms of the option provided to Spirit Bear in the Securities Purchase Agreement. The new language provides that the Company can sell up to 200 additional preferred shares and warrants to Spirit Bear or other qualified investors designated by Spirit Bear, if before December 14, 2013, written certification (“Certification Notice”) shall have been received by the Company from Mohler Technology, Inc., or a similar federally licensed testing facility reasonably acceptable to the Company, evidencing that either the Company’s technology incorporated in (i) three motors or alternators or (ii) two motors and one auxiliary mobile power system is comprehensively tested in accordance with applicable standards and the results of those tests meet or exceed minimum requirements for certification under those standards. If the milestones are not met prior to such date, Spirit Bear retains its right to purchase 200 additional preferred shares and warrants until December 14, 2014.

On June 24, 2013, an Amendment to the Certificate of Designation of Rights, Preferences, Privileges and Restrictions of the Series A Convertible Preferred Stock (the “Certificate of Designation”) issued by the Company was filed with the Secretary of State of the State of Nevada. The amendment effectuated the change (i) to the conversion rate of each share of Series A Convertible Preferred Stock from being convertible at the rate of 20,000 shares of common stock of the Company to 50,000 and (ii) to the voting right of each share of Preferred Stock from 20,000 to 50,000 shares of the common stock of the Company. There are currently 200 shares of the Preferred Stock issued and outstanding, all which are held by Spirit Bear Limited and its assignees.

The amendment to the Certificate of Designation was contemplated as a result of the agreement entered into on April 12, 2013 between the Company and Spirit Bear Limited.

On June 24, 2013, the Company and the holders of the Preferred Stock also amended the bylaws of the Company to provide that the Board of Directors of the Company shall, irrespective of the number of members, at all times be composed of an even number of members of which at least 50% shall be individuals designated by Spirit Bear Limited. Such amendment was contemplated by the Securities Purchase Agreement entered into between Spirit Bear Limited and the Company December 14, 2012.

The amendment to the Bylaws provides that Spirit Bear Limited shall have the right to nominate half of the members of the Board, which shall consist of an even number of directors. If Spirit Bear Limited does not respond to a written request to designate one or more nominees to the Board within 10 days, this right shall no longer have any effect until the number of directors of the Board shall change thereafter (whether by resignation, appointment, removal or otherwise). This right survives until the earlier of December 14, 2015 and the date that Spirit Bear Limited ceases to be an affiliate of the corporation.

In connection with the foregoing, the Company relied upon the exemption from securities registration afforded by Rule 506 of Regulation D as promulgated by the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the “Securities Act”) and/or Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to one investor who is an accredited investor, and transfer was restricted by the Company in accordance with the requirements of the Securities Act.

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Note 12 – RESTATEMENT

During the Company's closing process for the 2013 10-K, accounting errors were discovered that required the restatement of amounts previously reported as of June 30, 2013. The Company's financial statements as of June 30, 2013 included errors related to under-accrued consulting fees, warrants issued for services and shares issued for cash.

The following tables reflect the impact of these corrections on our financial statements:

Balance Sheet

	As of June 30, 2013 Originally Stated	Restatement Adjustments	As of June 30, 2013 Restated	
ASSETS				
Current assets				
Cash	\$ 49,134	2	\$ 49,136	
Prepaid expenses	-	-	-	
Total current assets	49,134	2	49,136	
Intangible	94,807	-	94,807	
Total assets	143,941	2	143,943	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	\$ 158,357	1,373	\$ 159,730	
Accounts payable – related party	-	174,979	174,979	(a)
Short-term loans- related party	162,750	(162,750)	-	(a)
Notes payable-related party	27,910	(5,000)	22,910	(a)
Total current liabilities	349,017	8,602	357,619	
Total liabilities	349,017	8,602	357,619	
Stockholders' equity				
Preferred stock: \$.001 par value: 15,000,000 shares authorized, 200 shares issued and outstanding as of June 30, 2013	-	-	-	
Common stock; \$.001 par value; 100,000,000 shares authorized, 44,060,441 shares issued and outstanding as of June 30, 2013	44,835	(775)	44,060	(b)
Additional paid-in capital	6,522,442	329,786	6,852,228	(b)
Common stock held in escrow	8,441	-	8,441	

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Common stock receivable	-	-	-
Accumulated deficit during development stage	(6,780,794)	(337,611)	(7,118,405) (b)
Total stockholders' equity (deficit)	(205,076)	(8,600)	(213,676)
Total liabilities and stockholders' equity	\$ 143,941	2	\$ 143,943

(a) To correctly classify and accrue related party consulting fees