NYMOX PHARMACEUTICAL CORP
Form 20-F
March 13, 2009

Form 20 F

[ ]

Registration Statement pursuant to section 12(b) or (g) of the Securities Exchange Act of 1934

or

[X]

Annual Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008

or

[ ]

Transition Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

or

[ ]

Shell Company Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of event requiring this Shell Company Report from to

Commission File Number: 001-12033

NYMOX PHARMACEUTICAL CORPORATION

(Exact name of registrant as specified in its charter)

Canada

(Jurisdiction of incorporation or organization)

9900 Cavendish Blvd., Suite 306

St. Laurent, Quebec, Canada, H4M 2V2

(Address of principal executive offices)

Contact person: Roy Wolvin

Tel. 800-936-9669, e-mail: rwolvin@nymox.com,fax: 514-332-2227

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	Not Applicable

Securities registered or to be registered pursuant to Section 12(g) of the Act

Common Stock

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

30,178,607 shares as of December 31, 2008

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ]

No [X]

If this is a transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes [ ]

No [X]

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 [X]

No [ ]

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [ ]

International Financial Reporting Standards [ ]

Other [X]

as issued by the International Accounting

Standards Board.

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 [ ]

Item 18 [X]

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]

No [X]

In this annual report, the term Nymox refers to both Nymox Pharmaceutical Corporation and its subsidiaries, Nymox Corporation and Serex Inc. Unless otherwise indicated all dollar amounts are in United States Dollars.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

You should be aware that this report contains forward-looking statements about, among other things, the anticipated operations, product development, financial condition and operating results of Nymox, proposed clinical trials and proposed transactions, including collaboration agreements.

By forward-looking statements, we mean any statements that are not statements of historical fact, including (but not limited to) statements preceded by or that include the words, believes , expects , anticipates , hopes , targets or s expressions.

In connection with the safe harbor provisions in the Private Securities Litigation Reform Act of 1995, we are including this cautionary statement to identify some of the important factors that could cause Nymox s actual results or plans to differ materially from those projected in forward-looking statements made by, or on behalf of, Nymox. These factors, many of which are beyond the control of Nymox, include Nymox s ability to:

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identify and capitalize on possible collaboration, strategic partnering or divestiture opportunities;

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obtain suitable financing to support its operations and clinical trials;

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manage its growth and the commercialization of its products;

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achieve operating efficiencies as it progresses from a development-stage to a later-stage biotechnology company;

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successfully compete in its markets;

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realize the results it anticipates from the clinical trials of its products;

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succeed in finding and retaining joint venture and collaboration partners to assist it in the successful marketing, distribution and commercialization of its products;

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achieve regulatory clearances for its products;

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obtain on commercially reasonable terms adequate product liability insurance for its commercialized products;

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adequately protect its proprietary information and technology from competitors and avoid infringement of proprietary information and technology of its competitors;

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assure that its products, if successfully developed and commercialized following regulatory approval, are not rendered obsolete by products or technologies of competitors; and

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not encounter problems with third parties, including key personnel, upon whom it is dependent.

Although Nymox believes that the forward-looking statements contained in this annual report are reasonable, it cannot ensure that its expectations will be met. These statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied in these statements. Factors that could cause such differences include, but are not limited to, those discussed under Risk Factors.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

ITEM 3. KEY INFORMATION

Selected Financial Data

The following table sets forth selected consolidated financial data for Nymox for the periods indicated, derived from financial statements prepared in accordance with generally accepted accounting principles (GAAP). We prepare our basic financial statements in accordance with Canadian GAAP and include, as a note to the statements, a reconciliation of material differences to United States GAAP. The financial statements have been audited by KPMG LLP, Montreal, Canada as at and for the years ended December 31, 2004, 2005, 2006, 2007 and 2008 and are reported in U.S. dollars. The data set forth below should be read in conjunction with the Company s consolidated financial statements and notes thereto included in Part I, Item 8 of this report.

NYMOX PHARMACEUTICAL CORPORATION

Selected Consolidated Financial Data

(In U.S. dollars)

	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
CANADIAN GAAP					
Current Assets	$ 480,505	$ 430,960	$ 379,194	$ 291,454	$ 699,074
Property & Equipment	21,525	19,710	7,839	11,463	25,348
Patents & Intellectual Property	3,538,587	3,712,682	3,477,819	3,310,129	3,271,599
Total Assets	4,067,611	4,260,346	3,970,845	3,719,039	4,066,021
Total Liabilities	1,250,470	1,294,745	2,144,312	2,506,902	2,053,634
Share Capital	53,850,147	50,155,147	44,443,350	39,488,350	36,553,350
Shareholders Equity	2,010,726	2,165,601	1,026,533	412,137	1,212,387
Total Revenues	428,409	433,933	442,861	426,282	321,948

Sales	426,675	412,923	437,440	424,506	321,895
Research & Development Expenditures (1)	2,053,368	2,729,862	2,541,096	1,828,516	1,851,881
Net Loss	4,590,345	5,290,431	4,893,685	3,584,528	3,745,625
Loss per Share (basic & diluted)	$ 0.15	$ 0.18	$ 0.18	$ 0.14	$ 0.15
Weighted Avg. No. of Common Shares	29,749,000	29,005,342	27,644,749	26,080,470	24,924,674
U.S. GAAP (2)					
Net Loss	$ 4,590,345	$ 5,290,431	$ 4,893,685	$ 3,609,448	$ 3,770,545
Loss per Share	0.15	0.18	0.18	0.14	0.15
Shareholders Equity	$ 2,000,617	$ 2,155,492	$ 1,016,424	$ 402,028	$ 1,202,278

(1)

We earn investment tax credits by making qualifying research and development expenditures. These amounts shown are net of investment tax credits.

(2)

Reference is made to Note 14 of Nymox s audited financial statements as at and for the years ended December 31, 2008, 2007 and 2006 for a reconciliation of differences between Canadian and U.S. GAAP.

Risk Factors

Investing in our securities involves a significant degree of risk. You should carefully consider the risks described below, together with all of the other information in our publicly filed documents, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could be adversely affected. In such an event, the trading price of our Common Shares could decline and shareholders may lose part or all of their investment in our securities.

Our Clinical Trials for our Therapeutic Products in Development, Such as NX-1207, May Not Be Successful and We May Not Receive the Required Regulatory Approvals Necessary to Commercialize These Products

Products requiring regulatory approval, such as NX-1207, will be approved for commercial sale only if governmental regulatory authorities are satisfied that our clinical trials are properly designed and conducted and that the results of those trials provide valid and acceptable evidence that the product is safe and effective for the conditions or diseases it is intended to treat. We do not know whether our pending or any future clinical trials will demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals or will result in marketable products. Clinical trials are lengthy, complex, expensive and uncertain processes and failure can occur at any stage of testing. Results attained in pre-clinical testing or in early clinical trials may not be indicative of results that are obtained in later studies. We may suffer significant setbacks in advanced clinical trials, even after promising results in earlier studies. Based on results at any stage of clinical trials, we may decide to repeat or redesign a trial or discontinue development of one or more of our product candidates. If we fail to adequately demonstrate the safety and efficacy of our products under development, we will not be able to obtain the required regulatory approvals to commercialize our product candidates. Failure to obtain such approval could cause the price of our shares to decline and adversely affect our business, operations, product development programs and financial condition.

Our Clinical Trials for Our Therapeutic Products, Such as NX-1207, May Be Delayed, Making it Impossible to Achieve Anticipated Development or Commercialization Timelines

Delays in the initiation, conduct or completion of clinical trials are not uncommon. If one or more of our clinical trials is delayed, we may be unable to meet our anticipated development or commercialization timelines. Either circumstance could cause the price of our shares to decline, increase clinical trial and product development costs, and affect the company s business, operations, product development programs and financial condition.

The design, conduct and completion of clinical trials is a complex process involving many third parties, including governmental authorities, institutional review boards, contract manufacturers, contract research organizations (CROs), consultants, investigators, patients, and data monitoring committees. The initiation, progress, completion and success of a clinical trial is in part dependent on third parties providing necessary approvals, agreements and consents, performing necessary tasks in a timely, competent manner, and complying with protocols, good clinical practices and applicable laws, rules and regulations. Failure of a third party to perform as expected or agreed upon may result in delays or failure in initiating or completing a clinical trial.

Our clinical trials are subject to prior approvals and continuing oversight by governmental regulatory authorities and institutional review boards. We must meet and comply with their requirements in order to start, continue and successfully complete a clinical trial. We may not be able to comply with one or more of these requirements or there may be delays in doing so. A clinical trial may be put on hold or halted altogether due to concerns about patient safety. Governmental regulatory authorities may change approvals or requirements, resulting in changes to the design or conduct of a clinical trial or the need for new or further clinical trials.

Clinical trials for our product candidates require that we identify and enroll a large number of patients with the disorder under investigation. We may not be able to enroll a sufficient number of patients to complete our clinical trials in a timely manner. Patient enrollment is a function of many factors including:

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design of the protocol;

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the size of the patient population;

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eligibility criteria for the study in question;

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perceived risks and benefits of the drug under study;

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availability of competing therapies;

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efforts to facilitate timely enrollment in clinical trials;

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patient referral practices of physicians; and

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availability of clinical trial sites.

If we have difficulty enrolling a sufficient number of patients to conduct our clinical trials as planned, we may need to delay or terminate ongoing clinical trials.

A Setback in Any of Our Clinical Trials Would Likely Cause a Drop in the Price of Our Shares

We have successfully completed several Phase 1 and Phase 2 multi-center, blinded and controlled clinical trials, and follow-up studies, in the U.S. for NX-1207, our drug candidate for the treatment of enlarged prostate (benign prostatic hyperplasia or BPH), and we are currently in Phase 3. The clinical testing of drug candidates is fraught with uncertainties and positive results from earlier clinical trials may not be repeated in later trials. As well, government

regulators such as the U.S. Food and Drug Administration, or FDA, may require additional testing or further documentation relating to the preclinical testing, clinical studies, manufacturing or other issues at any time. These requirements may result in substantial delays in obtaining regulatory approval or make obtaining such approval much more difficult. Setbacks in any phase of the clinical development of our product candidates could have a negative impact on our business, operations, product development programs and financial condition, could jeopardize FDA or other regulatory approval and would likely cause a drop in the price of our shares.

We May Not be Able to Make Adequate Arrangements with Third Parties for the Commercialization of Our Product Candidates, such as NX-1207

In order to commercialize our product candidates successfully, we intend, on a product-by-product basis, either to make arrangements with third parties to perform some or all of these services or to expand our existing sales, marketing and distribution capabilities. We currently have limited sales and marketing capabilities and limited experience in developing, training or managing a large marketing or sales force. We currently rely primarily upon distributors for the sales of our existing products. The cost of establishing and maintaining a larger sales force would be substantial and may exceed its cost effectiveness. In addition, in marketing our products, we would likely compete with many companies that currently have extensive and well-funded marketing and sales operations. Despite our marketing and sales efforts, we may be unable to compete successfully against these companies. We may make arrangements with third parties to market and sell some or all of our products under development in certain territories, rather than establish our own sales force. We may not be able to do so on favorable terms. If we contract with third parties for the sales and marketing of our products, our revenues will depend upon the efforts of these third parties, whose efforts may not be successful.

We anticipate entering into co-development and co-marketing agreements with one or more partners with established sales, marketing and regulatory capabilities in order to assist in the completion of the development and commercialization of NX-1207. We may not be able to do so on favorable terms. If we fail to establish or make adequate arrangements with third parties for such purposes, our business, operations, product development programs and financial condition will be materially adversely affected.

We May Not Achieve Our Projected Development Goals in the Time Frames We Announce and Expect

We make public statements regarding our estimates and projections for meeting milestones, such as the commencement and completion of clinical trials, anticipated regulatory submission and approval dates and time of product launch. The actual timing of these events can vary dramatically due to factors such as delays or failures in our clinical trials, the uncertainties inherent in the regulatory approval process and delays in achieving manufacturing or marketing arrangements sufficient to commercialize our products. There can be no assurance that our clinical trials will be completed, that we will make regulatory submissions or receive regulatory approvals as planned or that we will be able to adhere to our current schedule for the launch of any of our products. If we fail to achieve one or more of these milestones as planned, the price of our shares could decline.

Even If We Obtain Regulatory Approvals for Our Product Candidates, We Will be Subject to Stringent Ongoing Government Regulation

Even if regulatory authorities approve any of our product candidates, the manufacture, marketing and sale of such products will be subject to strict and ongoing regulation. Compliance with such regulation will be expensive and consume substantial financial and management resources. For example, an approval for a product may be conditioned on our conducting costly post-marketing follow-up studies. In addition, if based on these studies, a regulatory authority does not believe that the product demonstrates a benefit to patients, such authority could limit the indications for which the product may be sold or revoke the product s regulatory approval.

We and our contract manufacturers will be required to comply with applicable current Good Manufacturing Practice (cGMP) regulations for the manufacture of our products. These regulations include requirements relating to quality assurance, as well as the corresponding maintenance of records and documentation. Manufacturing facilities must be approved before we can use them in commercial manufacturing of our products and are subject to subsequent periodic inspection by regulatory authorities. In addition, material changes in the methods of manufacturing or changes in the suppliers of raw materials are subject to further regulatory review and approval.

If we or any marketing collaborators or contract manufacturers fail to comply with applicable regulatory requirements, we may be subject to sanctions including fines, product recalls or seizures, injunctions, total or partial suspension of production, civil penalties, withdrawals of previously granted regulatory approvals and criminal prosecution. Any of these penalties could delay or prevent the development, marketing or sale of our products.

It is Uncertain When, if Ever, We Will Make a Profit

We first began operations in 1995 and are only in the early stages of commercial marketing of our diagnostic products, AlzheimAlert™, NicAlert™ and TobacAlert™. We have never made a profit. We incurred a net loss of $3.7 million in 2004, $3.6 million in 2005, $4.9 million in 2006, $5.3 million in 2007 and $4.6 million in 2008. As of December 31, 2008, Nymox s accumulated deficit was $55.2 million.

We cannot say when, if ever, Nymox will become profitable. Profitability will depend on our uncertain ability to generate revenues from the sale of our products and the licensing of our technology that will offset the significant expenditures required for us to advance our research, protect and extend our intellectual property and develop, manufacture, license, market, distribute and sell our technology and products successfully. Similar types of expenditures in the past have helped produce the net losses reported above.

We May Not Be Able to Raise Enough Capital to Develop and Market Our Products

Nymox has funded its operations primarily by selling shares of its common stock. Since late 1998, a small portion of the funds came from sales. However, sales have not been, and may not be in the foreseeable future, sufficient to meet our anticipated financial requirements.

We will continue to need to raise substantial amounts of capital for our business activities including our research and development programs, the conduct of clinical trials needed to obtain regulatory approvals and the marketing and sales of our products. We anticipate being able to fund our current total annual budgeted expenditures of approximately $3.5 - 5 million per year over the next year through our current cash position and additional financing, including draw downs through our common stock private purchase agreement with Lorros-Greyse Investments, Inc. Clinical trials will substantially increase cash requirements. We anticipate being able to meet these requirements as they arise. We plan to raise capital either through a new round of financing and/or through partnering with a major pharmaceutical company. The recent financial crisis in the United States and the global economic recession has had a negative impact on the availability of liquidity in the market and may have an effect on the liquidity of the purchaser in our common stock private purchase agreement. Additional financing may not be available when needed, or, if available, may not be available on acceptable terms. If adequate funds on acceptable terms are not available, we may have to curtail or eliminate expenditures for research and development, testing, clinical trials, promotion and marketing for some or all of our products.

We Face Challenges in Developing, Manufacturing and Improving Our Products

Our success depends on our ability to develop or acquire rights to new products or to improve our existing products. We are still developing many of our products and have not yet brought them to market. We cannot assure you that we will be able to develop or acquire rights to such products and to market them successfully.

Developing a treatment for Alzheimer s disease is particularly challenging. Many pharmaceutical companies, institutions and researchers are working on many different approaches and treatments. There is no consensus among researchers about the cause of this fatal illness and no guarantee that our drug development programs in this area are targeting significant factors in its cause, progression or symptoms. It is difficult to design drug candidates that can cross from the bloodstream into the brain, where the damage from Alzheimer s disease is occurring. Clinical trials to establish efficacy for drugs that slow down the progression of Alzheimer s disease over a period of months or years often require that a large number of subjects be tracked over many months or years, making them very expensive to conduct. The potentially long period from discovery and patenting through development and regulatory approval to the market can significantly reduce the patent life of an Alzheimer s disease treatment. Any marketed treatment in this area may well eventually face competition from me-too drugs developed by other pharmaceutical companies based on our research. We will be under constant competitive pressure to improve our products and to develop new treatments

in order to protect our position in the field.

Developing and improving our diagnostic products is also challenging. The science and technology of the detection and measurement of very small amounts of biochemicals in bodily fluids and tissue is evolving rapidly. We may need to make significant expenditures in research and development costs and licensing fees in order to take advantage of new technologies. If any major changes to our testing technologies used in our AlzheimAlert™ and NicAlert™ and TobacAlert™ tests are made, further validation studies will be required. Developing new diagnostic products is more challenging, requiring identification and validation of the biochemical marker being detected by the new product in the clinical context and the development and validation of the product designed to detect the marker.

We anticipate outsourcing at least some of the manufacturing required for new products we may develop in order to control start-up and operating costs and to take advantage of the existing manufacturing capabilities and capacity in the large contract manufacturing sectors in the pharmaceutical and diagnostic industries. There are risks associated with this strategy, including difficulties in the transfer of manufacturing, the possibility of production interruption due to causes beyond our control and the need to arrange alternative suppliers. We currently out-source some of the manufacturing services required for our NicAlert™ and TobacAlert™ products to a contract manufacturer. We do not anticipate any significant risk of long-term interruption of manufacture due to this arrangement. The services supplied are not unique or unduly complicated and other contract manufacturers are available to provide similar services. The manufacture of therapeutics is more challenging and capital-intensive and may require us to partner with a major pharmaceutical company or other partner in order to manufacture a therapeutic for market.

Our Products and Services May Not Receive Necessary Regulatory Approvals

Our diagnostic products, AlzheimAlert™, NicAlert™ and TobacAlert™, and our products in development, are subject to a wide range of government regulation governing laboratory standards, product safety and efficacy. The actual regulatory schemes in place vary from country to country and regulatory compliance can take several years and involve substantial expenditures.

We cannot be sure that we can obtain necessary regulatory approvals on a timely basis, if at all, for our products in development and all of the following could have a material adverse effect on our business:

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failure to obtain or significant delays in obtaining requisite approvals;

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loss of or changes to previously obtained approvals; and

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failure to comply with existing or future regulatory requirements.

Any changes in CMS or state law requirements or in the FDA regulations could have a detrimental impact on our ability to offer or market any reference laboratory services and/or on our ability to obtain reimbursement from the Medicare and Medicaid programs and providers.

We have developed a diagnostic kit based on AlzheimAlert™ for sale to third parties. We will require prior approval from the FDA before we can market, distribute or sell this product in the United States. In July 2005, an FDA advisory panel voted 5-2 against approval of our kit, citing the need for further studies, such as long term follow-up and autopsy confirmation.

Similar requirements exist in many other countries. Obtaining these approvals and complying with the subsequent regulatory requirements can be both time-consuming and expensive. In November 2004, Nymox satisfactorily completed the testing and registration required by European regulatory, environmental and quality standards in order to obtain a CE Mark for the AlzheimAlert™ kit. The CE Mark makes the AlzheimAlert™ kit eligible for sale in the

European Union and will allow European clinical and hospital laboratories to perform the AlzheimAlert™ test in their own facilities in Europe.

We currently sell NicAlert™ and TobacAlert™ as tests for tobacco product use and exposure and for research use. In October, 2002, we received 510(k) clearance from the U.S. Food and Drug Administration for our NicAlert™ product for medical uses. In January, 2006, we announced the certification of the urine-based version of NicAlert™ with a CE Mark making it eligible for sale in the European Union and in May, 2006 the certification of the saliva-based version of NicAlert™ with a CE Mark. In September, 2003, Nymox launched TobacAlert™ for nonmedical testing for second hand smoke exposure in the U.S.

In the United States, our drugs in development will require final FDA approval before their sale or distribution. Such approval comes only at the end of a lengthy, expensive and often arduous process. In September, 2006, we announced the successful completion of a multi-center, double-blind, placebo-controlled Phase 2 trial of NX-1207, our lead candidate for the treatment of benign prostatic hyperplasia (BPH), a common disorder of older men. The Company reported positive results in 2007 and 2008 in several follow-up studies of BPH patients. In February 2008, the Company reported positive results in a 32 site U.S. Phase 2 prospective randomized clinical trial, with statistically significant improvement compared to an approved BPH drug (finasteride). We cannot predict with any certainty the outcome of this program, what further steps may be required in order to apply for final FDA approval for this drug or whether the FDA will ultimately grant us such approval. Similar requirements exist in many other countries.

We Face Significant and Growing Competition

The modern pharmaceutical and biotechnology industries are intensely competitive, particularly in the field of Alzheimer s disease where there is a large unmet need for an effective treatment. Currently there are five drugs with similar mechanisms of action approved for sale in the United States (Aricept®, Cognex®, Exelon®, Razadyne® and Namenda®). These drugs offer some relatively short-term symptomatic relief, but do not treat the underlying causes of the illness. Over the past decade, there has been an intense research effort both in the non-profit sectors such as universities, government agencies and research institutes and in the pharmaceutical and biotechnology industry to develop new treatments for Alzheimer's disease. Treatment candidates under development include:

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vaccines and other immunotherapies for Alzheimer's disease. A number of pharmaceutical and biotechnology companies including Wyeth, Elan, and Baxter are working on such therapies.

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enzyme-blocking therapies intended to block the production of the protein found in the senile plaques characteristic of Alzheimer's disease. A number of pharmaceutical and biotechnology companies including Lilly, Bristol-Myers Squibb and Merck are working on such therapies.

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drugs aimed at reducing, blocking or clearing the aggregation or accumulation of the protein found in senile plaques. A number of pharmaceutical and biotechnology companies including Pfizer and Prana Biotechnology are working on such therapies.

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drugs designed to enhance cognition from Pfizer, GlaxoSmithKline, and Abbott among others.

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antihistamines such as Dimebon from Medivation.

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insulin therapies, including already approved diabetes drug such as rosiglitazone and metformin.

There is also ongoing research into possible methods of preventing Alzheimer s disease such as taking certain cholesterol-lowering drugs called statins, estrogen replacement therapies, anti-oxidants such as vitamin E and ginkgo biloba or anti-inflammatory drugs such as ibuprofen (*e.g.,* Advil® or Motrin®). The successful development of a treatment or method of preventing Alzheimer s disease could significantly impact on our ability to develop or market a

competing treatment for Alzheimer s disease.

Our treatments under development for enlarged prostate (benign prostatic hyperplasia or BPH) face significant competition from existing products. There are eight drugs approved for treatment of BPH: four proprietary drugs (dutasteride (Avodart®), tamsulosin (Flomax®), alfusozin (Uroxatral®), and silodosin (Rapaflo™)) and four generics (finasteride, terazozin, doxazozin, and prazosin). There are a number of thermal treatments on the market designed to shrink the enlarged prostate by heating its tissue with a device inserted through the urethra (the passage leading from the bladder through the penis through which men urinate). The devices on the market use microwave energy (Prostatron®, Targis Therapy® or TherMatrx®), low level radiowaves (TUNA System®), lasers (Indigo LaserOptic Treatment System® or Laserscope GreenLight PVP™), direct heat, energy or hot water to heat or burn away prostate tissue. A variety of surgical procedures exist to surgically reduce or remove the prostate or to widen the urethra. These include procedures to cut away prostate tissue such as TURP (transurethral resection of the prostate) and using a resectoscope with an electrical loop inserted through the penis to cut the prostate tissue. A small device used to widen the constricted urethra called a prostatic stent can also be inserted.

The diagnostic testing industry is also highly competitive. In the area of Alzheimer s disease, Athena Diagnostics, Inc. markets diagnostic tests for different biochemical indicators found in blood and spinal fluid and for genetic predispositions for the illness. Other companies are attempting to develop and market other diagnostic products in this area. The introduction of other diagnostics products for Alzheimer s disease or tobacco product use that are cheaper, easier to perform, more accurate or otherwise more attractive to the physicians, health care payers or other potential customers would have a significant impact on the sales of our AlzheimAlert™, NicAlert™ or TobacAlert™ products.

We May Not Be Able to Successfully Market Our Products

To increase our marketing, distribution and sales capabilities both in the United States and around the world, we will need to enter into licensing arrangements, contract sales agreements and co-marketing deals. We cannot assure you that we will be able to enter into agreements with other companies on terms acceptable to us, that any licensing arrangement will generate any revenue for the company or that the costs of engaging and retaining the services of a contract sales organization will not exceed the revenues generated.

Protecting Our Patents and Proprietary Information is Costly and Difficult

We believe that patent and trade secret protection is important to our business, and that our success will depend, in part, on our ability to obtain strong patents, to maintain trade secret protection and to operate without infringing the proprietary rights of others.

Obtaining and maintaining our patent position is costly. We pay for the filing, prosecution and fees of several hundred patents and patent applications in countries around the world, including the United States, Europe, Japan, Canada, Australia, New Zealand and South Korea. In the United States alone, Nymox has twenty patents issued or allowed relating to its technology. Our subsidiary, Serex, Inc. has thirteen patents.

We believe that we have strong patent protection for the products we sell and for our product development programs and we are in the process of extending that patent protection to cover more countries or new discoveries or products. We cannot assure you that additional patents covering new products or improvements will be issued or that any new or existing patents will be of commercial benefit or be valid and enforceable if challenged.

Many companies have patents covering various drugs, methods and discoveries in the fields of diagnostics and therapeutics for Alzheimer s disease and related conditions and of new anti-infective agents. We believe that the patents issued to date will not preclude Nymox from developing and marketing our products; however, it is impossible to predict the extent to which licenses from third parties will be necessary. If Nymox were to need licenses from third parties there can be no assurance that we could obtain such licenses on commercially reasonable terms, if at all.

In the fields of diagnostic methods and diagnostic tests for common human diseases and conditions, where Serex has many of its patents, there are many patents issued covering many areas of diagnostic methods, tests and technologies. We believe that these patents issued to date to other companies will not preclude Serex from developing and marketing its products but you should be aware that it is often difficult to determine the nature, breadth and validity of competing patent claims in these fields, that there has been significant litigation in some of these areas (not involving Serex) and that, if and when Serex s products become more commercially successful, Serex s products or patents may become the subject matter of litigation. If Serex were to need licenses from third parties there can be no assurance that it could obtain such licenses on commercially reasonable terms, if at all.

We are not currently involved in patent litigation. In the pharmaceutical and biotechnology industry patent disputes are frequent and can preclude the commercialization of products. Patent litigation is costly and the outcome often difficult to predict. It can expose us to significant liabilities to third parties and may require us to obtain third-party licenses at a material cost or cease using the technology or product in dispute.

We Face Changing Market Conditions

The healthcare industry is in transition with a number of changes that affect the market for therapeutic and diagnostic test products. The U.S. Federal and various state governments have under consideration a number of proposals that may have the effect of directly or indirectly limiting drug prices in the U.S. markets. Such changes may adversely affect the prices we may charge for any therapeutic drug we develop. Funding changes and budgetary considerations can lead major health care payers and providers to make changes in reimbursement policies for our products. These changes can seriously impact the potential for growth for the market for our products, either favorably when the decision is to offer broad coverage for our test at a reasonable price or negatively when the decision is to deny coverage altogether. Changes in the healthcare delivery system have resulted in major consolidation among reference laboratories and in the formation of multi-hospital alliances, reducing the number of institutional customers for therapeutic and diagnostic test products. There can be no assurance that Nymox will be able to enter into and/or sustain contractual or other marketing or distribution arrangements on a satisfactory commercial basis with these institutional customers.

Health Care Plans May Not Cover or Adequately Pay for Our Products and Services

Throughout the developed world, both public and private health care plans are under considerable financial and political pressure to contain their costs. The two principal methods of restricting expenditures on drugs and diagnostic products and services are to deny coverage or, if coverage is granted, to limit reimbursement. For single-payer government health care systems, a decision to deny coverage or to severely restrict reimbursement for one of our products can have an adverse effect on our business and revenues.

In the United States, where, to a significant degree, the patient population for our products is elderly, Medicare and Medicaid are sources of reimbursement. In general, any restriction on reimbursement, coverage or eligibility under either program could adversely affect reimbursement to Nymox for products and services provided to beneficiaries of the Medicare and/or Medicaid programs. Many elderly people are covered by a variety of private health care organizations either operating private health care plans or Medicare or Medicaid programs subject to government regulation. These organizations are also under considerable financial constraints and we may not be able to secure coverage or adequate reimbursement from these organizations. Without coverage, we will have to look to the patients themselves who may be unwilling or unable to pay for the product; in turn, doctors may be reluctant to order or

prescribe our products in the absence of coverage of the product for the patient.

The Issuance of New Shares May Dilute Nymox s Stock

The issuance of further shares and the eligibility of issued shares for sale will dilute our common stock and may lower its share price. There were 30,314,621 common shares of Nymox issued and outstanding as of March 13, 2009. All of these shares are eligible for sale under Rule 144 or are otherwise freely tradable. In addition, 4,869,000 share options are outstanding, of which 2,943,375 are currently vested. Expiry dates for Nymox options range from 1 month to 10 years (see note 7(b) to our consolidated financial statements). These options have been granted to employees, officers, directors and consultants of the company. Moreover, Nymox may use its shares as currency in acquisitions.

We Face Potential Losses Due to Foreign Currency Exchange Risks

Nymox incurs certain expenses, principally relating to salaries and operating expenses at its Canadian head office, in Canadian dollars. All other expenses are derived in U.S. dollars. As a result, we are exposed to the risk of losses due to fluctuations in the exchange rates between the U.S. dollar and the Canadian dollar. We protect ourselves against this risk by maintaining cash balances in both currencies. We do not currently engage in hedging activities. We cannot say with any assurance that the Company will not suffer losses as a result of unfavorable fluctuations in the exchange rates between the United States dollar and Canadian dollar.

We Have Never Paid a Dividend and are Unlikely to do so in the Foreseeable Future

Nymox has never paid any dividends and does not expect to do so in the foreseeable future. We expect to retain any earnings or positive cash flow in order to finance and develop Nymox s business.

ITEM 4. INFORMATION ON THE COMPANY

History of the Company

Nymox was incorporated under the Canada Business Corporations Act in May, 1995 to acquire all of the common shares of DMS Pharmaceutical Inc., a private company which had been carrying on research and development since 1989 on diagnostics and drugs for brain disorders and diseases of the aged with an emphasis on Alzheimer s disease. Nymox has two subsidiaries: one wholly-owned subsidiary named Nymox Corporation and the other a majority owned subsidiary named Serex, Inc., acquired in 2000. Both subsidiaries are based in the same building in Hasbrouck Heights, New Jersey. Nymox Corporation conducts some research and development, while Serex conducts research and development, and some of the manufacturing for NicAlert™ and TobacAlert™.

Nymox's principal executive offices are located at:

Nymox Pharmaceutical Corporation

9900 Cavendish Boulevard, Suite 306, St. Laurent, Quebec, Canada, H4M 2V2

Phone: (800) 936-9669 Fax: (514) 332-2227

Nymox s registered agent in the United States is:

CT Corporation System

111 Eighth Avenue, 13th Floor

New York, NY, 10011

Nymox s two subsidiaries are located at:

Nymox Corporation

777 Terrace Avenue

Hasbrouck Heights, NJ, USA 07604

Serex, Inc.

777 Terrace Avenue

Hasbrouck Heights, NJ, USA 07604

Nymox Pharmaceutical Corporation is a biopharmaceutical company with three unique proprietary products on the market, and a significant R&D pipeline of drug and diagnostic products in development for the treatment of such conditions and diseases as enlarged prostate (benign prostatic hyperplasia or BPH), Alzheimer s disease (AD), *E. coli* O157:H7 contamination of food and drink products, and bacterial infections and for the diagnosis of AD and other indications. Nymox has also U.S. and global patent rights for the use of statin drugs for the treatment and prevention of Alzheimer s disease.

Acquisition of a Majority Interest in Serex, Inc.

In March 2000, we acquired a controlling interest in Serex, Inc., a privately held diagnostic company based in New Jersey and now own approximately 99% of its common stock.

Serex s patented diagnostic technologies include its particle valence technology, a unique, highly sensitive, new method to detect very small amounts of biochemical indicators in body fluids such as blood, urine and saliva. This technology can be adapted to detect a wide range of biochemical indicators for diseases, conditions and drug use. Our NicAlert™ and TobacAlert™ employ this technology to measure levels of one of the metabolic products of nicotine in human urine, in order to determine whether a person is using or has been exposed to a tobacco product. NicAlert™ and TobacAlert™ are currently being distributed by Nymox, drugstore.com and Jant Pharmacal Corporation.

Products

NicAlert™ for Tobacco Product Use and TobacAlert™ for Second-Hand Smoke Exposure

Nymox has developed and markets NicAlert™ and TobacAlert™, which are inexpensive, simple-to-use test strips for determining whether a person is using tobacco products (NicAlert™) or has been recently exposed to second-hand smoke (TobacAlert™). Both NicAlert™ and TobacAlert™ employ Serex, Inc.'s patented technology to provide an accurate read-out of levels of cotinine, a by-product of the body s breakdown of nicotine and generally regarded as the best indicator of tobacco exposure for smokers and nonsmokers. The technology can be used with saliva as well as urine samples in order to detect tobacco product use. NicAlert™ and TobacAlert™ do not require instruments or special training to use and offer a quick, convenient means to test on-site whether a person, such as a child, teenager, student athlete or insurance applicant, is using a tobacco product or has been exposed to second-hand smoke.

Smoking and other tobacco product use is a serious public health problem around the world. Smoking kills. According to the Centers for Disease Control and Prevention, cigarette smoking is responsible for more than 430,000 deaths per year in the United States alone. Smoking can cause cancer of the lung, mouth, bladder, larynx, esophagus and other organs, as well as heart disease and stroke and chronic lung disease. Every year, exposure to second-hand smoke (environmental tobacco smoke or ETS) causes an estimated 3,000 nonsmoking Americans to die of lung cancer and up to 300,000 American infants and small children to suffer from lower respiratory tract infections.

NicAlert™ received clearance from the U.S. Food and Drug Administration (FDA) in October 2002 for medical use to determine if an individual has been exposed to tobacco products. In January, 2006, Nymox announced the certification of the urine-based version of NicAlert™ with a CE Mark making it eligible for sale in the European Union and in May, 2006 the certification of the saliva-based version of NicAlert™ with a CE Mark. In September, 2003, Nymox launched TobacAlert™ for nonmedical testing for second hand smoke exposure in the U.S.

We market the NicAlert™ and TobacAlert™ tests through our own marketing arm and distributors in North America, Europe and Asia. TobacAlert™ is also available online at www.drugstore.com. and at www.tobacalert.com. Nymox has entered into distribution and marketing agreements with companies and organizations in the U.S., the U.K., and Spain for these products.

Our NicAlert™ and TobacAlert™ products face competition from clinical laboratories such as LabCorp and Quest Diagnostics which provide off-site lab testing for cotinine, the by-product of the body's breakdown of nicotine measured by NicAlert™ and TobacAlert™, and from assay suppliers, including immunoassay developers such as Orasure Techologies Inc. and Cozart Bioscience Ltd, and diagnostic system manufacturers such as Roche Diagnostics, Abbott and Diagnostic Products Corporation. NicAlert™ and TobacAlert™ also face competition from distributors who supply yes-no smoking status tests such as SmokeCheck, NicQuick, and QuickScreen, from NicCheck I, an FDA-cleared smoking status test being marketed by Mossman & Associates Ltd, from SmokeScreen, a chemical color-based tobacco test being marketed by Mermaid Diagnostics, Ltd. in the United Kingdom, and from carbon monoxide (CO) monitors such as SmokeCheck.

NicAlert™ and TobacAlert™ products are currently partly manufactured through out-sourcing arrangements with contract manufacturers. To date, we have not experienced any significant interruptions in the manufacture of these products and the cost of the manufacturing services has not been volatile. The manufacturing services supplied by our current contract manufacturers are not unique or unduly complicated and other contract manufacturers are available to provide similar services in the event that our current contract manufacturers fail to meet our needs.

The technology used in these products is covered by patents and patent applications held by Nymox's subsidiary, Serex, Inc., both in the U.S. and elsewhere in the world with expiry dates no earlier than 2012.

Independent studies published in peer-reviewed medical and scientific journals reported finding that the Company's NicAlert™ Saliva product provides an accurate, convenient and cost-effective way to verify self-reported smoking status with broad potential applications both in the clinic and in large research trials and surveys. In 2008, one such study, Fiona Cooke et al. Diagnostic accuracy of NicAlert cotinine test strips in saliva for verifying smoking status, *Nicotine Tob Res.* 2008;10:607-12, was published in *Nicotine & Tobacco Research*, the official journal of the Society for Research on Nicotine and Tobacco (SRNT). Other published studies include *Cancer Epidemiol Biomarkers Prev.* 2007;16:1858-62 and *Int J Circumpolar Health.* 2007; 66 Suppl 1:29-38.

NicAlert™ Saliva was also reported used in research studies where there was a need to verify or monitor smoking status or nicotine replacement therapy (NRT): see, for example, *Am J Prev Med.* 2007; 33:297-305 (monitoring NRT in smoking cessation research involving pregnant women), *Int J Behav Med.* 2006; 13:16-25 (verifying smoking status in a smoking study of cancer patients), and *Neuropsychopharmacology* 2008; 33:480–490 (confirming non-smoking status for entry into the study).

AlzheimAlert ™; an Aid to the Diagnosis of Alzheimer's Disease

We offer AlzheimAlert™, a proprietary urine assay that can aid physicians in the diagnosis of Alzheimer's disease. We offer a kit version of the AlzheimAlert™ assay for sale in Europe. The AlzheimAlert™ kit has the CE Mark. The kit allows clinical reference laboratories to perform the AlzheimAlert™ assay on site with urine samples sent directly to the laboratory. Nymox has signed distribution deals for AlzheimAlert™ with companies in Italy, Spain, Greece, the U.K., the Czech Republic and South Korea. We filed a premarket approval (PMA) application for the diagnostic kit version of the AlzheimAlert™ test with the U.S. FDA in February 2004. On July 15, 2005, an FDA advisory panel voted 5-2 against approval of the kit, citing the need for further studies, such as long term follow-up and autopsy confirmation.

The AlzheimAlert™ assay is based on research by scientists at the Massachusetts General Hospital and Brown University – and on years of clinical studies to establish and confirm the accuracy of the assay technology as an aid to the diagnosis of Alzheimer s disease. In 1997, Nymox succeeded in developing a commercial assay that used spinal fluid samples. Subsequently, Nymox was able to develop an assay that used more easily obtained first morning urine samples. The AlzheimAlert™ assay represents the latest generation of development of this testing technology.

Nymox licensed the technology that led to the development of the AlzheimAlert™ assay in 1997 from the Massachusetts General Hospital as part of a sponsored research and licensing agreement, under which Nymox sponsored the research of the principal investigators into the use of neural thread protein (NTP), its antibodies or genes for diagnostic or therapeutic purposes. Nymox also paid the patent costs for the patent applications filed arising out of this research. In return, Nymox received an exclusive worldwide license of the patents to sell products and to use processes encompassed by them. Nymox is to pay the Massachusetts General Hospital a 4% royalty of the net sales price of any product developed and sold under the license. Nymox currently pays this royalty on its sales of its AlzheimAlert™ product. The license and the obligation to pay patent costs and royalties continue for the life of the patents, which run until November 2014 at the earliest. The Massachusetts General Hospital has the right to terminate the license in any country where, after the first commercial sale of the product in the country, there is a continuous two year period in which no product is sold in such country. There are eight issued U.S. patents under license and a correspondingly larger number of patents and patent applications in Europe, Japan, Canada, Australia, New Zealand and South Korea. The sponsored research portion of this agreement terminated in March 1999. Nymox retained the exclusive license to the rights to the AlzheimAlert™-related patents owned by the Massachusetts General Hospital.

Effective March 1999, Nymox entered into a similar sponsored research and licensing agreement with Brown University and the Rhode Island Hospital. Under the terms of this agreement, Nymox continued to sponsor research into the uses of neural thread proteins, their antibodies or genes for diagnostic, therapeutic and research purposes and to pay the patent costs for any patent applications filed arising out of this research. In return, Nymox received an exclusive worldwide license of any such patents to sell products and to use processes encompassed by them. The Rhode Island Hospital has the right to terminate the license in any country where, after the first commercial sale of the product in the country, there is a continuous two year period in which no product is sold in such country. Nymox is to pay the Rhode Island Hospital a 4% royalty of the net sales price of any product developed and sold under the license. The sponsorship of this agreement expired in March 2005; however, Nymox retains the exclusive license to patent rights on certain NTP-based technology including a license to an issued U.S. patent.

Recent publications in the peer-reviewed literature concerning the clinical utility of the assay in the diagnosis of Alzheimer s disease include, for example, the *Journal of Clinical Investigation* (1997; 100: 3093-3104); *Journal of Contemporary Neurology* (1998; art. 4a); *Journal of Clinical Laboratory Analysis* (1998; 12: 285-288) and (1998; 12: 223-226); *Alzheimer s Reports* (1999; 2: 327-332), (2000; 3: 177-184), (2001; 4: 61-65) and (2002; 5: 1-6); *Neurology* (2000; 54: 1498-1504) and (2000; 55: 1068); *Journal of Alzheimer s Disease* (2001; 3: 345-353) and (2004; 6(3): 231-42); *Cellular and Molecular Life Sciences* (2001; 58: 844-849) and (2003; 60: 2679-91); *Neurology and Clinical Neurophysiology* (2002; 1: 2-7); *Journal of Neuropathology and Experimental Neurology* (2001; 60: 195-207) and (1996; 55: 1038-1050), *Frontiers in Bioscience* (2002; 7: d989-96), *Journal of the American Medical Directors Association* (Jan 2007; 8:21-30), *Journal of Clinical Laboratory Analysis* (Jan 2007;21:24-33), and *Expert Review of Molecular Diagnostics* (January 2008; 8:21-28).

Nymox believes that its AlzheimAlert™ test can assist a physician faced with the task of diagnosing whether a patient has Alzheimer's disease. A recently published independent peer-reviewed double blind study from 8 prestigious centers across the U.S. found the level of accuracy of the AlzheimAlert™ urine test to be over 90% (*Journal of the American Medical Directors Association* Jan 2007; 8:21-30; "A multi-center blinded prospective study of urine neural thread protein measurements in patients with suspected Alzheimer's disease," Goodman I *et al.*). This study confirmed several earlier company funded trials of the AlzheimAlert™ technology. In earlier studies, the test results were positive for over 87% of the patients with verified Alzheimer disease and negative in over 89% of subjects without the disease (known as a low false positive rate). The low rate of positive results for patients without the disease is important for doctors investigating patients with subtle or marginal symptoms of mental, emotional, cognitive, or behavioral changes. If the doctor can rule out Alzheimer s with more assurance, a great deal of patient and family anguish and anxiety will be avoided. A low test score will help the doctor to be more certain that Alzheimer s disease is not the cause of the patient s symptoms and to target the other, often reversible causes of the patient s symptoms, such as depression. There can be no assurance that further studies will repeat the same level of success experienced to date.

There is a large unmet need for a simple, non-invasive test that can aid in the diagnosis of Alzheimer s disease. Alzheimer s disease is the most common cause of dementia in persons 65 years of age and older and is the fourth leading cause of death among the elderly. There are an estimated 4.5 million people with Alzheimer's disease in the United States alone; by 2050 this number is projected to increase almost three times to 13.2 million. Worldwide estimates of the current number of people with Alzheimer's disease range from 15 to 20 million. The annual national direct and indirect costs of caring for Alzheimer patients in the U.S. alone are estimated at $100 billion. The human toll on patients, families and caregivers is incalculable. Despite the need for an accurate clinical test, the definitive diagnosis of the disease is possible only after the death of the patient by expert, pathologic examination of brain tissue.

The U.S. Surgeon General s Report on Mental Health, released on December 13, 1999, identified the importance and the need for the early detection and diagnosis of Alzheimer s disease. The report described the current approach to Alzheimer s disease diagnosis, clinical examination and the exclusion of other common causes of its symptoms, as time- and labor-intensive, costly and largely dependent on the expertise of the examiner. As a result, the illness is currently under-recognized, especially in primary care settings, where most older patients seek care. The report joined other experts writing in the field in recognizing the need for a better, more reliable method for diagnosing the disease in living patients and in particular, the need of a simple, accurate and convenient test that could detect a biochemical change early in patients with Alzheimer’s disease. We believe our AlzheimAlert™ product provides such a test.

The early diagnosis of Alzheimer’s disease is important to physicians, patients and their families and enables them to make informed and early social, legal and medical decisions about treatment and care. Early diagnosis of Alzheimer s disease has become increasingly important with new improvements in drug treatment and care. Even a modest delay in institutionalization can mean substantial social and financial savings. Conversely, any testing procedure that could rule out Alzheimer s disease would eliminate the tremendous uncertainty and anxiety patients and their families otherwise face and would allow physicians to focus on the other, often reversible, causes of cognitive changes.

Early diagnosis as facilitated by the AlzheimAlert™ test represents a potentially large cost-savings in the form of a reduced number of office visits, lab tests, scans and other procedures required by the traditional methods of diagnosis.

In the field of Alzheimer’s disease diagnosis, our AlzheimAlert™ test faces growing competition which could detrimentally impact on our ability to successfully market and sell our diagnostic test. Our competitors include:

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Athena Diagnostics, Inc., a wholly owned subsidiary of Thermo Fisher Scientific, which is currently marketing three tests claimed to aid in the diagnosis of Alzheimer's disease: a genetic test for the rare cases of familial, early-onset Alzheimer's disease; a genetic test for a relatively common mutation of a gene said to increase the likelihood of a person with at least one of the genes contracting the disease; and a test for two proteins in the spinal fluid of patients.

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Innogenetics NV, a Solvay Pharmaceuticals company, which currently markets tests and kits for two proteins and a variant of one of these proteins in the spinal fluid of patients and a genetic test for a relatively common mutation of a gene said to increase the likelihood of a person developing the disease.

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Applied NeuroSolutions, Inc. currently markets a research test for a variant of a protein in the spinal fluid of patients.

There are also a number of other proposed biochemical signs of the disease that could potentially be developed into a commercial diagnostic test as well as various scanning and imaging technologies which compete for a portion of the diagnostic market for Alzheimer s disease. In June 2004, the Centers for Medicare and Medicaid Services (CMS) approved limited coverage of a Positronic Emission Tomography (PET) imaging procedure for helping to more precisely distinguish Alzheimer's disease from a rarer type of dementia when clinical evaluation has been inconclusive. In October 2004, the National Institute on Aging in conjunction with other Federal agencies, private companies and organizations launched the Alzheimer s disease Neuroimaging Initiative, a $60 million initiative to test whether various scanning and imaging technologies, biochemical markers, and clinical and neuropsychological testing can be combined to help diagnose early Alzheimer s disease. A number of companies, including GE, are actively working to develop imaging technologies for the diagnosis of Alzheimer s disease.

Products in Development:

NX-1207 for Enlarged Prostate (BPH)

We are developing treatments for enlarged prostate (benign prostatic hyperplasia or BPH), using novel compounds. Our lead candidate NX-1207, which successfully completed a multi-center, double-blind, placebo-controlled Phase 2 trial in September 2006, is presently in Phase 3. We cannot predict with any certainty the outcome of this trial, what further steps may be required in order to apply for final FDA approval for this drug or whether the FDA will ultimately grant us such approval.

There is a significant unmet need for an effective treatment for BPH. More than half of men in their sixties and as many as 90% of men in their seventies and eighties have some symptoms of BPH. Symptoms include more frequent urination (especially at night), difficulty urinating, incomplete emptying of the bladder and sometimes complete inability to urinate. More serious cases may require surgical intervention to reduce the size of the prostate. There is a need for a simple, effective treatment for BPH, particularly in cases where existing drug treatments have proven to be ineffective and where more intrusive procedures such as surgery may be inadvisable or bring unacceptable risks.

In September, 2006, Nymox announced positive efficacy and safety results from the completed multi-center, double-blind, placebo-controlled Phase 2 clinical trial of NX-1207. 43 clinical trial sites across the U.S. and 175 subjects participated in the Phase 2 trial. Overall, patients treated with NX-1207 showed a total pooled mean improvement of 9.35 points in the primary outcome endpoint of AUA Symptom Score values, a standardized measurement of BPH symptoms used to evaluate the effectiveness of treatments for BPH. This total mean improvement for NX-1207 treatment reached statistical significance when compared with the placebo control (p=.017). Published studies of currently approved drugs for BPH show AUA Symptom Score improvement in the 3.5 to 5 point range. The treated subjects also showed an overall significant reduction in mean prostate volume (secondary outcome) of 11.7% (6.84 grams; p=.02). The results of the trial demonstrated an excellent safety and side effect profile for NX-1207. Subjects treated with NX-1207 had no serious side effects. In particular, patients given NX-1207 had no (0%) significant sexual side effects.

In February 2008, the Company reported statistically significant positive results in a new 32 site U.S. study of NX-1207. The mean improvement in this Phase 2 study (9.71 points in the BPH Symptom Score) was superior to the study comparator, which was finasteride, an approved drug for BPH (4.13 points) (p=.001). The study demonstrated a statistically significant greater improvement in patients given full dose NX-1207 compared to low dose NX-1207

(p=.033). Safety results in the clinical trial were excellent.

Results of 6 follow-up studies of available subjects from NX-1207 clinical trials have provided evidence of durable benefits from NX-1207 treatment for up to 4½ years from the date of treatment. In May 2008, the Company reported statistically significant improvement compared to placebo in a 22 to 33 month follow-up study of 93 patients treated with NX-1207 at 17 U.S. clinical trial sites. Results in that study showed that patients at follow-up without any other treatment for BPH had a mean of 11.3 points BPH Symptom Score reduction, which represents a 47% improvement in symptoms from before treatment.

Our treatments under development for enlarged prostate (benign prostatic hyperplasia or BPH) face significant competition from existing products. There are eight drugs approved for treatment of BPH: four proprietary drugs (dutasteride (Avodart®), tamsulosin (Flomax®), alfusozin (Uroxatral®), and silodosin (Rapaflo™)) and four generics (finasteride, terazozin, doxazozin, and prazosin). There are a number of thermal treatments on the market designed to shrink the enlarged prostate by heating its tissue with a device inserted through the urethra (the passage leading from the bladder through the penis through which men urinate). The devices on the market use microwave energy (Prostatron®, Targis Therapy® or TherMatrx®), low level radiowaves (TUNA System®), lasers (Indigo LaserOptic Treatment System® or Laserscope GreenLight PVP™), direct heat or hot water to heat or burn away prostate tissue. A variety of surgical procedures exist to surgically reduce or remove the prostate or to widen the urethra. These include procedures to cut away prostate tissue such as TURP (transurethral resection of the prostate) and using a resectoscope with an electrical loop inserted through the penis to cut the prostate tissue. A small device used to widen the constricted urethra called a prostatic stent can also be inserted.

NXC-4720 for E. coli Contamination of Meat

We are developing novel antibacterial agents for the treatment of *E. coli* O157:H7 bacterial contamination in hamburger meat and other food and drink products and for the treatment of urinary tract and other bacterial infections in humans which have proved highly resistant to conventional antibiotic treatments.

E. coli contamination of food and drink is a serious public health problem worldwide and a major concern for meat processors in particular. *E. coli* bacteria occur normally and usually harmlessly in the gastrointestinal tracts of humans, cows and other animals. However, one mutant variety of the E. coli bacteria, *E. coli* O157:H7, can cause life-threatening illness and has been implicated in cases of severe diarrhea, intestinal bleeding and kidney failure, leading, in some cases, to death in children and the elderly. *E. coli* contamination in hamburger meat and other food products and in drinking water affects about 70,000 people in the United States a year.

There is a well-recognized need in the beef industry to address the problem of *E. coli* contamination in meat processing and in livestock. *E. coli* contamination has triggered massive recalls of ground beef in the U.S. Cattle are a natural reservoir for the deadly strain of *E. coli*. Water contamination from cattle operations have led to public health tragedies.

Nymox developed a potent new antibacterial agent, NXC-4720. Tests of NXC-4720 show it to be highly effective against all known substrains of *E. coli* O157:H7, destroying the bacteria efficiently, rapidly and at a very low dose. In 1999, we began further laboratory trials for this agent as a treatment for food and drink contamination and entered into agreements with various collaborators. NXC-4720, which is being developed as a treatment of meat at the processing stage, has been shown to be capable of substantially reducing the level of potentially fatal *E. coli* O157:H7 contamination on fresh beef according to laboratory studies. Other projects in this area, such as treating *E. coli* O157:H7 infection in livestock, are in preliminary stages of development. Further pre-clinical testing and development is required before we can apply for regulatory approval for use of this agent on the processing of food and drink for human consumption.

The problem of *E. coli* O157:H7 contamination of hamburger meat and other food products is also well-known and a number of companies and researchers have been pursuing various potential solutions, including irradiation with x-rays, better detection of contamination, electronic pasteurization, vaccination and competitive exclusion of the pathogenic *E. coli* bacteria by harmless bacteria. The development of alternative solutions to the problem of E. coli infection may adversely affect the market for our treatment for *E. coli* O157:H7 infection in cattle and contamination of food products.

Nymox has also developed three other novel antibacterial agents, NXB-4221 for the treatment of difficult chronic and persistent urinary tract infections; NXB-5886 for the treatment of streptococcal infection; and NXT-1021 for the treatment of staphylococcal infection. Urinary tract infections in women caused by bacteria such as *E. coli* are a common and significant infection often resistant to conventional antibiotic treatment. Some varieties of streptococcus and staphylococcus bacteria, a common source of infection in humans, have acquired a broad immunity to antibiotic treatments. Infections from these antibiotic resistant bacteria are difficult to treat and can be life threatening.

Nymox s three antibacterial agents for the treatment of infectious disease have all shown the ability to kill their bacterial targets in culture with no signs of toxicity. Further pre-clinical testing and development is required before we can apply for regulatory approval to begin initial testing in humans.

A similar competitive reality prevails in the field of novel anti-infectives. Over the past ten years, there has been an increasing awareness of the medical need and of emerging market opportunities for new treatments for antibiotic resistant bacterial infections. Many of the major pharmaceutical companies are developing anti-infective drugs that either modify their existing drugs or involve new anti-bacterial properties. Many biotechnology companies are developing new classes of anti-bacterial drugs. At least three major pharmaceutical companies have vaccines against bacterial infections in development. To the extent that these companies are able to develop drugs or vaccines that offer treatment for some or all of the indications for our anti-infectives, the market for our products may be adversely affected.

Nymox has patent rights to these and other antibacterial agents.

The Use of Statin Drugs for the Treatment or Prevention of Alzheimer s Disease

In October 2002, we were issued a United States patent for the use of statin drugs to treat, prevent or reduce the risk of the onset of Alzheimer s disease and have issued patents or pending patent applications elsewhere, including Europe, Japan, Canada and Australia. Statins are a class of commonly prescribed cholesterol lowering drugs that have a well-established safety record and are widely available. The potential of statin drugs for AD has been featured in a cover story in *Newsweek*, as well as in the *New York Times*, *Fortune*, *Los Angeles Times*, and *The Wall Street Journal.* Some of the recent scientific studies and reviews concerning the potential for statin drugs to treat or reduce the risk of AD or loss of cognitive function include *Neurology*. 2007; 69:1873-80; *Expert Opinion on Ther Targets*. 2007;11:1257-60; *CNS Drugs.* 2007;21:449-62; *Neurosci Lett.* 2007;416:279-84; *Curr Med Chem.* 2007;14:103-12; *Neurol Res.* 2006; 28:630-6, *Acta Neurol Scand* 2006; 114 (Suppl. 185): 78-86, *Acta Neurol Scand* 2006; 114 (Suppl. 185): 3 7, *J.Neurochem.* 2006; 97:716-723; *Restor. Neurol. Neurosci* 2006; 24:79-95; *Neuromolecular Med.* 2006; 8:319-328, *Neurology* 2005; 65:1388-1394, *J. Neurol. Neurosurg. Psychiatry* 2005; 76:1624-1629, *The American Journal of Medicine* 2005; 118: 48S-53S; *The Lancet Neurology* 2005; 4:841-852; *Current Opinions in Lipidology* 2005;16: 619-623; *The Lancet Neurology* 2005; 4: 521-2, *Arch Neurol* 2005; 62:1047-51, *Neurology* 2005; 64:1531-8, *Arch Neurol* 2005; 62:753-7, *J Neurol Sci* 2005; 229-230:147-50, *Arch Gen Psychiatry* 2005; 62:217-24. *International Journal of Geriatric Psychiatry* (2004; 19:327-32), *Neuroepidemiology* (2004; 23:94-8); *Neuron* (2004; 41:7-10); *Archives of Neurology* (2000; 57:1439-1443); *Lancet* (2000; 356:1627-1631); *Archives of Neurology* (2002; 59:223-227); *Journals of Gerontology: Biological Sciences and Medical Sciences* (2002; 57:M414-M418); and *Journal of the American Geriatrics Society* (2002;50:1852-1856). Some studies, however, have not found evidence that statins may help treat or prevent Alzheimer s disease and research in this area is ongoing. No statin drug has been approved for use in the treatment or prevention of Alzheimer s disease.

Research and Development of New Products

New Therapeutics for Alzheimer s Disease

Nymox has a number of proprietary drug development programs aimed at treatments for Alzheimer's disease and other indications. One program targets neural thread protein (NTP) and its role in the extensive brain cell loss associated with AD. Another program is based on spherons, which Nymox researchers regard as a source of senile plaques, the characteristic abnormality found in abundance in the brains of patients with AD and widely believed to play a major role in the cause and course of the illness. A third program is based on a novel drug candidate, NXD-5150, for neurodegenerative disease.

At present, there is no cure for Alzheimer s disease. There are five drugs approved by the FDA, tacrine (brand-name Cognex®), donepezil HCI (brand-name Aricept®), rivastigmine (brand-name Exelon®), galantamine hydrobromide (brand name Razadyne®) and memantine (brand name Namenda™) for the treatment of Alzheimer's disease. However, at most these drugs offer symptomatic relief for the loss of mental function associated with the disease and possibly help to delay the progression. There is no consensus as to the cause of Alzheimer s disease or even whether it is one disease or many.

There is an urgent need for an effective treatment for the illness, caused in part by the rising health care, institutional and social costs for the treatment and care of Alzheimer s disease sufferers. The Surgeon General s Report on Mental Health released on December 13, 1999, put the direct health care costs for the illness in the United States at almost $18 billion for 1996. In April 2002, the National Institute on Aging reported that the cost of care to family, caregivers and society in general was estimated to exceed $100 billion per year.

These costs are expected to rise sharply as the baby boom generation ages and more people become at risk for the disease. According to the National Institute on Aging s *2007 Progress Report on Alzheimer s Disease: Discovery and Hope*, experts agree that the number of people with AD will increase significantly if current population trends continue and no preventive treatments become available. As people live longer, they become more at risk of developing Alzheimer s disease. The U.S. Census Bureau estimates that the number of people in the U.S. aged 65 and older is expected to double to about 72 million people in the next 25 years. Moreover, the 85-and-older age group is now the fastest growing segment of the U.S. population.

Nymox s research into drug treatments for Alzheimer s disease is aimed at compounds that could arrest the progression of the disease and therefore are targeted for long term use.

Drugs Targeting Spherons

We are a leader in research and development into drugs for the treatment of Alzheimer s disease that target spherons. Nymox researchers believe that spherons are a cause of senile plaques, the characteristic lesion found abundantly in the brains of patients with Alzheimer s disease and believed by many researchers to play a pivotal role in the fatal illness. Spherons are tiny balls of densely packed protein found in brain cells scattered throughout the brains of all humans from age one. Nymox researchers have found that as humans age the spherons grow up to a hundred times larger until they become too large for the cells that hold them. Once released from the cells, the researchers believe that the spherons burst, creating senile plaques, contributing to the cellular damage and biochemical changes pivotal to the symptoms and signs of Alzheimer s disease.

The substantial evidence linking spherons to senile plaques and Alzheimer s disease has been published in journals such as the *Journal of Alzheimer s Disease*, *Drug News & Perspectives* and *Alzheimer Reports*. There are 20 important criteria of validity which have been set forth correlating the disappearance of spherons in old age with the appearance of senile plaques and implicating spherons as a major cause in Alzheimer s disease. In 2000, Nymox researchers published important findings in *Alzheimer Reports* (2000; 3: 177-184) confirming that spherons contain key proteins that are also known to be in senile plaques and showing that, like senile plaques, spherons contain unusually old proteins in terms of the human body s metabolism, with an average age of 20 to 40 years. In 2003, Nymox announced the discovery that spherons contain toxic molecules termed spherotoxins which its researchers believe contribute significantly to the cell death and symptoms characteristic of Alzheimer's disease.

Nymox researchers believe that stopping or inhibiting the transformation of spherons into senile plaques will help stop or slow the progress of this illness. However, there is no consensus among researchers about the causes or possible treatments of Alzheimer s disease and not all researchers share this belief that spherons are a causative factor in Alzheimer s disease or are a target for the development of treatments for the disease.

Based on the research findings discussed above and the spheron-based approach to the treatment of the disease, we have developed novel, proprietary drug screening methods based on spherons and used them to discover, develop and test drug candidates to inhibit the formation of Alzheimer plaques from spherons. These candidates have the potential to slow or stop the progression of the disease.

We have two distinct new drug candidates, NXD-3109 and NXD-1191, neither of which demonstrate significant toxicity and both of which had positive animal testing results. These candidates are at the stage of pre-clinical testing.

Such drug candidates will require regulatory approval in order to begin clinical studies for humans, but there is no guarantee that any of these drug candidates will ever be approved for marketing as a treatment for Alzheimer s disease. Drug candidates that look promising in early studies in the laboratory or with animals often prove on further testing to be unsafe, ineffective or impractical to use with human patients. The cost of bringing a drug candidate through the necessary clinical trial and regulatory approvals is very high and may require us to seek substantial financing through various sources including the issuing of more stock, the borrowing of funds secured by financial instruments such as bonds or agreements with major pharmaceutical companies. We risk not being able to secure such funding in the necessary amounts or on sufficiently favorable terms.

Nymox holds global patent rights covering both methods for using spherons as targets for developing drugs and for the actual drug candidates discovered.

Neural Thread Protein Based Drugs

Nymox developed a unique drug screening system, based on the research that led to its AlzheimAlert™ test, to identify other potential drug candidates for the treatment of Alzheimer s disease. There is a substantial body of evidence showing that NTP may play a key role in Alzheimer s disease, including such published studies as *Journal of the Neurological Sciences* (1996; 138: 26-35), *Journal of Neuropathology and Experimental Neurology* (1996; 55: 1038-50) and (2001; 60: 195-207), *Journal of Clinical Investigation* (1997; 100: 3093-3104), *Alzheimer s Reports* (1999; 2: 327-332), *Journal of Alzheimer s Disease* (2001; 3: 345-353) and (2005; 7(1): 45-61), and *Cellular and Molecular Life Sciences* (2001; 58: 844-849) and (2003; 60:2679-91).

Nymox licensed the NTP technology in 1997 from Harvard University and the Massachusetts General Hospital as part of a sponsored research and licensing agreement. Under the terms of this agreement, Nymox sponsored the research of the principal investigators into the use of neural thread protein, its antibodies or genes for diagnostic or therapeutic purposes. Nymox also paid the patent costs for the patent applications filed arising out of this research. In return,

Nymox received an exclusive worldwide license of the patents to sell products and to use processes encompassed by them. Nymox is to pay the Massachusetts General Hospital a 4% royalty of the net sales price of any product developed and sold under the license. Nymox currently pays this royalty on its sales of its AlzheimAlert™ product. The license and the obligation to pay patents costs and royalties continue for the life of the patents, which run until November, 2014 at the earliest. The Massachusetts General Hospital has the right to terminate the license in any country where, after the first commercial sale of the product in the country, there is a continuous two year period in which no product is sold in such country. There are eight issued U.S. patents under license and a correspondingly larger number of patents and patent applications in Europe, Japan, Canada, Australia, New Zealand and South Korea. The sponsored research portion of this agreement terminated in March, 1999. Nymox retained the exclusive license to the rights to the NTP-related patents owned by the Massachusetts General Hospital.

Effective March 1999, Nymox entered into a similar sponsored research and licensing agreement with Brown University and the Rhode Island Hospital. Under the terms of this agreement, Nymox continued to sponsor research into the uses of neural thread proteins, their antibodies or genes for diagnostic, therapeutic and research purposes and to pay the patent costs for any patent applications filed arising out of this research. In return, Nymox received an exclusive worldwide license of any such patents to sell products and to use processes encompassed by them. The Rhode Island Hospital has the right to terminate the license in any country where, after the first commercial sale of the product in the country, there is a continuous two year period in which no product is sold in such country. Nymox is to pay the Rhode Island Hospital a 4% royalty of the net sales price of any product developed and sold under the license. The sponsorship agreement expired in March 2005; however, Nymox retains the exclusive license to patent rights on certain NTP-based technology including a license to an issued U.S. patent.

Nymox has screened compounds for their ability to impede the process of premature cell death and thus potentially help slow or halt the loss of brain cells in the Alzheimer s disease brain. This screening process identified promising drug candidates. The Company has developed a candidate, NXD-9062, which has shown significant progress in preclinical studies but successful completion of other pre-clinical studies is necessary before it can move into formal regulatory studies.

The company s third program is based on a new drug candidate for neurodegenerative disease, NXD-5150, which successfully completed important pre-clinical milestones. Nymox has exclusive rights to two patent applications covering NXD-5150 as well as other related drug candidates for neurodegenerative disorders.

Nymox faces intense competition for the development of an effective treatment for Alzheimer s disease. The market conditions for an Alzheimer s disease drug strongly favor the entry of other corporations into the area. The current market for therapeutic drugs for Alzheimer s disease is an estimated $2 billion. This market is expected to grow rapidly as new drugs enter the market and as the baby boom generation becomes more at risk for developing Alzheimer s disease. As a result, most of the major pharmaceutical companies and many biotechnology companies have ongoing research and development programs for drugs and treatments for Alzheimer s disease. Many of these companies have much greater scientific, financial and marketing resources than we have and may succeed in developing and introducing effective treatments for Alzheimer s disease before we can. At present, four drugs for Alzheimer s disease are being widely marketed in the United States, Aricept® by Pfizer, Exelon® by Novartis, Razadyne® by Janssen and Namenda™ by Forest. These four drugs only treat some of the symptoms of Alzheimer’s disease by enhancing memory and other mental functions and not the underlying causes of the illness.

Oncology products

We are in the preclinical stage of developing therapeutic products for oncological indications based on technology licensed from the Massachusetts General Hospital. We cannot predict with any certainty whether any such product will successfully complete preclinical testing, whether government regulatory agencies, such as the FDA, will permit such products to proceed to human trials, or whether ultimately any such product will be granted approval for sale and marketing in the U.S., Canada, or elsewhere in the world.

New Diagnostic Products

Nymox has a number of proprietary diagnostic markers and technologies, including a patented platform for point-of-care testing, and has tests utilizing these technologies in the early stages of development. Nymox also has U.S. patents for a unique method and device for using saliva to determine cholesterol levels and for a method of testing for osteoporosis. The company also owns patent rights to several novel biochemical indicators for Alzheimer s disease.

Manufacturing Arrangements

Our NicAlert™ and TobacAlert™ products and AlzheimAlert™ kits are currently partly manufactured through out-sourcing arrangements with contract manufacturers. To date, we have not experienced any significant interruptions in the manufacture of these products and the cost of the manufacturing services has not been volatile. The manufacturing services supplied by our current contract manufacturer are not unique or unduly complicated and other contract manufacturers are available to provide similar services in the event that our current contract manufacturer fails to meet our needs.

Property, Plant and Equipment

Nymox and Serex laboratory facilities in Hasbrouck Heights, New Jersey comprise 4,799 square feet of leased space. That lease agreement expires August 31, 2010. Nymox office and research facilities in St. Laurent, Quebec, Canada comprise 8,781 square feet of leased space. The lease agreement expires on August 31, 2010. Nymox Pharmaceutical Corp. and its two US subsidiaries Nymox Corp. and Serex, Inc. own a full complement of equipment used in all aspects of their research and development work. Nymox believes that its facilities are adequate for its current needs and that additional space, if required, would be available on commercially reasonable terms.

Governmental Regulation

Our AlzheimAlert™ test is subject to extensive government regulation in the United States. Any changes in CMS or state law requirements or in the FDA regulations could have an impact on our future ability to offer or market any reference laboratory services and/or on our ability to obtain reimbursement from the Medicare and Medicaid programs and providers.

We have developed a diagnostic kit version of the AlzheimAlert™ test. We will need to obtain FDA approval before we can market or sell such a diagnostic kit version outside of the clinical reference laboratory setting in the United States. Such approval for this type of commercial development is necessary for all in vitro diagnostic kits. On July 15, 2005, an FDA advisory panel voted 5-2 against recommending approval of our PMA application for the kit, citing the need for further studies, such as long term follow-up and autopsy confirmation. We cannot predict with any certainty when or if FDA approval will be forthcoming and we anticipate that more clinical testing or further documentation will be required before approval. If approved, the diagnostic kit would then be subject to postmarketing record and reporting obligations and manufacturing requirements.

Similar requirements exist in many other countries. In November 2004, Nymox satisfactorily completed the testing and registration required by European regulatory, environmental and quality standards in order to obtain a CE Mark for the AlzheimAlert™ kit. The CE Mark makes the AlzheimAlert™ kit eligible for sale in the European Union and enables European clinical and hospital laboratories to perform the AlzheimAlert™ test in their own facilities in Europe.

The regulatory process leading to such approval can be time-consuming and expensive and can result in an outright denial or a very limited approval only. Our product will be subject to premarketing and postmarketing requirements applicable to such devices, including those governing:

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clinical testing;

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design control procedures;

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prior FDA approval of a 510(k) application, where the FDA has determined that our diagnostic device is substantially equivalent to a marketed device, or a premarket approval application, where the FDA has been satisfied with clinical studies demonstrating the safety and efficacy of our device;

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postmarketing record and reporting obligations; and

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good manufacturing practices.

The requirements for a premarket approval application are analogous to those for the approval of a new drug and include four categories of information: indications for use, device description and manufacturing methods, alternative practices and procedures for the diagnosis of the disease and clinical and nonclinical studies. The requirements for a 510(k) application are generally less onerous but still include indications for use, safety and effectiveness data as well as manufacturing and quality assurance data and information. There can be no assurance that the AlzheimAlert™ test or any other medical device that we may develop in the future will obtain the necessary approvals within a specified time framework, if ever. In addition, the FDA may impose certain postmarketing requirements that may significantly increase the regulatory costs associated with our product. The FDA has recourse to a wide range of administrative sanctions and civil and criminal penalties in order to enforce the applicable laws, rules and regulations.

Our therapeutic products under development by Nymox would also have to receive regulatory approval. This is a costly, lengthy and risky process. In the United States, in order for a product to be marketed, it must go through four distinct development and evaluation stages:

Product Evaluation

We must conduct preliminary studies of potential drug candidates using various screening methods to evaluate them for further testing, development and marketing.

Optimization of Product Formulation

The activities in this stage of development involve consultations between us and investigators and scientific personnel. Preliminary selection of screening candidates to become product candidates for further development and further evaluation of drug efficacy is based on a panel of research based biochemical measurements. Extensive formulation work and in vitro testing are conducted for each of various selected screening candidates and/or product candidates.

Clinical Screening and Evaluation

During this phase of development, portions of which may overlap with product evaluation and optimization of product formulation, initial clinical screening of product candidates is undertaken and full scale clinical trials commence. The FDA must approve any clinical testing on healthy subjects (Phase 1) and on patients (Phase 2 and 3).

Final Product Development

The activities to be undertaken in final product development include performing final clinical evaluations, conducting large-scale experiments to confirm the reproducibility of clinical responses, making clinical lots for any additional extensive clinical testing that may be required, performing any further safety studies required by the FDA, carrying out process development work to allow pilot scale production of the product, completing production demonstration runs for each potential product, filing new drug applications, product license applications, investigational device exemptions (and any necessary supplements or amendments) and undergoing comprehensive regulatory approval programs and processes.

We cannot assure you that we will successfully complete the development and commercialization of any therapeutic products.

In the United States, obtaining the necessary FDA approval for any drug is a lengthy, expensive and often arduous process. We cannot predict with any certainty the amount of time the FDA will take to approve one of our drugs or even whether any such approval will be forthcoming. Similar requirements exist in many other countries.

In the United States, the FDA approval procedure is a two-step process. We must file an investigational new drug (IND) application for each product with the FDA before beginning the initial (Phase 1) clinical testing of the new drug in healthy subjects. If the FDA has not commented on or questioned the application within 30 days of its filing, initial clinical studies may begin. If, however, the FDA has comments or questions, the questions must be answered to the satisfaction of the FDA before initial clinical testing can begin. In some instances, this process could result in substantial delay and expense. Phase I studies are intended to demonstrate the functional characteristics and safety of a product.

After Phase 1 testing, we must conduct extensive clinical trials with patients in order to establish the efficacy and safety of our drug. Once we complete the required clinical testing, we expect to have to file a new drug application for FDA approval in order to market most, if not all, of our new drugs. The application is complicated and detailed and must include the results of extensive clinical and other testing, the cost of which is substantial. The FDA conducts an extensive and often lengthy review of such applications. The agency is required to review applications within 180 days of their filing, but, during the review, frequently requests that additional information be submitted. This starts the 180-day regulatory review period anew when the requested additional information is submitted and, as a result, can significantly extend the review period. Until the FDA actually approves the new drug application, there can be no assurance that the agency will consider the information requested and submitted to justify approval. The packaging and labeling of products are also subject to FDA regulation. Accordingly, it is impossible to anticipate when the FDA will approve a new drug application.

Our lead candidate is NX-1207. We cannot predict with any certainty the outcome of future trials, what further steps may be required in order to apply for final FDA approval for this drug or whether the FDA will ultimately grant us such approval.

We must also obtain approval for our drugs or diagnostic devices from the comparable regulatory authority in other countries before we can begin marketing our product in that country. The approval procedure varies from country to country and can involve additional testing. The time required may differ from that required for FDA approval. Although there are some procedures for unified filings for certain European countries, in general each country has its own procedures and requirements, many of which are time-consuming and expensive. Thus, there can be substantial delays in obtaining required approvals from both the FDA and foreign regulatory authorities after the relevant applications are filed.

After such approvals are obtained, further delays may be encountered before the products become commercially available. If, subsequent to approval, new information becomes available concerning the safety or effectiveness of any approved product, the regulatory authority may require the labeling for the affected product to be revised or the product to be withdrawn. Our manufacturing of any approved drug must conform with the FDA s good manufacturing practice regulations which govern the production of pharmaceutical products and be subject to inspections and compliance orders.

Government regulation also affects our ability to receive an appropriate level of reimbursement for our products. Throughout the developed world, both public and private health care plans are under considerable financial and political pressure to contain their costs. The two principal methods of restricting expenditures on drugs and diagnostic products and services are to deny coverage or, if coverage is granted, to limit reimbursement. For single-payer government health care systems, a decision to deny coverage or to severely restrict reimbursement for one of our products can have an adverse effect on our business and revenues.

In the United States, where, to a significant degree, the patient population for our products is elderly, Medicare and Medicaid are sources of reimbursement. In general, any restriction on reimbursement, coverage or eligibility under either program could adversely affect reimbursement to Nymox for products and services provided to beneficiaries of the Medicare and/or Medicaid programs. Many elderly people are covered by a variety of private health care organizations either operating private health care plans or Medicare or Medicaid programs subject to government regulation. These organizations are also under considerable financial constraints and we may not be able to secure coverage or adequate reimbursement from these organizations. Without coverage, we will have to look to the patients themselves who may be unwilling or unable to pay for the product; in turn, doctors may be reluctant to order or prescribe our products in the absence of coverage of the product for the patient.

In response to rising health care costs, there have been a number of legislative and administrative proposals in the U.S. for the reform of the heathcare system. In 1997 the U.S. Congress implemented sweeping changes to the U.S. Medicare and Medicaid systems. Under Part C: Medicare + Choice programs, beneficiaries can opt for a variety of health delivery models, including coordinated care plans, HMOs, preferred provider organizations and provider sponsored organizations, private fee-for-service plans and medical savings account plans. In addition, states have the option to require Medicaid recipients to enroll with managed health care plans without first obtaining a waiver, making it substantially easier for the states to meet their Medicaid obligations through private managed care organizations. All these health care delivery systems, including the original Medicare and Medicaid systems, are subject to funding formulas and spending caps and may compensate for these restrictions by limiting coverage, eligibility and/or payments. In 2003, the U.S. government added insurance coverage to help pay for prescription drugs to Medicare. Legislative proposals before Congress to change the pricing mechanism for the prescription drugs available through that program, if passed, may have the effect of reducing the prices and profitability of such drugs. The long-term impact of legislative changes in terms of their efficiency, effectiveness and financial viability in delivering health care services to an aging population is uncertain at present. Any legislative or regulatory actions to reduce or contain federal spending under either the Medicare or Medicaid programs could adversely affect our ability to participate in either program as a provider or supplier of services or products and the amount of reimbursement under these programs potentially available to us.

Our AlzheimAlert™ test, and any of the new diagnostic and therapeutic products and services that we may develop, will be subject to coverage determinations by health care providers and payers. Federal and state regulations and law and internal coverage policies of health care organizations affect our ability to obtain payments for our products and services. The Medicare program will not pay for any expenses incurred for items or services that are not reasonable and necessary for the diagnosis or treatment of illness or injury or to improve the functioning of a malformed body member. Historically, CMS interpreted this provision in order to exclude from Medicare coverage those medical and health care services that are not demonstrated to be safe and effective by acceptable clinical evidence. CMS recently revised both its national coverage policies and procedures in general and specifically its coverage of diagnostic laboratory tests and constituted a Medicare Coverage Advisory Committee to provide advice on the effectiveness and appropriateness of medical items and services that are eligible for coverage under Medicare. It is unknown how these changes will affect our ability to obtain Medicare coverage for its products and services. However, an adverse national coverage decision with respect to one of our products or services will make it impossible to receive reimbursement from Medicare for that product and more difficult to convince private health care organizations to provide coverage for it. Even if we receive a favorable coverage decision for one of our products or services, there is no guarantee that the level of reimbursement for it will be close to our retail price for it or commensurate with the costs of developing and marketing it.

Patents And Proprietary Information

We believe that patent and trade secret protection is important to our business, and that our success will depend, in part, on our ability to obtain strong patents, to maintain trade secret protection and to operate without infringing the proprietary rights of others.

The commercial success of products incorporating our technologies may depend, in part, upon our ability to obtain strong patent protection. We cannot assure you that additional patents covering new products or improvements will be issued or that any new or existing patents will be of commercial benefit or be valid and enforceable if challenged.

We pursue a policy of seeking patent protection for valuable patentable subject matter of our proprietary technology and require all employees, consultants and other persons who may have access to its proprietary technology to sign confidentiality agreements.

The Company currently owns or has licensed exclusive rights to several hundred patents and patent applications in the U.S. and other countries around the world in support of its proprietary product development programs. Nymox has twenty U.S. patents issued or allowed and a corresponding larger number of patents and patent applications worldwide. Nymox has issued patents in the main European markets, including Great Britain, Germany, France, Italy, The Netherlands, Sweden and Spain among others and in other countries such as Japan, Canada and Australia. These patents and patent applications cover much of our current product development and technologies, including new drug candidates, proprietary screening technologies for finding drugs, promising diagnostic markers, new diagnostic assay methods, methods of treating meat and other food products; and anti-infective agents. The earliest expiry date for its

issued patents is July 2010 and the rest range from 2013 through 2021.

Nymox's subsidiary, Serex, has thirteen patents issued or allowed in the United States and a corresponding larger number of patents and patent applications worldwide. These patents and patent applications cover such areas as Serex's proprietary diagnostic technologies and methodologies. The expiry dates for its patents range from 2012 to 2017.

Nymox also has exclusive rights to twelve issued U.S. patents as well as a corresponding larger number of patents and patent applications worldwide through research and license agreements. The earliest of these patents expires in 2014.

Many companies have patents covering various drugs, methods and discoveries in the fields of diagnostics and therapeutics for Alzheimer s disease and related conditions and of new anti-infective agents. We believe that the patents issued to date will not preclude Nymox from developing and marketing our products; however, it is impossible to predict the extent to which licenses from third parties will be necessary. If Nymox were to need licenses from third parties there can be no assurance that we could obtain such licenses on commercially reasonable terms, if at all.

In the fields of diagnostic methods and diagnostic tests for common human diseases and conditions, where Serex has many of its patents, there are many patents issued covering many areas of diagnostic methods, tests and technologies. We believe that these patents issued to date to other companies will not preclude Serex from developing and marketing its products but you should be aware that it is often difficult to determine the nature, breadth and validity of competing patent claims in these fields, that there has been significant litigation in some of these areas (not involving Serex) and that, if and when Serex s products become more commercially successful, Serex s products or patents may become the subject matter of litigation. If Serex were to need licenses from third parties there can be no assurance that it could obtain such license on commercially reasonable terms, if at all.

Neither Nymox nor Serex are currently involved in litigation over patent and other intellectual property rights but significant litigation over these matters in the pharmaceutical and biotechnology industry is not uncommon. The validity and extent of patent rights can be very difficult to determine and involve complex legal, factual and scientific questions. Important legal issues about patent protection in the field of biotechnology have not been resolved. Patent litigation is costly and time-consuming and can consume substantial resources. An adverse decision can preclude the marketing of a product, expose us to significant liabilities or require us to obtain third party licenses, which may not be available at commercially reasonable prices.

We also rely upon trade secrets, know-how, and continuing technological advancement to develop and maintain our competitive position. We control the disclosure and use of our know-how and confidential information through agreements with the parties involved. In addition, we have confidentiality agreements with our key employees, consultants, officers and directors. There can be no assurance, however, that all confidentiality agreements will be honored, that others will not independently develop equivalent technology, that disputes will not arise as to the ownership of intellectual property, or that disclosure of our trade secrets will not occur. Furthermore, there can be no

assurance that others have not obtained or will not obtain patent protection that will exclude us from using our trade secrets and confidential information. To the extent that consultants or research collaborators use intellectual property owned by others in their work with us, disputes may also arise as to the rights to related or resulting know-how or inventions.

Competition

Rapidly evolving technology and intense competition are the hallmarks of modern pharmaceutical and biotechnology industries. Our competitors include:

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major pharmaceutical, diagnostic, chemical and biotechnology companies, many of which have financial, technical and marketing resources significantly greater than ours;

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biotechnology companies, either alone or in collaborations with large, established pharmaceutical companies to support research, development and commercialization of products that may be competitive with ours; and

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academic institutions, government agencies and other public and private research organizations which are conducting research into Alzheimer’s disease and which increasingly are patenting, licensing and commercializing their products either on their own or through joint ventures.

In the field of Alzheimer’s disease diagnosis, our AlzheimAlert™ test faces growing competition which could detrimentally impact on our ability to successfully market and sell our diagnostic test. Our competitors include:

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Athena Diagnostics, Inc., a wholly owned subsidiary of Thermo Fischer Scientific, which is currently marketing three tests claimed to aid in the diagnosis of Alzheimer's disease: a genetic test for the rare cases of familial, early-onset Alzheimer's disease; a genetic test for a relatively common mutation of a gene said to increase the likelihood of a person with at least one of the genes contracting the disease; and a test for two proteins in the spinal fluid of patients.

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Innogenetics NV which currently markets tests and kits for two proteins and a variant of one of these proteins in the spinal fluid of patients and a genetic test for a relatively common mutation of a gene said to increase the likelihood of a person developing the disease.

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Applied NeuroSolutions, Inc. currently markets a research test for a variant of a protein in the spinal fluid of patients.

There are also a number of other proposed biochemical signs of the disease that could potentially be developed into a commercial diagnostic test as well as various scanning and imaging technologies which compete for a portion of the diagnostic market for Alzheimer s disease. In June 2004, the Centers for Medicare and Medicaid Services (CMS) approved limited coverage of a Positronic Emission Tomography (PET) imaging procedure for helping to more precisely distinguish Alzheimer's disease from a rarer type of dementia when clinical evaluation has been inconclusive. In October 2004, the National Institute of Aging in conjunction with other Federal agencies, private companies and organizations launched the Alzheimer s Disease Neuroimaging Initiative, a $60 million initiative to test whether various scanning and imaging technologies, biochemical markers, and clinical and neuropsychological testing can be combined to help diagnose early Alzheimer s disease. A number of companies, including GE, are actively working to develop imaging technologies for the diagnosis of Alzheimer s disease.

Our NicAlert™ and TobacAlert™ products face competition from clinical laboratories such as LabCorp and Quest Diagnostics which provide off-site lab testing for cotinine, the by-product of the body’s breakdown of nicotine measured by NicAlert™ and TobacAlert™, and from assay suppliers, including immunoassay developers such as Orasure Techologies Inc. and Cozart Bioscience Ltd, and diagnostic system manufacturers such as Roche Diagnostics, Abbott and Diagnostic Products Corporation. NicAlert™ and TobacAlert™ also face competition from distributors who supply simple yes-no smoking status tests such as SmokeCheck, NicQuick, and QuickScreen, from NicCheck I, an FDA-cleared smoking status test being marketed by Mossman & Associates Ltd, from SmokeScreen, a chemical color-based tobacco test being marketed by Mermaid Diagnostics, Ltd. in the United Kingdom, and from carbon monoxide (CO) monitors such as SmokeCheck.

We also face intense competition for the development of an effective treatment for Alzheimer s disease. The market conditions for an Alzheimer s disease drug strongly favor the entry of other corporations into the area. The current market for therapeutic drugs for Alzheimer s disease is an estimated $2 billion. This market is expected to grow rapidly as new drugs enter the market and as the baby boom generation becomes more at risk for developing Alzheimer s disease. As a result, most of the major pharmaceutical companies and many biotechnology companies have ongoing research and development programs for drugs and treatments for Alzheimer s disease. Many of these companies have much greater scientific, financial and marketing resources than we have and may succeed in developing and introducing effective treatments for Alzheimer s disease before we can. At present, four drugs for Alzheimer s disease are being widely marketed in the United States, Aricept® by Pfizer, Exelon® by Novartis, Razadyne® by Janssen and Namenda™ by Forest. These four drugs only treat some of the symptoms of Alzheimer's disease by enhancing memory and other mental functions and not the underlying causes of the illness.

A similar competitive reality prevails in the field of novel anti-infectives. Over the past ten years, there has been an increasing awareness of the medical need and of emerging market opportunities for new treatments for antibiotic resistant bacterial infections. Many of the major pharmaceutical companies are developing anti-infective drugs that either modify their existing drugs or involve new anti-bacterial properties. Many biotechnology companies are developing new classes of anti-bacterial drugs. At least three major pharmaceutical companies have vaccines against bacterial infections in development. To the extent that these companies are able to develop drugs or vaccines that offer treatment for some or all of the indications for our anti-infectives, the market for our products may be adversely affected.

Our treatments under development for enlarged prostate (benign prostatic hyperplasia or BPH) face significant competition from existing products. There are eight drugs approved for treatment of BPH: four proprietary drugs (dutasteride (Avodart®), tamsulosin (Flomax®), alfusozin (Uroxatral®), and silodosin (Rapaflo™)) and four generics (finasteride, terazozin, doxazozin, and prazosin). There are a number of thermal treatments on the market designed to shrink the enlarged prostate by heating its tissue with a device inserted through the urethra (the tube leading from the bladder through the penis through which men urinate) or through the abdomen. The devices on the market use microwave energy (Prostatron®, Targis Therapy® or TherMatrx®), low level radiowaves (TUNA System®), lasers (Indigo LaserOptic Treatment System® or Laserscope GreenLight PVP™), direct heat or hot water to heat or burn away prostate tissue. A variety of surgical procedures exist to surgically reduce or remove the prostate or to widen the urethra. These include procedures to cut away prostate tissue such as TURP (transurethral resection of the prostate) and using a resectoscope with an electrical loop inserted through the penis to cut the prostate tissue. A small device used to widen the constricted urethra called a prostatic stent can also be inserted.

The problem of *E. coli* O157:H7 contamination of hamburger meat and other food products is also well-known and a number of companies and researchers have been pursuing various potential solutions, including irradiation with x-rays, better detection of contamination, electronic pasteurization, vaccination and competitive exclusion of the pathogenic *E. coli* bacteria by harmless bacteria. The development of alternative solutions to the problem of E. coli infection may adversely affect the market for our treatment for *E. coli* O157:H7 infection in cattle and contamination of food products.

Marketing

Our AlzheimAlert™ test is certified with a CE Mark, making the device eligible for sale in the European Union. Nymox has signed distribution agreements for AlzheimAlert™ in Italy, the Czech Republic, Spain, Greece, Italy, the United Kingdom and South Korea.

At present, we do most of our marketing ourselves. To increase our marketing, distribution and sales capabilities both in the United States and around the world, we will need to enter into licensing arrangements, contract sales agreements and co-marketing deals. We cannot assure you that we will be able to enter into agreements with other companies on terms acceptable to us, that any licensing arrangement will generate any revenue for the company or that the costs of engaging and retaining the services of a contract sales organization will not exceed the revenues generated.

If successfully developed and approved, we plan to market and sell our therapeutic and diagnostic products directly or through co-promotion arrangements or other licensing arrangements with third parties. In cases where we have sole or shared marketing rights, we plan to build a small, focused sales force if and when such products approach marketing approval in some markets, including Europe. Implementation of this strategy will depend on many factors, including the market potential of any products we develop as well as on our financial resources. To the extent we will enter into co-promotion or other licensing arrangements, any revenues received by us will be dependent on the efforts of third parties.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

Principal Markets

The Company markets its products for sale principally in the United States, Canada and overseas. Set forth below is a breakdown of the Company s revenues by geographic market for the last three years.

	Canada	United States	Europe and other
Revenues:			
2008	$ 9,637	$ 347,764	$ 71,008
2007	34,410	349,337	50,186
2006	26,370	313,148	103,343

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

General

Nymox Pharmaceutical Corporation is a biopharmaceutical company with three unique proprietary products on the market, and an R&D pipeline of drug and diagnostic products in development.

We market the AlzheimAlert™ test as an aid to the diagnosis of Alzheimer’s disease. The kit version of the AlzheimAlert™ test is certified with a CE Mark in Europe. AlzheimAlert™ is an improved version of our AD7C™ test, from which we began generating revenue from sales in 1997.

We also market NicAlert™ and TobacAlert™, our two products, which determine a person's level of exposure to tobacco products. These products are also certified with a CE Mark, making the devices eligible for sale in the European Union.

We have under development therapeutic agents for the treatment of Alzheimer s disease, for the treatment of enlarged prostate (BPH) and of certain antibiotic-resistant infections as well as antibacterial agents for E. coli contamination of food and drink products.

We also have the rights to a U.S. patent for the use of statin drugs for the treatment or prevention of Alzheimer s Disease.

We have incurred operating losses throughout our history. Management believes that such operating losses will continue for the next few years. The costs relating to clinical trials for our potential therapeutic products will increase expenditures and delay profitability, despite anticipated increases in sales revenue in the coming years.

All figures are presented in U.S. dollars, unless otherwise stated.

History of Capital Funding

We fund our operations and projects primarily by selling shares of Nymox s common stock. However, since 1997, a small portion of our funding also comes from sales. This source of funding became more significant in late 1998, following the launch of our urinary version of the AD7C™ test. Since its incorporation in May, 1995, Nymox raised the capital necessary to fund its on-going research and development work and its marketing and sales operations primarily through private placements of its shares.

On December 1, 1997, our common shares began trading on the Nasdaq Stock Market. Nymox s common shares also traded on the Montreal Exchange from December 18, 1995 to November 19,1999.

Private placements completed by Nymox since December, 1995 are as follows:

.

December 1995, 1,578,635 common shares at a price of CAN$2.00 (US$1.38) per share for total proceeds of CAN$3,157,270 (US$2,187,536);

.

April 1996, 877,300 common shares at a price of CAN$6.00 (US$4.15) per share for total proceeds of CAN$5,263,800 (US$3,647,059);

.

May 1997, 696,491 common shares at a price of CAN$6.50 (US$4.50) and warrants exercisable at a price of CAN$8.50 (US$5.88) per share for total proceeds of CAN$4,527,191 (US$3,136,694). In 1998, all 696,491 of these warrants were exercised for additional proceeds to Nymox of CAN$5,920,174 (US$4,101,832);

.

May 1998, 231,630 common shares at a price of CAN$8.50 (US$5.88) for total proceeds of CAN$1,968,855 (US$1,364,134). A total of 110,000 warrants were issued as well, exercisable at a price of CAN$8.50 (US$5.88) per share (50,000) and CAN$10.00 (US$6.93) per share (60,000). These warrants have since expired;

.

December 1998, 135,000 common shares and January 1999, 55,000 common shares at CAN$8.50 (US$5.88) per share, for total proceeds of CAN$1,615,000 (US$1,118,963). A total of 95,000 warrants were issued as well, exercisable at the price of CAN$10.00 (US$6.93) per share. These warrants have since expired;

.

September 1999, 122,000 common shares at CAN$5.00 (US$3.46) per share, for total proceeds of CAN$610,000 (US$422,642).

.

March 2000, 821,637 common shares at an average price of $4.87 per share, for total proceeds of $4,000,000. A total of 93,334 warrants were issued as well, exercisable at a price of $9.375 per share (66,667) and $7.8125 per share (26,667). These warrants expired on March 6, 2004.

.

March, 2001, 200,000 common shares at $2.06 per share, for total proceeds of $412,000. A total of 100,000 warrants were issued as well, exercisable at a price of $2.06. These warrants were exercised on February 17, 2003.

.

August 3, 2001, 80,000 common shares at $2.50 per share for total proceeds of $200,000.

.

August 22, 2001, 140,000 common shares at $3.75 per share for total proceeds of $525,000.

.

October 3, 2001, 110,000 common shares at $3.75 per share for total proceeds of $412,500.

.

November 14, 2001, 64,100 common shares at $3.90 per share for total proceeds of $250,000.

.

January 24, 2002, 74,074 common shares at $4.05 per share for total proceeds of $300,000.

.

March 18, 2002, 195,000 common shares at $4.20 per share for total proceeds of $819,000.

.

June 18, 2002, 90,000 common shares at $4.00 per share for total proceeds of $360,000.

.

July 17, 2002, 86,000 common shares at $4.68 per share for total proceeds of $403,000.

.

September 9, 2002, 91,000 common shares at $4.40 per share for total proceeds of $400,400.

.

November 27, 2002, 53,500 common shares at $3.75 per share for total proceeds of $200,625.

.

December 17, 2002, 125,000 common shares at $4.10 per share for total proceeds of $512,500.

.

February 17, 2003, 100,000 warrants were exercised at a price of $2.06 per share for total proceeds of $206,000.

From March 2000 to January 2003, we received a total of $1,327,273 for the following sales of our shares pursuant to a common stock purchase agreement with an investment company:

.

August 16, 2000, 152,616 common shares at a volume weighted average price of $3.2924 per share;

.

October 12, 2000, 137,889 common shares at a volume weighted average price of $3.6261 per share;

.

February 7, 2001, 161,696 common shares at a volume weighted average price of $2.0240 per share;

.

May 31, 2001, 56,108 common shares at a volume weighted average price of $1.9466 per share.

This common stock purchase agreement expired in January 2003. As part of the agreement we issued to the investment company a stock purchase warrant, which expired November 30, 2004, permitting it to purchase up to 200,000 shares of our common stock at an exercise price of $4.53 per share.

On January 27, 2003 we entered into a Common Stock Private Purchase Agreement with an investment company, Lorros-Greyse Investments, Ltd., for the future issuance and purchase of Nymox s common shares. In general, the agreement provided Nymox with a commitment from the investment company to purchase up to $5 million of Nymox s common shares over the twenty-four month period beginning in January 2003.

Under the terms of this agreement, which has since been replaced annually by new agreements with the same investor, we may give notice to the investment company requiring it to purchase a specified dollar amount of our shares. The amount specified in any one notice may be up to $500,000 but not less than $100,000. The maximum amount can be higher if both parties agree. The number of shares Nymox will issue to the investment company in return for that money will be equal to the amount specified in the notice divided by 97% of the average market price of our common shares for the five trading days preceding the giving of the notice.

Under the agreement dated January 27, 2003, we received a total of $2,360,000 for the following shares under this common stock private purchase agreement:

.

January 30, 2003, 107,382 common shares at a price of $3.725 per share.

.

March 3, 2003, 245,098 common shares at a price of $4.08 per share.

.

June 6, 2003, 167,224 common shares at a price of $2.99 per share.

.

July 8, 2003, 80,128 common shares at a price of $3.12 per share.

.

August 8, 2003, 77,778 common shares at a price of $2.70 per share.

On August 25, 2003, we signed a new Common Stock Private Purchase Agreement, whereby the same investor was committed to purchase up to $12 million of Nymox's common shares over the twenty-four month period beginning in August 2003, subject to the same terms and conditions as before.

Under the agreement dated August 25, 2003, we received a total of $4,350,000 for the following shares under this common stock private purchase agreement:

.

September 30, 2003, 204,918 common shares at a price of $2.44 per share.

.

October 21, 2003, 182,203 common shares at a price of $2.36 per share.

.

December 8, 2003, 106,383 common shares at a price of $2.82 per share.

.

December 22, 2003, 109,091 common shares at a price of $2.75 per share.

.

January 14, 2004, 102,041 common shares at a price of $3.92 per share.

.

February 27, 2004, 69,284 common shares at a price of $4.33 per share.

.

March 10, 2004, 100,402 common shares at a price of $4.98 per share.

.

April 30, 2004, 92,807 common shares at a price of $4.31 per share.

.

June 22, 2004, 69,444 common shares at a price of $2.88 per share.

.

July 7, 2004, 140,056 common shares at a price of $3.57 per share.

.

August 3, 2004, 130,990 common shares at a price of $3.13 per share.

.

September 27, 2004, 52,885 common shares at a price of $2.08 per share.

On October 6, 2004, we signed a new Common Stock Private Purchase Agreement, whereby the same investor was committed to purchase up to $13 million of Nymox s common shares over the twenty-four month period beginning in October 2004, subject to the same terms and conditions as before.

Under the agreement dated October 6, 2004, we received a total of $3,485,000 for the following shares under this common stock private purchase agreement:

.

October 25, 2004, 95,238 common shares at a price of $2.10 per share.

.

December 14, 2004, 148,699 common shares at a price of $2.69 per share.

.

December 22, 2004, 78,616 common shares at a price of $3.18 per share.

.

February 9, 2005, 82,474 common shares at a price of $2.91 per share.

.

February 22, 2005, 50,676 common shares at a price of $2.96 per share.

.

March 17, 2005, 51,136 common shares at a price of $2.64 per share.

.

April 25, 2005, 127,119 common shares at a price of $2.36 per share.

.

May 24, 2005, 109,489 common shares at a price of $2.74 per share.

.

June 9, 2005, 95,339 common shares at a price of $2.36 per share.

.

June 17, 2005, 58,333 common shares at a price of $2.40 per share.

.

July 15, 2005, 92,437 common shares at a price of $2.38 per share.

.

August 2, 2005, 98,684 common shares at a price of $2.28 per share.

.

August 18, 2005, 83,333 common shares at a price of $2.40 per share.

.

September 26, 2005, 110,619 common shares at a price of $2.26 per share.

.

October 11, 2005, 72,464 common shares at a price of $2.07 per share.

.

November 10, 2005, 49,020 common shares at a price of $2.04 per share.

On October 21, 2005, we signed a new Common Stock Private Purchase Agreement, whereby the same investor was committed to purchase up to $13 million of Nymox s common shares over the twenty-four month period beginning in October 2005, subject to the same terms and conditions as before.

Under this agreement dated October 21, 2005, we received a total of $4,655,000 for the following shares under this common stock private purchase agreement:

.

November 18, 2005, 49,020 common shares at a price of $2.04 per share.

.

December 8, 2005, 46,729 common shares at a price of $2.14 per share.

.

December 14, 2006, 47,847 common shares at a price of $2.09 per share.

.

January 10, 2006, 50,000 common shares at a price of $2.00 per share.

.

January 18, 2006, 51,020 common shares at a price of $1.96 per share.

.

January 24, 2006, 52,083 common shares at a price of $1.92 per share.

.

February 3, 2006, 51,020 common shares at a price of $1.96 per share.

.

February 10, 2006, 51,546 common shares at a price of $1.94 per share.

.

February 25, 2006, 103,093 common shares at a price of $1.94 per share.

.

March 6, 2006, 52,632 common shares at a price of $1.90 per share.

.

March 16, 2006, 51,813 common shares at a price of $1.93 per share.

.

March 27, 2006, 246,914 common shares at a price of $4.05 per share.

.

April 12, 2006, 188,917 common shares at a price of $3.97 per share.

.

May 2, 2006, 82,645 common shares at a price of $3.63 per share.

.

July 25, 2006, 37,488 common shares were issued at a price of $2.67 per share.

.

August 7, 2006, 37,879 common shares were issued at a price of $2.64 per share.

.

August 24, 2006, 39,063 common shares were issued at a price of $2.56 per share.

.

September 12, 2006, 40,000 common shares were issued at a price of $2.50 per share.

.

September 26, 2006, 73,260 common shares were issued at a price of $2.73 per share.

.

October 3, 2006, 56,022 common shares were issued at a price of $3.57 per share.

.

October 18, 2006, 33,943 common shares were issued at a price of $3.83 per share.

.

October 25, 2006, 73,529 common shares were issued at a price of $4.08 per share.

.

November 20, 2006, 43,103 common shares were issued at a price of $4.06 per share.

On November 13, 2006, we signed a new Common Stock Private Purchase Agreement, whereby the same investor was committed to purchase up to $13 million of Nymox s common shares over the twenty-four month period beginning in November 2006, subject to the same terms and conditions as before.

Under this agreement dated November 13, 2006, we received a total of $4,750,000 for the following shares under this common stock private purchase agreement:

.

December 6, 2006, 29,499 common shares were issued at a price of $3.39 per share.

.

December 13, 2006, 56,818 common shares were issued at a price of $3.52 per share.

.

December 20, 2006, 91,185 common shares were issued at a price of $3.29 per share.

.

January 24, 2007, 121,294 common shares were issued at a price of $3.71 per share.

.

February 14, 2007, 181,087 common shares were issued at a price of $4.97 per share.

.

March 26, 2007, 67,869 common shares were issued at a price of $5.89 per share.

.

April 26, 2007, 97,276 common shares were issued at a price of $5.14 per share.

.

May 9, 2007, 286,145 common shares were issued at a price of $6.64 per share.

.

September 6, 2007, 57,582 common shares were issued at a price of $5.21 per share.

.

October 11, 2007, 77,042 common shares were issued at a price of $6.49 per share.

.

December 4, 2007, 64,205 common shares were issued at a price of $6.23 per share.

On November 16, 2007, we signed a new Common Stock Private Purchase Agreement, whereby the same investor was committed to purchase up to $15 million of Nymox s common shares over the twenty-four month period beginning in November 2007, subject to the same terms and conditions as before.

Under this agreement dated November 16, 2007, we received a total of $3,695,000 for the following shares under this common stock private purchase agreement:

.

January 30, 2008, 50,917 common shares were issued at a price of $4.91 per share.

.

February 12, 2008, 84,980 common shares were issued at a price of $5.06 per share.

.

March 4, 2008, 56,391 common shares were issued at a price of $5.32 per share.

.

March 28, 2008, 58,366 common shares were issued at a price of $5.14 per share.

.

May 6, 2008, 34,325 common shares were issued at a price of $4.37 per share.

.

May 27, 2008, 34,965 common shares were issued at a price of $4.29 per share.

.

June 23, 2008, 46,838 common shares were issued at a price of $4.27 per share.

.

July 24, 2008, 28,169 common shares were issued at a price of $3.55 per share.

.

August 6, 2008, 59,267 common shares were issued at a price of $4.64 per share.

.

August 22, 2008, 23,364 common shares were issued at a price of $5.35 per share.

.

September 10, 2008, 36,496 common shares were issued at a price of $5.48 per share.

.

September 17, 2008, 36,430 common shares were issued at a price of $5.49 per share.

.

September 26, 2008, 43,706 common shares were issued at a price of $5.72 per share.

.

October 23, 2008, 61,659 common shares were issued at a price of $4.46 per share.

.

November 26, 2008, 108,280 common shares were issued at a price of $3.14 per share.

.

December 22, 2008, 48,701 common shares were issued at a price of $3.08 per share.

On November 10, 2008, we signed a new Common Stock Private Purchase Agreement, whereby the same investor is committed to purchase up to $15 million of Nymox s common shares over the twenty-four month period beginning in November 2008, subject to the same terms and conditions as before.

Under this agreement dated November 10, 2008, which became effective December 23, 2008, we received a total of $450,000 for the following shares under this common stock private purchase agreement:

.

January 27, 2009, 70,225 common shares were issued at a price of $3.56 per share.

.

February 27, 2009, 65,789 common shares were issued at a price of $3.04 per share.

As of March 13, 2009, Nymox had approximately $14.55 million of financing available under the facility. We expect this stock purchase agreement to provide sufficient financing to enable us to advance our research and product development for the next two years.

Also, the Company has received total proceeds of approximately $1.03 million from the exercise of 346,400 options since 1995 as follows:

.

$355,536 for 158,900 shares at a per share price of $2.25

.

$258,858 for 83,000 shares at a per share price of $3.12

.

$16,000 for 5,000 shares at a per share price of $3.20

.

$38,750 for 10,000 shares at a per share price of $3.875

.

$2,620 for 1,000 shares at a per share price of $2.62

.

$96,290 for 25,000 shares at a per share price of $3.852

.

$9,650 for 5,000 shares at a per share price of $1.93

.

$47,000 for 10,000 shares at a per share price of $4.70

.

$96,875 for 25,000 shares at a per share price of $3.875

.

$108,250 for 25,000 shares at a price per share of $4.33

Pursuant to the share purchase agreement we entered into in March 2000 to acquire a controlling interest of Serex, Inc., a total of 257,607 additional shares and 158,526 warrants were issued in exchange for the shares of Serex. Since January 2004, 131,940 of these warrants have been exercised under a cashless exercise , whereby the warrant holder receives a number of shares equivalent in value to the net difference between the strike price on the warrant and the average market price on the day before the date of the cashless exercise , according to a formula contained in the warrant agreement. The net effect of these cashless exercises has been the issuance of 22,061 shares of Nymox common stock. Another 1,090 of these warrants were exercised resulting in the issuance of 1,090 shares of Nymox, for proceeds of $4,033.

In total, Nymox has raised over $53.8 million through the issuance of common stock or securities exercisable for shares of common stock, since its incorporation in May 1995.

We have no financial obligations of significance other than long-term lease commitments for our premises in the United States and Canada of $23,947 per month in 2009. Total commitments in 2009 and beyond are summarized in note 8 to the consolidated financial statements.

The demand note payable by the Company to a third party of $500,000, as at December 31, 2006 was paid in full in May 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in US dollars)

This Management s discussion and analysis (MD&A) comments on the Company s operations, performance and financial condition as at and for the years ended December 31, 2008, 2007 and 2006. This MD&A should be read together with the audited Consolidated Financial Statements and the related notes. All amounts in this report are in U.S. dollars, unless otherwise noted.

All financial information contained in this MD&A and in the Consolidated Financial Statements has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The audited Consolidated Financial Statements and this MD&A were reviewed by the Company s Audit and Finance Committee and were approved by our Board of Directors.

Additional information about the Company can be obtained on EDGAR at www.sec.gov or on SEDAR at www.sedar.com.

Overview

Corporate Profile

Nymox Pharmaceutical Corporation is a biopharmaceutical company with a significant R&D pipeline in development. Nymox is developing NX-1207, a novel treatment for benign prostatic hyperplasia which is in Phase 3. NX-1207 has shown positive results in several Phase 1 and 2 clinical trials in the U.S. The Company successfully completed a 43 site prospective randomized double-blinded placebo controlled Phase 2 U.S. clinical trial of NX-1207 in 2006, which showed statistically significant efficacy and a good safety profile. In February 2008, the Company reported positive results in a 32 site U.S. Phase 2 prospective randomized blinded clinical trial, with statistically significant improvement compared to an approved BPH drug (finasteride). Nymox reported positive results in six other follow-up studies of NX-1207 in BPH patients. The Company is developing new treatments for bacterial infections in humans and for the treatment of E. coli O157:H7 contamination in food products. Nymox has candidates which are under development as drug treatments aimed at the causes of Alzheimer s disease, and has several other drug candidates in development. Nymox has U.S. and global patent rights for the use of statin drugs for the treatment and prevention of Alzheimer’s disease. Nymox developed the AlzheimAlert™ test, which is certified with a CE Mark in Europe. AlzheimAlert™ is an accurate, non-invasive aid in the diagnosis of Alzheimer’s disease. Nymox developed and markets NicAlert™ and TobacAlert™; which are tests that use urine or saliva to detect use of and exposure to tobacco products. NicAlert™ has received clearance from the U.S. Food and Drug Administration (FDA) and is also certified with a CE Mark in Europe. TobacAlert™ is the first test of its kind to accurately measure second and third hand smoke exposure in

individuals.

Risk Factors

The business activities of the Company since inception have been devoted principally to research and development. Accordingly, the Company has had limited revenues from sales and has not been profitable to date. We refer to the Risk Factors section of this Form 20F and of our Annual Information Form filed on SEDAR for a discussion of the management and investment issues that affect the Company and our industry. The risk factors that could have an impact on the Company's financial results are summarized as follows:

.

Our Clinical Trials for our Therapeutic Products in Development, such as NX-1207, May Not be Successful and We May Not Receive the Required Regulatory Approvals Necessary to Commercialize These Products

.

Our Clinical Trials for our Therapeutic Products, such as NX-1207, May be Delayed, Making it Impossible to Achieve Anticipated Development or Commercialization Timelines

.

A Setback in Any of our Clinical Trials Would Likely Cause a Drop in the Price of our Shares

.

We May Not be Able to Make Adequate Arrangements with Third Parties for the Commercialization of our Product Candidates, such as NX-1207

.

We May Not Achieve our Projected Development Goals in the Time Frames We Announce and Expect

.

Even If We Obtain Regulatory Approvals for our Product Candidates, We Will be Subject to Stringent Ongoing Government Regulation

.

It is Uncertain When, if Ever, We Will Make a Profit

.

We May Not Be Able to Raise Enough Capital to Develop and Market Our Products

.

We Face Challenges in Developing, Manufacturing and Improving Our Products

.

Our Products and Services May Not Receive Necessary Regulatory Approvals

.

We Face Significant and Growing Competition

.

We May Not Be Able to Successfully Market Our Products

.

Protecting Our Patents and Proprietary Information is Costly and Difficult

.

We Face Changing Market Conditions

.

Health Care Plans May Not Cover or Adequately Pay for our Products and Services

.

We Face Potential Losses Due to Foreign Currency Exchange Risks

Critical Accounting Policies

In December 2001, the Securities and Exchange Commission (SEC) released Cautionary Advice Regarding Disclosure About Critical Accounting Policies . According to the SEC release, accounting policies are among the most critical if they are, in management s view, most important to the portrayal of the company s financial condition and most demanding on their calls for judgment.

The consolidated financial statements of the Company have been prepared under Canadian generally accepted accounting principles and include a reconciliation to accounting principles generally accepted in the United States (see Canadian/US reporting differences in the Notes to the Consolidated Financial Statements). The Company s functional and reporting currency is the United States dollar. Our accounting policies are described in the notes to our annual audited consolidated financial statements. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our financial statements and the matters that could impact our results of operations, financial condition and cash flows.

Revenue Recognition

The Company has generally derived its revenue from product sales, research contracts, license fees and interest. Revenue from product sales is recognized when the product or service has been delivered or obligations as defined in the agreement are performed. Revenue from research contracts is recognized at the time research activities are performed under the agreement. Revenue from license fees, royalties and milestone payments is recognized upon the fulfillment of all obligations under the terms of the related agreement. These agreements may include upfront payments to be received by the Company. Upfront payments are recognized as revenue on a systematic basis over the period that the related services or obligations as defined in the agreement are performed. Interest is recognized on an accrual basis. Deferred revenue presented in the balance sheet represents amounts billed to and received from customers in advance of revenue recognition. Revenues from agreements that include multiple elements are considered to be a revenue arrangement with multiple deliverables. Under this type of arrangement, the identification of separate units of accounting is required and revenue is recognized for each unit as described above.

Valuation of Long-lived Assets

Property and equipment, patents and intellectual property rights acquired are stated at cost and are amortized on a straight-line basis over the estimated useful lives. The Company reviews the unamortized balance of property and equipment, intellectual property rights and patents and recognizes any impairment in carrying value when it is identified. Factors we consider important, which could trigger an impairment review include:

.

Significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and

.

Significant negative industry or economic trends.

Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value (net recoverable value). If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds its fair value. Management s judgment regarding the existence of impairment indicators is based on legal factors, market conditions and operating performances. Future events could cause management to conclude that impairment indicators exist and that the carrying values of the Company s property, equipment or intellectual property rights acquired are impaired. Any resulting impairment loss could have a material adverse impact on the Company s financial position and results of operations.

Stock-based Compensation

Stock-based compensation is recorded using the fair value based method for stock options issued to employees and non-employees. Under this method, compensation cost is measured at fair value at the date of grant and is expensed over the award s vesting period. The Company uses the Black-Scholes options pricing model to calculate stock option values, which requires certain assumptions, including the future stock price volatility and expected time to exercise. Changes to any of these assumptions, or the use of a different option pricing model, could produce different fair values for stock-based compensation, which could have a material impact on the Company s earnings.

Valuation of Future Income Tax Assets

Management judgment is required in determining the valuation allowance recorded against net future tax assets. We have recorded a valuation allowance of $12.5 million as of December 31, 2008, due to uncertainties related to our ability to utilize all of our future tax assets, primarily consisting of net operating losses carried forward and other unclaimed deductions, before they expire. In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income and tax planning strategies. The generation of future taxable income is dependent on the successful commercialization of the Company s products and technologies.

Results of Operations

Selected Annual Information	2008	2007	2006
Total revenues	$ 428,409	$ 433,933	$ 442,861
Net loss	$ (4,590,345)	$ (5,290,431)	$ (4,893,685)
Loss per share (basic & diluted)	$ (0.15)	$ (0.18)	$ (0.18)
Total assets	$ 4,067,611	$ 4,260,346	$ 3,970,845

Quarterly Results 2008	Q1	Q2	Q3	Q4
Total revenues	$ 105,521	$ 120,636	$ 82,357	$ 119,895
Net loss	$ (1,232,063)	$ (1,138,139)	$ (1,350,536)	$ (869,607)
Loss per share (basic & diluted)	$ (0.04)	$ (0.04)	$ (0.05)	$ (0.03)

Quarterly Results 2007	Q1	Q2	Q3	Q4
Total revenues	$ 138,666	$ 87,412	$ 70,226	$ 137,629
Net loss	$ (1,132,520)	$ (1,464,950)	$ (1,386,084)	$ (1,306,878)
Loss per share (basic & diluted)	$ (0.04)	$ (0.05)	$ (0.05)	$ (0.05)

All amounts are in U.S. dollars.

Results of Operations 2008 compared to 2007

Net losses were $869,607, or $0.03 per share, for the quarter and $4,590,345, or $0.15 per share, for the year ended December 31, 2008, compared to $1,306,878, or $0.05 per share, for the quarter and $5,290,431, or $0.18 per share, for the year ended December 31, 2007. The decrease in net losses is attributable to a reduction in expenditures relating to clinical trials during this period. The weighted average number of common shares outstanding for the year ended December 31, 2008 was 29,749,000 compared to 29,005,342 for the same period in 2007.

There have been no material adjustments or extraordinary items during the quarter ended or during the year ended December 31, 2008.

Revenues

Revenues from sales amounted to $119,826 for the quarter and $426,675 for the year ended December 31, 2008, compared with $135,002 for the quarter and $412,923 for the year ended December 31, 2007. The decrease for the quarter is due to timing differences and the increase for the year is due to increases in the number of customers for NicAlert in the US in 2008 compared to 2007. The development of therapeutic candidates and moving therapeutic product candidates through clinical trials is a priority for the Company at this time. The growth of sales will become more of a priority once these candidates have reached the marketing stage. The Company expects that revenues will increase if and when product candidates pass clinical trials and are launched on the market.

Research and Development

Research and development expenditures were $318,161 for the quarter and $2,164,611 for the year ended December 31, 2008, compared with $720,869 for the quarter and $2,797,903 for the year ended December 31, 2007. Research and development expenditures include costs incurred in advancing Nymox s BPH product candidate NX-1207 through clinical trials, as well as costs related to its R&D pipeline in development. The decrease in expenditures for the quarter and the year is principally attributable to a reduction in expenditures relating to clinical trials during this period. Research and development expenditures also include impairment costs relating to patents which have expired, or to patent applications which Management has decided to abandon entirely or to discontinue pursuing in certain jurisdictions. For the year 2008, impairment costs on patents amounted to $228,606 compared to $61,224 in 2007. For the year-ended 2008, research tax credits amounted to $111,243 compared to $68,041 in 2007 as a result of additional expenditures claimed for refundable tax credits in 2008 compared to 2007. The Company expects that research and development expenditures will decrease as product candidates finish development and clinical trials. However, because of the early stage of development of the Company s R&D projects, it is impossible to outline the nature, timing or estimated costs of the efforts necessary to complete these projects, nor the anticipated completion dates for these projects. The facts and circumstances indicating the uncertainties that preclude us from making a reasonable estimate of the costs and timing necessary to complete projects include the risks inherent in any field trials, the uncertainty as to the nature and extent of regulatory requirements both for safety and efficacy, and the ability to manufacture the products in accordance with current good manufacturing requirements (cGMP) and in sufficient quantities both for large scale trials and for commercial use. A drug candidate that shows efficacy can take a long period (7 years or more) to achieve regulatory approval. There is also uncertainty whether we will be able to successfully adapt our patented technologies or whether any new products we develop will pass proof-of-principle testing both in the laboratory and in clinical trials, and whether we will be able to manufacture such products at a commercially competitive price. In addition, given the very high costs of development of therapeutic products, we anticipate having to partner with larger pharmaceutical companies to bring therapeutic products to market. The terms of such partnership arrangements along with our related financial obligations cannot be determined at this time and the timing of completion of the approval of such products will likely not be within our sole control.

Marketing Expenses

Marketing expenditures amounted to $44,530 for the quarter and $187,868 for the year ended December 31, 2008, compared with $66,517 for the quarter and $236,395 for the year ended December 31, 2007. The decrease for the quarter and the year is due primarily to expenditures incurred for publicity and medical conferences in 2007, which were not repeated in 2008. The Company expects that marketing expenditures will increase if and when new products are launched on the market.

Administrative Expenses

General and administrative expenses amounted to $267,311 for the quarter and $1,064,903 for the year ended December 31, 2008, compared with $247,882 for the quarter and $970,919 for the year ended December 31, 2007. The increase for the quarter and the year is due to higher costs relating to compliance with United States securities laws, and in particular Section 404 of the Sarbanes-Oxley Act and related regulations, and to expenditures on investor meetings in 2008. The Company expects that general and administrative expenditures will increase as new product development leads to expanded operations.

Stock-based Compensation

The Company accounts for stock option grants using the fair value method, with compensation cost measured at the date of grant and amortized over the vesting period. In 2008, stock-based compensation costs of $817,000 were recorded for the 3,565,500 options granted in 2006 which vest quarterly over six years, compared to $818,720 in 2007. An additional $89,360 was recorded in the third quarter for options granted to the Company s directors, and $18,860 was recorded in the fourth quarter for options granted to a consultant, which were fully vested at the date of grant, compared to $146,360 recorded in the third quarter for options granted to the Company s directors, and $33,960 recorded in the fourth quarter for options granted to a consultant, in 2007.

Foreign Exchange

The Company incurs expenses in the local currency of the countries in which it operates, which include the United States and Canada. Approximately 73% of 2008 expenses (72% in 2007) were in U.S. dollars. Foreign exchange fluctuations had no meaningful impact on the Company s results in 2008 or 2007.

Inflation

The Company does not believe that inflation has had a significant impact on its results of operations.

Results of Operations 2007 compared to 2006

Net losses were $1,306,878, or $0.05 per share, for the quarter and $5,290,431, or $0.18 per share, for the year ended December 31, 2007, compared to $1,234,985, or $0.04 per share, for the quarter and $4,893,685, or $0.18 per share, respectively, for the corresponding periods in 2006. The increase in net losses for both the quarter and the year is attributable to increased expenditures in research and development of products in the Company s pipeline and due to increased stock compensation expenses. The weighted average number of common shares outstanding for the year ended December 31, 2007 was 29,005,342 compared to 27,644,749 for the same period in 2006.

Revenues

Revenues from sales amounted to $135,002 for the quarter and $412,923 for the year ended December 31, 2007, compared with $83,478 for the quarter and $437,440 for the year ended December 31, 2006. The variance for the quarter is due to timing differences in the orders of products in 2007 compared to 2006. The variance for the year is due to a decrease in sales to Europe (AlzheimAlert decrease of 33.2% and NicAlert/TobacAlert decrease of 53.9%).

Research and Development

Research and development expenditures were $720,869 for the quarter and $2,797,903 for the year ended December 31, 2007, compared with $701,498 for the quarter and $2,594,714 for the year ended December 31, 2006. Research and development expenditures include costs incurred in advancing Nymox s BPH product candidate NX-1207 through clinical trials, as well as costs related to its R&D pipeline in development. Management s decision to increase expenditures in 2007 relating to general research on therapeutic candidates in the Company pipeline explains the increase for the quarter and year-to-date. Research and development expenditures also include impairment costs relating to patents which have expired, or to patent applications which Management has decided to abandon entirely or to discontinue pursuing in certain jurisdictions. For the year 2007, impairment costs on patents amounted to $61,224 compared to $0 in 2006. For the year-ended 2007, research tax credits amounted to $68,041 compared to $53,618 in 2006 as a result of additional expenditures claimed for refundable tax credits in 2007 compared to 2006.

Marketing Expenses

Marketing expenditures were $66,517 for the quarter and $236,395 for the year ended December 31, 2007, in comparison to expenditures of $66,513 for the quarter and $236,054 for the year ended December 31, 2006. Expenditures in 2007 were consistent compared to the same period in 2006.

Administrative Expenses

General and administrative expenses amounted to $247,882 for the quarter and $970,919 for the year ended December 31, 2007, compared with $192,723 for the quarter and $954,397 for the year ended December 31, 2006. The increase for the quarter and the year is due to higher professional fees relating to compliance with United States securities laws, and in particular Section 404 of the Sarbanes-Oxley Act and related regulations.

Stock-based Compensation

In 2007, stock-based compensation costs of $818,720 were recorded for the 3,565,500 options granted in 2006 which vest quarterly over six years, compared to $416,928 in 2006. An additional $146,360 was recorded in the third quarter for options granted to the Company s directors, and which were fully vested at the date of grant, compared to $65,760 for options granted to the Company s directors in 2006. In 2007, stock-based compensation also included the effect of a fully vested option grant to a consultant for an expense of $33,960 compared to expenses of $338,400 recorded in 2006 on option grants to a consultant and an employee of the Company. An amount of $16,220 was also recorded in 2006 for the 50,000 options granted in 2003 which vest annually over four years

Contractual Obligations

Nymox has no financial obligations of significance other than long-term lease commitments for its premises in the United States and Canada of $22,102 per month.

Contractual Obligations	Total	Current	2-4 years	5+ years
Rent	$ 442,033	$ 265,220	$ 176,813	$ 0
Operating Leases	$ 79,821	$ 21,692	$ 44,777	$ 13,352
Total Contractual Obligations	$ 521,854	$ 286,912	$ 221,590	$ 13,352

The Company has no binding commitments for the purchase of property, equipment, patents or intellectual property. The Company has no commitments that are not reflected in the balance sheet except for operating leases.

Contingency

A contractor has served the Company with a Statement of Claim filed with the California Superior Court claiming $2,000,000 in damages for injury to his reputation and business for alleged failure to pay for services rendered. The Company has paid in full for all contracted services and believes that the claim is wholly without merit, and intends to defend the action vigorously. Accordingly, no provision related to this matter has been recorded in these financial statements.

Transactions with Related Parties

The Company had no transactions with related parties in 2008 or 2007.

Financial Position

Liquidity and Capital Resources

As of December 31, 2008, cash totaled $275,858 and receivables including tax credits totaled $170,740. In November 2007, the Company signed a common stock private purchase agreement, whereby an investor is committed to purchase up to $15 million of the Company s common shares over a twenty-four month period commencing November 16, 2007. As at December 31, 2008, 16 drawings were made under this purchase agreement, for total proceeds of $3,695,000. On January 30, 2008, 50,917 common shares were issued at a price of $4.91 per share. On February 12, 2008, 84,980 common shares were issued at a price of $5.06 per share. On March 4, 2008, 56,391 common shares were issued at a price of $5.32 per share. On March 28, 2008, 58,366 common shares were issued at a price of $5.14 per share. On May 6, 2008, 34,325 common shares were issued at a price of $4.37 per share. On May 27, 2008, 34,965 common shares were issued at a price of $4.29 per share. On June 23, 2008, 46,838 common shares were issued at a price of $4.27 per share. On July 24, 2008, 28,169 common shares were issued at a price of $3.55 per share. On August 6, 2008, 59,267 common shares were issued at a price of $4.64 per share. On August 22, 2008, 23,364 common shares were issued at a price of $5.35 per share. On September 10, 2008, 36,496 common shares were issued at a price of $5.48 per share. On September 17, 2008, 36,430 common shares were issued at a price of $5.49 per share. On September 26, 2008, 43,706 common shares were issued at a price of $5.72 per share. On October 23, 2008, 61,659 common shares were issued at a price of $4.46 per share. On November 26, 2008, 108,280 common shares were issued at a price of $3.14 per share. On December 22, 2008, 48,701 common shares were issued at a price of $3.08 per share.

The Company negotiated a new agreement with the same investor on November 10, 2008, which became effective December 23, 2008, under the same terms and conditions of the previous agreement. The Company can draw down $15,000,000 over 24 months under the new agreement. At December 31, 2008, the Company can draw down $15,000,000 over the remaining 22 months under the agreement. The Company intends to access financing under this agreement when appropriate to fund its research and development. The Company believes that funds from operations as well as from existing financing agreements will be sufficient to meet the Company s cash requirements for the next twelve months.

The Company must comply with general covenants in order to draw on its facility including maintaining its stock exchange listing and registration requirements and having no material adverse effects, as defined in the agreement, with respect to the business and operations of the Company.

Current Economic Environment

During the past year the capital markets have been characterized by significant volatility and by a marked reduction in the ability of companies in all sectors to obtain public financing, and in particular, those in the biotechnology sector. As previously indicated, the Company depends on an equity financing arrangement with a private investment company to fund its activities. Since January 2003, the Company has had a Common Stock Private Purchase Agreement with the same investment company (the "Purchaser") that establishes the terms and conditions for the purchase of common shares by the Purchaser. This 24 month agreement has been replaced annually since 2003 in order to ensure that the Company has funding in place at all times for at least the coming year. In November 2008, the previous agreement was terminated and a new agreement was concluded with the Purchaser. In general, the Company can, at its discretion, require the Purchaser to purchase up to $15 million of common shares over a 24-month period based on notices given by the Company. The Company may terminate the agreement before the 24-month term, if it has issued at least $8 million of common shares under the agreement. The Company made drawdowns for aggregate proceeds of $5,350,000 in 2007 and $3,695,000 in 2008 under the agreements, and has made two drawdowns in 2009 for aggregate proceeds of $450,000 under the current agreement. The Company is not aware of any information that would lead it to believe that the investor will not be able to meet its commitments under the current agreement.

Capital disclosures

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, general and administrative expenses, working capital and overall capital expenditures. The Company makes every attempt to manage its liquidity to minimize shareholder dilution when possible.

The Company defines capital as total shareholders equity. To fund its activities, the Company has followed an approach that relies almost exclusively on the issuance of common equity. Since inception, the Company has financed its liquidity needs primarily through private placements and since 2003 through a financing agreement with an investment company that has been replaced annually by a new agreement with the same investor. The Company intends to access financing under this agreement when appropriate to fund its research and development activities. The recent financial crisis in the United States and the global economic environment has had a negative impact on the availability of liquidity in the market and may have an effect on the liquidity of the Purchaser to our Common Stock Private Purchase Agreement. Since 2003 through to January 2009, the Purchaser has always complied with the drawdowns made pursuant to the agreement. The Company believes that funds from operations as well as from existing financing agreements will be sufficient to meet the Company s cash requirements for the next twelve months.

The capital management objectives remain the same as for the previous fiscal year. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including sales, investment tax credits and interest income. The Company's general policy on dividends is to retain cash to keep funds available to finance its research and development and operating expenses. The Company has no debt. The Company is not subject to any capital requirements imposed by external parties.

Financial risk management

Foreign currency risk

The Company uses the US dollar as its measurement currency because a substantial portion of revenues, expenses, assets and liabilities of its Canadian and US operations are denominated in US dollars. The Company s equity financing facility is also in US dollars. Foreign currency risk is limited to the portion of the Company s business transactions denominated in currencies other than the US dollar. The Canadian operation has transactions denominated in Canadian dollars, principally relating to salaries and rent. Additional variability arises from the translation of monetary assets and liabilities denominated in currencies other than the US dollar at each balance sheet date. Fluctuations in the currency used for the payment of the Company s expenses denominated in currencies other than the US dollar (primarily Canadian dollars) could cause unanticipated fluctuations in the Company s operating results but would not impair or enhance its ability to pay its Canadian dollar denominated obligations. The Company s objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by transacting with parties in US dollars to the maximum extent possible. The Company does not engage in the use of derivative financial instruments to manage its currency exposures.

Approximately 73% of expenses that occurred during the year ended December 31, 2008 (2007 - 72%) were denominated in US dollars. Foreign exchange fluctuations had no meaningful impact on the Company s results in 2008, 2007 or 2006.

The following table provides significant items exposed to foreign exchange as at December 31, 2008:

		CA$
Cash	$	8,343
Accounts and other receivables and research tax credits receivable		145,045
Accounts payable and accrued liabilities		(265,563)
	$	(112,175)

The following exchange rates applied for the year ended December 31, 2008:

	Average rate (twelve months)	Reporting date rate December 31, 2008
US$ - CA$	1.0660	1.2180

Based on the Company s foreign currency exposures noted above, varying the above foreign exchange rates to reflect a 5% strengthening of the US dollar would have increased the net loss by less than $10,000, assuming that all other variables remained constant.

An assumed 5% weakening of the US dollar would have had an equal but opposite effect to the amount shown above, on the basis that all other variables remain constant.

Credit risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. Cash is maintained with a high-credit quality financial institution. For accounts receivable, the Company performs periodic credit evaluations and typically does not require collateral. Allowances are maintained for potential credit losses consistent with the credit risk, historical trends, general economic conditions and other information.

The Company has a limited number of customers. Accounts receivable on the consolidated balance sheet are trade receivables of $37,873, all of which were aged under 45 days. Four customers accounted for 74% of the trade receivables balance at December 31, 2008. An amount of $13,660 was recorded as bad debt expense for the period ended December 31, 2008 (nil for the period ended December 31, 2007).

At December 31, 2008, the Company s maximum credit exposure corresponded to the carrying amount of cash and accounts and other receivables.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bears interest at a variable rate. Accounts and other receivables, and accounts payable and accrued liabilities bear no interest. The Company has no other interest-bearing financial instruments.

Based on the value of variable interest-bearing cash during the year ended December 31, 2008, an assumed .5% increase or .5% decrease in interest rates during such period would have had no significant effect on the net loss.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. The Company does not have an operating credit facility and finances its activities through an equity financing agreement with an investment company, as previously discussed.

The following are the contractual maturities of financial liabilities as at December 31, 2008:

	Carrying Amount	Less than 1 year	1 year to 5 years
Accounts payable and accrued liabilities	$ 1,240,847	$ 1,240,847	$ -

Subsequent Events

As at March 13, 2009, two drawings were made under the common stock private purchase agreement, for total proceeds of $450,000. On January 27, 2009, 70,225 common shares were issued at a price of $3.56 per share. On February 27, 2009, 65,789 common shares were issued at a price of $3.04 per share.

Outstanding Share Data

As at March 13, 2009, there were 30,314,621 common shares of Nymox issued and outstanding. In addition, 4,869,000 share options are outstanding, of which 2,943,375 are currently vested. There are no warrants outstanding.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is accumulated and communicated to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company s Chief Executive Officer and its Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures. They are assisted in this responsibility by the Company s disclosure committee, which is composed of members of senior management. Based on an evaluation of the Company s disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of December 31, 2008.

Internal Control over Financial Reporting

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 31, 2008, based on the framework set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its evaluation under this framework, management concluded that internal control over financial reporting was effective as of that date.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

KPMG LLP, an independent registered public accounting firm, which audited and reported on our financial statements in this Annual Report, has issued an attestation report that we maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008.

Changes in Internal Controls Over Financial Reporting

There have been no changes during fiscal 2008 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Changes to Accounting Policies

Accounting changes in 2007

Effective with the commencement of its 2007 fiscal year, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, Equity, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income, but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under these new standards, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included in the consolidated balance sheet and are measured at fair market value, with the exception of loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

As a result of the adoption of these standards, the Company has classified its accounts receivable and long-term receivable as loans and receivables , and its accounts payable, accrued liabilities and notes payable as other financial liabilities . These classifications had no impact on the Company s financial position or results of operations. In

addition, the adoption of standards of Sections 1530, 3251, 3855 and 3861 had no impact on the financial statements for the year ended December 31, 2008.

Accounting Changes in 2008

Capital Disclosures and Financial Instruments - Disclosures and Presentation

Effective with the commencement of its 2008 fiscal year, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, *Capital Disclosures*, ClCA Handbook Section 3862, *Financial Instruments - Disclosures*, and ClCA Handbook Section 3863, *Financial Instruments - Presentation*. The sections relate to disclosure and presentation only and did not have an impact on the Company s financial results (see notes 11, 12 and 13).

Inventories

Effective with the commencement of its 2008 fiscal year, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, *Inventories*, which harmonizes the Canadian standards related to inventories with International Financial Reporting Standards ("IFRS"). This section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. The adoption of this standard did not have an impact on the Company s financial results.

Goodwill and intangible assets

In January 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which will replace Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company will adopt this standard effective January 1, 2009.

As a result of this change in accounting standards, starting January 1, 2009, direct costs incurred to secure patents related to internally-generated assets will no longer by capitalized by the Company. As well, subsequent financial statements for periods beginning on or after January 1, 2009 will provide comparative financial information for previous financial periods to reflect the financial position and results of operations that would have resulted if the patent costs had not been capitalized in those previous periods. Thus, in order to provide an appropriate basis for comparison with 2009 financial figures, subsequent financial statements will present for comparison purposes only, an increase in the net loss figure for 2008, 2007 and 2006 of $46,758, $455,719 and $388,546, respectively, and an increase in the accumulated deficit by $2,426,709 on January 1, 2006.

Future Accounting Policies

International Financial Reporting Standards

In February 2008, Canada s Accounting Standards Board (AcSB) confirmed that Canadian generally accepted accounting principles, as used by publicly accountable enterprises, will be fully converged into International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Therefore the Company will be required to report under IFRS for its 2011 interim and annual financial statements. The Company will convert to these new standards according to the timetable set within these new rules. The Company is currently assessing the future impact of these new standards on its consolidated financial statements.

As at December 31, 2008, Management has begun the process of change-over to IFRS as follows: (1) the significant accounting policy choices are being assessed, (2) expert outside consultants have been engaged and the training program commenced, (3) the scoping study has been prepared, (4) the review of GAAP related covenants and contracts has been completed, and (5) the accounting policy review and IFRS implementation plan process is underway.

Forward Looking Statements

Certain statements included in this MD&A may constitute forward-looking statements within the meaning of the U.S. *Private Securities Litigation Reform Act of 1995* and Canadian securities legislation and regulations, and are subject to important risks, uncertainties and assumptions. This forward-looking information includes amongst others, information with respect to our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may , will , expect , intend , esti anticipate , plan , foresee , believe or continue or the negatives of these terms or variations of them or s terminology. We refer you to the Company s filings with the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission, as well as the Risk Factors section of this MD&A, and of this Form 20F and of our Annual Information Form, for a discussion of the various factors that may affect the Company s future results. The results or events predicted in such forward-looking information may differ materially from actual results or events.

Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company s business. For example, they do not include the effect of business disposi−tions, acquisitions, other business transactions, asset writedowns or other charges announced or occurring after forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

We believe that the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. Furthermore, the forward-looking statements contained in this report are made as of the date of this report, and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

Research and Development, Patents and Licensees

Nymox s research and development policies are targeted at the development of novel therapeutic and diagnostic proprietary products that are subject to patent rights either directly owned by the Company or licensed to the Company through exclusive licensing agreements of patent rights. Over the last three financial years, the Company s major research and development activities were in the following program areas:

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Diagnostic products for Alzheimer’s disease. The major project in this area, the development and validation of a kit version of our AlzheimAlert™ product for sale to laboratories and hospitals was completed in 2004. We are currently marketing the kit in Europe under the CE mark. The FDA has not approved our kit version for sale in the U.S. We are continuing to pursue further kit development and regulatory approvals. At this time, we cannot provide an estimate of the costs and timing to obtain FDA approval for such a kit as it is uncertain at this stage the nature and extent of FDA requirements for approval based on discussions with us.

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Therapeutic products for enlarged prostate (benign prostatic hyperplasia or BPH). We have successfully completed several Phase 1 and Phase 2 multi-center, double-blind, placebo-controlled clinical trials, and follow-up studies, in the U.S. for NX-1207, our drug candidate for the treatment of enlarged prostate (benign prostatic hyperplasia or BPH), and are presently in Phase 3. We cannot predict with any certainty the outcome of any future trials nor estimate the costs of completing such trials, given the inherent uncertainties in conducting clinical trials, including as yet unknown response rates to our treatment candidate, unforeseeable safety issues, patient enrollment rates, manufacturing costs, and regulatory requirements. We anticipate starting a Phase 3 trial in the near future and subsequently filing a New Drug Application (NDA) with the FDA. Given the inherent uncertainties with any Phase 3 clinical trial, we cannot provide a more precise estimate of the costs and timing of the completion of this project. These uncertainties include

the chances of success of any phase of the clinical trials, the nature and extent of FDA requirements to proceed with a Phase 3 and for filing an NDA, our ability to scale up manufacture in accordance with current good manufacturing requirements (cGMP) and in sufficient quantities for commercial use, and whether or when the FDA will ultimately grant us such approval.

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Anti-infectives. Our anti-bacterial agent, NXC-4720, which is being developed as a treatment of meat at the processing stage, has shown to be capable of substantially reducing the level of potentially fatal *E. coli* O157:H7 contamination on fresh beef according to laboratory studies. Other projects in this area, such as treating *E. coli* O157:H7 infection in livestock and treating bacterial infections in humans, are in preliminary stages of development with more uncertain prospects and timing and course of development. Because of the early stage of development of this project, it is impossible to outline the nature, timing or estimated costs of the efforts necessary to complete this project or the anticipated completion dates for this project. The facts and circumstances indicating the uncertainties that preclude us from making a reasonable estimate of the costs and timing necessary to complete this project include the risks inherent in any field trials of NXC-4720, the uncertainty as to the nature and extent of regulatory requirements both for safety and efficacy, and the ability to manufacture NXC-4720 in accordance with current good manufacturing requirements (cGMP) and in sufficient quantities both for large scale trials and for commercial use. In addition, we anticipate that we may partner with a larger company in the food or agricultural sectors in order to finance and conduct field trials and to market any approved product; thus the timing of completion of the regulatory approval of such a product will not likely be within our sole control.

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Tobacco exposure and other diagnostic tests. We developed and validated NicAlert™, which is an FDA-cleared test for tobacco product use, and TobacAlert™, which is an over-the-counter test for second-hand smoke exposure. These are completed projects with any further research and development costs being related to product improvement and obtaining regulatory approvals where required in order to expand the market for these products. The development of other new diagnostic tests using our patented diagnostic technologies are in early stage development. Because of the early stage of development of these projects, it is not possible to outline the nature, timing or estimated costs of the efforts necessary to complete any of them nor their anticipated completion dates. The facts and circumstances indicating the uncertainties that preclude us from making a reasonable estimate include the uncertainty whether we will be able to successfully adapt our patented diagnostic technologies to these new diagnostic indicators, whether any new diagnostic tests we develop will pass proof-of-principle testing both in the laboratory and in clinical trials, and whether we will be able to manufacture such tests at a commercially competitive price.

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Therapeutic products for Alzheimer's disease. We are conducting early stage research and development work into preclinical development of novel drug candidates and original research into the role spherons play in the Alzheimer's disease process in order to pursue spheron-based therapeutics. Because of the early stage of development of this project, it is impossible to outline the nature, timing or estimated costs of the efforts necessary to complete this project, nor the anticipated completion dates for this project. The facts and circumstances indicating the uncertainties that preclude us from making a reasonable estimate include the inherent uncertainties in the pre-clinical and clinical development of therapeutic candidates. In addition, given the very high costs of development of a drug for Alzheimer s disease, we anticipate having to partner with a larger pharmaceutical company to conduct and finance clinical trials. The terms of such a partnership arrangement along with our related financial obligations cannot be determined at this time and the timing of completion of the approval of such a drug will likely not be within our sole control. Most pre-clinical drug candidates do not meet necessary milestones to enter clinical trials; of those which do, only a small percentage ultimately achieve regulatory approval and enter the marketplace. We also have global patent rights to the use of statins in the prevention or treatment of Alzheimer s disease. Various published epidemiological and other research studies have shown evidence that statins may help in the prevention or treatment of Alzheimer s disease; other studies have shown otherwise. Other companies and organizations are currently carrying out clinical trials into the use of statin drugs for Alzheimer's disease. The effect of the results of such trials on this program is uncertain.

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Oncology products. We are in the early stages of developing therapeutic products for oncological indications. Because of the early stage of development of this project, it is impossible to outline the nature, timing or estimated costs of the efforts necessary to complete this project nor its anticipated completion dates. The development of cancer therapeutics in particular is associated with high risks and many uncertainties and a drug candidate that shows efficacy can take a long period (7 years or more) to achieve regulatory approval.

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Research and development expenses allocated to our major research and development programs are as follows:

	Year ended Dec 31, 2008	Year ended Dec 31, 2007	Year ended Dec 31, 2006	Year ended Dec 31, 2005	Year ended Dec 31, 2004
Alzheimer's Disease: Diagnostics	$ 458,080	$ 467,367	$ 520,855	$ 488,361	$ 691,183
Alzheimer's Disease: Therapeutics	$ 0	$ 91,398	$ 98,056	$ 2,866	$ 282,205
Anti-Infectives	$ 0	$ 29,091	$ 25,899	$ 28,934	$ 22,224
BPH (Enlarged Prostate) Therapeutics	$ 1,209,041	$ 1,824,073	$ 1,739,183	$ 1,018,266	$ 615,454
Tobacco Exposure Tests: NicAlert® and TobacAlert®	$ 103,817	$ 64,251	$ 108,119	$ 67,164	$ 118,636
Oncology	$ 393,673	$ 321,723	$ 102,602	$ 226,000	$ 131,537
Total	$ 2,164,611	$ 2,797,903	$ 2,594,714	$ 1,831,591	$ 1,861,239

	Year ended Dec 31, 2003	Year ended Dec 31, 2002	Year ended Dec 31, 2001	Year ended Dec 31, 2000
Alzheimer's Disease:	$ 779,305	$ 332,254	$ 491,051	$

On December 14, 2010, the Company granted Dale Gustavson and Robert L
purchase 15,000 shares of Common Stock, exercisable for ten (10) years at
their joining the EEAB.

Effective January 1, 2011, upon the Castrovilla Acquisition, 23 employee
granted an aggregate of 54,459 incentive stock options with one and three y
exercisable for ten (10) years at $1.68 per share. John Pink, President of Cas
performance based incentive stock option to purchase 30,000 shares of Comm
for ten years at $1.68 per share. As long as he is employed by Castrovilla, Mr
exercisable in three equal installments of 10,000 shares each on December 31,
only if Castrovilla operations as currently situated achieve EBITDA levels of
and $1,252,000, respectively. Mr. Pink was also granted an option to purc
Common Stock exercisable for ten years at $1.68 per share exercisable in thre
4,444 shares on December 31, 2011, 2012 and 2013, respectively.

Effective September 1, 2011, upon the Xnergy and HVAC Controls & Specia
27 employees of Xnergy, Inc. and 11 employees of HVAC Controls & S
granted an aggregate of 135,250 incentive stock options with one and three y
exercisable for ten (10) years at $1.72 per share.

On October 4, 2011, the Company granted John Pink options to purcha
Common Stock exercisable at $1.72 per share for ten (10) years with one-th
one-third upon billing of 500 petroleum sites and one-third vested upon bi
1,000 petroleum sites.

On January 1, 2012, the Company granted Philip Kranenburg options to purc
of Common Stock as described above. As a result of the termination
employment, he is currently able to exercise an aggregate of 52,740 optio
947,260 will be returned to Treasury.

On October 16, 2012, the Company granted Edith Vasquez, a Company
purchase 10,000 shares of Common Stock exercisable at $1.23 per share for t
third-vested at grant and one-third vested annually thereafter.

On December 5, 2012, the Company granted three Xnergy, Inc. employees an
& Specialties, Inc. employee an aggregate of 175,000 ten (10) year options
Stock at $1.27 per share with one-half of the options vesting on December
one-half vesting on December 14, 2014.

As a result of the foregoing, there were options to purchase an aggregate
Common Stock issued and outstanding as of December 31, 2012.

**Item 12. Security Ownership of Certain Beneficial Owners and Mana
Stockholder Matters.**

The following table sets forth certain information as of March 26, 2013 re
ownership of our common stock, by (i) each person or entity who, to our k
than 5% of our common stock; (ii) our executive officers named in the Su
Table above; (iii) each director; and, (iv) all of our executive officers and
Unless otherwise indicated in the footnotes to the following table, each pers
has sole voting and investment power and that person s address is c/o Blue E
Ridge Parkway, Suite 205, Henderson, NV 89052 Shares of common sto
warrants, or other rights currently exercisable or exercisable within 60 da
prospectus, are deemed to be beneficially owned and outstanding for computi
and percentage of the stockholder holding the options, warrants or other righ
outstanding for computing the percentage of any other stockholder.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Be

5% Owners:	
John Liviakis	
Liviakis Financial Communications	
655 Redwood Hwy, Suite 395	
Mill Valley, CA 94941	1,891,752(2)
D. Jason Davis	
2721 Loker Avenue West	
Carlsbad, CA 92010	3,519,662(3)
David Lies	
1701 E. Lake Avenue, Suite 260	
Glenview, IL 60025	4,205,470(4)
Executive Officers and Directors :	
Johnny R. Thomas	1,697,838(5)
John C. Francis	1,672,838(5)
Laird Q. Cagan	1,699,125(6)
All executive officers and directors	
as a group (three persons)	5,069,801(5)(6)

(1) Based on 21,816,868 shares of our common stock outstanding on Marc
include shares of our common stock issuable upon exercise of outstanding
warrants issuable upon grant and full exercise of Class A Warrants or convers

(2) As reported on Schedule 13G/A dated August 1, 2013 filed by Joh
1,690,172 shares of common stock beneficially owned as of August 1, 201
issuable upon conversion of Series B Preferred Stock. Does not include an a
shares of Common Stock comprised of (a) 757,391 issuable upon the exercis
issued to Mr. Liviakis, (b) 100,710 shares issuable upon exercise of Clas
Liviakis Financial Communications (LVC), of which Mr. Liviakis is the
600,000 shares of Common Stock issuable upon the exercise of the Warrants,
share, issued to LVC, or (d) 25,000 shares of Common Stock issuable upon th
Warrants issued in the 2009 Private Placement. Mr. Liviakis, LVC and the
applicable Warrants effective August 2, 2012, to provide that no exercise sh
Mr. Liviakis would have beneficially owned more than 9.99% of the iss
common stock of the Company.

(3) Consists of 2,873,292 shares of Common Stock held by a trust of wh
executor and beneficiary, 1,000 shares held directly by Mr. Davis and 646,4
Stock issuable upon exercise of currently exercisable warrants held by Mr. Da
shares deposited by Mr. Davis and 102,000 shares deposited by Joseph P
Xnergy, with the Company pursuant to an Escrow Agreement dated as of Se
of which shares are saleable prior to September 7, 2013 under the terms of
The Company shall be entitled to reimbursement from the Escrowed Share
owner of the leased building, defaults on mortgage payments that adversel
financially through its lease.

(4) Includes 100,000 shares issued in our 2009 Private Placement and 195
consulting services to Remanco Inc. of which Mr. Lies is a control person;
upon exercise of Pipe Warrants issued in the 2009 Private Placement; 50,00
exercise of Class A Warrants issued to all shareholders of record on Decembe
shares issuable upon exercise of Class A Warrants issued in our 2011 Ser
Offering and 2012 Series B Preferred Stock Offering; 1,610,000 shares of C
upon issuance of Series A Convertible Preferred Stock; and 911,440 shar
issuable upon conversion of Series B Convertible Preferred Stock, but doe
preferred stock dividends.

(5) Shares issuable upon exercise of management warrants assigned by Johnn
C. Francis to affiliates for estate planning purpose and for which warrants
Messrs. Thomas and Francis disclaim beneficial ownership (except for 1,160
owned by John Francis and 750,000 underlying shares owned by Johnny
included in the above table since the warrants were issued pursuant to their r
agreements, as amended. Under Dr. Thomas s employment agreement 2,0
being exercised and issued in lieu of salary payments for such exercises.
initial 1,000,000 Warrants issued to each of Dr. Thomas and Mr. Francis are
years at $1.00 per share. The first 100,000 warrants vested upon grant, the
vested on October 31, 2010, the next 250,000 warrants vested on Septem

500,000 warrants vested on September 1, 2012, while the remaining 500
September 1, 2013. The vesting schedule accelerates to full vesting upon th
aggregate revenue of $12,500,000 for two consecutive quarters and the Com
net profit for such two quarters. The second warrants issued in March 201
1,000,000 shares were exercisable at $1.25 per share and were reduced to $0
vest according to the above stated vesting schedule for the earlier grante
employment agreements and the term of all warrants was extended to te
warrants also vest when the holders exercise the warrants and purchase C
therefore deemed to be currently exercisable. See Item 11. Executive Comp

(6) Includes (a) 600,000 shares beneficially owned by Cagan Capital LLC
Cagan is the principal of; (b) 100,000 shares beneficially owned by Mr. Caga
250,000 warrants issued to Mr. Cagan exercisable at $2.00 per share; (d) 50,
Mr. Cagan s minor children exercisable at $2.00 per share; (e) 250,000 warra
or an affiliate thereof at $3.00 per share; (f) 11,625 warrants issued to Mr.
thereof at $1.25; and (g) 437,500 warrants issued to Mr. Cagan that are ex
share. Does not include 1,000,000 warrants issued under a consulting agr
2012. Does not include 212,500 warrants issued as compensation for a
Company.

Securities Authorized for Issuance Under Equity Compensation Plans

As of December 31, 2012, securities issued and securities available for futu
Equity Incentive Plan were as follows:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercis price of outstar options, warrar and rights
Equity compensation plans approved by security holders (1)	960,761	$1.58
Equity compensation plans not approved by security holders(2)	8,493,500	$ 0.50
Total	9,454,261	$ 0.61

(1)

See Executive Compensation - Equity Incentive Plan for a discussion of th Incentive Plan.

(2)

See Executive Compensation - Outstanding Equity Amounts at Fiscal discussion of Management Warrants issued to Johnny R. Thomas and John nominees and Warrants issued to Laird Cagan, Chairman of the Board.

From September 29, 2011 through December 31, 2011, the Company c $2,000,000 of Units of unregistered securities. Each Unit consists of: (i) Convertible Preferred Stock (Preferred Stock), offered at $10.00 per sh shares of Common Stock at $1.00 per share, and (ii) warrants (Warrants) Common Stock for each two shares of Common Stock issuable upon conve Stock.

The terms and conditions of the Preferred Stock are set forth in the Certificate Rights, Preferences, Privileges and Restrictions of Series A Convertible Prefe in the Certificate, the Preferred Stock:

.

pays an eight percent (8%) dividend when paid in cash or a twelve percent
paid in common stock at the Company s election;

.

shall be convertible at the Company s election at $1.00 per share upon the ea
from issuance or (ii) when the Common Stock closing price trades at $2.25 p
consecutive calendar days;

.

In the event of such a mandatory conversion by the Company, prior to the pa
of dividends, the Company shall nevertheless pay the Holder such divide
Holder was to receive for the first full year from the date of issuance;

.

liquidation preference of $10.00 per share plus additional unpaid dividends;

.

votes on an as converted basis with Common Stock as one class; and

.

will register underlying common stock on next available registration statemen

The terms of the Warrants are set forth in the form of warrant, filed as an exh
set forth in the warrant, the Warrant:

.

A Warrant: Each A warrant entitles the holder to receive one common share
the A warrant is exercised. The exercise price is $3.00/share and the expiratio
2013.

.

B Warrant: Each B warrant entitles the holder to receive one common share
the B warrant is exercised. The exercise price is $6.00/share and the expirati
from the issuance date.

.

C Warrant: Each C warrant entitles the owner to receive one common share
exercised. The exercise price is $12.00/share and the expiration date is th
issuance date.

Accordingly, the Company issued 297,850 shares of Series A Preferred Stoc
$10.00 per share and Warrants to purchase 1,489,250 shares of Common Stoc

The Company issued 283,052 shares of Series B Preferred Stock, with a fac
share and warrants to purchase 1,415,260 shares of Common Stock at $3.00 p

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

Except as set forth below, during the past three years, there have been no
directly or indirectly, between the Company and any of its officers, dire
members.

Employment Agreements/Warrants

The Company has entered into substantively similar employment agreements
2010, as amended on March 1, 2011, with Dr. Johnny R. Thomas as Chief
President and John Francis as Vice President of Corporate Development an
Pursuant to their contracts, Messrs. Thomas and Francis were each awarded w
aggregate of 2,000,000 shares of Common Stock, as set forth above under E
- Employment Agreements. 747,162 of the warrants awarded to purchase an
shares of Common Stock have been exercised.

Consulting Agreement/Warrants

On February 24, 2011, the Company entered into a Consulting Agreemen
Capital Partners, an entity controlled by Laird Cagan, Chairman of the
Directors. Mr. Cagan received warrants to purchase 500,000 shares of Comm
share, for a ten-year period, as amended. On November 6, 2012 the Company
agreement with Laird Cagan, Chairman of the Company s Board of Directo
warrants to purchase 1,000,000 shares of Common Stock at $0.01 per share,
Mr. Cagan also received on December 12, 2012 212,500 warrants to purch
$0.01 per share, for a ten-year period. These warrants were issued in consid
secured loan made by Mr. Cagan to the Company.

Item 14. Principal Accountant Fees and Services.

The Company s Audit Committee reviews and approves audit and permiss
performed by its independent registered public accounting firm, as well as the
services.

HJ & Associates LLC was appointed as the independent registered public a
fiscal year ended December 31, 2012. Subsequently, HJ & Associates LLC
independent registered public accounting firm for the fiscal year ended Decem

Lake and Associates, CPA, was appointed as the independent registered publ
the fiscal year ended December 31, 2011.

In its review of non-audit services and its appointment of the independ
accounting firms, the Audit Committee considered whether the provisio
compatible with maintaining independence. All of the services provided ar
independent registered public accounting firms were approved by the Audit C

The following table shows the fees for the fiscal years ended December 31, 20

	Fiscal 2012	First Three Quarters of Fiscal 2012	Fiscal 201
	HJ & Associates, LLC	Lake and Associates, CPAs	Lake and Associates CPAs
Audit Fees (1)	$ 55,000	$ 59,210	$ 59,5
Audit Related Fees(2)	$ 0	$ 12,775	$
Tax Fees	$ 0	$ 0	$
All Other Fees (3)	$ 0	$ 0	$ 66,9
Total	$ 0	$ 71,985	$ 126,4

(1) Audit fees - these fees relate to the audit of our annual financial statemen
our interim quarterly financial statements.

(2) Audit related fees - these fees relate primarily to the auditors review of
statements and audit related consulting.

(3) All Other Fees -these fees relate to the reaudit of our prior period financi
audit of the companies acquired during 2011.

**Policy on Audit Committee Pre-Approval of Audit and Permissible N
Independent Auditors**

The Audit Committee s policy is to pre-approve all audit and permissi
provided by the independent auditors. These services may include audit s
services, tax services and other services. Pre-approval is generally provided
any pre-approval is detailed as to the particular service or category of ser
subject to a specific budget. The independent auditors and management are r
report to our Board of Directors regarding the extent of services provide
auditors in accordance with this pre-approval, and the fees for the services p
Board of Directors may also pre-approve particular services on a case-by-case

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Report of Independent Registered Public Accounting F

To the Board of Directors

Blue Earth, Inc. and Subsidiaries

Henderson, Nevada

We have audited the accompanying consolidated balance sheets of Blue Earth as of December 31, 2012 and 2011, and the related consolidated state stockholders' equity, and cash flows for the years then ended. These co statements are the responsibility of the Company's management. Our respons opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public C Oversight Board (United States). Those standards require that we plan and obtain reasonable assurance about whether the consolidated financial stateme misstatement. The Company is not required to have, nor were we engaged to p internal control over financial reporting. Our audits included consideration o financial reporting as a basis for designing audit procedures that ar circumstances, but not for the purpose of expressing an opinion on the Company s internal control over financial reporting. Accordingly, we expre audit also includes examining, on a test basis, evidence supporting the amou the consolidated financial statements, assessing the accounting principles estimates made by management, as well as evaluating the overall consolidat presentation. We believe that our audits provide a reasonable basis for our opi

In our opinion, the consolidated financial statements referred to above presen respects, the consolidated financial position of Blue Earth, Inc. and Subsidiari 2012 and 2011 and the results of their operations and their cash flows for th conformity with U.S. generally accepted accounting principles.

/s/ HJ & Associates, LLC

HJ & Associates, LLC

Salt Lake City, Utah

September 11, 2013

BLUE EARTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

ASSETS

	December 2012
CURRENT ASSETS	
Cash	$ 659
Accounts receivable, net	1,749
Costs and revenues in excess of billings	1,724
Inventory, net	221
Construction in progress	706
Prepaid expenses and deposits	921
Total Current Assets	5,982
PROPERTY AND EQUIPMENT, net	661
OTHER ASSETS	
Deposits	52
Contracts and franchise, net	8,250
Total Other Assets	8,302
TOTAL ASSETS	$ 14,946

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 2,088
Current portion of notes payable	503
Related party payables	1,976
Billings in excess of revenues	674
Deferred revenues	17
Accrued expenses	423
Payroll expenses payable	534
Preferred dividends payable	440
Warrant derivative liability	
Total Current Liabilities	6,659
LONG TERM LIABILITIES	
Long term portion of notes payable	
Total Liabilities	6,659
Commitments and contingencies	
STOCKHOLDERS' EQUITY	
Preferred stock; 25,000,000 shares authorized at $0.001 par value, 510,152 and 200,000 shares issued and outstanding, respectively	
Common stock; 100,000,000 shares authorized at $0.001 par value, 20,882,549 and 18,703,182 shares issued and outstanding, respectively	20

Additional paid-in capital	42,332
Stock subscription receivable	
Accumulated deficit	(34,065,9
Total Stockholders' Equity	8,287
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 14,946

The accompanying notes are an integral part of these consolidated finan

BLUE EARTH, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

		For the Year Er December 3
		2012
REVENUES	$	9,966,073
COST OF SALES		6,383,645
GROSS PROFIT		3,582,428
OPERATNG EXPENSES		
Depreciation and amortization		2,541,961
General and administrative		12,311,157
Total Operating Expenses		14,853,118
LOSS FROM OPERATIONS		(11,270,690)
OTHER INCOME (EXPENSE)		
Gain (loss) on derivative valuation		2,037,325
Other income		1
Interest expense		(185,970)
Loss on settlement of license		(164,667)
Loss on settlement of debt		(23,133)
Liquidated damages expense		-
TOTAL OTHER INCOME (EXPENSE)		1,663,556
LOSS BEFORE INCOME TAXES		(9,607,134)
INCOME TAX EXPENSE		-
NET LOSS		(9,607,134)
PREFERRED DIVIDENDS		(545,020)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$	(10,152,154)
BASIC AND DILUTED LOSS PER SHARE	$	(0.51)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC AND DILUTED		18,961,099

The accompanying notes are an integral part of these consolidated finan

BLUE EARTH, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-In Capital	Stock Subscriptio Receivabl
Balance, December 31, 2010	-	$ -	11,855,232	$11,855	$ 12,420,166	$
Common stock issued for options cancellation	-	-	72,813	73	95,712	
Common stock issued for license	-	-	150,000	150	176,850	
Common stock issued for acquisition of subsidiaries	-	-	5,779,762	5,780	10,164,229	(2,632,19
Common stock issued for consulting services	-	-	743,903	744	972,406	
Common stock issued for employee incentives	-	-	66,667	66	114,601	
Common stock issued for exercise of options	-	-	34,805	35	17,965	
Stock option and warrant expense	-	-	-	-	7,809,893	

Preferred shares and warrants issued for cash	200,000	200	-	-	1,999,800	
Net loss attributable to common shareholders for the year ended December 31, 2011	-	-	-	-	-	
Balance, December 31, 2011	200,000	200	18,703,182	18,703	33,771,622	(2,632,19
Common stock issued upon conversion of debt	-	-	1,220,501	1,221	1,463,092	
Common stock issued upon conversion of preferred stock and accrued dividends	(70,750)	(71)	790,417	790	105,448	
Common stock issued for acquisition of project rights	-	-	366,529	366	486,284	
Common stock issued for consulting services	-	-	370,741	371	497,058	
Common stock cancelled for	-	-	(75,000)	(75)	(89,175)	

technology						
Common stock cancelled for exercise of options	-	-	(84,180)	(84)	84	
Common stock cancelled for stock subscription receivable	-	-	(877,364)	(877)	(2,631,315)	2,632,19
Common stock issued upon exercise of warrants and options	-	-	467,723	468	128,143	
Preferred shares and warrants issued for cash and services	380,902	381	-	-	3,598,007	
Stock option and warrant expense	-	-	-	-	4,892,060	
Derivative attached to preferred stock	-	-	-	-	110,990	
Net loss attributable to common shareholders for the year ended December 31, 2012	-	-	-	-	-	
Balance, December 31, 2012	510,152	$ 510	20,882,549	$20,883	$ 42,332,298	$

The accompanying notes are an integral part of these consolidated finan

BLUE EARTH, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For the Y Decer 2012
OPERATING ACTIVITIES	
Net loss	$ (9,607,134)
Adjustments to reconcile net loss to net cash used in operating activities:	
Stock options and stock warrants issued for services	4,307,594
(Gain) loss on derivative valuation	(2,037,325)
Derivative attached to preferred stock	110,990
Loss on settlement of debt	23,133
Loss on settlement of license	164,667
Stock issued for services	497,429
Depreciation and amortization	2,541,961
Amortization of debt discount	37,306
Changes in operating assets and liabilities:	
Accounts receivable and billings in excess	(2,528,555)
Inventory	251,903
Construction in progress	(401,886)
Prepaid expenses and deposits	303,819
Accrued dividends payable	(240,921)
Accounts payable and accrued expenses	1,048,163
Net Cash Used in Operating Activities	(5,528,856)
INVESTING ACTIVITIES	
Acquisition of subsidiaries	-
Purchase of license	-
Purchase of property and equipment	(10,188)
Net Cash Used in Investing Activities	(10,188)
FINANCING ACTIVITIES	
Proceeds from warrants exercised	91,950
Proceeds from related party loans	1,605,000
Proceeds from preferred stock	3,598,388
Acquisition of subsidiary	-
Proceeds from notes payable	1,208,008
Repayment of notes payable	(825,787)
Repayment of related party loans	(6,614)
Net Cash Provided by Financing Activities	5,670,945

NET INCREASE (DECREASE) IN CASH		131,901
CASH AT BEGINNING OF YEAR		527,108
CASH AT END OF YEAR	$	659,009

The accompanying notes are an integral part of these consolidated finan

BLUE EARTH, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)

	For D 2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
CASH PAID FOR:	
Interest	$ 83
Income taxes	
NON CASH FINANCING ACTIVITIES:	
Common stock issued upon conversion of debt	$ 1,441
Commons stock issued upon conversion of preferred stock	
Common stock cancelled for technology	(253,
Common stock issued for acquisition of subsidiary	
Common stock issued for license	
Common stock cancelled for subscription	(2,632,
Common stock cancelled	
Cashless exercise of warrants	
Initial debt discounts on notes payable	71
Interest reclassification to notes payable	7
Preferred dividends declared	545
Warrant vesting recognized as a prepaid expense	513
Warrants exercised for accrued wages	36
Shares issued for construction in progress costs	486

The accompanying notes are an integral part of these consolidated finan

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 1. Description of Business

Blue Earth, Inc. and subsidiaries (the Company), a Nevada corpor Henderson, Nevada, is a provider of energy efficiency and renewable energy primarily located in west coast states. The Company is a full servicer energy s Company provides energy efficiency services including energy manageme reducing energy consumption through retrofits of lighting, refrigeration commercial business. The Company also develops, designs, builds and imp such as solar, fuel cells and combined heat and power for alternative and rene of less than 1 MW. The Company also finances renewable and alternative en industry relationships.

Note 2. Significant Accounting Policies

Use of Estimates

The Company s consolidated financial statements are prepared in accor principles generally accepted in the United States (GAAP). These acco management to make certain estimates, judgments and assumptions. Manage estimates, judgments and assumptions upon which they rely are reasonable b available to us at the time that these estimates, judgments and assumpti estimates, judgments and assumptions can affect the reported amounts of ass the date of the consolidated financial statements as well as the reported am expenses during the periods presented. The consolidated financial statement the extent there are material differences between these estimates and actual r the accounting treatment of a particular transaction is specifically dictated b require management s judgment in its application. There are also areas i judgment in selecting any available alternative would not produce a mate Significant estimates include the estimates of depreciable lives and valu equipment, valuation and amortization periods of intangible assets, valu valuation of payroll tax contingencies, valuation of share-based paymen allowance on deferred tax assets.

Principles of Consolidation

The consolidated financial statements for 2012 reflect the financial position
Company and its wholly- owned subsidiaries, Blue Earth Tech, Inc., (Bl
(Castrovilla), Blue Earth Energy Management, Inc, (BEEM), HVAC Contro
(HVAC), Ecolegacy Gas & Power, LLC (Eco), Xnergy, Inc. (Xnergy)
Management Services, Inc. (BEEMS) and Blue Earth Finance, Inc. (BEF
December 31, 2011, the consolidated financial statements included the accour
Inc, Castrovilla, Inc., and Blue Earth Energy Management, Inc. The 2011
statements also include the accounts of HVAC Controls and Specialties, Inc
Xnergy, Inc. from September 1, 2011.

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments with an o
date of purchase of three months or less to be cash equivalents. There were
December 31, 2012 and 2011.

Accounts Receivable

The Company records accounts receivable related to its construction contrac
on amounts due under the contractual terms. Accounts receivable throughout
based on payments received, credits for change orders, or back charges incurr

Management reviews accounts receivable periodically to determine if
potentially be uncollectible. Management s evaluation includes several factor
the accounts receivable balances, a review of significant past due accounts,
and our historical write-off experience, net of recoveries. The Company i
receivable balances that are determined to be uncollectible, along with a
allowance for doubtful accounts. After all attempts to collect a receivable hav
is written off against the allowance. The Company s allowance for doubtfu
and $193,218 as of December 31, 2012 and 2011, respectively.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 2. Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. De
for on a straight-line basis over the estimated useful lives of the assets pe
Expenditures for additions and improvements are capitalized while repairs
expensed as incurred.

Category	D
Leasehold improvements	
Computer and office equipment	
Equipment and tools	
Vehicles	

Intangible Assets

The Company records the purchase of intangible assets not purchased in a bu
accordance with the ASC Topic 350 and records intangible assets ac
combination in accordance with ASC Topic 805. In connection with the pu
and Xnergy. The Company has recorded $11,595,475 as the value of cu
franchises. In 2011 the Company paid $277,000 for a license to energy con
The license was cancelled in 2012. These amounts are being amortized over
lives of 5 years. The Company recorded amortization expense of $2,342,178
the years ended December 31, 2012 and 2011, respectively. Annual amorti
$2,319,075 through 2016.

Long-Lived Assets

Management evaluates the recoverability of the Company s identifiable int
long-lived assets in accordance with ASC Topic 360, which generally requ
these assets for recoverability when events or circumstances indicate a poten
Events and circumstances considered by the Company in determining whethe
identifiable intangible assets and other long-lived assets may not be recoverab

limited to: significant changes in performance relative to expected operati
changes in the use of the assets, significant negative industry or economi
decline in the Company s stock price for a sustained period of time, and ch
business strategy. In determining if impairment exists, the Company estim
cash flows to be generated from the use and ultimate disposition of these as
indicated based on a comparison of the assets carrying values and the undis
impairment loss is measured as the amount by which the carrying amount of
fair market value of the assets.

Fair Value Measurements

On January 1, 2008, the Company adopted the provisions of ASC T
Measurements and Disclosures . ASC Topic 820 defines fair value as used
pronouncements, establishes a framework for measuring fair value and exp
value measurements. Excluded from the scope of ASC Topic 820 are certai
accounted for under ASC Topic 840, Leases. The exclusion does
measurements of assets and liabilities recorded as a result of a lease trans
pursuant to other pronouncements within the scope of ASC Topic 820.

Advertising

The Company conducts advertising for the promotion of its services. In accor
720-35-25, advertising costs are charged to operations when incurred. Advert
$107,215 and $300,927 for the years ended December 31, 2012 and 2011, resp

Reclassifications

Certain amounts in the accompanying 2011 consolidated financial statements
to conform to the 2012 presentation.

Reserve for Warranty

The Company has accrued a reserve for the estimated cost of completing w
reserve is $1,717 and

$25,241 as of December 31, 2012 and 2011, respectively.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 2. Significant Accounting Policies (Continued)

Revenue Recognition

The Company generates revenues from professional services contracts. C
according to individual agreements. Revenues from professional service
completed-contract basis, in accordance with ASC Topic 605-35, C
Production-Type Contracts. Under the completed-contract basis, contract
deferred asset account and billings and/or cash received are recorded to a def
account during the periods of construction. Costs include direct mate
subcontract labor. All revenues, costs, and profits are recognized in operatio
the contract. A contract is considered complete when all costs except insigni
incurred and final acceptance has been received from the customer. C
administrative expenses are charged to the periods as incurred. However, i
contract is foreseen, the Company will recognize the loss as incurred.

For uncompleted contracts, the deferred asset (accumulated contract costs) in
liability (billings and/or cash received) is classified under current assets
billings on uncompleted contracts. The deferred liability (billings and/or cash
the deferred asset (accumulated contract costs) is classified under current li
excess of costs on uncompleted contracts. Contract retentions are included in a

Income Taxes

The Company uses the asset and liability method of accounting for income ta
ASC Topic 740, Income Taxes. Under this method, income tax exper
amount of: (i) taxes payable or refundable for the current year, and (ii) deferre
temporary differences resulting from matters that have been recognized i
statements or tax returns. Deferred tax assets and liabilities are measured u
expected to apply to taxable income in the years in which those temporary di
to be recovered or settled. The effect on deferred tax assets and liabilities of a
recognized in the results of operations in the period that includes the enactm
allowance is provided to reduce the deferred tax assets reported if, based
available positive and negative evidence, it is more likely than not some
deferred tax assets will not be realized. A liability (including interest if applic

the consolidated financial statements to the extent a current benefit has bee
return for matters that are considered contingent upon the outcome of an u
Applicable interest is included as a component of income tax expense and inc

ASC Topic 740-10-30 clarifies the accounting for uncertainty in income t
enterprise s financial statements and prescribes a recognition threshold and
for the financial statement recognition and measurement of a tax position ta
taken in a tax return. ASC Topic 740-10-40 provides guidance on de-recog
interest and penalties, accounting in interim periods, disclosure, and tran
believes its tax positions are all highly certain of being upheld upon exam
Company has not recorded a liability for unrecognized tax benefits. As of D
tax years 2009 through 2011 remain open for IRS audit. The Company has
audit from the Internal Revenue Service for any of the open tax years.

The Company adopted the provisions of ASC Topic 740-10-25-09, which
how an entity should determine whether a tax position is effectively settl
recognizing previously unrecognized tax benefits. The term effectively s
ultimately settled when used to describe recognition, and the terms settle
terms ultimate settlement or ultimately settled when used to describe m
under ASC Topic 740. Topic 740-10-25-09 clarifies that a tax position can
upon the completion of an examination by a taxing authority without being leg
tax positions considered effectively settled, an entity would recognize the full
even if the tax position is not considered more likely than not to be sustaine
basis of its technical merits and the statute of limitations remains open.

Basic and Diluted Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weight
shares of common stock outstanding during the periods presented. Diluted
share is computed using the weighted average number of common shares outs
and, if dilutive, potential common shares outstanding during the period. Pot
consist of the incremental common shares issuable upon the exercise of
warrants, convertible preferred stock or other common stock equivalents.
960,761 and 607,791 common shares and warrants to purchase 19,807,876 an
shares were outstanding at December 31, 2012 and 2011, but were not includ
of diluted loss per share because the effects would have been anti-dilutiv
warrants may dilute future earnings per share.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 2. Significant Accounting Policies (Continued)

Stock-Based Compensation

The Company recognizes compensation expense for stock-based compensati
ASC Topic No. 718. For employee stock-based awards, the Company calculat
award on the date of grant using the Black-Scholes method for stock op
recognized over the service period for awards expected to vest. For non-e
awards, the Company calculates the fair value of the award on the date of gra
as employee awards, however, the awards are revalued at the end of each re
pro rata compensation expense is adjusted accordingly until such time the r
fully vested, at which time the total compensation recognized to date shall equ
stock-based award as calculated on the measurement date, which is the da
recipient s performance is complete.

The estimation of stock-based awards that will ultimately vest requires judgm
actual results or updated estimates differ from original estimates, such amo
cumulative adjustment in the period estimates are revised. The Company c
when estimating expected forfeitures, including types of awards, employe
experience.

Comprehensive Income

The Company has no items of other comprehensive income as of December 3

Accounting for Derivatives

The Company evaluates its options, warrants or other contracts to determin
embedded components of those contracts qualify as derivatives to be separate
ASC Topic 815, Derivatives and Hedging . The result of this accounting
value of the derivative is marked-to-market each balance sheet date and rec
the event that the fair value is recorded as a liability, the change in fair va
statement of operations as other income (expense). Upon conversion or ex

instrument, the instrument is marked to fair value at the conversion date and reclassified to equity. Equity instruments that are initially classified as equity reclassification under ASC Topic 815 are reclassified to liability at the fair v on the reclassification date.

Research and Development

In accordance with ASC Topic 730, Research and Development , exper development of the Company s products and services are expensed when inc in operating expenses. The Company recognized research and developm $14,230 for the years ended December 31, 2012 and 2011, respectively.

Recent Accounting Pronouncements

The Company has evaluated recent accounting pronouncements and their ado not expected to have a material impact on the Company s financial po statements.

Inventory

Inventory is recorded at the lower of cost or market (net realizable value) u method. The inventory on hand as of December 31, 2012 and 2011 consists miscellaneous refrigeration parts and raw gasket material at costs of $ allowance) and $473,451 (net of $25,000 allowance), respectively. The Co any work in progress.

Prepaid Expenses and Deposits

The components of the Company s prepaid expenses as of December 31, are

		2012
Consulting fees (term 1-9 months)	$	696,868
Royalties (term as earned per contract)		-
Insurance (term 11 months)		42,555
Deposits (term 1 month)		182,494
Total prepaid expenses	$	921,917

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 2. Significant Accounting Policies (Continued)

Technology License

On May 16, 2011, the Company purchased a license to energy conservation SwitchGenie . The purchase price was $100,000 and 150,000 shares of the valued at $1.18 per share, which was the market price on the transaction clo also requires the Company to pay a royalty based upon SwitchGenie sale prepaid $68,213 in royalties against the license as of December 31, 2011 v prepaid expenses. The Company was amortizing the cost of the license over years and has recorded $13,850 and $-0- of amortization expense during the 31, 2012 and 2011, respectively. During the year ended December 31, 2012 the technology license to the licensor in exchange for 75,000 shares o terminated the exclusive license and entered into a non exclusive license and s

Note 3 - Property and Equipment

The major classes of assets as of December 31, are as follows:

	2012
Office and computer equipment	$ 342,405
Manufacturing and installation equipment	272,488
Leasehold improvements	759,304
Vehicles	404,720
Sub Total	1,778,917
Accumulated Depreciation	(1,117,762)
Net	$ 661,156

Depreciation expense was $213,633 and $108,971, for the years ended De 2011, respectively. Approximately $360,210 of the Company s property a security against its long-term debt.

Note 4. Fair Value of Financial Instruments

The Company follows the provisions of ASC 820 for fair value measureme
assets and nonfinancial liabilities not recognized or disclosed at fair value in t
on a recurring basis. The accounting standard for fair value measurements pro
measuring fair value and requires expanded disclosures regarding fair valu
value is defined as the price that would be received for an asset or the exit pr
to transfer a liability in the principal or most advantageous market in an order
market participants on the measurement date. The accounting standard es
hierarchy which requires an entity to maximize the use of observable inputs,
hierarchy prioritizes the inputs into three broad levels as follows. Level 1 in
(unadjusted) in active markets for identical assets or liabilities. Level 2 input
similar assets and liabilities in active markets or inputs that are observable fo
either directly or indirectly through market corroboration, for substantiall
financial instrument. Level 3 inputs are unobservable inputs based on
assumptions used to measure assets and liabilities at fair value. An asset or l
within the hierarchy is determined based on the lowest level input that is signi
measurement.

Liabilities measured at fair value on a recurring and non-recurring basis con
at December 31, 2012 and 2011:

	Total Carrying Value at December 31, 2012	Fair Value Measurem 20 (Level 1)	(Level 2)
Liabilities:			
Warrant derivative liability	$ -	$ -	$

	Total Carrying Value at December 31, 2011	Fair Value Measurem 20 (Level 1)	(Level 2)
Liabilities:			
Warrant derivative liability	$ 2,037,325	$ -	$

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 4. Fair Value of Financial Instruments (Continued)

The following is a summary of activity of Level 3 liabilities for the years end
and 2011:

Balance at December 31, 2010	$
Change in fair value 2011	
Balance at December 31, 2011	
Change in fair value 2012	
Balance at December 31, 2012	$

The Company estimates the fair value of the warrant derivative liability utiliz
option pricing model, which is dependent upon several variables such as the e
expected volatility of our stock price over the expected warrant term, expecte
over the expected warrant term, and the expected dividend yield rate over
term. The Company believes this valuation methodology is appropriate for es
of the warrant derivative liability. The following table summarizes the assu
utilized to estimate the fair value of the warrant derivative liability at Decemb

Assumptions	December 31, 2012	Dece
Expected term (years)	0.0	
Expected volatility	178%	
Risk-free interest rate	3.64%	
Dividend yield	0.00%	

The expected warrant term is based on the remaining contractual term. The
based on historical volatility. The risk-free interest rate is based on the U.S
terms equivalent to the expected term of the related warrant at the valuation
based on historical trends. While the Company believes these estimates ar
value would increase if a higher expected volatility was used, or if the ex
increased.

There were no changes in the valuation techniques during the years ended D
December 31, 2011. The estimated fair value of certain financial instrumen
cash equivalents and current liabilities, are carried at historical cost basis, wh
fair values because of the short-term nature of these instruments.

Note 5. Commitments and Contingencies

On March 1, 2011, the Board of Directors of the Company amended the empl
Dr. Johnny R. Thomas and John C. Francis. Each of their employment agreen
1, 2010 were amended effective February 1, 2011, to increase their annua
Johnny R. Thomas s salary increased from $99,000 to $174,000 and Joh
$75,000 to $150,000.

Johnny R. Thomas and John C. Francis were each awarded five-year per
purchase 1,000,000 shares each at an exercise price of $1.25 per share. The w
when the Company achieves certain revenues, net income and/or EBITD
trailing quarters. For each executive officer, a total of 412,500 warrants ve
milestones when annual revenues exceed revenue milestones increasing fro
Achieving net income levels in excess of $0.20/share to more than $0.50/s
warrants upon four different milestones. The remaining 325,000 warran
different milestones when the Company s EBITDA performance exceeds $
$1.00 per share. Mr. Thomas and Mr. Francis also have the right to vest the
the warrants. Accordingly the value of the warrants has been expensed in th
In November 2012 the warrant exercise price was reduced to $0.01 per share
were extended to 10 years and the vesting criteria was amended to remove the
to effectively vest immediately.

Any warrants not vested for one milestone period are added on a cumulative
increment for potential vesting at the next milestone. In the event that an
without cause: (i) he shall receive a cash settlement of $75,000, and (ii)
warrants issued under his employment agreement, as amended, shall vest im
set forth herein, the respective employment agreements remain unchanged
effect.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 5. Commitments and Contingencies (Continued)

Legal Matters

The Company is subject to litigation of normal course of business. The Comp
for legal settlements when the amount is estimable and determined to be likely

Operating Leases

The Company leases office and manufacturing facilities from unrelat
cancellable operating leases. The leases are typically five years. As of Dece
minimum lease payments are as follows:

Year	Amount	
2013	$	36
2014		29
2015		25
2016		24
2017		24
Thereafter		3,37
Total	$	4,77

Note 6. Stockholders Equity

Preferred Stock

The Company is authorized to issue up to 25,000,000 shares of preferred stoc
$0.001 per share.

During 2012 the Company issued 283,052 shares of its Series B preferred sto
proceeds of $2,830,520. Each share of Series B preferred stock is convertil
Company s common stock. The Series B preferred stock also provides for a
cash or a 12% dividend if paid in shares of common stock. The Holder of
stock received common stock purchase warrants to purchase one share fo
common stock issuable upon conversion of Series B Preferred Stock.

During 2011 the Company issued 200,000 shares of its Series A preferred sto
proceeds of $2,000,000. During the year ended December 31, 2012 the
additional 97,850 shares of Series A preferred stock for proceeds of $978,50
A preferred stock is convertible to 10 shares of common stock upon the Co
trading at $2.25 per share for 60 consecutive days. The Series A preferred sto
8% dividend if paid in cash or a 12% dividend if paid in shares of common st
Series A preferred stock received common stock purchase warrants to purcha
two shares of common stock issuable upon conversion of Series A Preferred S

During the year ended December 31, 2012, 70,750 shares of the Series B pr
related accrued dividends were converted to 790,417 shares of common sto
accrued a preferred dividend payable of $440,287 on the preferred stock as of

The Warrants attached to the Class A and B preferred stock are substantial
exercise of a Class A Warrant for the $3.00 Exercise Price, the Holder shal
Common Stock and a Class B Common Stock Purchase Warrant (Class B W
share of Common Stock at $6.00 per share, subject to redemption and/or temp
Company. The Class B Warrant shall be exercisable into shares of Commo
from time-to-time, up to and including 5:00 p.m. (Pacific Coast Time) on the
from the date of the last issuance of the Class B Warrants, unless previously
the Company on thirty (30) days prior written notice; provided, howev
Business Day, then on the Business Day immediately following such
determined the value of the Class A Warrants to be $1,087,881 using the Blac
Company allocated $497,792 of the $2,000,000 proceeds received from the
Class A Warrant and is amortizing the remaining $497,792 as a dividend ex
term of the Warrants. The Company recognized $35,202 of additional divide
Class A Warrants during the year ended December 31, 2011.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 6. Stockholders Equity (Continued)

Upon the exercise of the Class B Warrant for the $6.00 Exercise Price, the H share of Common Stock and a Class C Common Stock Purchase Warrant purchase one share of Common Stock at $12.00 per share, subject to redemp reduction by the Company. The Class C Warrant shall be exercisable into sha at any time, or from time-to-time, up to and including 5:00 p.m. (Pacific Co anniversary date from the date of the last issuance of the Class C Warrants, u or extended by the Company on thirty (30) days prior written notice; pro date is not a Business Day, then on the Business Day immediately follo Company will determine the value of the Class B Warrant when the Class A and the value of the Class C Warrant when the Class B Warrants are exercised

Common Stock

The Company is authorized to issue up to 100,000,000 shares of common st of $0.001 per share, of which 20,882,549 and 18,703,182 shares were issu December 31, 2012 and 2011, respectively.

During the year ended December 31, 2012 the Company issued 1,220,501 stock upon the conversion of $1,464,313 of debt. The Company issued common stock upon the conversion of 70,750 shares of preferred stock and $111,924. The Company issued 366,529 shares of common stock for certa valued at $486,650 and cancelled 75,000 shares of common stock for the te technology valued at $253,917. The Company issued 370,741 shares for cons at $497,429 and 467,723 shares upon the exercise of warrants and options va Company cancelled 84,180 common shares as consideration for the exe 877,364 common shares in exchange for a stock subscription receivable.

During the year ended December 31, 2011 the Company issued 5,779,762 stock to acquire subsidiaries valued at $10,170,009. The Company issu common stock for technology license rights valued at $177,000. The Con shares for consulting services valued at $973,150, 66,667 shares as employe

$114,667 and 34,805 shares upon the exercise of options valued at $1
cancelled 72,813 common shares as consideration for the cancellation of optio

Incentive Stock Option and Warrant Grants to Consultants and Employe

2009 Incentive Stock Option Plan

During the year ended December 31, 2012 the Company granted 372,970 sto
its employees under its 2009 Incentive Stock Option Plan. The options have a
(1 year upon termination of employment) and are exercisable at $1.23 to $1.72

During the year ended December 31, 2011 the Company granted 547,791 sto
its employees under its 2009 Incentive Stock Option Plan. The options have a
and are exercisable at $1.00 to $1.72 per share.

As of December 31, 2012, 3,590,128 shares were remaining under the 2009 P

Stock Purchase Warrants

During the year ended December 31, 2012 the Company granted 2,112,500 st
to a director (1,212,500) and executive employees (900,000). The warran
exercise period and are exercisable at $0.01 to $1.16 per share. The C
4,035,000 stock purchase warrants to consultants. The warrants have a 1 to 1
and are exercisable at $0.01 to $1.39 per share. The Company also granted 1
warrants to the placement agents on its Class B preferred stock. The warrants
period and are exercisable at $1.75 per share. The Company also reset t
3,597,500 options from $1.00 to $1.24 per share to $0.01 per share. The
1,415,260 A warrants to the purchasers of the Class B preferred stock with a
year and an exercise price $3.00.

During the year ended December 31, 2011 the Company granted 2,500,000 st
to executive employees. The warrants have a 5 to 10 year exercise period
$1.00 to $1.24 per share. The Company also granted 160,000 stock p
consultants. The warrants have a 5 year exercise period and are exercisable a
Company also granted 69,000 stock purchase warrants to the placement
preferred stock. The warrants have a 5 year exercise period and are exercisa
The Company also issued 1,489,250 A warrants to the purchasers of the C
with an exercise period of 1 year and an exercise price of $3.00 per share.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 6. Stockholders Equity (Continued)

The Company recorded compensation expense of $4,307,594 and $7,809,8
December 31, 2012 and 2011, respectively, in connection with these stock wa

The Company estimates the fair value of share-based compensation utilizi
option pricing model, which is dependent upon several variables such as the
expected volatility of our stock price over the expected option term, expecte
over the expected option term, expected dividend yield rate over the expecte
estimate of expected forfeiture rates. The Company believes this valua
appropriate for estimating the fair value of stock options granted to employe
are subject to ASC Topic 718 requirements. These amounts are estimates
reflective of actual future results, nor amounts ultimately realized by recipien
Company recognizes compensation on a straight-line basis over the requisite
award. The following table summarizes the assumptions the Compar
compensation expense for stock options granted during the years ended De
2011:

	December 31, 2012	D
Expected term (years)	5.0 - 10.0	
Expected volatility	94.45-116.86%	
Weighted-average volatility	94.45-116.86%	
Risk-free interest rate	0.23-1.53%	
Dividend yield	0%	
Expected forfeiture rate	0%	

The expected life is computed using the simplified method, which is the avera
and the contractual term. The expected volatility is based on historical vo
interest rate is based on the U.S. Treasury yields with terms equivalent to th
related option at the time of the grant. Dividend yield is based on histori
Company believes these estimates are reasonable, the compensation exp
increase if the expected life was increased, a higher expected volatility was u
dividend yield increased. A summary of the Company s stock option activity

December 31, 2012 and 2011 is presented below:

	No. of Options	Weighted Average Exercise Price	Weig Ave Rema Contr Te
Balance Outstanding, December 31, 2010	298,500	$ 1.00	
Granted	97,791	1.68	
Granted	450,000	1.72	
Forfeited	(238,500)	0.94	
Balance Outstanding, December 31, 2011	607,791	1.63	
Granted	52,720	1.37	
Granted	10,000	1.23	
Granted	175,000	1.27	
Granted	135,250	1.72	
Exercised	(20,000)	0.90	
Balance Outstanding, December 31, 2012	960,761	$ 1.58	
Exercisable, December 31, 2012	654,095	$ 1.52	

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 6. Stockholders Equity (Continued)

A summary of the Company s warrant activity during the years ended D
December 31, 2011 is presented below:

	No. of Warrants	Weighted Average Exercise Price	Weigh Avera Remai Contra Ter
Balance Outstanding, December 31, 2010	11,870,116	$ 2.31	
Granted	2,660,000	1.05	
Forfeited	(18,000)	1.00	
Granted	1,489,250	3.00	
Forfeited	(50,000)	1.25	
Granted	69,000	1.75	
Balance Outstanding, December 31, 2011	16,020,366	2.53	
Granted	900,000	1.16	
Granted	700,000	1.33	
Granted	660,000	0.01	
Granted	75,000	0.10	
Granted	2,400,000	1.00	
Granted	1,415,260	3.00	
Granted	1,412,500	0.01	
Granted	146,750	1.75	
Forfeited	(3,495,000)	(1.96)	
Exercised	(427,000)	(0.47)	(
Balance Outstanding December 31, 2012	19,807,876	$ 1.63	
Exercisable, December 31, 2012	15,472,876	$ 1.85	

The Company expects all non-contingent outstanding employee stock options
of December 31, 2012, there were total unrecognized compensation costs
share-based compensation arrangements of $1,328,375 which is expected to
respective vesting periods which extend through 2015. As of December 31,
unrecognized compensation costs related to nonvested share-based compens
$412,389, which is expected to be recognized over the respective vesting

through 2013.

Note 7. Income Taxes

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

	D 3
Current (benefit) provision: federal	
Current (benefit) provision: state	
Total current provision	
Deferred (benefit) provision	
Deferred (benefit) provision relating to reduction of valuation allowance	
Total deferred provision	
Total provision (benefit) for income taxes from continuing operations	

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 7. Income Taxes (Continued)

Significant items making up the deferred tax assets and deferred tax liabiliti
2012 and 2011 are as follows:

	December 31, 2012	D
Deferred tax assets:		
Net operating loss carry forward	$ 3,736,000	
Capital loss carryover	381,600	
Allowance for doubtful accounts	24,600	
Related party accruals	17,800	
Accrued vacation	28,100	
Depreciation	35,800	
Allowance for obsolete inventory	--	
	4,223,900	
Less: valuation allowance	(4,223,900)	
Total deferred tax assets	--	
Total deferred tax liabilities	--	
Total net deferred tax assets (liabilities)	$ --	

A valuation allowance is established if it is more likely than not that all or a
tax asset will not be realized. Accordingly, a valuation allowance was establi
for the full amount of our deferred tax assets due to the uncertainty of rea
believes that based upon its projection of future taxable operating income for
it is more likely than not that the Company will not be able to realize the ben
asset at December 31, 2012. The net changes in the valuation allowance d
increase of $1,746,800 in 2012.

At December 31, 2012, the Company had $8,853,000 of net operating loss
will expire in various years through 2032. Under the provision of the Tax
when there has been a change in an entity s ownership of 50 percent or gr
operating loss carry forwards may be limited. As a result of the Company s
Company s net operating losses may be subject to such limitations and may r

future income for tax purposes. Utilization of the net operating losses and cre
a substantial annual limitation due to the ownership change provisions of the I
of 1986, as amended. The annual limitation may result in the expiration of ne
credits before utilization and in the event we have a change of ownership, u
forwards could be restricted.

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

	For the Year Ended December 31, 2012
Federal tax rate applied to loss before income taxes	34.0%
State income taxes, net of federal benefit	3.5%
Permanent differences	-0.9%
Change in valuation allowance	-39.4%
Other	2.8%
Income tax expense (benefit)	0.0%

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 8. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration c
cash and cash equivalents and accounts receivable. Cash and cash equivalen
local currency in three financial institutions in the United States. The balan
may exceed Federal Deposit Insurance Corporation insurance limits. As of D
2011, there was $57,405 and $30,883, respectively, in excess of insurable limi

Note 9. Related Party Transactions

Employment Contracts

On March 1, 2011, the Board of Directors of the Company amended the empl
Dr. Johnny R. Thomas and John C. Francis. Each of their employment agreen
1, 2010 were amended effective February 1, 2011, to increase their annua
Johnny R. Thomas s salary increased from $99,000 to $174,000 and Joh
$75,000 to $150,000.

Johnny R. Thomas and John C. Francis were each awarded five-year per
purchase 1,000,000 shares each at an exercise price of $1.25 per share. The w
when the Company achieves certain revenues, net income and/or EBITD
trailing quarters. For each executive officer, a total of 412,500 warrants ve
milestones when annual revenues exceed revenue milestones increasing fron
Achieving net income levels in excess of $0.20/share to more than $0.50/s
warrants upon four different milestones. The remaining 325,000 warran
different milestones when the Company s EBITDA performance exceeds $
$1.00 per share. Mr. Thomas and Mr. Francis also have the right to vest the
the warrants accordingly the value of the warrants has been expensed in the f
November 2012 the warrant exercise price was reduced to $0.01 per share
were extended to 10 years and the vesting criteria was amended to remove the
to effectively vest immediately.

Stock Subscription Receivables

On June 17, 2008, two of Xnergy Inc. s former stockholders agreed to purcha shareholder for $2,486,850. Concurrent with this agreement, Xnergy, I promissory note for the payment for the stock. The liability was recor receivable from the purchasing stockholders. The notes receivable were assum the purchase of Xnergy, Inc. and have no repayment terms, are non int unsecured accordingly they are classified as stock subscription receivables 2011, the receivables totaled $2,632,192. During the year ended December 3 received and cancelled 877,364 shares of its common stock as satisfaction of receivables.

Related Party Payables

In connection with the purchase of Castrovilla and Xnergy, the Company en notes to pay outstanding liabilities to the former shareholders. During the yea 2012 the Company borrowed $1,605,000 from a director. The notes payable of the Company s construction projects, due upon demand and bear interes summary of the maturity of the related party payables is as follows:

Year	Amount of Principal Payments Due
2013	$
2014	
2015	
2016	
2017	
Thereafter	
Total	$

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 10 . Accrued Expenses

A summary of Accrued Expenses as of December 31, are as follows:

	2012
Accrued Consulting Fees	$ 220,631
Credit Cards Payable	149,122
Accrued Interest Payable	51,786
Reserve for Warranty	1,717
Other Accrued Expenses	-
Warrant Exercise Liability	-
Total	$ 423,256

Note 11. Long Term Debt

Bank Line of Credit
Bank line of credit, opened on April 16, 2008, maturity on April 15, 2013; $50,000 credit limit, adjustable interest rate currently at 5.5% , unsecured

Promissory Notes Payable

The Company assumed promissory notes payable in connection with the pu and its subsidiary HVAC Controls, Inc. As a result of the purchase of Xnergy the notes were rewritten. The notes payable are secured in part by the shares promissory notes now provide for interest at 7.75% per annum. During the 31, 2012 the Company issued 1,185,389 shares of its common stock up $1,391,188 of debt. During the year ended December 31, 2012 the Compa from subordinated promissory notes payable. The notes accrue interest a unsecured and are due 6 months from the date of issuance. The Company subordinated promissory notes payable during the year ended December 31, 2

Year	Amount of Principal Payme Due
2013	$
2014	
2015	
2016	
2017	
Thereafter	
Total	$

Automobile Contracts Payable

The Company has entered into purchase contracts for its vehicles. The contr average interest rate of approximately 5% per annum, are secured by the vehi of these loans and notes payable are

summarized in the table below:

Year	Amount of Pri Payments D
2013	$
2014	
2015	
2016	
2017	
Thereafter	
Total	$

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 12. Acquisition of Subsidiaries

Castrovilla, Inc.

Effective January 1, 2011, Castrovilla Energy, Inc., Energy , a newly fo
Earth Energy Management Services, Inc., which is a subsidiary of Blue Ea
merger agreement with Castrovilla, Inc. wherein Energy purchased all of the
shares of Castrovilla, Inc. for 1,011,905 shares of restricted common sto
These shares were valued based on the quoted market price on the effective
January 1, 2011, at $1.90 per share, or $1,921,081.

Immediately after the transaction, Energy ceased to exist and Castrovilla, Inc
corporation, a wholly owned subsidiary of Blue Earth Energy Manage
Simultaneous with this purchase, Energy entered into an asset purchase agre
of NC, LLC, Humitech , whereby the assets of Humitech and certain relat
Energy for $150,000 cash and 267,857 restricted common shares of Blue Ea
on the quoted market price on the effective date of the transaction, January
share or $508,928.

The purchase resulted in a distributorship asset and customer base of $2,45
the purchase was to expand the Company s energy efficiency operations. Ac
method of accounting, the acquisition was recorded as follows:

Purchase Price	Shares	Price
Castrovilla	1,011,095	$ 1.90
Humitech	267,857	$ 1.90
Cash		
Total Purchase Price		
Assets at Fair Value		
Cash		
Accounts receivable		

Inventory	
Property and equipment	
Other assets	
Distributorship and customer base	
Total Assets	
Liabilities Assumed at Fair Value	
Accounts payable and accrued expenses	
Notes payable	
Cash	
Equity	
Total Liabilities and Equity	

The Company has recognized revenues of $3,858,020 for the year ended D
Castrovilla. The Company has recognized a net loss $608,367 for the year
2011 for Castrovilla.

In the acquisition the Company issued an aggregate of 1,011,095 shares o
initially valued at $1.68 per share or $1,700,000 on the date the agreem
stockholders of Castrovilla, Inc. in exchange for all of the outstanding capita
Inc. All of the 1,279,762 shares issued in the Castrovilla Acquisition (colle
Shares) are subject to Lock-up/Leak-out and Guaranty Agreements,
Castrovilla, Inc. stockholders, John Pink, who continues as President of Cast
Sweeney, together with Humitech (the Stockholders) could not sell any of t
six-month period beginning on the Effective Date of the Plan of January 1
June 30, 2011. Thereafter and ending June 30, 2013, the three stockholder
Company Shares per trading day in the aggregate until all Company Shares
Period). The Company contingently guaranteed (the Guaranty) to the
price of $1.68 per share, provided the Stockholders are in compliance with th
of the Lock-up Agreement and the hereinafter described performance criteria

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 12. Acquisition of Subsidiaries (Continued)

A number of shares equal in value to fifty percent (50%) of the profits, if shares above $3.36 per share during the Lock-up Period will be returned t deficit from sales below $1.68 per share shall be paid (i) 50% in cash, and (ii) either cash or shares of Common Stock of the Company provided certain Ea Taxes, Depreciation and Amortization (EBITDA) performance criteria are ac the next paragraph (at their then current fair market value, or any combinati discretion of the party making the payment).

In the event that Castrovilla Inc.'s EBITDA during the Lock-up Period is l amount of $722,000 of EBITDA per year for each of the years ended Decemb the $1.68 per share guaranteed price shall be decreased by the same perc EBITDA is below the projected $722,000 of EBITDA. All of such ca accordance with GAAP and derived from the Company s reviewed financia three fiscal quarters of the fiscal year and audited financial statements for the

The targeted EBITDA for the 12-month period from July 1, 2011 to June 30 $180,500 per quarter (the quarterly rate of $180,500 is a constant for each qua of the Lock-up/Guarantee period). Therefore, the Targeted EBITDA for December 31, 2011, was $722,000. The targeted EBITDA for each subseq shall be $722,000, which shall be compared to the actual performance for the reporting period as illustrated above and multiplied times $1.68 to arrive a price, if any. These targeted amounts may be reduced if a majority of the Bo on budget changes which require an acceleration of expenses thereby affe budgeted EBITDA. No adjustment in the targeted amounts for guarantee pu and none is contemplated at this time. The Company does not anticipate any of 2012, due to the decision to expand Castrovilla's operations into several nev

In addition, under the Plan, the Company paid $50,000 to an unaffiliated thir obligation of Castrovilla, Inc. The above described Castrovilla Acquisiti January 19, 2011, with an effective date of January 1, 2011. Pursuant to the t the Plan described above, Castrovilla Energy, Inc., a wholly-owned subsidiary

merged with and into Castrovilla, Inc., the Surviving Corporation, on January

Xnergy, Inc. and Subsidiary

On September 7, 2011 the Company acquired 100% of the outstanding com
Inc. and its wholly-owned subsidiary HVAC Controls & Specialties, Inc., a
based energy services company (Xnergy). Simultaneously, the Comp
membership interests of ecoLegacy, LLC (eco), a California limited liabili
as a financing vehicle for Xnergy. Xnergy provides a broad range of energ
specialized mechanical engineering and the design, construction and impl
savings projects, energy conservation, energy infrastructure outsourcing,
energy supply and risk management. Xnergy also provides comprehensive m
programs, including every aspect of heating, ventilation and air-conditioning
systems for design-build to repair and retrofit services.

Xnergy has an alternative energy project pipeline opportunity of approxima
projects are all located in California and the target clients are those that h
rating and have large energy needs. These candidates include hotels
manufacturing, life sciences, telecommunications, medical, churches, pharm
The $585 million alternative energy project pipeline is comprised of
implementing and servicing three cutting-edge alternative energy tech
Geothermal and Fuel Cells.

The Company issued 4,500,000 shares of its common stock for all of the
Xnergy valued at $3.00 per share in the merger agreement. However, the
subsequently valued at $1.72 per share for accounting purposes based upo
price of the Company s common stock from September 8, 2011 through tra
2011. The Company also assumed the obligation of $1,415,088 due to a
Xnergy for the purchase of his shares by the exchanging shareholders of X
assumed $143,681 of debt as the consideration for the purchase of ecoLegac
liability company. Hence, for valuation purposes, the proper price/share for a
$1.72/share or $7,740,000 for the shares plus the cash component as stated ab

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 12. Acquisition of Subsidiaries (Continued)

The purchase resulted in a distributorship asset and customer base of $9,13
the purchase was to expand the Company s energy efficiency operations. Ac
method of accounting, the acquisition was recorded as follows:

Purchase Price	Shares	Pric
Xnergy, Inc. and HVAC Controls & Specialties, Inc.	4,500,000	$ 1.
Total Purchase Price		
Assets at Fair Value		
Cash		
Receivables		
Other current assets		
Property and equipment		
Related party receivable		
Customer base		
Total Assets		
Liabilities Assumed at Fair Value		
Accounts payable		
Accrued liabilities		
Notes payable		
Equity		
Total Liabilities and Equity		

The Company has recognized revenues of $1,457,643 for the four months
2011 for Xnergy and HVAC. The Company has recognized a net loss $962,7
ended December 31, 2011 for Xnergy and HVAC.

The table below presents, on a retroactive basis the condensed consolidated st
for the periods presented to include the operations of Castrovilla and X
referenced acquisitions Castrovilla and Xnergy were not considered the pred
purposes. The pro forma condensed consolidated statements of operations a
comparative purposes and to provide additional information and disclosure to

Proforma Condensed Consolidated Statement of Operations

	December 31, 2011
Revenues	$
Net Loss	$ (

Note 13. Operating Segments

Operating segments are defined as components of an enterprise about which
financial information is available and is evaluated regularly by the chief opera
assessing performance and determining how to best allocate Company reso
chief operating decision makers direct the allocation of resources to operati
the profitability and cash flows of each respective segment.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 13. Operating Segments (Continued)

The Company has three principal operating segments: (1) construction facilities, (2) HVAC construction and management, and (3) energy efficienc operating segments were delineated based on the nature of the products and se

The Company evaluates the financial performance of the respective segm factors, of which the primary measure is business segment income before policies of the business segments are the same as those described in Note Policies. All significant intercompany transactions and balances hav following tables show the operations of the Company s reportable segme December 31, 2012:

	Management and Construction	HVAC Services	Energy Efficiency
December 31, 2011			
Revenues	$ 405,060	$ 1,052,584	$ 3,858,0
Cost of revenues	113,967	966,266	1,758,0
Operating expenses	12,877,649	97,367	2,668,8
Other income (expense)	(805,425)	(7,589)	(39,5
Net income (loss)	$ (13,391,981)	$ (18,638)	$ (608,36
Total assets	$ 12,707,606	$ 251,900	$ 1,266,5

Note 14. Subsequent Events

Issuances of Common Stock

On January 7, 2013 the Company issued 3,000 shares of its common sto services valued at $1.10 per share. On January 14, 2013 the Company issued exercise of warrants per the terms of the employment agreement. On January

issued 11,200 shares of common stock upon the conversion of 1,000 shares o
stock and accrued dividends of $1,380. On January 22, 2013 the Company
upon the exercise of warrants per the terms of the employment agreement. O
Company issued 28,000 shares of common stock upon the conversion of 2,50
preferred stock and accrued dividends of $3,270. On January 30, 2013 the C
shares of common stock upon the conversion of 6,250 shares of its Series
accrued dividends of $8,745. On February 5, 2013 the Company issued
common stock to consultants for services valued at $0.92 per share. On
Company issued 11,200 shares of common stock upon the conversion of 1,00
preferred stock and accrued dividends of $1,415. On February 22, 2013 the C
shares of its common stock as a commitment fee for the Company s line of c
share. On February 27, 2013 the Company issued 50,000 shares upon the ex
the terms of the consulting agreement. On March 8, 2013 the Company is
common stock upon the conversion of 1,000 shares of its Series B preferr
dividends of $1,212. On March 12, 2013 the Company issued 4,854 shares
consultants for services valued at $1.01 per share. On March 20, 2013 the Co
shares upon the exercise of warrants per the terms of the employment agre
2013 the Company issued 25,000 shares as an incentive to a lender to extend
an outstanding note payable. On March 27, 2013 the Company issued 15
conversion of related party debt of $152,165.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 14. Subsequent Events (Continued)

On April 2, 2013 the Company issued 30,000 shares of its common stock upo
of warrants for services valued at $33,000 and 140,000 shares upon the exerc
cash of $126,000. On April 8, 2013 the Company issued 55,000 shares of it
the exercise of warrants for cash of $550 and 11,200 shares of common stoc
of 1,000 shares of its Series B preferred stock and accrued dividends of $1,2
the Company issued 4,717 shares of its common stock upon the cash exe
services valued at $5,000. On April 12, 2013 the Company issued 150,000
stock upon the exercise of warrants for net cash of $150,000. On April 1
issued 298,000 shares of its common stock upon the exercise of warrants fo
and 72,000 shares of its common stock upon the exercise of warrants for servi
On April 16, 2013 the Company issued 225,000 shares of its common stoc
warrants for net cash of $225,000 and 28,000 shares of its common stock u
2,500 shares of its Series B preferred stock and accrued dividends of $3,540.
Company issued 300,000 shares of its common stock upon the exercise of w
$300,000. On April 25, 2013 the Company issued 3,496 shares of its commo
exercise of warrants for services valued at $5,000 and 90,771 shares upon th
for net cash of $26,421. On May 14, 2013 the Company issued 50,000 share
for services valued at $59,000 and 82,892 shares upon the conversion of
$119,707. On May 16, 2013 the Company issued 160,000 shares of its co
exercise of warrants for cash of $61,000 and 11,200 shares of common stock
1,000 shares of its Series B preferred stock and accrued dividends of $2,148
Company issued 279,000 shares of its common stock upon the exercise o
$279,000. On May 21, 2013 the Company issued 50,000 shares of its co
exercise of warrants for cash of $500. On June 3, 2013 the Company issu
common stock upon the conversion of 50,000 shares of its Series B prefer
dividends of $144,000. On June 4, 2013 the Company issued 336,000 shares
the conversion of 30,000 shares of its Series B preferred stock and accrued
On June 6, 2013 the Company issued 56,000 shares of common stock upon th
shares of its Series B preferred stock and accrued dividends of $17,400.
Company issued 224,000 shares of common stock upon the conversion of 20,
B preferred stock and accrued dividends of $62,400. On June 12, 2013 the C
shares of common stock upon the conversion of 1,000 shares of its Series
accrued dividends of $3,396. On June 13, 2013 the Company issued 168,0
stock upon the conversion of 15,000 shares of its Series B preferred stock an
$52,920. On June 17, 2013 the Company issued 64,263 shares of its common
of equipment valued at $195,360. On June 18, 2013 the Company issued 112,
stock upon the conversion of 10,000 shares of its Series B preferred stock an

$36,840. On June 19, 2013 the Company issued 49,000 shares of its co
exercise of warrants for net cash of $85,750. On June 21, 2013 the Company
of its common stock upon the exercise of warrants for net cash of $17,500.
Company issued 336,000 shares of common stock upon the conversion of 30,
B preferred stock and accrued dividends of $113,760. On June 21, 2013 the C
shares of its common stock upon the exercise of options and warrants for ne
June 11, 2013 the Company received 92,115 shares of its common stock whic
issued as loan fees on the credit line. On June 28, 2013 the Company receive
common stock which had previously been issued as a deposit for several sc
Hawaii. These shares were subsequently canceled and are not recorded as is
of June 30, 2013.

On July 15, 2013 the Company issued 11,200 shares of common stock upon t
shares of its Series B preferred stock and accrued dividends of $3,480.
Company issued 600,000 shares of common stock upon the exercise of warra
and 37,064 shares of common stock upon the cashless exercise of 65,500
2013 the Company issued 1,000 shares of its common stock upon the exer
cash of $1,230 and 1,383,400 shares of common stock upon the conversion o
Series B preferred stock and accrued dividends of $1,545,387. On July 2
issued 10,250 shares of its common stock upon the exercise of warrants for n
August 5, 2013 the Company issued 501,417 shares of common stock upon th
for cash of $7,437. On August 6, 2013 the Company issued 120,000 shares
services valued at $352,800. On August 7, 2013 the Company issued 3,501 sh
upon the cashless exercise of 8,250 warrants. On August 23, 2013 the Co
shares of common stock upon the cashless exercise of 179,659 warrants. O
Company issued 56,000 shares of common stock upon the conversion of 5,00
preferred stock and accrued dividends of $18,180. On September 4, 2013
100,000 shares of common stock upon the exercise of warrants for cash of $1
2013 the Company issued 1,667 shares of common stock upon the exercise o
$2,867.

Issuance of Preferred Stock

During June 30, 2013 the Company issued 903,500 shares of Series C pref
share. Each Series C preferred share is convertible to 10 shares of the Compan
accrues a dividend of 12% per annum. The Company incurred $191,500
Series C preferred stock offering which are netted against the proceeds of the

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 14. Subsequent Events (Continued)

Credit Line Payable

Subsequent to December 31, 2012 the Company received $1,500,000 in pr
credit. The Company repaid the line $1,500,000 during June 30, 2013. The li
$10,000,000 subject to approval of the use of proceeds by the lender. The
interest at 12% per annum and is secured by the Company s assets.

Related Party Notes Payable

Subsequent to December 31 2012 the Company received $420,000 in proceed
payable from a director of the Company. The Company also repaid $691
$58,147 of accrued interest on several demand notes to the director subseq
2012. The demand notes payables accrue interest at 12% per annum and are u

Acquisitions

As of July 15, 2013, the Company, together with its wholly-owned subsi
Corp., simultaneously entered into and completed an Agreement and
Agreement) dated as of July 15, 2013, with IPS Power Engineering Inc.
Energy Group, Inc. (GREG) and the Stockholders of IPS and GREG (the
EPCM company (engineering, procurement, construction and managem
affiliated renewable energy company, which companies specialize in the con
(CHP) alternative energy space. The Company plans to build seven p
thermal and electric power generated to one large customer and to local utili
power purchase agreements. Pursuant to the terms of the Agreement, an ag
shares of Blue Earth Common Stock (the Merger Consideration) w
stockholders of IPS and GREG (the Stockholders). The Merger Consider
the parties based on the mutually agreed upon future revenues and earnings
management of IPS and GREG. The Merger Consideration consists of:
shares issued at closing to the Stockholders, which vested immediately but
agreements; 150,000 Blue Earth shares issued as a finder s fees; and 10,50
issued at closing to the Stockholders, and held in escrow, and which w
1,500,000 Blue Earth shares per Initial Project (as defined) on the date t

Projects or substituted similar value as mutually agreed to by Blue Earth producing commercial power. The 10,500,000 Blue Earth shares will be re escrow upon the commercial operation date of each Initial Project, howeve and conditions of the Lock-Up Agreements. At the Closing the Stockholder the outstanding shares of IPS and GREG for the Merger Consideration. Th IPS Acquisition Corp. and GREG merged with and into IPS, with IPS as th accordance with the Utah Revised Business Corporation Act. IPS w wholly-owned subsidiary of the Company.

As of July 24, 2013 the Company, together with its wholly-owned subsidi Acquisition, Inc. simultaneously entered into and completed an Agreement ar Agreement), with Intelligent Power, Inc. (IP), and the Stockholders of I patented demand response, cloud based, real-time energy management techn terms of the Agreement, an aggregate of 1,383,400 shares of the Company Merger Consideration) was issued to the former stockholders of IP (th Closing the Stockholders exchanged 100% of the outstanding shares Consideration. Through the Agreement, Intelligent Power Acquisition, Inc. IP, with IP as the surviving entity, in accordance with the Oregon Business will be operated as a wholly- owned subsidiary of the Company.

As of August 23, 2013, the Company, together with its wholly-owned subsid Corp., simultaneously entered into and completed an Agreement and Agreement) dated with MPS and the Key Members of MPS (the Acqu manufactures intelligent, digital, rechargeable battery products and backup s energy of lead acid batteries in a smaller space. The environmentally friendly recyclable with no issues of hazardous out-gassing, corrosion, flam characteristics. The initial, patent pending, intelligent Battery Backup manufactured by MPS was created for signalized intersections when loss o The UltraPower Stealth Battery Backup System (UPStealth™) can b configurations that allow the intelligent battery to bend around corners ar cannot be accessed by traditional battery backup systems. Pursuant to the te an aggregate of 3,694,811 shares of the Company s common stock (the M issued to the former members of MPS (the Members). In addition, th entitled to receive a per-year earn-out equal to ten (10%) percent of the profit wholly-owned subsidiary of the Company payable in shares of the Company at the then current fair market value. The earn-out is limited to a five ye aggregate cap of $3,572,199. At the closing the stockholders exchanged 10 membership interests of MPS for the Merger Consideration. Through t Acquisition Corp. was merged with and into MPS, with MPS as the survivin with the Oregon Business Corporations Act. MPS will be operated as a who of the Company.

BLUE EARTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEME

DECEMBER 31, 2012 AND 2011

Note 14. Subsequent Events (Continued)

On August 30, 2013 the Company entered into a Strategic Partnership Ag
Solar USA, Ltd. (Talesun) and New Generation Power LLC (NGP), w
from Talesun to grant the Company engineering, procurement and constructi
18 MW of Talesun Solar PV projects. NGP granted the Company EPC contr
147 MW of projects over the next 20 months. In addition, the Company has
million investment in solar projects. It is the intent of the parties that Tales
panel vendor for the Company s solar projects and that the Company is a pr
other Talesun solar projects. The Company is investing the $6.5 million do
through a combination of $1 million in cash and $5.5 million through the
shares of the Company s common stock valued at $3.00 per share. The $6.5
loan to NGP in consideration of the purchase of 7 MW of solar panels to be u
PV projects. The loan will be repaid during the construction phase of the pr
million is repaid, the solar equipment will serve as collateral.

In accordance with ASC 855, the Company evaluated subsequent events t
financial statements were issued. There were no additional material subseque
recognition or additional disclosure in these financial statements.

Item 15. Exhibits and Financial Statement Schedules.

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of October 30, 2009, b Fluid Solutions Holdings, Inc., Genesis Fluid Solutions, Ltd. and G Acquisition Corp.(1)
2.2	Certificate of Merger, dated October 30, 2009 merging Gen Acquisition Corp. with and into Genesis Fluid Solutions, Ltd.(1)
2.3	Plan of Merger for Genesis Solutions Holdings, Inc. into Blue Earth
2.4	Asset Purchase Agreement effective January 1, 2011, by and amon Inc., Blue Earth Inc. and Humitech of Northern California, LLC(8)
2.5	Agreement and Plan of Merger by and among Castrovilla Energy, and the Stockholders of Castrovilla Inc.(7)
3.1	Articles of Incorporation(5)
3.2	Bylaws(5)
3.3	Certificate of Designations and Preferences for Series A Convertible
3.4	Certificate of Designation and Preferences for Series B Convertible
4.1	Specimen Stock Certificate(11)
4.2	Form of Performance Warrant(14)
10.1	Form of Subscription Agreement(1)
10.2	Form of Investor Warrant (1)
10.3	Form of Registration Rights Agreement(1)
10.4	Form of Lockup Agreement(1)
10.5	Form of Placement Agent Warrant(1)
10.6	Form of Directors and Officers Indemnification Agreement(1)
10.7	Blue Earth, Inc. 2009 Equity Incentive Plan(8)
10.8	Form of 2009 Incentive Stock Option Agreement(1)
10.9	Form of 2009 Non-Qualified Stock Option Agreement(1)
10.10	Consulting Agreement, dated May 11, 2009, between Genesis Liviakis Financial Communications, Inc.(1)
10.11	Amendment to Consulting Agreement, dated October 20, 2009, b Solutions and Liviakis Financial Communications, Inc.(1)
10.12	Employment Agreement, effective as of September 1, 2010 by and Solutions Holdings, Inc. and Dr. Thomas.(6)
10.13	Employment Agreement, effective as of September 1, 2010 by and Solutions Holdings, Inc. and Mr. Francis.(6)
10.14	Form of Class A Funding Warrant dated December 31, 2010.(11)
10.15	Form of Class B Funding Warrant.(11)
10.16	Form of Class C Funding Warrant.(11)
10.17	Form of Management Warrant issued to Johnny R. Thomas designees.(11)
10.18	Amendment to Consulting Agreement dated as of December 21, Blue Earth, Inc. and Liviakis Financial Communications, Inc. (11)
10.19	Warrant issued to Liviakis Financial Communications, Inc. as of De
10.20	Warrant issued to Laird Cagan dated February 24, 2011. (11)
10.21	

Consulting Agreement dated February 24, 2011 by and between Ca
Partners, LLC and Blue Earth, Inc. (11)

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Exhibit No.	Description
10.22	Employment Agreement, dated as of January 1, 2011 by and bet and John Pink. (7)
10.23	Lock-Up Agreement, dated as of December 30, 2010, by and am Sweeney and Humitech of Northern California, LLC, Castrovill Inc.(7)
10.24	Guaranty Agreement, dated as December 29, 2010, by and am Sweeney, Castrovilla Energy and Blue Earth, Inc.(7)
10.25	Termination and Release Agreement dated as of October 1, 2010 Fluid Solutions Holdings, Inc., Genesis Fluid Solutions, Ltd., Sichenzia Ross Friedman Ference LLP. (11)
10.26	Form of Subscription Agreement issued in 2011 Preferred Stock O
10.27	Form of Class A Warrant issued in 2011 Preferred Stock Offering
10.28	Finance Agreement, dated as of December 19, 2011, by and bet and US Energy Affiliates, Inc.(10)
10.29	Capital Stock Purchase and Lease Agreement.(13)
10.30	Promissory Note, issued by the Company to Jeff Gosselin, in th $1,357,358.41.(13)
10.31	Mutual Hold Harmless and Indemnification Agreement.(13)
10.32	Purchase and Sale Agreement dated as of July 26, 2012, by and Energy, LLC, as Seller and Blue Earth, Inc. as Buyer. (16)
10.33	Settlement Agreement and Release of Claims effective on July 30, SwitchGenie, LLC (d/b/a Logica Lighting Controls, LLC), Blue Energy Management, Inc., James F. Loughrey and Kaye Loughrey
10.34	Non-Exclusive License and Supply Agreement made July 30 Logica Lighting Controls, LLC (formerly SwitchGenie LLC), Ja Blue Earth, Inc. (16)
10.35	Secured Promissory Note dated October 30, 2012 to Laird Q. Caga
10.36	Independent Consulting Agreement dated November 6, 2012 by ar Inc. and Laird Cagan.(18)
10.37	Secured Promissory Note dated December 12, 2012 from the Com Cagan.(20)
10.38	Security Agreement dated as of December 12, 2012 from Blue Ear
10.36	Common Stock Purchase Warrant dated as of December 12, 2012 Laird Cagan. (20)
10.40	Credit Facility Agreement, dated as of January 31, 2013 and effect by and among the Company, the Lender and the Subsidiaries.(21)
10.41	Revolving Line of Credit Note, issued by the Company and th Lender, issued as of January 31, 2013 and effective February 22, 2
16.1	Letter from Davis Accounting Group P.C. (12)
16.2	Letter from Salberg & Company P.A. dated October 28, 2010.(5)
16.3	Letter from Lake & Associates, CPA s, LLC dated December 11,
21	List of Subsidiaries
*23.1	Consent of HJ & Associates, LLC. (19)
*31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-1 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 200

*32.1	Certificate of the Chief Executive Officer pursuant to 18 U.S.C. 13 pursuant to Section 906 of the Sarbanes-Oxley of 2002.
*32.2	Certificate of the Chief Financial Officer pursuant to 18 U.S.C. 13 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(21)

*101INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Do
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Doc
*101.LAB	XBRL Taxonomy Extension Label Linkbase Docume
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase D

* Filed with this Report

(1) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K filed on November 5, 2009, as amended on N
December 14, 2009.

(2) Incorporated herein by reference to the copy of such document included
Current Report on Form 8-K filed on December 21, 2009.

(3) Incorporated herein by reference to the copy of such documents include
Exhibit 10.2 to our Current Report on Form 8-K filed on December 24, 2009.

(4) Incorporated herein by reference to the copy of such document include
Annual Report on Form 10-K filed on April 15, 2010

(5) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K filed on October 29, 2010

(6) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K filed on August 31, 2010

(7) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K filed on January 24, 2011

(8) Incorporated herein by reference to the copy of such document include
Annual Report on Form 10-K filed on March 31, 2011

(9) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K/A filed on September 29, 2011

(10) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K filed on December 23, 2011

(11) Incorporated by reference to the copy of such document included as an
Report on Form 10-K for March 31, 2010 filed on March 31, 2011

(12) Incorporated herein by reference to the copy of such document included
Current Report on Form 8-K filed on January 28, 2010.

(13) Incorporated herein by reference to the copy of such document include
Annual Report on Form 10-K for the year ended December 31, 2011 filed on

(14) Incorporated by reference herein to the copy of such document file
Registration Statement on Form S-8 filed on April 27, 2012.

(15) Incorporated by reference to the copy of such document included as Exh
Report on Form 8-K filed on April 10, 2012.

(16) Incorporated by reference to the copy of such document included as an
Report on Form 8-K filed on August 1, 2012.

(17) Incorporated by reference to the copy of such document included as an
Report on Form 8-K filed on November 2, 2012.

(18) Incorporated by reference to the copy of such document included as an e
Report on Form 10-Q filed on November 13, 2012.

(19) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K filed on December 13, 2012.

(20) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K/A Amendment NO. 1 filed on December 20, 201

(21) Incorporated herein by reference to the copy of such document include
Current Report on Form 8-K filed on February 28, 2013.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Excha
registrant has duly caused this report to be signed on its behalf by the under
authorized, in the City of Henderson, State of Nevada on the 11th day of Sept

BLUE EARTH, INC.

By:	/s/ Johnny R. Th
Name:	Johnny R. Thom
Title:	Chief Executive
	(Principal Exec

Pursuant to the requirements of Section 13 or 15(d) the Exchange Act of 193
signed by the following persons in the capacities and on the dates indicated.

Signature	**Title**
/s/ Laird Q. Cagan Laird Q. Cagan	Chairman of the Board
/s/ Johnny R. Thomas Johnny R. Thomas	Chief Executive Officer and Director (Principal Executiv Officer)
/s/ Johnny R. Thomas Brett Woodard	Chief Financial Officer (Principal Financial and Accounting Officer

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EXHIBITS AND FINANCIAL STATEMENT SCHEDU

Exhibit No.	Description
23.1	Consent of HJ and Associates, LLC.
31.1	Certification of the Chief Executive Officer and Chief Finan to Rule 13a-14(a) or Rule 15d-14(a) adopted pursuant to Sec Sarbanes-Oxley Act of 2002.
31.2	Certificate of the Chief Financial Officer pursuant to Rule 1 15d-14(a) adopted pursuant to Section 302 of the Sarbanes-O
32.1	Certificate of the Chief Executive Officer pursuant to 18 U.S pursuant to Section 906 of the Sarbanes-Oxley of 2002.
32.2	Certificate of the Chief Financial Officer pursuant to 18 U.S pursuant to Section 906 of the Sarbanes-Oxley of 2002.

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