FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2013-01-14** | Period of Report: **2012-11-30**
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ABAKAN, INC

CIK:**1400000**| IRS No.: **980507522** | State of Incorp.:**NV** | Fiscal Year End: **0531**
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SIC: **3470** Coating, engraving & allied services

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

FORM 10-Q

(Mark One)

☑ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **November 30, 2012**.

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ________ to ________.

Commission file number: **000-52784**

ABAKAN INC.

(Exact name of registrant as specified in its charter)

Nevada	**98-0507522**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2665 S. Bayshore Drive, Suite 450, Miami, Florida 33133
(Address of principal executive offices) (Zip Code)

(786) 206-5368
(Registrant' s telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company as defined by Rule 12b-2 of the Exchange Act:
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑

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

Indicate the number of shares outstanding of each of the issuer' s classes of common stock, as of the latest practicable date. The number of shares outstanding of the issuer' s common stock, $0.0001 par value (the only class of voting stock), at January 14, 2013 was 62,243,003.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

As used herein, the terms “Abakan”, “we,” “our,” and “us” refer to Abakan Inc., a Nevada corporation, and its consolidated subsidiaries, unless otherwise indicated. In the opinion of management, the accompanying financial statements included in this Form 10-Q reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

ABAKAN, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	November 30, 2012	May 31, 2012
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 715,591	$ 859,566
Accounts receivable	85,912	22,854
Note receivable - related parties	4,500	4,500
Prepaid expenses (Note 7)	124,103	183,134
Total current assets	930,106	1,070,054
Non-current assets		
Property, plant and equipment, net (Note 4)	4,187,569	3,021,088
Patents and licenses, net (Note 5)	7,672,228	7,776,315
Assignment agreement - MesoCoat (Note 6)	230,267	250,000
Investment - Powdermet (Note 8)	2,651,088	2,710,189
Goodwill	364,384	364,384
Total Assets	$ 16,035,642	$ 15,192,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 643,750	$ 425,868
Accounts payable - related parties (Note 12)	190,867	80,773
Capital leases - current portion	36,595	42,999
Loans payable, net of discounts of $171,615 (Note 9)	2,678,132	2,465,165
Accrued interest - loans payable (Note 9)	329,331	183,106
Loan payable- related parties (Note 12)	30,000	-
Accrued interest – related parties (Note 12)	773	-
Accrued liabilities	366,232	310,997
Total current liabilities	4,275,680	3,508,908
Non-current liabilities		
Loans payable, net of discounts of $444,881 (Note 9)	2,091,696	1,146,277
Capital leases - non-current portion	60,557	72,176
Total liabilities	6,427,933	4,727,361
Commitments and contingencies (Note 14)		
Stockholders' equity (Note 10)		
Preferred stock, $0.0001 par value, 50,000,000 shares authorized, none issued and outstanding	-	-
Common stock, par value $0.0001, 2,500,000,000 shares 62,243,003 issued and outstanding – November 30, 2012, 61,465,445 issued and outstanding - May 31, 2012	6,226	6,147
Subscription receivable	(27,500)	-
Subscription payable	12,000	-
Paid-in capital	15,785,140	13,321,527
Contributed capital	5,050	5,050
Accumulated deficit during the development stage	(9,302,201)	(6,322,365)
	6,478,715	7,010,359
Non-controlling interest	3,128,994	3,454,310
Total stockholders' equity	9,607,709	10,464,669
Total liabilities and stockholders' equity	$ 16,035,642	$ 15,192,030

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.

ABAKAN INC.
(A DEVELOPMENT STATE ENTERPRISE)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For three months ended November 30,		For six months ended November 30,		(Inception) to
	2012	2011	2012	2011	November 30, 2012
Revenues					
Commercial	$ 50,781	$ 25,338	$ 70,081	$ 31,515	$ 147,472
Contract and grants	777,502	391,654	1,324,829	689,768	3,423,583
Other income	(268,756)	131,885	-	175,982	764,879
	559,527	548,877	1,394,910	897,265	4,335,934
Cost of Revenues	205,227	220,948	542,001	391,031	1,591,199
Gross profit	354,300	327,929	852,909	506,234	2,744,735
Expenses					
General and administrative					
General and administrative	176,990	111,098	338,677	217,303	1,233,944
Professional fees	136,933	81,782	257,237	156,543	827,038
Professional fees - related parties	15,000	15,000	30,000	30,000	195,000
Consulting	259,085	159,417	623,017	384,789	2,327,312
Consulting - related parties	123,250	76,500	222,677	153,077	1,462,657
Payroll and benefits expense	160,701	215,442	343,677	353,049	1,341,982
Depreciation and amortization	108,432	84,171	193,932	166,230	526,016
Research and development	242,586	139,964	536,194	273,212	1,273,510
Impairment of asset	-	-	-	-	180,000
Stock expense on note conversion	37,223	-	37,223	-	528,200
Stock options expense	439,427	453,339	899,211	791,856	3,487,995
Total expenses	1,699,627	1,336,713	3,481,845	2,526,059	13,383,654
Loss from operations	(1,345,327)	(1,008,784)	(2,628,936)	(2,019,825)	(10,638,919)
Other (expense) income					
Interest expense:					
Interest - loans	(119,244)	(42,960)	(223,012)	(78,540)	(548,757)
Interest - related parties	(773)	(133)	(773)	(133)	(7,333)
Liquidated damages	-	-	-	-	(250,000)
Amortization of discount on debt	(215,957)	(155,787)	(397,085)	(279,322)	(1,009,949)
Total interest expense	(335,974)	(198,880)	(620,870)	(357,995)	(1,816,039)
Interest income	62	74	3,755	221	8,126
Loss on debt settlement	-	-	-	-	(5,257)
Gain on debt settlement	-	-	-	-	257,252
Gain on sale of assets					429,717
Unrealized gain on MesoCoat acquisition	-	- -	-	1,764,345	1,764,345
Equity in Powdermet income/ (loss)	(100,276)	(24,775)	(59,101)	21,274	1,001,088
Equity in MesoCoat loss	-	-	-	(44,408)	(586,020)
Total Other (expense) income	(436,188)	(223,581)	(676,216)	1,383,437	1,053,212
Net profit/ (loss) before non-controlling interest	(1,781,515)	(1,232,365)	(3,305,152)	(636,388)	(9,585,707)
Non-controlling interest in MesoCoat Loss	209,062	69,975	325,316	123,867	283,506
Net profit/ (loss) attributable to Abakan Inc.	(1,572,453)	(1,162,390)	(2,979,836)	(1,634,929)	(9,302,201)
Provision for income taxes	-	-	-	-	-
Net profit/ (loss)	$ (1,572,453)	$ (1,162,390)	$ (2,979,836)	$ (512,521)	$ (9,302,201)
	$				
Net profit/ (loss) per share - basic	(0.03)	$ (0.02)	$ (0.05)	$ (0.01)	
Net profit/ (loss) per share - diluted	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.01)	
Weighted average number of common					

shares outstanding - basic	61,999,242	59,377,425	61,806,104	59,353,818
Weighted average number of common shares outstanding - diluted	61,999,242	59,377,425	61,806,104	59,353,818

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ABAKAN, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended November 30, 2012	For the six months ended November 30, 2011	Cumulative amounts from development stage activities June 27, 2006 (Inception) to November 30, 2012
CASH FLOWS FROM DEVELOPMENT STAGE ACTIVITIES			
Net profit/ (loss) before non-controlling interest	$ (3,305,152)	$ (636,388)	$ (9,585,707)
Adjustments to reconcile net (loss) to net cash provided by (used in) development stage activities:			
Depreciation and amortization	193,932	166,230	526,016
Amortization of discount on debt	397,085	279,322	1,009,949
Amortization of deferred financing fees	-	730	-
Stock options expense	899,211	791,856	3,487,995
Stock expense from note conversion	37,223	-	528,200
Stock issued for services	222,125	76,000	902,776
Equity in investee (profit)/ loss	59,101	23,134	(415,066)
Unrealized gain on MesoCoat acquisition	-	(1,764,345)	(1,764,345)
Gain on sale of capital asset	-	-	(429,717)
Changes in operating assets and liabilities:			
Accounts receivable	(63,058)	75,513	85,545
Notes receivable - related parties	-	-	(4,500)
Prepaid expenses	59,031	(25,977)	(138,256)
Prepaid expenses - related parties	-	1,485	14,152
Accounts payable	217,875	272,145	857,433
Accounts payable - related parties	110,094	156,735	273,598
Accrued interest - related parties	-	-	2,664
Accrued interest - loans payable	223,785	77,801	383,189
Accrued liabilities	55,235	96,922	233,426
Waste to Energy Group Inc.	-	-	180,000
Total adjustments	2,411,639	227,551	5,733,059
NET CASH (USED IN) DEVELOPMENT STAGE ACTIVITIES	(893,513)	(408,837)	(3,852,648)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant, equipment and website	(1,214,142)	(626,105)	(2,321,016)
Proceeds from sale of capital assets	-	-	470,000
MesoCoat - minority interest, net of cash assumed in business combination	-	307,650	(2,390,266)
Investment in MesoCoat	-	-	(750,070)
Powdermet - minority interest	-	-	(1,650,000)
Assignment agreement - MesoCoat	-	-	(100,000)
Capitalized patents and licenses	(22,451)	(27,148)	(120,636)
Waste to Energy Group Inc.	-	-	(180,000)
NET CASH PROVIDED BY/ (USED) IN INVESTING ACTIVITIES	(1,236,593)	(345,603)	(7,041,988)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of common stock	1,091,101	245,465	7,022,942
Proceeds from loans payable	1,037,580	944,833	4,888,867
Payments on loans payable	(138,974)	-	(514,625)
Proceeds from loans payable - related parties	66,200	9,000	145,880
Payments on loans payable - related parties	(36,253)	-	(15,190)
Repayments of capital leases	(18,023)	(11,565)	(72,662)
Stock Issuable	(15,500)	-	149,965
Proceeds from capital contributed	-	-	5,050
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,986,131	1,187,733	11,610,227
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(143,975)	433,293	715,591
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	859,566	-	-

CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 715,591	**$** 433,293	$ 715,591

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ABAKAN, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended November 30, 2012	2011	Cumulative amounts from development stage activities June 27, 2006 (Inception) to November 30, 2012
Supplemental Disclosures:			
Cash paid for income taxes	$ -	$ -	$ -
Cash paid for interest	$ -	$ -	$ 964
Supplemental Non-cash Disclosures:			
Notes and accounts payable converted to stock			
Accounts payable - related parties	$ (46,000)	$ -	$ (251,971)
Loans payable	(157,788)	-	(807,957)
Accrued interest	(10,245)	-	(14,576)
Notes payable - related parties	-	-	(99,515)
Accrued interest - related parties	-	-	(9,724)
Common stock	214,033	-	1,188,493
Subscription payable	-	-	(3,000)
Subscription receivable	-	-	(1,750)
	$ -	$ -	$ -
Stock issued for assignment agreement - MesoCoat			
Assignment agreement - MesoCoat	$ -	$ -	$ (150,000)
Common stock	-	-	150,000
	$ -	$ -	$ -
Capital lease equipment acquired			
Property, plant and equipment	$ -	$ 38,532	$ 126,907
Capital lease payable	-	(38,532)	(126,907)
	$ -	$ -	$ -
Non-cash write off of balances			
Accounts payable - related parties	$ -	$ -	$ 52,030
Loans payable	-	-	(156)
Accrued interest	-	-	(553)
Notes payable - related parties	-	-	(52,260)
Accrued interest - related parties	-	-	(811)
Subscription receivable	-	-	1,750
	$ -	$ -	$ -
Beneficial conversion valuation			
Additional paid-in capital	$ -	$ 505,873	$ 1,241,449
Discount on convertible debts	-	(505,873)	(1,241,449)
	$ -	$ -	$ -
Controlling interest purchase - MesoCoat			
Accounts receivable	$ -	$ 171,457	$ 171,457
Property and equipment, net	-	1,899,598	1,899,598
Deferred financing fees	-	3,608	-
Patents and licenses, net	-	2,170,391	7,938,206
Total assets	-	4,245,053	10,009,261
Accounts payable	-	(268,398)	(268,398)
Capital leases	-	(42,906)	(42,907)
Loans Payable and accrued interest	-	(2,415,469)	(2,233,474)
Other accrued liabilities	-	(65,545)	(65,545)
Total liabilities	-	(2,792,318)	(2,610,324)
Net assets	-	1,452,735	7,398,937
Non-controlling interest equity	-	(1,468,023)	(3,412,500)
Goodwill	-	4,335,646	364,384
Investment in MesoCoat	-	(1,849,665)	(1,849,665)

MesoCoat net assets received	$ -	$ 2,470,693	$ 2,501,156

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ABAKAN INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the six months ended November 30, 2012 and 2011

NOTE 1 – BUSINESS

Your Digital Memories, Inc. was incorporated in the state of Nevada on June 27, 2006.

Waste to Energy Group Inc., a wholly-owned subsidiary of Your Digital Memories Inc., was incorporated in the state of Nevada on August 13, 2008. Waste to Energy Group Inc. and Your Digital Memories Inc. entered into an Agreement and Plan of Merger on August 14, 2008. The board of directors of Waste to Energy Group Inc. and Your Digital Memories Inc. deemed it advisable and in the best interest of their respective companies and shareholders that Waste to Energy be merged with and into Your Digital Memories Inc. with Your Digital Memories Inc. remaining as the surviving corporation under the name Waste to Energy Group Inc.

Abakan Inc., a wholly-owned subsidiary of Waste to Energy Group Inc., was incorporated in the state of Nevada on November 6, 2009. Abakan Inc. and Waste to Energy Group Inc. entered into an Agreement and Plan of Merger on November 6, 2009. The board of directors of Abakan Inc. and Waste to Energy Group Inc. deemed it advisable and in the best interest of their respective companies and shareholders that Abakan Inc. be merged with and into Waste to Energy Group Inc. with Waste to Energy Group Inc. remaining as the surviving corporation under the name "Abakan Inc."

Unless the context indicates otherwise, all references herein to the "Company", "we," "us," and "our" refer to Abakan Inc. and its consolidated subsidiaries. The Company is in the development stage as defined under FASB ASC 915-10, "Development Stage Entities."

On December 10, 2009 the Company purchased a thirty-four percent (34%) interest in MesoCoat, Inc. ("MesoCoat"), and on July 13, 2011 purchased an additional eighteen and one-half percent (18.50%), for an aggregate total of fifty two and one-half percent (52.50%) of the outstanding stock of MesoCoat.

MesoCoat (formerly "Powdermet Coating Technologies, Inc.") was incorporated in Nevada as a wholly owned subsidiary of Powdermet, Inc. ("Powdermet") on May 18, 2007. Operations began in 2008 and effective March 31, 2008 it was renamed as MesoCoat. Future success of operations is subject to several technical hurdles and risk factors, including satisfactory product development, regulatory approval and market acceptance of MesoCoat' s products and its continued ability to obtain future funding. MesoCoat is currently in the development stage, as operations consist primarily of research and development expenditures, and revenues from planned principal operations that have not yet been realized. MesoCoat has invested heavily in intellectual property, machinery and equipment to initiate the research and development of its core technology. Currently, MesoCoat' s revenue consists almost entirely of government grants and cooperative reimbursement agreements.

On March 21, 2011, the Company purchased 596,813 shares of Powdermet from Kennametal, Inc., an unrelated party, equal to a fully diluted 41% interest in Powdermet.

Powdermet was formed in 1996 as a Delaware corporation and has since developed a product platform of advanced materials solutions derived from nano-engineered particle agglomerate technology and derived hierarchically structured materials. Powdermet also owns 47.50% of MesoCoat.

On June 8, 2011, the Company formed a wholly owned subsidiary company named, AMP Distributors, Ltd. ("AMP Distributors"), a Grand Cayman corporation. AMP Distributors was formed to distribute MesoCoat products to consumer markets.

NOTE 1 – BUSINESS - continued

On June 8, 2011, the Company formed a wholly owned subsidiary company named, AMP Distributors, Ltd. ("AMP Distributors"), a Grand Cayman corporation. AMP Distributors was formed to distribute MesoCoat products to consumer markets.

On July 27, 2012, the Company formed a wholly owned subsidiary company named, AMP Distributors, Inc. ("AMP FL"), a Florida corporation. AMP Distributors was formed to distribute MesoCoat products to consumer markets.

The Company' s plan of operation is to acquire interests in early stage companies. Since those firms are typically pre-commercialization, it is anticipated that each firm the Company decides to acquire will need successive rounds of financing to fund research & development, lengthy qualification periods, sales and marketing efforts. However, this may not necessarily be the case if the Company acquires a new technology company with existing sales or we agree to a licensing strategy.

The Company' s acquisition strategy is to make sure it negotiates upfront future ownership based on a series of value creating steps whereby we have the right to continue or discontinue investing based on an investee meeting those milestone steps. Our approach allows management to forecast potential financing needs of any given firm in stages to plan for present and future fundraising efforts. Further, our approach also enables the Company to hedge its investing if it feels a company is not performing up to the goals that were anticipated during the negotiating process. By taking this approach, each investee company is expected to reach certain operating milestones prior to receiving the next round of fundraising or us exercising our next round of acquisition.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company' s financial position as of November 30, 2012, and the results of its operations and cash flows for the three and six months ended November 30, 2012, have been made. Operating results for the six months ended November 30, 2012 are not necessarily indicative of the results that may be expected for the year ended May 31, 2013.

These condensed consolidated financial statements should be read in conjunction with the financial statements and notes for the year ended May 31, 2012, thereto contained in the Company' s Form 10-K.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Consolidation Policy

The accompanying November 30, 2012 financial statements include the Company's accounts and the accounts of its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Company's ownership of its subsidiaries as of November 30, 2012 is as follows:

Name of Subsidiary	Percentage of Ownership
AMP Distributors (Cayman)	100.00%
AMP Distributors (Florida)	100.00%
MesoCoat, Inc.	52.50%

Earnings (Loss) Per Common Share

The Company computes net loss per share in accordance with FASB ASC 260-10, "Earnings per Share". FASB ASC 260 requires presentation of both basic and diluted earnings per share (EPS) on the face of the statement of operations. Basic EPS is computed by dividing net loss available to common stockholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the period. Diluted EPS excludes all potentially dilutive shares if their effect is anti-dilutive. The only potentially dilutive common shares outstanding are stock options and warrants from inception (Note 11).

Non-Controlling Interest

Non-controlling interest represents the minority members' proportionate share of the equity of MesoCoat, Inc. The Company's controlling interest in MesoCoat requires that its operations be included in the consolidated financial statements. The equity interest of MesoCoat that is not owned by the Company is shown as non-controlling interest in the consolidated financial statements.

Development Stage Enterprise

At November 30, 2012, the Company's business operations had not fully developed and the Company is highly dependent upon funding and therefore is considered a development stage enterprise.

Reclassifications

Certain amounts in the period ended November 30, 2011 financial statements have been reclassified to conform to the current period ended November 30, 2012 presentation.

Accounts Receivable

Accounts receivable are stated at face value, less an allowance for doubtful accounts. The Company provides an allowance for doubtful accounts based on management's periodic review of accounts, including the delinquency of account balances. Accounts are considered delinquent when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no allowance for doubtful accounts is required.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Accounts Receivable

Accounts receivable are stated at face value, less an allowance for doubtful accounts. The Company provides an allowance for doubtful accounts based on management's periodic review of accounts, including the delinquency of account balances. Accounts are considered delinquent when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no allowance for doubtful accounts is required.

Notes Receivable

Notes receivable are stated at face value, plus any accrued interest earned. The Company analyzes each note receivable each period for probability of collectability. Notes are considered in default when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no occurrence of default exists.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to operations as incurred. Depreciation and amortization are based on the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in operations in the period realized.

Asset Construction in Progress

Construction in progress assets, represent assets that are in process of construction and rehabilitation in order to bring them to operational status. All costs are captured in a separate Construction in Progress account, and are included in the "Property, plant and equipment – net" amounts, and when the asset is ready to enter service, the total costs are capitalized and depreciation commences per the schedule below.

Depreciation

Depreciation is computed on the straight-line method net of salvage value with useful lives as follows:

Computer equipment and software	3 - 5 years
Office furniture and equipment	5 - 7 years
Machinery and equipment	7 - 10 years
Leasehold improvements	balance of lease term

ABAKAN INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the six months ended November 30, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Patent and Technology Licenses

Patent costs are recorded at the cost to obtain the patent and are amortized on a straight-line basis over their estimated useful lives up to 20 years, beginning when the patent is secured by the Company. License costs are recorded at the cost to obtain the license and are amortized on a straight-line basis over effective term of the license, up to 15 years.

Indefinite-Lived Intangible Assets

In accordance with GAAP, Intellectual Property – Research and Development in the amount of $6,120,200 related to the acquisition of MesoCoat, will not be amortized and will be reviewed for impairment on an annual basis starting fiscal year ending May 31, 2013, due to its indefinite life.

Goodwill

In accordance with GAAP, goodwill in the amount of $364,384 related to the acquisition of MesoCoat will be evaluated for impairment on an annual basis starting fiscal year ending May 31, 2013.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price if fixed or determinable, and collectability is reasonably assured.

Grant Revenue

Revenue from grants is generally recorded when earned as defined under the terms of the agreements. Each grant document sets the timing of amounts that are allowed to be billed and how to bill those amounts. The Company generally looks at a two week time period to bill from and work on the incurred costs for the same time period and bills according to preset amounts that are allowed to be billed for per the grant documents. This is then billed through a
government billing system, reviewed by the government department, and then payment is sent to us.

Research and Development Costs

Research and development costs are charged to expense as incurred and are included in operating expenses. Total research and development costs were $536,194 and $273,212 for the six months ended November 30, 2012 and 2011, respectively.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses are included in general and administrative expense in the accompanying statement of operations. Total advertising expenses were $5,000 and $496 for the six months ended November 30, 2012 and 2011, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Shipping and Handling Costs

The Company' s shipping and handling costs are included in cost of sales for all periods presented.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The more significant areas requiring the use of estimates include asset impairment, stock-based compensation, beneficial conversion features on debt instruments, and future income tax amounts. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. Actual results may differ from the estimates.

Income Taxes

Income taxes are provided for using the liability method of accounting. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Deferred tax expense (benefit) results from the net change during the year in deferred tax assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to more likely than not be realized in future tax returns. Tax law and rate changes are reflected in income in the period such changes are enacted.

Subsequent Events

In accordance with ASC 855-10 "Subsequent Events", the Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were issued (Note 17).

NOTE 3 – GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has net losses for the period of June 27, 2006 (inception) to the period ended November 30, 2012, of $9,302,201, and a working capital deficit of $3,345,574. These conditions raise substantial doubt about the Company' s ability to continue as a going concern. The Company' s continuation as a going concern is dependent on its ability to develop additional sources of capital, and/or achieve profitable operations and positive cash flows. Management' s plan is to aggressively pursue its present business plan. Since inception we have funded our operations through the issuance of common stock, debt financing, and related party loans and advances, and we will seek additional debt or equity financing as required. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	November 30, 2012	May 31, 2012
Machinery and equipment	$ 734,099	$ 427,641
Construction in progress	3,516,352	2,617,196
Computer equipment and office furniture	43,538	35,369
Leasehold improvements	54,177	53,818
	4,348,166	3,134,024
Less accumulated depreciation and amortization	(160,597)	(112,936)
	$ 4,187,569	**$ 3,021,088**

Depreciation and amortization expense was $47,661 and $18,878 for the six months ended November 30, 2012 and 2011, respectively.

NOTE 5 – PATENTS AND LICENSES

Patents and licenses consist of the following:

	November 30, 2012	May 31, 2012
Patents	$ 82,693	$ 72,991
Website	21,000	21,000
Intellectual Property Research and Development	6,120,200	6,120,200
Licenses	1,855,949	1,843,200
	8,079,842	8,057,391
Less accumulated amortization	(407,614)	(281,076)
	$ 7,672,228	$ **7,776,315**

Amortization expense was $126,538 and $147,354 for the six months ended November 30, 2012 and 2011, respectively. In the six months ended November 30, 2012 and 2011, we have capitalized an additional $22,451 and $27,148, respectively, on patents and licenses, and have begun amortizing those according to our policy.

Future amortization patents and licenses as of November 30, 2012 are presented in the table below:

For the years ended May 31,	
2013	$ 161,860
2014	288,398
2015	288,398
2016	288,398
2017 and beyond	524,974

$ 1,552,028

NOTE 5 – PATENTS AND LICENSES - continued

Patent license agreement

The Company has an exclusive commercial patent license agreement with a third party which requires the Company to invest in the research and development of technology and the market for products by committing to a certain level of personnel hours and $350,000 of expenditures.

The patent license agreement required a total of $50,000 in execution fees which are included in intangible assets. The patent license agreements requires royalty payments equal to 2.5% of net sales of the product sold by the Company beginning after the first commercial sale. For the first calendar year after the achievement of a certain milestone and the following two calendar years during the term of the agreement, the Company will pay a minimum annual royalty payment of $10,000, $15,000 and $20,000 respectively.

NOTE 6 – ASSIGNMENT AGREEMENT – MESOCOAT

On March 25, 2011, the Company entered into an assignment agreement (the Agreement) whereby it would assume the exclusive rights to distribute MesoCoat' s products intended for applications specific to the oil and gas pipeline industry in consideration of $250,000. The Agreement was entered into with a company that entered into an exclusive distribution agreement with MesoCoat dated October 10, 2008 which was in effect for 10 years following the original date of the exclusive distribution agreement. On May 31, 2011, the Company completed the transfer of consideration and assumed all rights to the agreement. We commenced amortization on June 1, 2012, over the remaining term of 76 months, and have recorded $19,733 in amortization expense as of the six months ended November 30, 2012.

NOTE 7 – PREPAID EXPENSES

Prepaid expenses consisted of the following at November 30, 2012:

Name	Description		Amount
Steven Ferris	Prepayment for services	$	15,000
Better Investing	Prepayment retainer for services		1,875
IPFS Corporation	Prepayment for insurance		9,070
Optiminera SA	Prepayment retainer for services		25,500
Financial Insights	Prepayment retainer for services		5,000
Crystal Research Associates	Prepayment retainer for services		10,417
Hall, Lamb, & Hall	Prepayment retainer for legal fees		5,782
Fulcrum Financial Inquiry	Prepayment retainer for services		800
Antenna Group	Prepayment retainer for services		15,800
Steven Rosenfeld, PC	Prepayment retainer for legal fees		2,555
Wolf, Rifkin, Shapiro	Prepayment retainer for legal fees		2,000
Rick Beck Engineering	Prepayment retainer for services		12,000
Deposits	Prepayment retainer for services		18,304
	Total	$	124,103

Prepaid expenses consisted of the following at May 31, 2012:

Name	Description		Amount
Steven Ferris	Prepayment retainer for services	$	7,500
Better Investing	Prepayment retainer for services		4,125
Urish Popeck & Co	Prepayment retainer for valuation		8,000
Optiminera SA	Prepayment retainer for services		76,500
The Money Channel	Prepayment retainer for services		8,775
Crystal Research Associates	Prepayment retainer for services		41,667
Hall, Lamb, & Hall	Prepayment retainer for legal fees		29,572
Deposits	Prepayment retainer for services		6,995
	Total	$	183,134

NOTE 8 – INVESTMENT IN NON-CONTROLLING INTEREST

Powdermet, Inc.

Under the terms of our September 7, 2010 amendment to our stock purchase agreement dated June 28, 2010, the Company entered into a stock purchase agreement with Kennametal Inc. ("Kennametal") to purchase from Kennametal five hundred and ninety six thousand eight hundred and thirteen (596,813) shares, representing a forty one percent (41%) interest in Powdermet, Inc. ("Powdermet"), in exchange for one million six hundred fifty thousand dollars ($1,650,000).

The terms and conditions of the stock purchase agreement required the Company to pay an initial payment of five hundred thousand dollars ($500,000) to Kennametal on September 7, 2010, and the remainder on or before September 30, 2010. The stock purchase agreement contains additional terms related to monthly liquidated damages in the amount of fifty thousand ($50,000) per month starting October 1, 2010. The transaction was to close no later than December 31, 2010.

We made the initial payment of $500,000 on September 7, 2010 and did not make the payment on the balance as agreed; accordingly we recorded liquidating damages of $50,000 per month beginning October 1, 2010, for a total of $250,000 as of the period ended February 28, 2011.

On January 19, 2011, we amended the Stock Purchase Agreement with Kennametal to complete the purchase of Powdermet shares from Kennametal no later than February 15, 2011 for $1,150,000. We did not make our payment on the balance as agreed. On March 21, 2011, we entered into an accord and satisfaction agreement to fulfill the terms of our agreement and settled our debt in full to Kennametal in the amount of $1,200,000.

Powdermet was the parent company of MesoCoat, owning 66% of MesoCoat at May 31, 2011. Andy Sherman serves as the chief executive officer of both Powdermet and MesoCoat in addition to his duties as a member of the Company' s board of directors. Through the Company' s purchase of 41% of Powdermet, we also gain indirect ownership of the additional shares of MesoCoat that Powdermet owns.

We have analyzed our investment in accordance of *"Investments – Equity Method and Joint Ventures"* (ASC 323), and concluded that when the stock purchase agreement was completed our 41% minority interest investment gave us significant influence over Powdermet' s business actions, board of directors, and its management, and therefore we account for our investment using the Equity Method. The table below reconciles our investment amount and equity method amounts to the amount on the accompanying balance sheet.

March 21, 2011, initial investment	$ 1,650,000
Equity in profit for period of March 21 through May 31, 2011	71,656

Investment balance, May 31, 2011	$ 1,721,656
Equity in profit for year ended May 31, 2012	988,533

Investment balance, May 31, 2012	$ 2,710,189
Equity in loss for six months ended November 30, 2012	(59,101)

Investment balance, November 30, 2012	$ 2,651,088

NOTE 8 – INVESTMENT IN NON-CONTROLLING INTEREST – continued

Powdermet' s ownership in MesoCoat was diluted when the Company exercised its initial option to purchase 86,156 shares of common stock from MesoCoat. Powdermet' s ownership in MesoCoat as of November 30, 2012 is 47.50%.

Below is a table with summary financial results of operations and financial position of Powdermet:

Powdermet Inc.				
		For the six months ended November 30, 2012		**For the six months ended November 30, 2011**
Equity Percentage		41%		41%
Condensed income statement information:				
Total revenues	$	1,238,694	$	$ 983,055
Total cost of revenues		492,708		417,300
Gross margin		745,986		565,755
Total expenses		890,134		513,866
Net profit/ (loss)	$	(144,148)	$	$ 51,890
Company' s equity in net profit/ (loss)	$	(59,101)	$	$ 21,274
Condensed balance sheet information:		**November 30, 2012**		**May 31, 2012**
Total current assets	$	650,246	$	578,725
Total non-current assets		4,652,477		4,234,600
Total assets	$	5,302,723	$	4,813,325
Total current liabilities	$	255,398	$	395,614
Total non-current liabilities		2,886,727		2,105,370
Total equity		2,160,598		2,312,341
Total liabilities and equity	$	5,302,723	$	4,813,325

NOTE 9 – LOANS PAYABLE

As of November 30, 2012 and May 31, 2012, the loans payable balance comprised of:

Description	November 30, 2012	May 31, 2012
Convertible demand note to an unrelated entity bearing 5% interest per annum which matures on April 13, 2013. The note is shown net of a discount of $48,739 and $99,769, respectively, attributable to the beneficial conversion feature, and an effective interest rate of 30.19%.	$ 451,261	$ 400,231
Convertible demand note to an unrelated entity bearing 5% interest per annum which matures on March 17, 2013. The note is shown net of a discount of $122,876 and $285,083, respectively, attributable to the beneficial conversion feature, and an effective interest rate of 31.19%.	1,377,124	1,214,917
Convertible demand note to an unrelated entity bearing 5% interest per annum which matures on June 7, 2013. The note is shown net of a discount of $119,705 and $161,469, respectively, attributable to the beneficial conversion feature, and an effective interest rate of 175.84%.	80,295	38,531
Convertible demand note to an unrelated entity bearing 5% interest per annum which matures on July 14, 2013. The note is shown net of a discount of $325,176 and $429,329, respectively, attributable to the beneficial conversion feature, and an effective interest rate of 142.77%.	174,824	70,671
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	70,000	70,000
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	3,850	3,850
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	33	303
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	19,350	19,350
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	20,000	20,000
Collateralized note to an unrelated entity bearing 1% interest for the first year and then 7% per annum for years two - seven	900,543	-
Uncollateralized demand note to a related entity bearing 8% interest per annum	30,000	-
Convertible demand note to an unrelated entity bearing 7.5% imputed interest per annum which matures on July 10, 2018.	54,435	56,043
Capital leases payable to various vendors expiring in various years through September 2016; collateralized by certain equipment with a cost of $205,157.	97,152	115,175
Uncollateralized demand note to an unrelated entity for royalties shown net of discount of $46,788 and $82,454, respectively	1,618,112	1,717,546
	$ 4,896,979	$ 3,726,617
Less current liabilities	2,744,726	2,508,164
Total long term liabilities	$ 2,152,253	$ 1,218,453

We also owed $330,104 and $183,106 in accrued interest for the above notes as of November 30, 2012 and May 31, 2012, respectively. We also amortized $397,085 and $279,322 in discount on debt as of November 30, 2012, and 2011, respectively.

As of November 30, 2012 and May 31, 2012, we had no restrictive covenants attached to any of the above referenced notes.

Future maturity of our notes payable as of November 30, 2012 is presented in the table below:

For the years ended May 31,	
2013	$ 2,744,726
2014	1,133,227
2015	342,378
2016	151,303
2017 and beyond	525,345

$ 4,896,979

NOTE 9 – LOANS PAYABLE - continued

Development Loan - MesoCoat

On October 2, 2012 we began drawing against a development loan from the State of Ohio with a maximum amount of $1,000,000, and bearing an interest rate of one percent the first year after the disbursement date, and then for years two through seven, the interest rate is seven percent. On October 2, 2012, we received our first payout from this loan of $584,066, and then we received on October 5, 2012 a second payout of $316,477, for a total of $900,543. The loan is to be repaid over seven years, and is collateralized the project equipment, one CermaClad system and automated pipe blasting equipment, and all inventory, equipment, all fixtures, all intangibles and accounts receivables owned by MesoCoat.

NOTE 10 – STOCKHOLDERS' EQUITY

Common Shares – Authorized

The Company has 2,500,000,000 common shares authorized at a par value of $0.0001 per share and 50,000,000 shares of preferred stock, par value $0.0001 per share. All common stock shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all the directors of the Company.

Common Stock Issuances

Private placements

For the six months ended November 30, 2012, we issued the following shares:

On July 30, 2012, we closed a private placement for $525,000, or 300,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.00 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $525,000.

On September 28, 2012, we closed a private placement for $262,500, or 150,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.00 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $262,500.

On October 18, 2012, we closed a private placement for $230,000, or 100,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $230,000.

NOTE 10 – STOCKHOLDERS' EQUITY – continued

Common Stock Issuances - continued

Private placements- continued

On November 26, 2012, we closed a private placement for $16,100, or 7,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $16,100.

On November 26, 2012, we closed a private placement for $16,100, or 7,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $16,100.

On November 30, 2012, we closed a private placement for $57,500, or 25,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $57,500.

Conversion of debt to shares

On November 30, 2012, we converted several debt obligations for $168,033, or 73,058 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we incurred stock expense on conversion of $29,223.

On November 30, 2012, we converted several accounts payables for $46,000, or 20,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we incurred stock expense on conversion of $8,000.

Share based compensation

For the six months ended November 30, 2012, we issued the following shares for compensation:

On June 1, 2012, we issued 12,500 shares of our common stock for services performed valued at $32,625.
On June 1, 2012, we issued 12,500 shares of our common stock for services performed valued at $27,750.
On July 1, 2012, we issued 12,500 shares of our common stock for services performed valued at $25,000.
On July 9, 2012, we issued 10,000 shares of our common stock for services performed valued at $20,000.
On August 7, 2012, we issued 10,000 shares of our common stock for services performed valued at $19,000.

On September 18, 2012, we issued 25,000 shares of our common stock for services performed valued at $42,750.

On November 29, 2012, we issued 20,000 shares of our common stock for services performed valued at $51,000, including costs of $21,000.

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NOTE 10 – STOCKHOLDERS' EQUITY - continued

Common Stock Warrants

In connection with the above private placement we valued the common stock warrants granted during the six months ended November 30, 2012, using the Black-Scholes model with the following assumptions:

	July 30, 2012	September 28, 2012	October 18, 2012	November 26, 2012	November 30, 2012
Expected volatility (based on historical volatility)	154.31%	150.62%	150.62%	150.62%	150.62%
Expected dividends	0.00	0.00	0.00	0.00	0.00
Expected term in years	2.00	2.00	2.00	2.00	2.00
Risk-free rate	0.23%	0.23%	0.29%	0.27%	0.25%

The expected volatility assumption was based upon historical stock price volatility measured on a daily basis. The risk-free interest rate assumption is based upon U.S. Treasury bond interest rates appropriate for the term of the Company' s warrants. The dividend yield assumption is based on our history and expectation of dividend payments. All warrants are immediately exercisable upon granting.

A summary of the common stock warrants granted during the year ended May 31, 2012 and the six months ended November 30, 2012 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (In Years)	Aggregate Intrinsic Value
Balance at June 1, 2011	2,670,233	$ 0.85		
Granted	1,696,063	1.67		
Exercised	-	-		
Forfeited or expired	(2,300,000)	0.75		
Balance at May 31, 2012	2,066,296	$ 1.64	2.00 years	$ --
Exercisable at May 31, 2012	2,066,296	$ 1.64	2.00 years	$ --
Weighted average fair value of options granted during the year ended May 31, 2012		$ 1.64		
Balance at June 1, 2012	2,066,296	$ 1.64		
Granted	337,500	2.23		
Exercised	-	-		
Forfeited or expired	-	-		
Balance at November 30, 2012	2,403,796	$ 1.85	2.00 years	$ --

Exercisable at November 30, 2012	2,403,796	$ 1.85	2.00 years	$ --
Weighted average fair value of options granted during the three months ended November 30, 2012		$ 1.85		

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NOTE 10 – STOCKHOLDERS' EQUITY - continued

Common Stock Warrants - continued

The following table summarizes information about the warrants outstanding at November 30, 2012:

Options Outstanding					Options Exercisable		
Range of Exercise Price	Number Outstanding at November 30, 2012	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value	Number Exercisable at November 30, 2012	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 1.25	706,600	2.00 Years	$ 1.25	$ --	706,600	$ 1.25	$ --
$ 1.50	410,233	2.00 Years	$ 1.50	$ --	410,233	$ 1.50	$ --
$ 2.00	1,174,463	2.00 Years	$ 2.00	$ --	1,174,463	$ 2.00	$ --
$ 2.70	112,500	2.00 Years	$ 2.70	$ --	112,500	$ 2.00	$ --
	2,403,796	2.00 Years	$ 1.85	$ --	2,403,796	$ 1.85	$ --

NOTE 11 – EARNINGS-PER-SHARE CALCULATION

Basic earnings per common share for the three and six months ended November 30, 2012 and 2011 are calculated by dividing net income by weighted-average common shares outstanding during the period. Diluted earnings per common share for the six months ended November 30, 2012 and 2011 are calculated by dividing net income by weighted-average common shares outstanding during the period plus dilutive potential common shares, which are determined as follows:

	For the three months ended November 30, 2012	*For the three months ended November 30, 2011*
Net earnings (loss) from operations	$ (1,572,453)	$ (1,162,390)
Weighted-average common shares	61,999,242	59,377,425
Effect of dilutive securities:		
Warrants	-	-
Options to purchase common stock	-	-
Dilutive potential common shares	61,999,242	59,377,425
Net earnings per share from operations:		
Basic	$ (0.03)	$ (0.02)

Diluted	$ (0.03)	$ (0.02)

NOTE 11 – EARNINGS-PER-SHARE CALCULATION - continued

	For the six months ended November 30, 2012	For the six months ended November 30, 2011
Net earnings (loss) from operations	$ (2,979,836)	$ (512,521)
Weighted-average common shares	61,806,104	59,353,818
Effect of dilutive securities:		
Warrants	-	-
Options to purchase common stock	-	-
Dilutive potential common shares	61,806,104	59,353,818
Net earnings per share from operations:		
Basic	$ (0.05)	$ (0.01)
Diluted	$ (0.05)	$ (0.01)

Dilutive potential common shares are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all warrants and options are used to repurchase common stock at market value. The amount of shares remaining after the proceeds are exhausted represents the potentially dilutive effect of the securities. The increasing number of warrants used in the calculation is a result of the increasing market value of the Company' s common stock.

In periods where losses are reported the weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive.

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NOTE 11 – EARNINGS-PER-SHARE CALCULATION - continued

These securities below were excluded from the calculations above because to include them would be anti-dilutive:

	For the three months ended November 30, 2012	*For the three months ended November 30, 2011*
Common Stock Equivalents:		
Warrants	2,403,796	2,710,233
Options to purchase common stock	5,860,000	5,545,000
Total of Common Stock Equivalents:	8,263,796	8,255,233

	For the six months ended November 30, 2012	*For the six months ended November 30, 2011*
Common Stock Equivalents:		
Warrants	2,403,796	2,710,233
Options to purchase common stock	5,860,000	5,545,000
Total of Common Stock Equivalents:	8,263,796	8,255,233

NOTE 12 – RELATED PARTY TRANSACTIONS

Due to the common control between the Company and its related parties, the Company is exposed to the potential that ownership risks and rewards could be transferred among the parties.

In addition to related party transactions mentioned elsewhere, we have the below agreements and transactions:

Board of Advisors

On June 1, 2012, we appointed a new member to our Board of Advisors and granted him 100,000 stock options for their service. The stock options have an exercise price of $2.30 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on June 1, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until June 1, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

On June 20, 2012, we appointed a new member to our Board of Advisors and agreed to pay him $5,000 per month for his services beginning July 1, 2012. We also granted him 50,000 stock options for their service. The stock options have an exercise price of $2.05 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on June 20, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until May 31, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

NOTE 12 – RELATED PARTY TRANSACTIONS – continued

Board of Advisors - continued

On August 1, 2012, we appointed a new member to our Board of Advisors and agreed to pay him $3,000 per month for his services beginning August 1, 2012. We also granted him 75,000 stock options for his service. The stock options have an exercise price of $1.95 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on August 1, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until August 1, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

Board of Directors

On June 15, 2012, we appointed a new member to our Board of Directors. We agreed to pay him $15,000 per annum, payable in four equal payments. We also agreed to issue him 10,000 restricted shares of our common stock and granted him 150,000 stock options for their service. The stock options have an exercise price of $2.30 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on September 15, 2012, and every September 15 after that. We also agreed to pay for continuing education classes and related travel expenses, for a maximum of $4,500. This agreement will be in force until May 31, 2015, unless terminated with a sixty day notice. We also agreed to reimburse the new director for all reasonable business expenses.

On August 7, 2012, we appointed a new member to our Board of Directors. We agreed to issue him 10,000 restricted shares of our common stock and granted him 150,000 stock options for their service. The stock options have an exercise price of $1.90 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on August 7, 2013 and every August 7 after that. This agreement will be in force until August 7, 2015, unless terminated with a sixty day notice. We also agreed to reimburse the new director for all reasonable business expenses.

Notes Payable – Related Party

For the six months ended November 30, 2012, we entered into two uncollateralized demand notes to a Company controlled by our Chief Executive Officer' s spouse, Prosper Financial, bearing 8% interest per annum for an aggregate total of $66,200. On August 31, 2012, we applied $6,200 of principal in addition to $59.24 of accrued interest to advances owed to us by the same company. On September 25, 2012, we also made a cash principal payment of $30,000. As of November 30, 2012 we owed $30,000, and $773 of accrued interest.

ABAKAN INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the six months ended November 30, 2012 and 2011

NOTE 13 – STOCK – BASED COMPENSATION

2009 Stock Option Plan – The Company

Our board of directors adopted and approved our 2009 Stock option Plan ("Plan") on December 14, 2009, as amended on June 14, 2012, which provides for the granting and issuance of up to 10 million shares of our common stock.

On June 12, 2012, we granted 175,000 stock options to two consultants at an exercise price of $2.30 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On June 1, 2012, we granted 100,000 stock options to two consultants at an exercise price of $0.75 per share. The options will expire ten years from the grant date, and will vest in completely on March 15, 2013.

On June 15, 2012, we granted 150,000 stock options to a new director at an exercise price of $2.30 per share. The options will expire ten years from the grant date, and will vest in equal one third parts beginning on September 15, 2012, and then every September 15th for the next two years.

On June 20, 2012, we granted 50,000 stock options to a consultant at an exercise price of $2.05 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On July 27, 2012, we granted 75,000 stock options to a consultant at an exercise price of $1.95 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On August 7, 2012, we granted 150,000 stock options to a new director at an exercise price of $1.90 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

After these grants there will be 4,140,000 available for future grant.

Our board of directors administers our Plan, however, they may delegate this authority to a committee formed to perform the administration function of the Plan. The board of directors or a committee of the board has the authority to construe and interpret provisions of the Plan as well as to determine the terms of an award. Our board of directors may amend or modify the Plan at any time. However, no amendment or modification shall adversely affect the rights and obligations with respect to outstanding awards unless the holder consents to that amendment or modification.

The Plan permits us to grant Non-Statutory stock options to our employees, directors and consultants. The options issued under this Plan are intended to be Non-Statutory Stock Options exempt from Code

Section 409A.

The duration of a stock option granted under our Plan cannot exceed ten years. The exercise price of an incentive stock option cannot be less than 100% of the fair market value of the common stock on the date of grant.

ABAKAN INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the six months ended November 30, 2012 and 2011

NOTE 13 – STOCK – BASED COMPENSATION - continued

2009 Stock Option Plan – The Company - continued

The Plan administrator determines the term of stock options granted under our Plan, up to a maximum of ten years, except in the case of certain events, as described below. Unless the terms of an optionee's stock option agreement provide otherwise, if an optionee's relationship with us ceases for any reason other than disability or death, the optionee may exercise any vested options for a period of ninety days following the cessation of service. If an optionee's service relationship with us ceases due to disability or death the optionee or a beneficiary may exercise any vested options for a period of 12 months in the event of disability or death.

Unless the Plan administrator provides otherwise, options generally are not transferable except by will, the laws of descent and distribution, or pursuant to a domestic relations order. An optionee may designate a beneficiary, however, who may exercise the option following the optionee's death.

The value of employee and non-employee stock warrants granted during the six months ended November 30, 2012 was estimated using the Black-Scholes model with the following assumptions:

	June 1, 2012	June 12, 2012	June 15, 2012	June 20, 2012
Expected volatility (based on historical volatility)	200.15%	154.39%	154.39%	154.39%
Expected dividends	0.00	0.00	0.00	0.00
Expected term in years	10	10	10	10
Risk-free rate	0.95%	1.67%	1.60%	1.65%

	July 27, 2012	August 7, 2012
Expected volatility (based on historical volatility)	154.39%	154.39%
Expected dividends	0.00	0.00
Expected term in years	10	10
Risk-free rate	1.58%	1.66%

The expected volatility assumption was based upon historical stock price volatility measured on a daily basis. The risk-free interest rate assumption is based upon U.S. Treasury bond interest rates appropriate for the term of the Company' s employee stock options. The dividend yield assumption is based on our history and expectation of dividend payments.

A summary of the options granted to employees and non-employees under the plan and changes during the year ended May 31, 2012 and the six months ended November 30, 2012 is presented below:

NOTE 13 – STOCK – BASED COMPENSATION - continued

2009 Stock Option Plan – The Company - continued

A summary of the options granted to employees and non-employees under the plan and changes during the year ended May 31, 2012 and the six months ended November 30, 2012 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (In Years)	Aggregate Intrinsic Value
Balance at June 1, 2011	5,420,000	$ 0.75		
Granted	520,000	1.06		
Exercised	-	-		
Forfeited or expired	(780,000)	-		
Balance at May 31, 2012	5,160,000	$ 0.77	9.00 years	$ 185,000
Exercisable at May 31, 2012	2,980,829	$ 0.71	9.00 years	$ --
Weighted average fair value of options granted during the year ended May 31, 2012		$ 1.06		
Balance at June 1, 2012	5,160,000	$ 0.77		
Granted	700,000	1.93		
Exercised	-	-		
Forfeited or expired	-	-		
Balance at November 30, 2012	5,860,000	$ 0.90	9.00 years	$ 185,000
Exercisable at November 30, 2012	2,980,829	$ 0.71	9.00 years	$ --
Weighted average fair value of options granted during the year ended November 30, 2012		$ 1.06		

ABAKAN INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the six months ended November 30, 2012 and 2011

NOTE 13 – STOCK – BASED COMPENSATION - continued

2009 Stock Option Plan – The Company - continued

The following table summarizes information about employee stock options under the 2009 Plan outstanding at November 30, 2012:

Options Outstanding							Options Exercisable			
	Range of Exercise Price	Number Outstanding at November 30, 2012	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Intrinsic Value	Number Exercisable at November 30, 2012		Weighted Average Exercise Price	Aggregate Intrinsic Value
$	0.60	1,945,000	8.00 Years	$	0.60	$ --	1,900,040	$	0.60	$ --
$	0.65	1,400,000	8.00 Years	$	0.65	$ 120,000	394,968	$	0.65	$ --
$	0.75	200,000	9.00 Years	$	0.75	$ 15,000	100,000	$	0.75	$ --
$	1.00	50,000	10.00 Years	$	1.00	$ --	--	$	0.00	$ --
$	1.01	225,000	9.00 Years	$	1.01	$ --	106,656	$	1.01	$ --
$	1.02	650,000	10.0 Years	$	1.02	$ 50,000	116,660	$	1.02	$ --
$	1.03	50,000	4.00 Years	$	1.03	$ --	--	$	0.00	$ --
$	1.05	270,000	10.0 Years	$	1.05	$ --	83,330	$	1.05	$ --
$	1.07	95,000	10.00 Years	$	1.07	$ --	12,500	$	1.07	$ --
$	1.20	100,000	5.0 Years	$	1.20	$ --	100,000	$	1.20	$ --
$	1.25	25,000	10.0 Years	$	1.25	$ --	--	$	0.00	$ --
$	1.30	250,000	10.0 Years	$	1.30	$ --	166,675	$	1.30	$ --
$	1.90	150,000	10.0 Years	$	1.90	$ --	--	$	0.00	$ --
$	1.95	75,000	10.0 Years	$	1.95	$ --	--	$	0.00	$ --
$	2.05	50,000	10.0 Years	$	2.05	$ --	--	$	0.00	$ --
$	2.30	325,000	10.0 Years	$	2.30	$ --	--	$	0.00	$ -
		5,860,000	9.0 Years	$	0.90	$ 185,000	2,980,829	$	0.71	$ --

The total value of employee and non-employee stock options granted during the six months ended November 30, 2012 and 2011, was $1,315,619 and $143,267, respectively. During six months ended November 30, 2012 and 2011 the Company recorded $899,211 and $791,856, respectively, in stock-based compensation expense relating to stock option grants.

At November 30, 2012 and 2011 there was $1,747,689 and $2,130,783, respectively, of total unrecognized compensation cost related to stock options granted under the plan. That cost is expected to be recognized pro-rata through August 7, 2015. The following table represents the stock options expense for the each of the next four fiscal years ended May 31:

For years ended May 31,		**Expense**
2013	$	622,717
2014		706,184
2015		408,568
2016		

10,220

$	**1,747,689**

NOTE 13 – STOCK – BASED COMPENSATION - continued

Stock Option Plan - MesoCoat

MesoCoat accounts for equity awards using the grant-date fair value.

The Company' s stock option plan (the Stock Option Plan) is intended to advance the interest of the Company and its shareholders. Options granted under the Stock Option Plan can be either incentive stock options or non-qualified stock options. The Stock Option Plan authorized the issuance of a maximum of 9,000 shares of the Company' s common stock. These options have a term of six years and will expire beginning August 2014 through November 2014.

A summary of the Company' s stock option plan as of November 30, 2012, and the changes during the period then ended is presented in the table below:

	Options Outstanding		
	Number of Shares		Weighted Average Exercise Price
Outstanding at May 31, 2012	4,450	$	2.68
Granted	-		
Exercised	-		
Forfeited	-		
Outstanding at November 30, 2012	4,450	$	2.68
Options exercisable at November 30, 2012	3,150	$	1.95

NOTE 14 – COMMITMENTS

Leases

In August 2011, the Company entered into a non-cash leasing arrangement where services are provided in exchange for an asset. The Company has an obligation to provide 600 hours of services at a fair value of $120,000 as consideration during the period from August 2011 to August 2017. The Company has recorded this capital lease at its fair value.

The Company leases its office space in Miami on a month to month basis at a cost of $2,213 a month paid to Prosper Financial, Inc., a related party. The Company is also committed to a non-cancellable operating lease for a vehicle that expired in March 2012.

MesoCoat subleases its research and development and laboratory space, in Ohio, from Powdermet, a related party. The cost of the sub-lease to MesoCoat is $6,700 per month that expires on May 31, 2020.

NOTE 14 - COMMITMENTS - continued

Leases - continued

MesoCoat also leases machinery and equipment under various capital lease arrangements, which expires through September 2016. These leases are included in long-term and short-term debt and the related assets have been capitalized.

Total expense related to the operating leases was $40,200 and $26,889 for the six months ended November 30, 2012 and 2011. Interest expense for the leases for the six months ended November 30, 2012 and for the period of July 13 through November 30, 2012 was $612 and $1,991.

Minimum annual rental commitments are as follows at November 30, 2012:

For the years ended May 31,		Capital Leases		Operating Leases
2013	$	28,562	$	40,200
2014		23,181		80,400
2015		22,197		80,400
2016		21,273		80,400
2017 and thereafter		7,951		328,300
Total minimum lease payments	$	103,164	$	609,700
Less amount representing interest		(6,012)		
Present value of net minimum capital lease payments		97,152		
Less current maturities		(36,595)		
Long-term obligations under capital leases	$	60,557		

Consulting agreement

On September 18, 2012, we entered into a consulting agreement commencing September 18, 2012, with an unrelated individual to provide investor public relations consulting. The terms of the consulting agreement are that the consultant is paid $5,000 per month; in addition the consultant was issued 25,000 shares of our restricted common stock for the initial three month period. Then commencing December 18, 2012 and each quarter after the Company will issue Shares of our restricted common stock valued at $60,000 per quarter. We also agreed to reimburse the consultant for all reasonable business expenses incurred by him in the performance of his duties, with a term expiring September 18, 2013.

NOTE 15 - EMPLOYEE BENEFIT PLANS

The Company has a 401(k) Plan (the Plan) covering substantially all of its employees who are at least age 21 and have completed three months of service. Participating employees may elect to contribute, on a tax deferred basis, a portion of their compensation in accordance with Section 401(k) of the Internal Revenue Code. Additional matching contributions may be made to the Plan at the discretion of the Company. For the six months ended November 30, 2012, the Company contributed $10,339.

NOTE 16 – RECENT ACCOUNTING PRONOUNCEMENTS

We have examined all recent accounting pronouncements and believe that none of them will have a material impact on the financial statements of the Company.

NOTE 17– SUBSEQUENT EVENTS

Management has evaluated subsequent events after the balance sheet date, through the issuance of the financial statements, for appropriate accounting and disclosure. The Company has determined that there were no such events that warrant disclosure or recognition in the financial statements, except for the below:

Private Placements

On December 7, 2012, we closed two private placements for a total of $279,450, or 121,500 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $279,450.

On December 10, 2012, we closed a private placement for $230,000, or 100,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $230,000.

On December 18, 2012, we closed three private placements for a total of $211,600, or 92,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $211,600.

On December 24, 2012, we closed a private placement for $103,500, or 45,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $103,500.

NOTE 17- SUBSEQUENT EVENTS - continued

Board of Directors

On December 5, 2012, we appointed a new member to our Board of Directors. We agreed to grant him 175,000 stock options for his service. The stock options have an exercise price of $2.61 per share of common stock, and expire ten years from the date of grant. These options vest as follows; 25,000 upon the date of this agreement and then in equal parts of 50,000 options beginning on December 5, 2013 and every December 5 after that. This agreement will be in force until December 5, 2015, unless terminated with a sixty day notice. We also agreed to reimburse the new member of the Board for all reasonable business expenses.

Employment agreement

On December 5, 2012, we entered into an employment agreement commencing December 10, 2012 with a related individual to perform duties as our Chief Financial Officer. The individual was a prior director and resigned the effective date of this agreement. The employee retained previously issued stock options. The terms of the employment agreement are $16,000 per month salary of which a portion is deferred. The employment agreement will end on December 31, 2015 and which time it can be renewed for 2 one year periods. In the event that this agreement is terminated, the employee may be eligible for severance pay based upon the length of employment. The employee was also granted 125,000 stock options with an exercise price of $2.61 per share; they will vest equally over 3 years beginning December 9, 2013. The employee was also given a retention award to be paid $20,000 in common shares the month following the anniversary date of his employment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This *Management' s Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this quarterly report contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as "anticipates," "expects," "believes," "plans," "predicts," and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include but are not limited to those discussed in the subsection entitled *Forward-Looking Statements and Factors That May Affect Future Results and Financial Condition* below. The following discussion should be read in conjunction with our financial statements and notes thereto included in this quarterly report. Our fiscal year end is May 31.

Abakan

Abakan expects to become a leader in the multi-billion dollar advanced coatings and metal formulations markets as a result of its investment in MesoCoat, Inc. ("MesoCoat") and Powdermet, Inc. ("Powdermet"). MesoCoat and Powdermet each have the potential to substantially impact the surface engineering and energy management needs of Fortune 1000 companies and government entities. Towards this end, Abakan is actively involved in supporting their R&D, market development, and commercialization efforts.

Abakan has to date acquired a 52.5% controlling interest in MesoCoat and a 41% non-controlling interest in Powdermet. Since Powdermet owns 47.5% of MesoCoat, Abakan' s interest in Powdermet represents an additional 19.5% indirect interest in MesoCoat.

MesoCoat

<u>MesoCoat' s Business</u>

MesoCoat is an Ohio based materials science company intent on becoming a technology leader in metal protection and repair based on its metal coating and metal cladding technologies designed to address specific industry needs related to conventional oil and gas, oil sands, mining, aerospace, defense, infrastructure, and shipbuilding. The company was originally formed as a wholly owned subsidiary of Powdermet, known as Powdermet Coating Technologies, Inc., to focus on the further development and commercialization of Powdermet' s nanocomposite coatings technologies. The company was renamed as MesoCoat in March of 2008. Thereafter, in July of 2008, the coatings and cladding assets of Powdermet were conveyed to MesoCoat through an asset transfer, an IP license, and a technology transfer and manufacturing support agreement.

MesoCoat has exclusively licensed and developed a proprietary metal cladding application process as well as advanced nano-composite coating materials that combine corrosion and wear resistant alloys, and nano-engineered cermet materials with proprietary high-speed application systems. The result is protective cladding applications that will be offered on a competitive basis with existing market solutions. The coating materials unite high strength, hardness, fracture toughness, and a low coefficient of friction into one product structure. MesoCoat' s products are currently undergoing extensive testing by the U.S.

Air Force, U.S. Navy and Marine Corp, oil field service companies, and original equipment manufacturers (OEMs).

CermaClad™ cladding applications are nearing commercialization and commercial sales of PComP ™, a cermet-metallic composite powder for thermal spray applications have commenced.

CermaClad™

CermaClad™ is a premier metallurgically bonded clad carbon steel solution optimized to manage the risks and consequences of wear and corrosion damage and the failure of large assets including oil and gas risers and flowlines, refinery/chemical processing towers and transfer lines, power plant heat exchanger tubes, ships, and bridges. In corrosive environments, including seawater, road salt, mining slurry transport lines, unprocessed oil containing water and carbon dioxide, chemical processing and transportation equipment, metals production, and other large industrial applications, asset owners and operators either need to continually maintain and replace major assets, or fabricate these assets using expensive, corrosion resistant alloy (CRA) materials, which substantially run up costs. CermaClad™ offers a competing, lower cost solution allowing the owner or operator to clad their carbon steel with a corrosion resistant alloy coating at typically less than ½ the cost of using solid CRA. Cladding solutions such as CermaClad™ is estimated to save up to 75% of the cost of using solid alloys, while providing equivalent maintenance free corrosion lifetimes equal to the life of the asset. Clad metals are widely used in oil and gas exploration and production, marine transportation, mining, petrochemical processing and refining, nuclear, paper and pulp, desalination, and power generation industries. Each industry sector has slightly different needs and requirements. For instance, to meet growing global energy demands, oil companies continue to extend their offshore drilling efforts into deeper seas. The higher temperatures and corrosivity (carbon dioxide and hydrogen sulfide content) of these deeper reserves eliminate plastics and other competing material solutions from consideration, resulting in a significantly increased use of corrosion resistant alloys - and lower-cost clad pipe alternatives.

CermaClad™ is MesoCoat' s proprietary cladding process which utilizes a high density infrared fusion heat source – an arc lamp – to melt, fuse, and metallurgically bond (make inseparable) metals, corrosion resistant alloys and/or cermets onto metal substrates such as plate, pipe, or large components. Using this process, products like risers and flowlines can be protected against harsh operating environments with great efficiency and speed compared to competing weld overlay products. Today, clad steel is a specialized segment of the steel industry where it is projected that demand will outstrip supply in the next few years. Management believes that the CermaClad™ process and equipment offers the lowest capital cost per unit production, and is scalable to large volumes with low to modest capital investment and plant requirements.

Management believes the competitive advantages of CermaClad™ over current competing technologies and products are:

- CermaClad™ and other clad overlays can be produced at a 50-80% lower cost than alternative solid alloy products.
- CermaClad™ produces a metallurgically bonded overlay, reducing the risk of catastrophic failure and the buckling of mechanically lined pipes such as those supplied by industry leader.
- CermaClad™ can be applied to seamless pipe, or after pipe welding, eliminating 90% of special metal welds which are difficult, expensive, and also a common source of early failure.
- CermaClad™ application technology occurs with a 30-40cm wide infrared "torch" compared to less than 1 cm wide for laser or inert gas welding torches, resulting in application rates over an order of magnitude faster than current weld overlay technologies.
- Due to its high productivity compared to traditional weld overlay, and the elimination of the need

for deformation processing (steel mill) of bulk metals, CermaClad™ capital and start-up costs are two to ten times lower than competing technologies.

- Compared to weld overlay, CermaClad™ produces a smooth overlay that is virtually free of base metal dilution, improving inspectability and corrosion resistance. This characteristic enables the use of thinner, even lower cost cladding alternatives in many applications. Smooth surfaces also decrease flow resistance, enabling reduced friction losses in pipeline applications.

The CermaClad™ product line in development today is as follows:

- CermaClad™ CR (Corrosion Resistant Alloys). Product line that offers a lower cost alternative to solid nickel and stainless steel alloys for oil and gas, pulp and paper, and chemical process industry vessels, pipes, flowlines, risers, jumpers, valves, and components.
- CermaClad™ WR (Wear Resistant). Product line of metal matrix composite and nanocomposite wear resistant materials to extend life of steel structures such as hydrotransport slurry lines, pump components, valve components, spools, T' s, and elbows for mining, mineral processing, and oil sands/heavy oil production.
- CermaClad™ HT (High Temperature). Product line of high temperature claddings for heat exchanger tubing, boiler, and other energy production components offering greater compositional control (higher performance) and lower cost than solid alloys or traditional weld overlays.
- CermaClad™ LT (Low Thickness). Exploits the unique high purity capabilities of the CermaClad™ process to provide thin (less than 0.5mm) claddings for providing 50-200 year corrosion free life in atmospheric and seawater corrosion environments and applicable to marine structures, fuel and cargo tanks, bridges, architectural steel, and transportation structures.

PComP™

PComP™ is a series of nanocomposite cermet coatings that are used to impart wear and corrosion resistance, and to restore dimensions, of metal components. PComP™ competes against chrome and nickel plating, and tungsten carbide in the multibillion dollar inorganic metal finishing market. Competing materials like hexavalent chrome, carbides and tungsten carbide cobalt have become major headaches for industrial producers in the metal finishing industry since these materials are on the EPA' s hazardous materials watch list and are legally banned in several countries. Industry currently spends billions annually on these hazardous materials, and MesoCoat' s customers can gain a competitive advantage while mitigating environmental liabilities by adopting green products and processes such as PComP™ thermal spray coatings into their product offerings. While businesses grapple with the need to transition away from these harmful products, MesoCoat has developed a performance leading solution platform which has shown order of magnitude improvements in head to head wear and corrosion performance testing.

PComP™, named for its particulate composite powders, is one of the few economically viable industry replacement solutions for hard chrome and carbides due to the product line' s advanced corrosion, friction, wear and thermal barrier properties.

MesoCoat scientists have developed and patented a family of corrosion resistant coating solutions that combine extreme wear resistance, fracture toughness (resiliency), and a low friction coefficient all in one product. In conventional materials science toughness normally decreases as hardness and wear resistance increase. By combining nano-level structure control and advanced ductile phase toughening materials science, MesoCoat has developed a patented coating structure that can be both very tough and very wear resistant. Equally important, the hardness of a wear coating normally limits the ease with which it can be machined. The unique nanostructural design of the PComP™ coating solutions results in a coatings that can be machined through a finish grinder much faster than a product with a traditional carbide coating. The speed of coating application and final machining results in higher productivity and lower costs in metal finishing operations.

The unique nano-structure of the PComP™ coatings also result in friction properties approaching those of diamond-like carbon films and solid lubricants, but with the ability to be used structurally and applied to large components at a fraction of the cost of coatings such as diamond-like carbon. The low friction reduces wear, and improved energy efficiency and life in sliding components such as drilling rotors, plungers, mandrels, ball and gate valves, and metal processing equipment.

The PComP™ product line is currently positioned to compete with two dominant product alternatives: hard chrome plating and tungsten carbide thermal spray coatings. The PComP™ family of nanocomposite coatings consists of five products, all of which have shown, in testing by third parties, to provide better wear, corrosion and mechanical properties at a lower life cycle cost than most of today’ s alternatives.

The PComP™ product platform, combined with the CermaClad™ large area weld overlay technologies provide a high degree of product differentiation and a sustainable competitive advantage in the $10 billion inorganic metal finishing markets, which include OEM components and the maintenance, repair, and overhaul of industrial assets and machinery in the “components and coatings” segment of MesoCoat’ s business (as opposed to the clad steel business lines discussed under the CermaClad™ product line above).

MesoCoat is selling these products through different channels appropriate to the specific market. The majority of commercial sector accounts will have access to these advanced coatings and coating processes by buying coating application services from MesoCoat. This is generally a regional business. Large OEM’ s and Government agencies like the U.S. Air Force would procure raw powders and apply them for their specific products under license as they are vertically integrated to do their own thermal spray and coating applications using dedicated maintenance and repair depots. Recently, several defense organizations have been given congressional mandates to make better use of their existing equipment (planes, helicopters, jets, tanks and other armored vehicles, etc.) as budgets for the purchase of new equipment will be limited over the next few years. MesoCoat’ s low-cost, long-life coating materials should appeal to government buyers striving to meet budgetary restrictions. Finally, to achieve more rapid penetration of a territorial (geographic) market for coating services, MesoCoat is actively qualifying licensed application partners in certain territories (Houston, Alberta, and Los Angeles as three examples) to provide services in territories it is not currently able to service. This strategy will lead eventually to acquisition or market entry into these markets, while supporting economies of scale for the powder production needed to meet product cost targets.

The competitive advantages of PComP™ for each of its initial target markets are as follows:

- Wear and corrosion resistance and dimensional restoration
  - PComP™ T-HT (High Toughness) is a titanium carbon-nitride based high corrosion/wear resistant, low friction high velocity oxygen fuel (HVOF) coating that competes with hard chrome and diamond like carbone PVD (physical vapor deposition) alternatives for hydraulic cylinders, piston rings, bearings, rotating shafts, and valve components where low stick-slip, corrosion, and modest wear resistance are required. PComP™ provides both wear and corrosion resistance (unlike chrome), and significantly reduces environmental safety and health liabilities. Furthermore, in many applications, thermal spray coatings such as PComP™ provide life multiples over chrome (80 times in cylinder liner application in testing reported by Caterpillar). Lower coefficient of friction protects seals from premature wear and reduces energy consumption in rotating components through lower friction losses, and the lower coating stresses and higher toughness enable thicker coatings to be applied than chrome or other alternatives, meaning component life can be extended through enabling additional repair cycles. PComP™ T-HT has

significantly higher build-up rates than that of carbides, and grinding and finishing can be done faster and cheaper with conventional grinding techniques compared to the expensive diamond finishing process used for competing carbide coatings.

- PComP™ T-HH (High Hardness) is a higher wear resistance, cobalt based version of PComP™ T-HT coating for hard chrome replacement in environments that need better wear resistance but have less severe corrosion requirements. PComP™ T-HH also provides good corrosion resistance in non-water environments and its low coefficient of friction and lack of coarse by-products also protects seals and mating surfaces from premature wear.

- PComP™ S is a silicon-nitride based hard chrome replacement solution for aerospace applications that exhibits high toughness, wear resistance and displays increased spallation resistance. PComP™ S also has the lowest density of any chrome alternative, enabling significant fuel savings to be realized in transportation markets.

- PComP™W is MesoCoat' s "nano-engineered" tungsten carbide coating solution that offers industry leading toughness and wear resistance for thermal spray coatings, making it better for critical high wear applications such as gate valves and downhole drilling tools. PComP™ W replaces conventional tungsten carbide cobalt in the thermal spray industry and provides increased wear resistance, design allowable (stress levels), and reduced friction in abrasive wear applications, with higher toughness and impact resistance than ceramic alternatives such as alumina-titania. PComP™W is also significantly more robust and lower cost than competing detonation gun and alternate coatings, achieving excellent results with much higher throughput and lower operating cost equipment such as standard HVOF guns.

- Metals processing equipment

  - PComP-MB™ is a metal boride coating designed for use in molten metal processing. PComP-MB™ has completed laboratory testing showing greater than two and one half times the life of the state of the art molybdenum boride coatings in galvanizing lines, and ten times the resistance of conventional WC coatings to molten metal erosion and wear. PComP-MB™ is preparing for market launch in the $60 million zinc pot roll and bearing coatings market, while also of interest to the diecasting, paper and pulp, and other related industries

- Thermal barrier coatings

  - ZComP™ is MesoCoat' s nanocomposite thermal barrier coatings that offer 50% lower thermal conductivity, with improved toughness and cyclic thermal life compared to conventionally structured thermal barrier coatings in the $500 million thermal barrier coatings market.
  - MesoCoat is actively forming partnerships to introduce these performance-leading materials into the turbine engine market, Mesocoat has recently completed and/or continues to work with Powdermet Inc under contract with the Department of Energy for power turbines, and with the Air Force (Oklahoma Air Logistics Center), The Ohio Aerospace Institute (OAI), General Dynamics Information Systems, and under a space

act agreement with NASA for propulsion turbine applications of these engineered nanocomposite thermal barrier coatings.

Stage of Development

MesoCoat' s PComP-W high performance materials are now established with initial customers and adoption is increasing through qualified regional application partners with capacity being expanded to match growing demand, while PComP-T best-value chrome alternatives are still in qualification and limited beta release through application partners with original equipment. A seven-fold capacity expansion and introduction of higher value coating application (component) services is underway to be completed in the second half of FY2013. High revenue Cermaclad corrosion resistant (CR) and wear resistant (WR) products are nearing market entry with the completion of the first clad pipe production facility in the third quarter of FY2013. The following table indicates our estimated timeline for the commercial introduction and geographic territory expansion of those products that are most imminent:

PRODUCT	COMMERCIAL TIMELINE	TIME (MONTHS)
PComP™ T	Initial Partner Sales	Current
PComP™ W	Growing partner sales	Current
PComP™MB	Market Entry for zinc pot rolls	4
PComP™ Coating Services	Market Entry	Current
CermaClad™ CR	Euclid Market Entry	4
CermaClad™ CR	Brazil market entry	12-15
Cermaclad™ CR	Asia-Pacific market entry	18-24
CermaClad™ WR	Market Entry	6
CermaClad™ WR	Canada expansion	14-18

License agreement with Powdermet, Inc.

On July 22, 2008, MesoCoat entered into a license agreement with Powdermet. The agreement gives MesoCoat a royalty-free, exclusive, perpetual license to PComP™ intellectual property, certain equipment, and contracts and business lists, including seven supporting patents, the trademark, and supporting confidential and trade secret information, including formulations, processes, customer lists and contracts, for all Powdermet technologies in the field of wear and corrosion resistant coatings. MesoCoat was at the time of licensing a wholly owned subsidiary of Powdermet, and Powdermet currently retains a 47.50% ownership position in MesoCoat. The agreement also includes Powdermet' s commitment to provide manufacturing expertise and technical capabilities supporting PcomP™ powders on a priority basis. Powdermet retains the exclusive manufacturing rights for the first 50 tons of PComP™ powders through July 1, 2013. The license agreement will end upon the last valid claim of licensed patents to expire, unless terminated earlier within the terms of the agreement.

MesoCoat's exclusivity agreement with Mattson Technology, Inc.

Mattson Technology, Inc. ("**Mattson**") is the developer and manufacturer of the Vortek™ high power plasma arc lamps, and is a high energy plasma arc lamp developer. The principal provisions of an exclusivity agreement dated April 7, 2011 between MesoCoat and Mattson Technology, Inc. are as follows:

- Mattson has provided the exclusive right and license to MesoCoat to purchase and use the high intensity Vortek lamp in MesoCoat' s products in the wear reducing and corrosion resistant coatings, claddings and related surface treatments market.

- The exclusivity period runs to the end of 2017 and is conditional on an escalating minimum number of 5 lamps being ordered on an annual basis starting in 2012, subject to certain extensions.

- In return for these rights MesoCoat is obligated to pay Mattson a fee of $2 million in five equal installments starting from the date of the successful performance of the first unit.
- Included in this agreement is a sliding scale price discount based upon the number of units to be ordered each year.

MesoCoat' s exclusive patent license agreement with UT-Battelle LLC.

MesoCoat has obtained a two stage, exclusive license from UT-Battelle, LLC to utilize two patents in its processes to develop products for wear and corrosion applications. The initial non-commercial exclusive license was entered into on September 22, 2009, which enabled MesoCoat to conduct development work to prove out the technology within the field of use. The second stage of the agreement comprises a commercial exclusive license, executed on March 7, 2011, that permits MesoCoat to conduct commercial sales utilizing the licensed process and technology. The license is valid through the expiration of the last patent in 2024 and required that MesoCoat invest in additional research and development of the technology and the market for products that stem from the technology by committing to a certain level of personnel hours and $350,000 in expenditures. MesoCoat has met the aforesaid conditions of the license agreement.

Stage I and II license fees of $50,000 have been paid against the agreement and a royalty of $15,000 or 2.5% of revenues generated in the United States that utilize the technology, minus allowable costs as defined by contract, whichever is greater, are due March 31 on an annual basis beginning after the first commercial sale. For the first calendar year after the achievement of a certain milestone and the following two calendar years during the term of the agreement, MesoCoat is obligated to pay a minimum annual royalty payment of $10,000, $15,000 and $20,000 respectively.

Cooperation agreement with Petroleo Brasileiro S.A

MesoCoat entered into a cooperation agreement dated January 7, 2011, with Petroleo Brasileiro S.A ("**Petrobras**") for the purpose of carrying out development work and conducting validation tests in connection with applying the CermaClad™ process to coating the internal surfaces of pipes for use in the oil and gas industry. The term of the cooperative agreement was initially for 18 months during which time MesoCoat, with the assistance of Petrobras, carried out development work and a series of tests divided into two phases with the prospect of a third phase. Phase I was designed to verify that the CermaClad™ process and the resultant materials for compliance with industry standards and acceptability for clad pipe use in order to modify the existing system for the internal coating of pipes. Phase II was designed to develop a prototyping facility that could coat the inner surface of a 10 inch diameter pipe and verify that the CermaClad™ process was suitable for application to line pipe in accordance with current industry standards. The prospective third phase would be designed to finalize the design and construction of a coating facility in Brazil with the capacity for producing cladding on the interior diameter of pipes and tubes with section lengths of at least 12 meters.

The immediate objective of the cooperation agreement, subject to obtaining successful results, in each of Phase I and II, is that the materials and processes tested result in American Petroleum Institute (API) and Det Norte Veritas (DNV) approval for the CermaClad™ process. API and DNV approvals would, assuming the completion of a suitable manufacturing facility as anticipated by the prospective third phase, permit MesoCoat market entry into the oil and gas industry and cause full scale production activities.

MesoCoat has successfully completing Phase I of the cooperation agreement by demonstrating that the CermaClad™ process is capable of producing pipe products that meet API 5LD -Specifications for CRA clad steel pipe on flat coupons. Phase II consist of the design and verification of a pipe ID cladding system prototype, and to further verify the suitability of the CermaClad™ process and equipment for producing alloy 625 CRA clad line pipe product and delivering designs for a future production facility. Phase III of the cooperative agreement is to demonstrate commercial producability leading to production orders for Petrobras products.

Phase II is close to being completed, including the design, production, and demonstration of a miniaturized CermaClad™ fusing system that is able to operate inside an 8” diameter pipe that is integrated into a pipe manipulation and coating control system. MesoCoat has verified parameters for CRA material deposition and produced ID clad pipe coupons that meet industry requirements under API 5LD for alloy 625-metallurgically bonded clad pipe. The Phase II final report has been submitted and is in review by Petrobras for final approval, whole work continues on an expanded scope which includes addition of thermal modeling and imaging to enhance instrumentation and control of the pipe cladding process prior to the delivery of clad pipe sections for qualification testing.

Additional cooperative efforts with Petrobras are envisioned including girth welding demonstration, advanced quality control and inspection methods, added cladding alloy development, expanded testing specific to pre-salt projects, and qualification of additional base metals (X70) as a means to reduce product insertion risk and qualify MesoCoat as a supplier for additional Petrobras project needs, including collaboration in the areas of quality assurance, secondary operations, process improvement, product production and cost reduction.

The development team is being expanded to include a dedicated manufacturing engineering team during the current Phase III manufacturing scale-up to include improved severe environment sensors, feedback process control system development and further system modifications and upgrades focused on maximizing product yields, performance and system productivity.

Powdermet

<u>Powdermet’ s Business</u>

Powdermet was formed in 1996 and has since developed a product platform of advanced materials solutions derived from nano-engineered particle agglomerate technology and derived hierarchically structured materials. These advanced materials include energy absorbing ultra-lightweight syntactic- and nano-composite metals in addition to the PComP™ nanocomposite cermets exclusively licensed to MesoCoat. The business has historically financed itself through corporate engineering consulting fees, government contracts and grants (over 90), and recently through partnerships with prime contractors and systems integrators. Powdermet now expects to transition from an engineered nano-powder R&D laboratory and toll powder manufacturer into a commercial sector company.

While MesoCoat’ s product focus is on developing advanced cermets to address corrosion and wear coating needs, Powdermet’ s product differentiation is based on its ability to build advanced nano-structured metal formulations to address energy efficiency, reduction in hazardous materials, and life cycle cost reduction. Powdermet' s technologies are particularly useful in crash and ballistic energy management markets since they offer weight reduction and the ability to dissipate substantially more impact energy than the aluminum alloys and foamed metals currently available.

Powdermet has four materials solution families under development:

- SComP™ - A family of syntactic metal composites known for their light weight properties and ability to absorb more impact energy than any other known material. SComP™ can provide weight savings over aluminum and magnesium alloys without magnesium' s corrosion and wear limitations, reducing structural weight by 10-30% in targeted aerospace, consumer electronics, and transportation applications. One new patent applications was filed this quarter on low density ,mill product and method of manufacture

- MComP™ - A family of hierarchically structured, rare earth free, nanocomposite metal and metal matrix composites that provide higher strength and temperature capability compared to traditional aluminium and magnesium allows. MComP™ is designed to be a market replacement for beryllium, aluminum and magnesium in structural applications, without relying on scare and expensive rare earths to produce high strength and thermal stability. Targeted applications include aerospace and defense and transportation market segments, as well as electrical transmission and distribution.

- EnComP™ - A diverse family of nano-engineered particle based solutions for energy storage. Current developments include record setting energy density nanoparticle filled films for capacitors, structured nanocomposite anode and cathode materials for thermal and lithium ion batteries, and inflatable hydrogen storage media capable of energizing power fuel cells down to -34C. A new patent application was filed related to environmentally-triggered reactive composites, with applications to well perforation devices, reactive warheads, and dissolvable frack balls for shale gas field completions for new product launches in the EnComP product family

- SynFoam™ - A family of structural, thermally insulating syntactic ceramic composites combining strength, high temperature functionality and low thermal conductivity into one multifunctional material. Applications include rocket propulsion and re-entry vehicle systems, and structural insulation for high temperature energy production and use including flowlines and heat treatment furnaces. Two new patent applications were filed for high temperature structural insulation, and for high temperature insulation for production flowlines to support new product releases in the Synfoam Product line.

Powdermet' s two developmental products closest to commercialization are SynFoam™ and EnComP™. Powdermet also produces custom-engineered powders and nanopowders, provides advanced materials contract research and development services, and derives significant revenues from tolls and contract development and manufacturing services. The company signed initial trial orders with Shell to further develop its high temperature flowline insulation product, and a venture backed battery start-up to transition its nanostructured anode production technology for advanced lithium ion batteries.

AMP Distributors Ltd./AMP Distributors, Inc.

AMP Distributors Ltd. ("**AMP**") and AMP Distributors, Inc. ("**AMP FL**") were formed by Abakan in June of 2011 and July 27, 2012 respectively as a Cayman Island company and a Florida corporation for the primary purpose of negotiating, executing and administrating international sales of MesoCoat's products. AMP and AMP FL will also be tasked with acquiring equipment and coating materials for Abakan' s international transactions. AMP has appointed a managing director with over 15 years of experience in the offshore financial services industry and retained Kariola Limited, a consultancy organization, to assist it with technical advice and entry into the Far East markets.

Plan of Operation

Abakan' s plan of operation for the coming year is to assist MesoCoat to succeed in commercialization efforts focused on its CermaClad™ and PComP™ products. To achieve this success Abakan aims to:

- Complete investments in manufacturing scale-up and market entry for Cermaclad™ clad steel products
- Establish overseas subsidiaries and plants while supporting their management teams.
- Gain market entry by creating awareness and establishing relationships with key reference customers and clients
- Increase its investment in MesoCoat to a direct 75% interest.
- Target and qualify existing coating application companies as approved application partners to apply powders produced by MesoCoat and Powdermet to grow market share in additional geographic regions. These partners will also be evaluated as future acquisition candidates.
- Expand PComP production to multiple tons/month of nanocomposite powder shipments
- Initiate commercial coating services in Euclid, Ohio and add additional production cells
- Launch additional PComP nanocomposite coating variants (-MB, ZComP) in the metal finishing and energy generation markets
- Assist MesoCoat in achieving the following objectives and milestones
    - Becoming American Petroleum Institute (API) and DNV compliant for CermaClad™ corrosion and wear resistant alloys products through a cooperative agreement with Petrobras and ongoing development work.
    - Gaining approved vendor status through product qualification efforts with Petrobras and at least 2 other major and national oil companies and supporting engineering firms
    - Completing construction of its first clad pipe operating plant in Euclid, Ohio and complete manufacturing scale-up to production, and obtain plant certification and approval for bidding clad pipe jobs.
    - Execute on our plan of geographic expansion by constructing CermaClad™ and PComP™ operating plants in strategic market locations (Houston, Alberta, Brazil asia-pacific and the Middle East).
    - Expand Cermaclad horizontal markets by completing development and launching Cermaclad wear products, heat exchanger/high temperature products, and low thickness transportation and infrastructure products
    - Continuing the formation of strategic partnerships and a pipeline of potential clients for the CermaClad™ and PComP™ product lines.

<u>Growth Strategy</u>

Abakan intends to grow MesoCoat over the next five years by actively supporting their R&D, market development, and commercialization efforts and by applying the expertise of its board of directors and board of advisors to the expansion of operations on a global basis. Management will rely on both project and investor financing to build new production facilities in emerging markets in a manner dedicated to capturing market share and enhancing shareholder value.

The accomplishment of these objectives relies on either of two growth strategies. The first is a conservative or “organic” strategy that requires an additional $16,000,000 in financing. The second strategy is considered a moderate strategy which requires early market acceptance and an additional $45,000,000 to $50,000,000 in financing (dependent on the level of cash flow achieved and the level of project debt financing secured). On realizing sufficient financing and further market acceptance, MesoCoat plans to launch between six and fifteen operating plants worldwide, up to 4 CRA plants, 3 WR Plants, 1 CRA powder plant, 4 PComP plants and 1 PComP powder plant.

Our plan for strategic global positioning requires us to determine the location for any given manufacturing plant based on the prospect of servicing multiple corporations over a range of industry sectors. Accordingly, we have identified Brazil as our initial region of focus due to the significant impact of oil and mining sectors in that country. West Africa is another part of the world that would benefit significantly from the application of MesoCoat' s products since the oil industry in that part of the world is plagued with corrosion and high pressure problems that are similar to those encountered in offshore Brazilian oil fields. Locations in Asia offer additional opportunities for MesoCoat.

MesoCoat is currently negotiating an agreement with a turn-key development and construction company for its first offshore manufacturing plant to be constructed in Brazil on a "build to suit" basis. The agreement being negotiated includes architectural designs and permits, in addition to offering a leasing or financing arrangement for the land and the building. Building and producing in Brazil will enable us to be highly competitive in that market as any foreign producer of similar products will have to incur up to 56% in import duties on their products along with freight costs. Abakan has held discussions with the governing bodies of several Brazilian jurisdictions that have indicated an interest in attracting high technology companies and offered the possibility of providing incentives such as grants and loan guarantees.

Given the wide range of Abakan' s assumptions, the growth strategy depends largely upon the successful execution of the product development, marketing plans and plant openings for CermaClad™ and PComP™. Given our strategy of targeting strategic global regions with multiple potential clients with multiple product lines, we believe that it is feasible for us to meet our expectations. Nonetheless, Abakan will carefully monitor the risks associated with achieving the goals in each growth scenario to ensure that MesoCoat can meet client expectations.

While Abakan explores each opportunity it is aware of the inherent risks that often come with operating in offshore markets. Risks might include those associated with politics, currency or even the environment about which we will seek advice from experienced professionals in each offshore jurisdiction. Further, we expect that recent additions to our board of directors and our board of advisors will assist us in successfully navigating these prospective pitfalls based on years of experience within the international arena.

Operational Logistics

CermaClad™, PComP™ SComP™, MComP™ and ENComP™ are platform technologies with extensive product potential in multiple large market verticals. Abakan and related operations should play a major role in six distinct product segments of the value chain: raw materials/consumables, application equipment, coating (cladding) services, casting, fabrication, and maintenance & repair of existing assets. By playing a major role in these six segments of the value chain, Abakan and its partners may prove to be an influential player in defining market prices and trends in the structural composites, steel plate, sheet, bar, and tubular products industries. Our vision is to form partnerships, and set up captive or regional facilities with the power players in the target industry. Most of these large manufacturers have project management and installation capabilities besides fabrication, and thus partnerships with these companies would help us build one-stop-shops for customers, where the customers define the specifications/requirements and we, and our value chain partners would take care of the steel fabrication, coating/cladding operations, casting, assembly integration, and inspection activities. We intend to partner with a major suppliers or end users within geographic regions. Depending on the amount of financing available, we are considering three approaches to this market:

- High Capital Intensity: Abakan will continue to self-finance and act as owner-operator.
- Medium Capital Intensity: Abakan intends to enter into joint venture partnerships, with it being the operator at 51% ownership and the partner at 49% ownership.
- Low Capital Intensity: Abakan expects to enter into joint ventures with supply chain partners which would act as operators and financiers with 51% ownership while it would act as the technology supplier with 49% ownership. Within these arrangements we do not intend to be a licensor but rather participate in the operations and service end of the businesses.

Additional Funding

MesoCoat will require additional funding over the next twelve months to fulfill its business plan. Not all of the funding sought is currently available though MesoCoat expects to receive additional funding from Abakan. Should MesoCoat be unable to secure additional financing from outside sources or Abakan, MesoCoat will most likely be unable to meet its milestones and may need to scale back operations. Any shortfall in minimum funding will adversely affect MesoCoat' s ability to expand or even continue operations.

Results of Operations

During the six month period ended November 30, 2012:

- We continued its search to identify prospective business opportunities for merger or acquisition.
- We focused our efforts on our interest on the continued development of MesoCoat products.
- We completed equity financing in the amount of $1,506,180
- We continued negotiations with prospective joint venture partners in regions, such as Russia, in which we do not intend to operate on our own.
- We continued negotiations with prospective joint venture partners in respect to technological applications that we do not intend to develop on our own.
- We added two independent directors to the board and adopted corporate governance charters.
- We continued our due diligence in respect to determining a suitable site for an additional MesoCoat manufacturing facility in Brazil.
- Secured a $1 million low interest loan from the State of Ohio to partially fund equipment for the new 11,000 sq. ft CermaClad™ clad piping manufacturing plant in Euclid, Ohio.

Revenues

For the period from June 27, 2006 (inception) until November 30, 2012, Abakan realized revenues of $4,335,934. Revenues for the three month period ended November 30, 2012 were $559,527 as compared to $548,877 for the three month period ended November 30, 2011, an increase of 2%. Revenues for the six month period ended November 30, 2012 were $1,394,910 as compared to $897,265 for the six month period ended November 30, 2011, an increase of 55%. Revenues over the comparative periods can be wholly attributed to the operations of MesoCoat. Revenue in the current six month period was derived from commercial revenues of $70,081 as compared to $31,515 in the prior comparative period, contract and grant revenues of $1,324,829 as compared to $689,768 in the prior comparative period, and other income of none as compared to $175,982 in the prior comparative period. Other income in the respective six month periods is primarily comprised of amounts paid by Petrobras under the terms and conditions of the cooperation agreement that has been reclassified to commercial, contract and grant revenues for better classification. As a result the current three month period reflects a negative amount for other revenue due to the reclassification of these revenues.

We expect revenue to continue to increase over the next twelve months as MesoCoat' s commercial and government sponsored contracts that commenced late last year are completed and new products under development are brought on line for commercial sales.

Gross Profit

For the period from June 27, 2006 (inception) until November 30, 2012, Abakan realized a gross profit of $2,744,735. Gross profit for the three month period ended November 30, 2012 was $354,300 compared to $327,930 for the three month period ended November 30, 2011, an increase of 8% . Gross profit for the six month period ended November 30, 2012 was $852,909 compared to $506,234 for the six month period ended November 30, 2011, an increase of 68%. Gross profits in the current three month periods can be wholly attributed to the operations of MesoCoat.

We expect gross profits to continue to increase over the next twelve months as the business moves towards the commercialization of its products.

Net Losses/Income

For the period from June 27, 2006 (inception) until November 30, 2012, Abakan incurred net losses of $9,302,201. Net losses for the three month period ended November 30, 2012 were $1,572,453 compared to net loss of $1,162,390 for the three month period ended November 30, 2011. Net losses for the six month period ended November 30, 2012 were $2,979,836 compared to a net loss of $512,521 for the six month period ended November 30, 2011, an increase of 470%.

Net losses in the current three month period as compared to net losses in the prior three month period can be primarily attributed to the increase in research and development expenses and costs associated with consultants as Abakan continues to develop its products. The increase in losses for the six month period when compared to the same period in the previous year is primarily attributed to a book entry gain of $1,764,345 in the prior six month period that did not affect net losses relative to actual cash used due to an unrecognized gain on the acquisition of MesoCoat. We do not expect to return to net income in the near term as anticipated increases in revenue and gross profit are likely to be parried by increases in operational expenses associated most significantly with increases in general and administrative expenses, professional fees, payroll expenses, research and development costs and depreciation and amortization of existing assets.

Despite management' s focus on ensuring operating efficiencies we do expect to continue to operate at a loss through fiscal 2013.

Expenses

For the period from June 27, 2006 (inception) until November 30, 2012, Abakan incurred operating expenses of $13,383,654. Operating expenses for the three month period ended November 30, 2012 were $1,699,627 as compared to $1,336,713 for the three month period ended November 30, 2011, an increase of 23%. Operating expenses for the six month period ended November 30, 2012 was $3,481,845 compared to $2,526,058 the six month period ended November 30, 2011, an increase of 35%. The increase in operating expenses over the comparative three and six month periods can be primarily attributed to increases in research and development costs and amounts paid to consultants, which expenses increased by a combined $181,290 and $480,210 for the three and six month periods respectively. The increases were in part the result of adding an employee to the research and development department and the utilization of consultants in product development and the identification of potential locations for new facilities.

We expect that operating expenses will continue to increase as our aggressive growth strategy over the next five years will require significant increases in personnel and facilities along with significant research and development to ensure that products nearing commercialization are brought to market as quickly and as effectively as possible.

Other Expense/Income

For the period from June 27, 2006 (inception) until November 30, 2012, Abakan realized other income of $1,053,212. Other expense for the three month ended November 30, 2012 was $436,188 as compared to $223,581 for the three month period ended November 30, 2011, an increase of 95%. Other expense for the six month period ended November 30, 2012 was $676,216 as compared to other income of $1,383,437 for the six month period ended November 30, 2011. The primary reasons for the increase in other expense in the current three month period over the comparative three month period were the growth in interest expense as result of additional notes and the loss associated with our equity interest in Powdermet. The transition to other expense in the current six month period over other income in the prior six month period can be primarily attributed to a book entry gain of $1,764,345 in the prior comparative six month period that did not affect other income relative to actual cash used in that period due to an unrecognized gain on the acquisition of MesoCoat.

We expect to continue to incur other expense in future periods due to the interest accruing on convertible debt and the anticipated increase in the amortization of discount on debt over the next twelve months.

Income Tax Expense (Benefit)

Abakan may have a prospective income tax benefit resulting from a net operating loss carry-forward and start up costs that will offset any future operating profit.

Impact of Inflation

Abakan believes that inflation has not had a material effect on operations for the period from June 27, 2006 (inception) to November 30, 2012.

Capital Expenditures

Abakan has spent significant amounts on capital expenditures for the period from June 27, 2006 (inception) to November 30, 2012 which amounted to $2,321,016. A large portion of these expenditures are related to plant, property and equipment in the construction of the manufacturing facility in Euclid, Ohio.

Liquidity and Capital Resources

Abakan has been in the development stage since inception, and has experienced significant changes in liquidity, capital resources, and stockholders' equity.

As of November 30, 2012 Abakan had current assets of $930,106 consisting of cash and cash equivalents of $715,591, accounts receivable of $85,912, a note receivable from a related party of $4,500, and prepaid expenses of $124,103. Abakan had total assets of $16,035,642 consisting of current assets, property, plant and equipment of $4,187,569, patents and licenses of $7,672,228, an assignment agreement of $230,267, an investment in Powdermet of $2,651,088, and goodwill of $364,384.

As of November 30, 2012 Abakan had current liabilities of $4,275,680, consisting of accounts payable of $643,750, accounts payable to related parties of $190,867, capital leases of $36,595, loans payable of $2,678,132, accrued interest of $329,331, loan payable to related parties of $30,000, accrued interest to related party of $773 and accrued liabilities of $366,232. Abakan had total liabilities of $6,427,933 consisting of current liabilities, loans payable of $2,091,696 and capital leases of $60,557.

Abakan had stockholders' equity of $9,607,709 and a working capital deficit of $3,345,574 at November 30, 2012.

For the period from June 27, 2006 (inception) to November 30, 2012, Abakan's net cash used in development stage activities was $3,852,648. Net cash used in development stage activities for the six month period ended November 30, 2012 was $893,513 as compared to $408,837 for the six month period ended November 30, 2011. Net cash used in development stage activities in the current six month period can be attributed primarily to a number of items that are book expense items which do not affect the total amount relative to actual cash used including depreciation, amortization of discount on debt, stock issued for services and stock option expense offset by equity in investee profit. Actual cash items used, that are not income statement related items, include accrued liabilities, accounts payable, accrued interest on loans payable, and prepaid expenses offset by changes in accounts receivable.

We expect to continue to generate negative cash flow in operating activities until such time as net losses transition to net income.

For the period from June 27, 2006 (inception) until November 30, 2012, Abakan's net cash used in investing activities was $7,041,988. Net cash used in investing activities for the six months ended November 30, 2012, was $1,236,593 as compared to net cash used in investing activities of $345,603 for the six month period ended November 30, 2011. Net cash used in investing activities in the current period can be primarily attributed to the purchase of property, plant and equipment, and capitalized patents and licenses.

We expect to continue to generate negative cash flow in investing activities as Abakan increases its investment in property, plant and equipment through MesoCoat.

For the period from June 27, 2006 (inception) until August 31, 2012, Abakan's net cash provided by financing activities was $11,610,227. Net cash provided by financing activities for the six months ended November 30, 2012 was $1,986,131 as compared to $1,187,733 the six months ended November 30, 2011. Net cash provided by financing activities in the current period is attributable to proceeds from the sale of common stock and loans payable, including related party loans, offset by payments on loans payable, including those to related parties, and repayments on capital leases.

We expect to continue to generate positive cash flow from financing activities as Abakan seeks new rounds of financing to build its business.

Our current assets are insufficient to meet our current obligations or to satisfy our cash needs over the next twelve months and as such Abakan will require additional debt or equity financing. Management to this end initiated a private equity placement prior to period end pursuant to which Abakan had raised $1,506,180, during the six month period ended November 30, 2012. Nevertheless, additional capital will be required to meet obligations and needs over the next twelve months. Except for the private equity placement noted, we had no other commitments or arrangements for financing at November 30, 2012, though we continue to pursue a number of prospective sources that include industry or strategic partners, sale of additional equity, the sale of additional equity, the procurement of long term debt, shareholder loans or the settlement of additional debt for equity. We face certain financial obstacles to attracting new financing due to our historical record of net losses and working capital deficits. Therefore, despite our efforts we can provide no assurance that Abakan will be able to obtain the financing required to meet its stated objectives or even to continue as a going concern.

Abakan does not expect to pay cash dividends in the foreseeable future.

Abakan has a defined stock option plan titled "The Abakan Inc., 2009 Stock Option Plan" and contractual commitments with all of its officers and directors.

Abakan has plans for the significant purchase or sale of any plant or equipment in connection with the completion of the manufacturing facility under construction in Euclid, Ohio. MesoCoat has obtained verbal commitments for future capital expenditures from Abakan and Powdermet to fund any shortfalls (including plant and equipment) in the construction of the Euclid facility should it not be able to raise funds in the normal course of business. Further, MesoCoat has secured a $1,000,000 loan from the Ohio Third Frontier program that can be drawn down at any time in connection with the new manufacturing facility. MesoCoat had drawn down $900,543 in connection with the loan as of November 30, 2012.

Abakan intends to increase the number of employees engaged by MesoCoat on completion of the new Euclid, Ohio manufacturing facility.

Off Balance Sheet Arrangements

As of November30, 2012, Abakan had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to stockholders.

Going Concern

Abakan' s auditors have expressed an opinion as to its ability to continue as a going concern as a result of net losses of $9,302,201 and a working capital deficit of $3,345,574 as of November 30, 2012. Our ability to continue as a going concern is dependent on realizing net income from operations, gains on investment, obtaining funding from outside sources or realizing some combination of these objectives. Management' s plan to address Abakan' s ability to continue as a going concern includes: (i) obtaining funding from the private placement of debt or equity; (ii) net income from operations; (iii) realizing a gain from its investment in Powdermet; (iv) converting debt to equity; and (v) obtaining loans and grants from financial or government institutions. Management believes that it will be able to obtain funding to allow

Abakan to remain a going concern through the methods discussed above, though there can be no assurances that such methods will prove successful.

Forward Looking Statements and Factors That May Affect Future Results and Financial Condition

The statements contained in the section titled *Results of Operations* and *Description of Business*, with the exception of historical facts, are forward looking statements. We are ineligible to rely on the safe-harbor provision of the Private Litigation Reform Act of 1995 for forward looking statements made in this quarterly report. Forward looking statements reflect our current expectations and beliefs regarding our future results of operations, performance, and achievements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may or may not materialize. These statements include, but are not limited to, statements concerning:

- our anticipated financial performance;
- uncertainties related to the commercialization of proprietary technologies held by entities in which we have an investment interest;
- our ability to generate revenue from operations or gains on investments;
- our ability to raise additional capital to fund cash requirements for operations;
- the volatility of the stock market; and
- general economic conditions.

We wish to caution readers that our operating results are subject to various risks and uncertainties that could cause our actual results to differ materially from those discussed or anticipated including the factors set forth in the section entitled *Risk Factors* included elsewhere in this report.

We also wish to advise readers not to place any undue reliance on the forward looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other that is required by law.

Critical Accounting Policies

The notes to the audited financial statements for Abakan for the years ended May 31, 2012 and 2011, included in Abakan's Form 10-K filed with the Commission, discusses those accounting policies that are considered to be significant in determining the results of operations and financial position. Our management believes that their accounting principles conform to accounting principles generally (GAAP) accepted in the United States of America.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The more significant areas requiring the use of estimates include asset impairment, stock-based compensation, beneficial conversion features on debt instruments, and future income tax amounts. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. Actual results may differ from the estimates.

Stock-Based Compensation

We have adopted Accounting Standards Codification Topic (“ASC”) 718, Share-Based Payment, which addresses the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise’ s equity instruments or that may be settled by the issuance of such equity instruments.

Recent Accounting Pronouncements

We have examined all recent accounting pronouncements and believe that none of them will have a material impact on our financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this quarterly report, an evaluation was carried out by Abakan’ s management, with the participation of the chief executive officer and the chief financial officer, of the effectiveness of Abakan’ s disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”)) as of November 30, 2012. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission’ s rules and forms, and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

Based on that evaluation, Abakan’ s management concluded, as of the end of the period covered by this report, that Abakan’ s disclosure controls and procedures were effective in recording, processing, summarizing, and reporting information required to be disclosed, within the time periods specified in the Commission’ s rules and forms, and such information was accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

Since the end of Abakan’ s prior reporting period on Form 10-K, Abakan adopted an audit committee charter, formed an audit committee comprised of independent members of its board of directors, and involved said audit committee in overseeing the completion of this periodic report on Form 10-Q, thereby effecting a change in internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the period ended November 30, 2012, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Abakan and Stratton S.A. ("Stratton") initiated legal proceedings against First Canadian Capital Corp. ("First Canadian") on December 10, 2012, in the Circuit Court of the 6th Judicial Circuit In and For Pinellas County, Florida. The claim is based on First Canadian' s alleged failure to perform according to the terms of a consulting agreement dated December 1, 2011, pursuant to which First Canadian was to provide services aimed at raising investor awareness, attracting investment and identifying prospective financial parties in exchange for a monthly cash fee and Abakan shares. Abakan seeks the return of the 56,000 shares proffered or in the alternative for a judgment in an amount to be ascertained in excess of $1,000,000 for the fair market value of the shares. Abakan believes that it will be successful in the pursuit of its claims.

Abakan initiated legal proceedings against Uptick Capital, LLC. ("Uptick") on November 7, 2012, in the United States District Court for the Southern District of New York Superior Court. The claim is based on Uptick' s alleged failure to perform according to the terms of a consulting agreement dated November 1, 2010, pursuant to which Uptick was to identify and introduce suitable investors to Abakan in exchange for certain consideration including 60,000 shares. Abakan seeks the return of the 60,000 shares proffered or in the alternative for a judgment in an amount to be ascertained in excess of $1,000,000 for damages in addition to reasonable attorney' s fees and court costs. Abakan believes that is will be successful in the pursuit of its claims.

ITEM 1A. RISK FACTORS

Abakan' s operations and securities are subject to a number of risks. Below we have identified and discussed the material risks that we are likely to face. Should any of the following risks occur, they will adversely affect our business, financial condition, and/or results of operations as well as the future trading price and/or the value of our securities.

<u>Abakan has a history of significant operating losses and such losses may continue in the future.</u>

Abakan incurred net losses of $9,302,201 for the period from June 27, 2006 (inception) to November 30, 2012. Since we have been without significant revenue since inception and have only recently transitioned to producing limited revenue, as a result of the business combination with MesoCoat, historical losses may continue into the future.

<u>Abakan has a history of uncertainty about continuing as a going concern.</u>

Abakan' s audits for the periods ended May 31, 2012 and 2011 expressed an opinion as to its ability to continue as a going concern as a result of net losses of $6,322,365 and a working capital deficit of $2,438,854 as of May 31, 2012 which had increased to $9,302,201 and $3,345,574 respectively as of November 30, 2012. Unless Abakan is able to produce net revenue over successive future periods its ability to continue as a going concern will be in jeopardy.

Abakan' s success is dependent on its ability to assist MesoCoat and Powdermet to commercialize proprietary technologies to the point of generating sufficient revenues to sustain and expand operations.

Abakan' s near term future operation is dependent on its ability to assist MesoCoat and Powdermet in the commercial application of proprietary technologies to produce sufficient revenue to sustain and expand operations. The same successful efforts criteria will be required for any additional targets that are acquired by Abakan. The success of these endeavors will require that sufficient funding be available to assist in the development of its business interests. Currently, Abakan' s financial resources are limited, which limitation may slow the pace at which proprietary technologies can be commercialized and deter the prospect of additional acquisitions. Should we be unable to improve our financial condition through debt or equity offerings, our ability to successfully advance our business plan will be severely limited.

We face significant commercialization risks related to technological businesses.

The industries in which MesoCoat and Powdermet operate and plan to operate are characterized by the continual search for higher performance at lower cost. Our growth and future financial performance will depend on the ability of MesoCoat and Powdermet to develop and market products that keep pace with technological developments and evolving industry requirements. Further, the research and development involved in commercializing products requires significant investment and innovation to keep pace with technological developments. Should we be unable to keep pace with outside technological developments, respond adequately to technological developments or experience significant delays in product development, our products might become obsolete. Should these risks overcome our ability to keep pace there is a significant likelihood that our ability to successfully advance our business will be severely limited.

The coatings industry is likely to undergo technological change so our products and processes could become obsolete at any time.

Evolving technology, updated industry standards, and frequent new product and process introductions are likely to characterize the coatings industry going forward so our products or processes could become obsolete at any time. Competitors could develop products or processes similar to or better than our own, finish development of new technologies in advance of our research and development, or be more successful at marketing new products or processes, any of which factors may hurt our prospects for success.

MesoCoat and Powdermet compete with larger and better financed corporations.

Competition within the industrial coatings industry and other high technology industries is intense. While each of MesoCoat and Powdermet' s products are distinguished by next-generation innovations that are more sophisticated and cost effective than many competitive products currently in the market place, a number of entities and new competitors may enter the market in the future. Some of MesoCoat' s and Powdermet' s existing and potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do, including well known multi-national corporations. Accordingly, MesoCoat' s and Powdermet' s products could become obsolete at any time. Competitors could develop products similar to or better than our own, finish development of new technologies in advance of either MesoCoat' s or Powdermet' s research and development, or be more successful at marketing new products, any of which factors may hurt our prospects for success.

Market acceptance of the products and processes produced by MesoCoat and Powdermet is critical to our growth.

We expect to generate revenue and realize a gain on our interest in Powdermet from the development and sale of products and processes produced by MesoCoat and Powdermet. Market acceptance of those products is therefore critical to our growth. If our customers do not accept or purchase those products or processes produced by MesoCoat and Powdermet, then our revenue, cash flow and operating results will be negatively impacted.

General economic conditions will affect our operations.

Changes in the general domestic and international climate may adversely affect the financial performance of Abakan, MesoCoat and Powdermet. Factors that may contribute to a change in the general economic climate include industrial disputes, interest rates, inflation, international currency fluctuations and political and social reform. Further, the delayed revival of the global economy is not conducive to rapid growth, particularly of technology companies with newly commercialized products.

MesoCoat and Powdermet rely upon patents and other intellectual property.

MesoCoat and Powdermet rely on a combination of patent applications, trade secrets, trademarks, copyrights and licenses, together with non-disclosure and confidentiality agreements, to establish and protect proprietary rights to technologies they develop. Should either of MesoCoat or Powdermet be unable to adequately protect their intellectual property rights or become subject to a claim of infringement, their businesses and that of Abakan may be materially adversely affected.

MesoCoat and Powdermet expect to prepare patent applications in accordance with their respective worldwide intellectual property strategies on acquiring new technologies. However, neither they nor Abakan can be certain that any patents will be issued with respect to future patents pending or future patent applications. Further, neither they nor Abakan know whether any future patents will be upheld as valid, proven enforceable against alleged infringers or be effective in preventing the development of competitive patents. Abakan believes that MesoCoat and Powdermet have each implemented a sophisticated internal intellectual property management system to promote effective identification and protection of their products and know-how in connection with the technologies they have developed and may develop in the future

We may not be able to effectively manage our growth.

We expect considerable future growth in our business. Such growth will come from the addition of new plants, the increase in global personnel, and the commercialization of new products. Additionally, our products should have an impact on the cladding industry; as companies learn that they can receive materials with a short lead time at a higher quality and lower price, market demand should grow, expanding the overall market itself. To achieve growth in an efficient and timely manner, we will have to maintain strict controls over our internal management, technical, accounting, marketing, and research and development departments. We believe that we have retained sufficient quality personnel to manage our anticipated future growth though we are still striving to improve financial accounting oversight to ensure that adequate reporting and control systems in place. Should we be unable to successfully manage our anticipated future growth by adherence to these strictures, costs may increase, growth could be impaired and our ability to keep pace with technological advances may be impaired which failures could result in a loss of future customers.

Environmental laws and other governmental legislation may affect our business.

Should the technologies which each of MesoCoat and Powdermet have under development not comply with applicable environmental laws then Abakan' s business and financial results could be seriously harmed. Furthermore, changes in legislation and governmental policy could also negatively impact us. Although we are currently unaware of any introduced or proposed bills, or policy, that might cause us to make specific changes to our operations, no assurance can be given that if new legislation is passed we will be able to make the changes to comport our technologies with future regulatory requirements.

Abakan and those subsidiaries in which it holds an interest may face liability claims on future products.

Although MesoCoat and Powdermet intend to implement exhaustive testing programs to identify potential material defects in technology they develop, any undetected defects could harm their reputation and that of Abakan, diminish their customer base, shrink revenues and expose themselves and us to product liability claims. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

The market for our stock is limited and our stock price may be volatile.

The market for our common stock has been limited due to low trading volume and the small number of brokerage firms acting as market makers. Due to the limitations of our market and the volatility in the market price of our stock, investors may face difficulties in selling shares at attractive prices when they want to sell. The average daily trading volume for our stock has varied significantly from week to week and from month to month, and the trading volume often varies widely from day to day.

Abakan' s common stock is currently deemed to be "penny stock", which makes it more difficult for investors to sell their shares.

Abakan' s common stock is and will be subject to the "penny stock" rules adopted under section 15(g) of the Exchange Act. The penny stock rules apply to companies whose common stock is not listed on the NASDAQ Stock Market or other national securities exchange and trades at less than $5.00 per share or that have tangible net worth of less than $5,000,000 ($2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If Abakan remains subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for our securities. If the Abakan' s securities are subject to the penny stock rules, investors will find it more difficult to dispose of our securities.

The elimination of monetary liability against Abakan' s directors, officers and employees under Nevada law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by Abakan and may discourage lawsuits against our directors, officers and employees.

Abakan' s certificate of incorporation contains a specific provision that eliminates the liability of directors for monetary damages to us and our stockholders; further, Abakan is prepared to give such indemnification to its directors and officers to the extent provided by Nevada law. Abakan may also have contractual indemnification obligations under its employment agreements with its executive officers. The foregoing indemnification obligations could result in our incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which Abakan may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by our stockholders against the Abakan' s directors and officers even though such actions, if successful, might otherwise benefit the us and our stockholders.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 8, 2013, Abakan authorized the issuance of 435,022 shares of restricted common shares and 435,022 share purchase warrants, two warrants are convertible into one additional share at an exercise price of $2.70 for a two year period from the date of issue to the following entities for cash, in reliance upon the exemption from registration provided by Section 4(2), Regulation D or Regulation S of the Securities Act:

Name	Consideration	Basis	Shares	Warrant	Exemption
Enrique Sanz De Santamaria	$ 50,600	Cash	22,000	11,000	Sec 4(2)/Reg D
Jose Maria Ribot Rodriguez	$ 149,500	Cash	65,000	32,500	Sec 4(2)/Reg S
Jose Maria Robot Barroso	$ 129,950	Cash	56,500	28,250	Sec 4(2)/Reg S
Maria Eugenia Barroso Rivera	$ 103,500	Cash	45,000	22,500	Sec 4(2)/Reg S
Darrell L. Payne	$ 230,000	Cash	100,000	50,000	Sec 4(2)/Reg D
Pierre Arbour	$ 57,500	Cash	25,000	12,500	Sec 4(2)/Reg D
Jose Vicente Estevez Alverde	$ 103,500	Cash	45,000	22,500	Sec 4(2)/Reg S
River Fish Holdings	$ 176,000	Cash	76,522	38,261	Sec 4(2) Reg S

Abakan complied with the exemption requirements of Section 4(2) of the Securities Act based on the following factors: (1) the issuance was an isolated private transactions by Abakan which did not involve a public offering; (2) the offeree had access to the kind of information which registration would disclose; and (3) the offeree is financially sophisticated.

Abakan complied with the requirements of Regulation D of the Securities Act by: (i) foregoing any general solicitation or advertising to market the securities; (ii) offering only to an accredited offeree; (iii) having not violated antifraud prohibitions with the information provided to the offeree; (iv) being available to answer questions by the offeree; and (v) providing restricted common shares and warrants to the offeree.

Abakan complied with the requirements of Regulation S of the Securities Act by having directed no offering efforts in the United States, by offering common shares and warrants only to offerees who were outside of the United States at the time of the offering, and ensuring that the offerees to whom the securities were offered and authorized were non-U.S. offerees with addresses in foreign countries.

On January 8, 2013, Abakan authorized the issuance of 21,429 restricted common shares for services rendered pursuant to a consulting agreement valued at $2.80 a share to the Red Chip Companies Inc. in reliance upon the exemption from registration provided by Section 4(2) of Securities Act.

Abakan complied with the exemption requirements of Section 4(2) of the Securities Act based on the following factors: (1) the issuance was an isolated private transactions by Abakan which did not involve a public offering; (2) the offeree had access to the kind of information which registration would disclose; and (3) the offeree is financially sophisticated.

On December 5, 2012, Abakan authorized the grant of 175,000 stock options with an exercise price of $2.61 per share that expire ten years from the date of grant with 25,000 vesting on grant and the remaining vesting in equal one-third increments annually beginning on December 5, 2013 to Raymond Tellini for independent director services rendered, in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

Abakan complied with the exemption requirements of Section 4(2) of the Securities Act based on the following factors: (1) the issuance was an isolated private transactions by Abakan which did not involve a public offering; (2) the offeree had access to the kind of information which registration would disclose; and (3) the offeree is financially sophisticated.

On December 5, 2012, Abakan authorized the grant of 125,000 stock options with an exercise price of $2.61 per share that expire ten years from the date of grant vesting in equal one-third parts annually beginning on December 9, 2013 to David Charbonneau for employee servicesrendered, in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

Abakan complied with the exemption requirements of Section 4(2) of the Securities Act based on the following factors: (1) the issuance was an isolated private transactions by Abakan which did not involve a public offering; (2) the offeree had access to the kind of information which registration would disclose; and (3) the offeree is financially sophisticated.

On November 29, 2012, Abakan authorized the issuance of 245,058 shares of restricted common shares and 245,058 share purchase warrants, two warrants are convertible into one additional share at an exercise price of $2.70 for a two year period from the date of issue to the following entities for cash, payment of note payable, interest, and accounts payable, in reliance upon the exemptions from registration provided by Section 4(2), Regulation D or Regulation S of the Securities Act:

Name	Consideration	Basis	Shares	Warrant	Exemption
River Fish Holdings	$ 161,000	Note & interest	70,000	70,000	Sec 4(2)/Reg S
Orsa &Company	$ 23,000	Accounts Payable	10,000	10,000	Sec 4(2)/Reg D
Costas M. Takkas	$ 23,000	Accounts Payable	10,000	10,000	Sec 4(2)/Reg D
Steven Ferris	$ 57,500	Cash	25,000	25,000	Sec 4(2)/Reg D

Bank Gutenberg AG	$ 7,033	Interest	3,058	3,000	Sec 4(2)/Reg S
Kenneth Iriart	$ 16,100	Cash	7,000	7,000	Sec 4(2)/Reg D
Ammon & Associates	$ 230,000	Cash	100,000	100,000	Sec 4(2)/Reg D

Abakan complied with the exemption requirements of Section 4(2) of the Securities Act based on the following factors: (1) the issuance was an isolated private transactions by Abakan which did not involve a public offering; (2) the offeree had access to the kind of information which registration would disclose; and (3) the offeree is financially sophisticated.

Abakan complied with the requirements of Regulation D of the Securities Act by: (i) foregoing any general solicitation or advertising to market the securities; (ii) offering only to an accredited offeree; (iii) having not violated antifraud prohibitions with the information provided to the offeree; (iv) being available to answer questions by the offeree; and (v) providing restricted common shares and warrants to the offeree.

Abakan complied with the requirements of Regulation S of the Securities Act by having directed no offering efforts in the United States, by offering common shares and warrants only to offerees who were outside of the United States at the time of the offering, and ensuring that the offerees to whom the securities were offered and authorized were non-U.S. offerees with addresses inforeign countries.

On November 29, 2012 Abakan authorized the issuance of 20,000 restricted common shares for services rendered pursuant to a consulting agreement valued at $1.70 a share to Financial Insights in reliance upon the exemption from registration provided by Section 4(2) of Securities Act.

Abakan complied with the exemption requirements of Section 4(2) of the Securities Act based on the following factors: (1) the issuance was an isolated private transactions by Abakan which did not involve a public offering; (2) the offeree had access to the kind of information which registration would disclose; and (3) the offeree is financially sophisticated.

On September 28, 2012, Abakan authorized the issuance of 150,000 restricted common shares and 150,000 share purchase warrants, two warrant convertible into an additional share at an exercise price of $2.00 for a two year period from the date of issue, for $262,500 or $1.75 a share to Ammon & Associates, Inc. in reliance upon the exemptions from registration provided by Section 4(2) and Regulation D of the Securities Act of 1933, as amended (“Securities Act”).

Abakan complied with the exemption requirements of Section 4(2) of the Securities Act based on the following factors: (1) the issuance was an isolated private transactions by Abakan which did not involve a public offering; (2) the offeree had access to the kind of information which registration would disclose; and (3) the offeree is financially sophisticated.

Abakan complied with the requirements of Regulation D of the Securities Act by: (i) foregoing any general solicitation or advertising to market the securities; (ii) offering only to an accredited offeree; (iii) having not violated antifraud prohibitions with the information provided to the offeree; (iv) being available to answer questions by the offeree; and (v) providing restricted common shares and warrants to the offeree.

On September 18, 2012, Abakan authorized the issuance of 25,000 restricted common shares for services rendered pursuant to a consulting agreement valued at $1.71 a share to Red Chip Companies, Inc. in reliance upon the exemption from registration provided by Section 4(2) of Securities Act.

Abakan complied with the exemption requirements of Section 4(2) of the Securities Act based on the following factors: (1) the issuance was an isolated private transactions by Abakan which did not involve a public offering; (2) the offeree had access to the kind of information which registration would disclose; and (3) the offeree is financially sophisticated.

ITEM 3. DEFAULTS ON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits required to be attached by Item 601 of Regulation S-K are listed in the *Index to Exhibits* on page 62 of this Form 10-Q, and are incorporated herein by this reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Abakan Inc.	***Date***
/s/ Robert H. Miller By: Robert H. Miller Its: Chief Executive Officer, and Director	January 11, 2013
/s/ David G. Charbonneau By: David G. Charbonneau Its: Chief Financial Officer and Principal Accounting Officer	January 11, 2013

INDEX TO EXHIBITS

Exhibit No.	*Exhibit Description*
3.1*	Articles of Incorporation and Certificate of Amendment, incorporated hereto by reference to the Form SB-2, filed with the Commission on June 19, 2007.
3.2*	Bylaws, incorporated hereto by reference to the Form SB-2, filed with the Commission on June 19, 2007.
10.1*	Lease Agreement between Powdermet and Sherman Properties, LLC dated March 7, 2007, incorporated hereto by reference to the Form 10-K filed with the Commission on September 13, 2011.
10.2*	License agreement between MesoCoat and Powdermet dated July 22, 2008, incorporated hereto by reference to the Form 10-K/A-2 filed with the Commission on December 27, 2011.
10.3*	Exclusive license between MesoCoat and UT-Battelle, LLC, dated September 22, 2009, incorporated hereto by reference to the Form 10-K/A-2 filed with the Commission on December 27, 2011.
10.4*	Articles of Merger dated November 9, 2009, incorporated hereto by reference to the Form 8-K filed with the Commission on December 9, 2009.
10.5*	Agreement and Plan of Merger dated November 9, 2009, incorporated hereto by reference to the Form 8-K filed with the Commission on December 9, 2009.
10.5*	Consulting agreement dated December 1, 2009, between Abakan and Mr. Greenbaum, incorporated hereto by reference to the Form 8-K filed with the Commission on May 28, 2010.
10.7*	Employment agreement dated December 1, 2009, between MesoCoat and Andrew Sherman, incorporated hereto by reference to the Form 10-K filed with the Commission on September 13, 2011.
10.8*	Consulting agreement date December 1, 2009 between Abakan and Prosper Financial Inc., incorporated hereto by reference to the Form 10-K filed with the Commission on September 13, 2011.
10.9*	Consulting agreement dated December 8, 2009 between Abakan and Robert Miller, incorporated hereto by reference to the Form 10-K filed with the Commission on September 13, 2011.
10.10*	Investment Agreement dated December 9, 2009, between Abakan, MesoCoat and Powdermet, incorporated hereto by reference to the Form 8-K filed with the Commission on December 17, 2009.
10.11*	Agreement date March 17, 2010 between Abakan and Sonnen Corporation, incorporated hereto by reference to the Form 10-K filed with the Commission on September 13, 2011.
10.12*	Agreement dated April 30, 2010 between Abakan and Mr. Buschor, incorporated hereto by reference to the Form 8-K filed with the Commission on May 11, 2010.
10.13*	Commercial lease agreement date June 1, 2010, between Powdermet and MesoCoat, incorporated hereto by reference to the Form 10-K filed with the Commission on September 13, 2011.
10.14*	Stock Purchase Agreement dated June 29, 2010 between Abakan and Kennametal, incorporated hereto by reference to the Form 8-K filed with the Commission on September 15, 2010.
10.15*	Employment agreement dated August 20, 2010, between Abakan and Mr. Takkas,

incorporated hereto by reference to the Form 8-K filed with the Commission on August 26, 2010.

10.16* Amendment No. 1 to Stock Purchase Agreement between Abakan and Kennametal dated September 7, 2010, incorporated hereto by reference to the Form 8-K filed with the Commission on September 15, 2010.

10.17*	Amendment to the Investment Agreement dated December 8, 2010, between Abakan, MesoCoat and Powdermet, incorporated hereto by reference to the Form 10-Q filed with the Commission on January 19, 2011.
10.18*	Cooperation Agreement between MesoCoat and Petroleo Brasileiro S.A. dated January 11, 2011, incorporated by reference to the Form 8-K/A-3 filed with the Commission on March 6, 2012. (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)
10.19*	Amendment No. 2 to Stock Purchase Agreement between Abakan and Kennametal dated January 19, 2011, incorporated hereto by reference to the Form 8-K filed with the Commission on July 13, 2011.
10.20*	Accord and Satisfaction Agreement dated March 21, 2011 between Abakan and Kennametal, Inc., incorporated hereto by reference to the Form 8-K filed with the Commission on March 25, 2011.
10.21*	Assignment Agreement dated March 25, 2011 with Polythermics LLC and MesoCoat, incorporated hereto by reference to the Form 10-Q/A filed with the Commission on September 27, 2011.
10.22*	Exclusivity Agreement between MesoCoat and Mattson Technology, Inc. dated April 7, 2011, incorporated hereto by reference to the Form 8-K/A-3 filed with the Commission on March 6, 2012. (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)
10.23	Third Amendment to the Investment Agreement between Abakan, MesoCoat and Powdermet dated December 21, 2012.
14	Code of Business Conduct & Ethics adopted on December 10, 2012.
21*	Subsidiaries of Abakan incorporated hereto by reference to the Form 10-K filed with the Commission on September 13, 2012.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Exchange Act as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, attached.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Exchange Act as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, attached.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, attached.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, attached.
99*	Powdermet audited financial statements for the period ended May 31, 2012 incorporated hereto by reference to the Form 10-K filed with the Commission on September 13, 2012.
101. INS	XBRL Instance Document†
101. PRE	XBRL Taxonomy Extension Presentation Linkbase†
101. LAB	XBRL Taxonomy Extension Label Linkbase†
101. DEF	XBRL Taxonomy Extension Label Linkbase†
101. CAL	XBRL Taxonomy Extension Label Linkbase†
101. SCH	XBRL Taxonomy Extension Schema†

* Incorporated by reference to previous filings of Abakan.

† Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed "furnished" and not "filed" or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, or deemed "furnished" and not "filed" for purposes of

Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Exhibit 14

CODE OF BUSINESS CONDUCT AND ETHICS

1. Policy Statement

The NASDAQ corporate governance rules require each listed company to provide a code of conduct for its officers, employees and directors. This Code of Business Conduct and Ethics (the "Code") reflects Abakan Inc.'s and its subsidiaries (the "Company") commitment to conduct business in an honest and ethical manner.

In this regard, each of you, the individuals who work for or serve the Company, is an extension of the Company. Our commitment to honesty and ethical conduct only can be achieved if you, individually, accept your responsibility to promote integrity and demonstrate the highest level of ethical conduct in all of your activities.

Activities that may compromise the Company's reputation or integrity must be avoided. While the Company realizes that not every situation is black or white, the key to compliance with this Code is exercising good judgment. This means following both the letter and the spirit of this Code and all applicable laws, doing the "right" thing, and acting ethically at all times, even when the law or this Code may not address specifically the issue at hand.

We rely in part on our managers to set an example for other employees and to supervise the actions of others. Every manager and supervisor is expected to take any action necessary to ensure compliance with this Code, to provide guidance and assist employees in resolving questions concerning the Code and to permit employees to express any concerns regarding compliance with this Code. No one has the authority to order another employee to act contrary to this Code.

2. Conflicts of Interest and Corporate Opportunities

You must avoid any situation in which your personal interests conflict or even appear to conflict with the Company's interests. You owe a duty to the Company to advance the Company's legitimate interests when the opportunity to do so arises in the course of your

employment or service. You should never compromise any of the Company's legitimate interests.

You must perform your duties to the Company in an honest and ethical manner. You must handle all actual or apparent conflicts of interest between your personal and professional relationships in an ethical manner.

You should avoid situations in which your immediate family, financial or other personal interests conflict, or even appear to conflict, with those of the Company. You may not engage in activities that compete with the Company or place the Company's interests at risk. You should not take, for your own benefit, opportunities discovered in the course of employment that may otherwise benefit the Company. The following are examples of actual or potential conflicts:

you, or a member of your immediate family, receive improper personal benefits (including but not limited to the receipt of gifts) as a result of your position in the Company;

you use the Company's property for your personal benefit;

you engage in activities that interfere with your loyalty to the Company or your ability to perform Company duties or responsibilities effectively;

you work simultaneously (whether as an employee or a consultant) for a competitor, customer or supplier;

you, or a member of your immediate family, have a financial interest in a customer, supplier, or competitor which is significant enough to cause divided loyalty with the Company or the appearance of divided loyalty (the significance of a financial interest depends on many factors, such as size of investment in relation to your income, net worth and/or financial needs, your potential to influence decisions that could impact your interests, and the nature of the business or level of competition between the Company and the supplier, customer or competitor);

you, or a member of your immediate family, acquire an interest in property (such as real estate, patent or other intellectual property rights or securities) in which you have reason to know the Company has, or might have, a legitimate interest;

you, or a member of your immediate family, receive a loan or a guarantee of a loan from a customer, supplier or competitor (other than a loan from a financial institution made in the ordinary course of business and on an arm's-length basis);

you make gifts or payments, or provide special favors, to customers, suppliers or competitors (or their immediate family members) with a value significant enough to cause the customer, supplier or competitor to make a purchase, or take or forego other action, which is beneficial to the Company and which the customer, supplier or competitor would not otherwise have taken;

or

you are given the right to buy stock in other companies or you receive cash or other payments in return for promoting the services of an advisor, such as an investment banker, to the Company.

Neither you, nor members of your immediate family, are permitted to solicit or accept gifts, payments, special favors or other consideration from customers, suppliers or competitors.

The existence of a conflict is not always readily apparent. If you become aware of a conflict described above or any other conflict, potential conflict, or have a question as to a potential conflict, you should consult with higher levels of management or the Company's Compliance & Ethics Committee and/or follow the procedures described in Sections 9 and 10 of this Code. If you become involved in a situation that gives rise to an actual conflict, you must inform higher levels of management or the Company's Compliance & Ethics Committee of the conflict. Our Compliance & Ethics Committee is identified in Section 10 of this Code.

3. Confidentiality

All confidential information concerning the Company is the property of the Company and must be protected.

Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed. You must maintain the confidentiality of such information entrusted to you by the Company, its customers and its suppliers, except when disclosure is authorized by the Company or required by law.

Examples of confidential information include, but are not limited to: the Company's trade secrets; business trends and projections; information about financial performance; new product or marketing plans; research and development ideas or information; manufacturing processes; information about potential acquisitions, divestitures and investments; stock splits, public or private securities offerings or changes in dividend policies or amounts; significant personnel changes; and the acquisition, loss or changes of or to existing or potential major contracts, orders, suppliers, customers or finance sources.

Your obligation with respect to confidential information extends beyond your activities in the workplace. In that respect, it applies to communications with your immediate family members and continues to apply even after your employment or director relationship with the Company terminates.

4. Insider Trading

You should never trade securities on the basis of confidential information acquired through your employment or fiduciary relationship with the Company.

Under both federal law and Company policy, you are not permitted to purchase or sell

Company stock, directly or indirectly, on the basis of material non-public information concerning the Company. Any person possessing material non-public information about the Company must not engage in transactions involving Company securities until this information has been released to the public.

Generally, material information is information that would be expected to affect the investment decisions of a reasonable investor or the market price of the stock. You are not allowed to trade in the stock of other publicly held companies, such as existing or potential customers or suppliers, on the basis of material confidential information obtained in the course of your employment or service as a director. It also is illegal to recommend a stock to (i.e., "tip") someone else on the basis of such information. If you have a question concerning appropriateness or legality of a particular securities transaction, consult with the Compliance & Ethics Committee. Directors, officers, employees or consultants and certain other employees of the Company are subject to additional responsibilities under the Company's insider trading compliance policy, a copy of which is available on our website www.abakaninc.com.

5. Fair Dealing

Our goal is to conduct our business with integrity.

You should make every effort to deal honestly with the Company's customers, suppliers, competitors, and employees. Under federal and state laws, the Company is prohibited from engaging in unfair methods of competition, and unfair or deceptive acts and practices. You should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing.

Examples of prohibited conduct include, but are not limited to:

bribery or payoffs to induce business or breaches of contracts by others;
acquiring a competitor's trade secrets through bribery or theft; or
making false, deceptive or disparaging claims or comparisons about competitors or their products or services.

6. Protection and Proper Use of Company Assets

You should endeavor to protect the Company's assets and ensure their proper use.

Company assets, both tangible and intangible, are to be used solely for legitimate business purposes of the Company and only by authorized employees or consultants. Intangible assets include intellectual property such as trade secrets, patents, trademarks and copyrights, business, marketing and service plans, engineering and manufacturing ideas, designs, databases, Company records, salary information, and any unpublished financial data and reports. Unauthorized alteration, destruction, use, disclosure or distribution of Company assets violates Company policy and this Code. Theft or waste of, or carelessness in using, these assets have a direct adverse impact on the Company's operations and profitability and will not be tolerated.

The Company provides computers, voice mail, electronic mail (e-mail), internet access, and other Company resources to certain employees for the purpose of achieving the Company's business objectives. As a result, the Company has the right to access, reprint, publish, or retain any information created, sent or contained in any of the Company's computers or e-mail systems of any Company machine. You may not use any Company resource for any illegal purpose, or in any manner that is contrary to the Company's policies or the standards embodied in this Code.

You should not make copies of, or resell or transfer (externally or internally), copyrighted publications, including software, manuals, articles, books, and databases being used in the Company, that were created by another entity and licensed to the Company, unless you are authorized to do so under the applicable license agreement. In no event should you load or use, on any Company computer, any software, third party content or database without receiving the prior written permission to do so. You must refrain from transferring any data or information to any Company computer other than for Company use. You may use a handheld computing device or mobile phone in connection with your work for the Company, but must not use such device or phone to access, load or transfer content, software or data in violation of any applicable law or regulation or without the permission of the owner of such content, software or data. If you should have any question as to what is permitted in this regard, please consult with the Company's Chief Financial Officer.

7. Compliance with Laws and Regulations

The Company seeks to comply with both the letter and spirit of the laws and regulations in all countries in which it operates.

The Company is committed to total compliance with the laws and regulations of the cities, states and countries in which it operates. You must comply with all applicable laws, rules and regulations in performing your duties for the Company. Various federal, state and local laws and regulations define and establish obligations with which the Company, its officers, employees, directors and agents must comply. Under certain circumstances, local country law may establish requirements that differ from this Code. You are expected to comply with all local country laws in conducting the Company's business. If you violate these laws or regulations in performing your duties for the Company, you not only risk individual indictment, prosecution and penalties, and civil actions and penalties, you also subject the Company to the same risks and penalties. Any violation of these laws may subject you to immediate disciplinary action, up to and including termination of your employment or affiliation with the Company.

8. Ethics Obligations for Employees with Financial Reporting Responsibilities

Senior management bears a special responsibility for promoting integrity throughout the Company.

Senior management has a responsibility to foster a culture throughout the Company as a whole that mandates the fair and timely reporting of the Company's results of operations and financial condition and other financial information. Due to this special role, senior management is bound by the following senior management code of ethics, and by accepting the Code of Business Conduct and Ethics, each agrees that he or she will:

perform his or her duties in an honest and ethical manner;

address all actual or apparent conflicts of interest between his or her personal and professional relationships in an ethical manner;

undertake all necessary actions to ensure complete, accurate, thorough, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, government agencies and in other public communications; and

proactively encourage and provide an example of ethical behavior in the work environment.

9. Reporting Violations of Company Policies and Receipt of Complaints Regarding Financial Reporting or Accounting Issues

You should report any violation or suspected violation of this Code to the appropriate Company personnel or via the Company's anonymous and confidential reporting procedures.

The Company's efforts to ensure observance of, and adherence to, the goals and policies outlined in this Code require that you promptly bring to the attention of the Compliance & Ethics Committee, any material transaction, relationship, act, failure to act, occurrence or practice that you believe, in good faith, is inconsistent with, in violation of, or reasonably could be expected to give rise to a violation of, this Code. You should report any suspected violations of the Company's financial reporting obligations or any complaints or concerns about questionable accounting or auditing practices in accordance with the procedures set forth below.

Here are some approaches to handling your reporting obligations:

In the event you believe a violation of the Code, or a violation of applicable laws and/or governmental regulations has occurred, or you have observed or become aware of conduct which appears to be contrary to the Code, immediately report the situation to your supervisor, or the Compliance & Ethics Committee. Supervisors or managers who receive any report of a suspected violation must report the matter to the Compliance & Ethics Committee.

If you have or receive notice of a complaint or concern regarding the Company's financial disclosure, accounting practices, internal accounting controls, auditing, or questionable accounting or auditing matters, you must immediately advise your supervisor, or the Compliance & Ethics Committee.

If you wish to report any matter anonymously or confidentially, in accordance with best practices, we have contracted an independent company, Fulcrum Financial Inquiry LLP (Fulcrum), to receive and control incoming complaints and concerns. You may contact Fulcrum as follows:

- Mail a description of the suspected violation or other complaint or concern to:

  Fulcrum Financial Inquiry LLP
  Whistleblower Department
  888 South Figueroa Street, Suite 2000
  Los Angeles, California 90017

  or

  Forward a description of the suspected violation or other complaint or concern via email to:

  whistle@fulcrum.com

  or

- Send a description of the suspected violation or other complaint or concern in a web based format to:

  www.fulcrum.com/abakan.htm

  or

- Telephone a description of the suspected violation or other complaint or concern to:

  1-(213) 443-1023 answered from 8:00 a.m. to 6:00 p.m. Pacific Standard Time

  or

- Fax a description of the suspected violation or other complaint or concern to:

1-(213) 891-1300 addressed to Fulcrum Financial Inquiry LLP, Whistleblower Department.

Other Guiding Principles

A. *Use common sense and good judgment. Act in good faith.* You should become familiar with and understand the requirements of this Code. If you become aware of a suspected violation, do not try to investigate it or resolve it on your own. Instead, promptly disclose the violation to the appropriate parties in order to assure a thorough and timely investigation and resolution. The circumstances should be reviewed by appropriate personnel as quickly as possible, since a delay may affect the results of an investigation. A violation of the Code, or of applicable laws and/or governmental regulations, is a serious matter and could have legal implications. Allegations of such behavior are not taken lightly, and should not be made to embarrass someone, or put him or her in a false light. Reports of suspected violations always should be made in good faith.

B. *Internal investigation.* When an alleged violation of this Code, applicable laws and/or governmental regulations is reported, the Company will take appropriate action in accordance with the compliance procedures outlined in Section 10 of the Code. You are expected to cooperate in internal investigations of alleged misconduct or violations of the Code or of applicable laws or regulations.

C. *No fear of retaliation.* It is the Company's policy that there will be no intentional retaliation against any person who provides truthful information to a company or law enforcement official concerning a possible violation of any law, regulation or Company policy, including this Code. Persons who retaliate may be subject to civil, criminal and administrative penalties, as well as disciplinary action, up to and including termination of employment. In cases in which you report a suspected violation in good faith and are not engaged in the questionable conduct, the Company will attempt to keep its discussions with you confidential to the extent reasonably possible. In the course of its investigation, the Company may find it necessary to share information with others on a "need to know" basis. No retaliation will be taken against you by the Company for reporting alleged violations while acting in good faith. Similarly, if you believe you are being retaliated against, as a result of your having reported a suspected violation in good faith, you should immediately report that information to your supervisor or the Compliance & Ethics Committee.

10. Compliance Procedures

The Company has established this Code as part of its overall policies and procedures. To the extent that other Company policies and procedures conflict with this Code, you should follow this Code. The Code applies to all Company directors and Company employees, including all officers, in all locations.

The Code is based on the Company's core values, good business practices and applicable law. The existence of a Code, however, does not assure that officers, employees and directors will comply with it or act in a legal and ethical manner. To achieve optimal legal and ethical behavior, the individuals subject to this Code must know and understand the Code as it applies to them and as it applies to others. You must promote the Code and assist others in knowing and understanding it.

Compliance. You are expected to become familiar with and understand the requirements of this Code. Most importantly, you must comply with it.

CEO Responsibility. The Company's Chief Executive Officer ("CEO") shall be responsible for ensuring that this Code is established and effectively communicated to all officers, employees and directors. Although the day-to-day compliance issues will be the responsibility of the Company's managers, the CEO has ultimate accountability with respect to the overall implementation of and successful compliance with the Code.

Corporate Compliance Management. The CEO shall choose a team of employees who will report to the CEO and be responsible for assuring that the Code becomes an integral part of the Company's culture (the "Compliance & Ethics Committee"). The current members of the Compliance & Ethics Committee are Stephen Goss, Jeffrey Webb, and Raymond Tellini. The Company, in conjunction with our Board of Directors, periodically will review the individuals who comprise the Compliance & Ethics Committee and will notify, in writing, all officers, employees and directors of any changes to this Committee. The Compliance & Ethics Committee's charter is to assure communication, training, monitoring, and overall compliance with this Code. The Compliance & Ethics Committee, with the assistance and cooperation of the Company's officers, directors and managers, will foster an atmosphere where employees are comfortable in communicating and/or reporting concerns and possible Code violations. The Company maintains a confidential Compliance & Ethics Committee mailing address, email address, web service, phone line and fax line with Fulcrum Financial Inquiry LLP ("Fulcrum"), which will be monitored by Fulcrum. A record of all communications received by Fulcrum will be maintained by Fulcrum. Fulcrum shall report all complaints to the Chairman of the Compliance & Ethics Committee promptly, and on a quarterly basis, provide a log of all communications to the Chairman of the Compliance and Ethics Committee, including a summary of all other communications expressing complaints or concerns. The Compliance and Ethics Committee shall provide the Audit Committee, on a quarterly basis, a log of all communications directed towards the Compliance and Ethics Committee. To the extent any of these complaints or concerns relates to the Company's financial disclosures, accounting, internal controls and auditing matters, the Compliance & Ethics Committee will promptly inform the Chairman of the Audit Committee of any such matter.

Internal Reporting of Violations. The Company's efforts to assure observance of, and adherence to, the goals and policies outlined in this Code mandate that all officers, employees and directors of the Company report suspected violations in accordance with Section 9 of this Code.

Screening of Employees. The Company shall exercise due diligence when hiring and promoting employees and, in particular, when conducting an employment search for a position involving the exercise of substantial discretionary authority, such as a member of the executive team, a senior management position or an employee with financial management responsibilities. The Company will make reasonable inquiries into the background of each individual who is a candidate for such a position. All such inquiries shall be made in accordance with applicable law and good business practice.

Access to the Code. The Company shall assure that employees, officers and directors may access this Code on the Company's web site. In addition, each current employee will be provided with a copy of the Code. New employees will receive a copy of the Code as part of their new hire information.

Monitoring. The officers of the Company shall be responsible to review the Code with all of the Company's managers. In turn, the Company's managers with supervisory responsibilities should review the Code with their direct reports. Managers are the "go to" persons for employee questions and concerns relating to this Code, especially in the event of a potential violation. Managers or supervisors will immediately report any violations or allegations of violations to the Compliance & Ethics Committee. Managers will work with the Compliance & Ethics Committee in assessing areas of concern, potential violations, any needs for enhancement of the Code or remedial actions to effect the Code's policies and overall compliance with the Code and other related policies.

Auditing. Resources selected by the Nominating and Corporate Governance Committee of the Board of Directors will be responsible for auditing the Company's compliance with the Code.

Internal Investigation. When an alleged violation of the Code is reported, the Company will take prompt and appropriate action in accordance with the law and regulations and otherwise consistent with good business practice. If the suspected violation appears to involve either a possible violation of law or an issue of significant corporate interest, or if the report involves a complaint or concern of any person, whether an employee, a shareholder or other interested person regarding the Company's financial disclosure, internal accounting controls, questionable auditing or accounting matters or practices or other issues relating to the Company's accounting or auditing, then the manager or investigator should immediately notify the Compliance & Ethics Committee and/or his or her Vice President or other corporate officer.

If a suspected violation involves any director or executive officer, or if the suspected violation concerns any fraud, whether or not material, involving management or other employees who have a significant role in the Company's internal controls, the manager, the Compliance & Ethics Committee or any person who received such report should immediately report the alleged violation to the Compliance & Ethics Committee, if appropriate, the Chief Executive Officer and/or Chief Financial Officer, and, in every such case, the Chairman of the Audit Committee of the Board of Directors. The Compliance & Ethics Committee or the Chairman of the Audit Committee, as applicable, shall assess the situation and determine the appropriate course of action. At a point in the process consistent with the need not to compromise the investigation, a person who is suspected of a violation shall be apprised of the alleged violation, and shall have an opportunity to provide a response to the investigator.

Disciplinary Actions. Subject to the following sentence, the Compliance & Ethics Committee, after consultation with legal counsel, shall be responsible for implementing the appropriate disciplinary action in accordance with the Company's policies and procedures for any employee who is found to have violated this Code. If a violation has been reported to the Audit Committee or another committee of the Board, that Committee shall be notified as to the expected appropriate disciplinary action. Any violation of applicable law or any deviation from the standards embodied in this Code will result in disciplinary action, up to and including termination of employment. Any employee engaged in the exercise of substantial discretionary authority, including any Senior Officer, who is found to have engaged in a violation of law or unethical conduct in connection with the performance of his or her duties for the Company, shall be removed from his or her position and not assigned to any other position involving the exercise of substantial discretionary authority. In addition to imposing discipline upon employees involved in non-compliant conduct, the Company also will impose discipline, as appropriate, upon an employee's supervisor, if any, who directs or approves such employee's improper actions, or is aware of those actions but does not act appropriately to correct them, and upon other individuals who fail to report known non-compliant conduct. In addition to imposing its own discipline, the Company will bring any violations of law to the attention of appropriate law enforcement personnel.

Retention of Reports and Complaints. All reports and complaints made to, or received by, the Compliance & Ethics Committee or the Chair of the Audit Committee shall be logged into a record maintained for this purpose by the Compliance & Ethics Committee and this record of such report shall be retained for not less than five (5) years.

Required Government Reporting. Whenever conduct occurs that requires a report to the government, the Compliance & Ethics Committee, after consultation with legal counsel, shall be responsible for complying with such reporting requirements.

Corrective Actions. Subject to the following sentence, in the event of a violation of this Code, the manager and members of the Compliance & Ethics Committee should assess the situation to determine whether the violation demonstrates a problem that requires remedial action as to Company policies and procedures. If a violation has been reported to the Audit Committee or another committee of the Board, that committee shall be involved in the determination of appropriate remedial or corrective actions. Corrective action may include providing revised public disclosure, retraining Company employees, modifying Company policies and procedures, improving monitoring of compliance under existing procedures and other action necessary to detect similar non-compliant conduct and prevent it from occurring in the future. Any corrective action shall be documented, as appropriate.

11. Complete, Timely and Understandable Disclosure

It is of crucial importance that all disclosure in reports and documents that the Company files with, or submits to, the SEC, and in other public communications made by the Company is full, fair, accurate, timely and understandable. You must take all steps available to aid the Company in these responsibilities consistent with your role within the Company. In particular, you are required to provide prompt and accurate answers to all inquiries made to you in connection with the Company's preparation of its public reports and disclosure.

The Company's CEO and CFO are responsible for designing, establishing, implementing, reviewing and evaluating, on a quarterly basis, the effectiveness of the Company's disclosure controls and procedures (as such term is defined by applicable SEC rules). The Company's CEO, CFO, principal accounting officer or controller and persons performing similar functions, persons who meet the requirements of Item 406 of Regulation S-K, and such other Company officers as are designated from time to time by the Audit Committee of the Board of Directors, shall be deemed the Senior Officers of the Company. Senior Officers shall take all steps necessary and suitable to ensure that all disclosure in reports and documents filed with or submitted to the SEC, and all disclosure in other public communication made by the Company is full, fair, accurate, timely and understandable.

Senior Officers are also responsible for implementing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles. The Senior Officers will take all necessary steps to ensure compliance with established accounting procedures, the Company's system of internal controls and Generally Accepted Accounting Principles. Senior Officers will make sure that the Company maintains and keeps books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company. Senior Officers also will assure that the Company devises and implements a system of internal accounting controls sufficient to provide reasonable assurances that:

transactions are executed with management's general or specific authorization;

transactions are recorded as necessary (a) to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles or any other criteria applicable to such statements, and (b) to maintain accountability for assets;

access to assets is permitted, and receipts and expenditures are made, only in accordance with management's general or specific authorization; and

the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences, all to permit prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the Company's financial statements.

Any attempt to enter inaccurate or fraudulent information into the Company's accounting system will not be tolerated and will result in disciplinary action, up to and including termination of employment.

12. Publication of the Code of Business Conduct and Ethics; Amendments and Waivers

The most current version of this Code will be posted and maintained on the Company's web site and filed as an exhibit to the Company's next succeeding Annual or Quarterly Report filed with the SEC. That Report shall disclose that the Code is maintained on the Company's web site and shall disclose that substantive amendments and waivers also will be posted on our web site.

Only substantive amendments relating to the specified elements of this Code of Business Conduct and Ethics must be disclosed. Any waiver of the Code for executive officers or directors may be made only by the Board of Directors or a Board Committee, and must be promptly disclosed to shareholders. Any amendment to the Code of Business Conduct and Ethics, or the approval of any waivers by the Board or Board Committee, will be disclosed within five (5) business days of such action (a) on the Company's web site for a period of not less than twelve (12) months and (b) in a Form 8-K filed with the Securities and Exchange Commission. Such disclosure shall include the reasons for any waiver. The Company will retain the disclosure relating to any such amendment or waiver for not less than five (5) years.

It is the Company's intention that this Code of Business Conduct and Ethics be its written code of ethics under Section 406 of the Sarbanes-Oxley Act of 2002 complying with the standards set forth in Securities and Exchange Commission Regulation S-K Item 406.

Exhibit 10.23

THIRD AMENDMENT TO THE INVESTMENT AGREEMENT

THIS THIRD AMENDMENT is entered into as of December 21, 2012(hereinafter the "Amendment") effective as of July 12, 2012 by and between **Abakan Inc.**, 2665 S. Bayshore Drive, Suite 450, Miami, Florida 33133 (hereinafter "Abakan"), and **MesoCoat, Inc.,** 24112 Rockwell Drive, Euclid, Ohio 44117 USA (hereinafter "MesoCoat"), and **Powdermet, Inc.,** 24112 Rockwell Drive, Euclid, Ohio 44117 USA (hereinafter "Powdermet") all of the above parties herein collectively referred to as the "Parties" or singularly as a "Party.

WHEREAS:

A. The Parties entered into an Investment Agreement on December 9, 2009 (hereinafter the "Agreement"), whereby Abakan is exclusively entitled to acquire a 75% equity interest in MesoCoat;

B. The Parties desire to effect an amendment to *Section 10.2 of Article 10 Options to Purchase Shares* of the Agreement to extend the term and exclusivity provided therein for Abakan to exercise the 75% Option that entitles Abakan to purchase an aggregate amount of shares equal to a fully diluted seventy five percent (75%) equity interest in MesoCoat;

C. The Parties acknowledge that Abakan increased its equity interest in MesoCoat to a fully diluted fifty one percent (51%) interest on notice of exercise (the "51% Option") on July 13, 2011;

D. The Parties acknowledge that Abakan has provided notice to MesoCoat of its intent to exercise the 75% Option and part payment against the exercise price for the 75% Option in the amount of $2,498,902,21 as of the date of this Amendment; and

E. *Section 14.9 of Article 14 General* of the Agreement provides that modification or amendment to the Agreement may be made if agreed to by the Parties thereto in writing.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements herein contained, and $1.00 paid by Abakan to each of MesoCoat and Powdermet, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

1. Amendment. The Parties hereto agree to amend the Agreement by deleting *Section 10.2 of Article 10 Options to Purchase Shares* in its entirety and to replace it as follows:

"10.2 Grant of 75% Option. The Company hereby grants an exclusive option to ABK, effective after the exercise of the 51% Option, to purchase an additional amount of shares to increase ABK' s shareholding in the Company, from a 51% equity interest, by an additional 24% equity interest to an aggregate amount of shares equal 75% of the Total Number of Shares (the "75% Option"):

(a) ABK may, at its sole discretion, exercise the 75% Option for a period of 24 months after the exercise of the 51% Option;

(b) The 75% Option shall have an exercise price of $16,000,000; and

(c) The 75% Option shall be exercisable by giving written notice (the "Notice") to the Company of ABK' s intention to exercise the 75% Option. Upon receipt of the Notice and the exercise price, the Company shall cause the allotment and issuance of that number of shares for which the 75% Option was exercised within 5 business days of receipt of the Notice and the exercise price by the Company."

2. Conditions of Effectiveness. This Amendment shall become effective when each Party has received the counterparts of this Amendment, executed and delivered by the respective Parties.

3. Representations and Warranties of Abakan. In order to induce MesoCoat and Powdermet to enter into this Amendment, Abakan does hereby make the following representations and warranties to MesoCoat and Powdermet:

3.1. Corporate Power and Authorization. Abakan has the requisite corporate power and authority to execute, deliver and perform its obligations under this Amendment.

3.2. No Conflict. Neither the execution and delivery by Abakan of this Amendment nor the consummation of the transactions contemplated or required hereby nor compliance by Abakan with the terms, conditions and provisions hereof will conflict with or result in a breach of any of the terms, conditions or provisions of the certificate of incorporation or bylaws of Abakan or any law, regulation, order, writ, injunction or decree of any court or governmental instrumentality or any agreement or instrument to which Abakan is a party or by which any of its properties is bound, or constitute a default thereunder or result in the creation or imposition of any lien.

3.3 Authorization; Governmental Approvals. The execution and delivery by Abakan of this Amendment and the consummation of the transactions contemplated hereby (i) have been duly authorized by all necessary corporate action on the part of Abakan and (ii) do not and will not require any authorization, consent, approval or license from or any registration, qualification, designation, declaration or filing with, any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign.

3.4. Valid and Binding Effect. This Amendment has been duly and validly executed and delivered by Abakan and constitutes the legal, valid and binding obligation of Abakan, enforceable in accordance with its terms.

4. Representations and Warranties of MesoCoat and the Powdermet. In order to induce Abakan to enter into this Amendment, MesoCoat and Powdermet do hereby make the following representations and warranties to Abakan:

4.1. Corporate Power and Authorization. MesoCoat and Powdermet have the requisite corporate power and authority to execute, deliver and perform their obligations under this Amendment.

4.2. No Conflict. Neither the execution and delivery by MesoCoat or Powdermet of this Amendment nor the consummation of the transactions contemplated or required hereby nor compliance by MesoCoat or Powdermet with the terms, conditions and provisions hereof will conflict with or result in a breach of any of the terms, conditions or provisions of the certificate of incorporation or bylaws of MesoCoat or Powdermet or any law, regulation, order, writ, injunction or decree of any court or governmental instrumentality or any agreement or instrument to which MesoCoat or Powdermet is a party or by which any of his or its properties is bound, or constitute a default thereunder or result in the creation or imposition of any lien.

4.3. Authorization; Governmental Approvals. The execution and delivery MesoCoat and Powdermet of this Amendment and the consummation of the transactions contemplated hereby (i) have been duly authorized by all necessary corporate action on the part of MesoCoat and Powdermet and (ii) do not and will not require any authorization, consent, approval or license from or any registration, qualification, designation, declaration or filing with, any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign.

4.4. Valid and Binding Effect. This Amendment has been duly and validly executed and delivered by MesoCoat and Powdermet and constitutes the legal, valid and binding obligation of MesoCoat and Powdermet, enforceable in accordance with its terms.

5. Amendment to the Agreement. The Agreement is hereby, and shall henceforth be deemed to be, amended, modified and supplemented in accordance with the provisions hereof, and the respective rights, duties and obligations under the Agreement shall hereafter be determined, exercised and enforced under the Agreement, subject in all respects to such amendments, modifications, and supplements and all terms and conditions of this Amendment.

6. Ratification of the Agreement. Except as expressly set forth in this Amendment, all agreements, covenants, undertakings, provisions, stipulations, and promises contained in the Agreement are hereby ratified, readopted, approved, and confirmed and remain in full force and effect.

7. No Implied Waiver. The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver or modification of any provision of, or operate as a waiver of any right, power or remedy of the Parties under the Agreement, or prejudice any right or remedy that the Parties may have or may have in the future under or in connection with the Agreement, or any instrument or agreement referred to therein. The Parties acknowledge and agree that the representations and warranties contained in the Agreement, and in this Amendment shall survive the execution and delivery of this Amendment and the effectiveness hereof.

8. Multiple Counterparts. This Amendment may be executed in several counterparts, each

of which will be deemed to be an original but all of which will constitute one in the same instrument. However, in enforcing any Party's rights under this Amendment it will be necessary to produce only one copy of this Amendment signed by the Party to be charged. A signature sent by legible facsimile shall be deemed an original.

9. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of New York, without giving effect to its choice of law principles. All matters in difference between the Parties in relation to this Agreement shall be referred to arbitration under the State of New York Arbitration Act by a single arbitrator, if the Parties agree upon one, otherwise to three arbitrators, one to be appointed by Abakan, one to be appointed by MesoCoat and a third to be chosen by the first two named before they enter upon the business of arbitration. The award and determination of the arbitrator or arbitrators or any two of the three arbitrators shall be binding upon the parties and their respective heirs, executors, administrators and assigns.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement as of the date first set forth above.

Abakan Inc.

/s/ Robert Miller
By: Robert Miller
Chief Executive Officer

MesoCoat, Inc.

/s/ Andrew Sherman
By: Andrew Sherman
President

Powdermet, Inc.

/s/ Andrew Sherman
By: Andrew Sherman
President

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert H. Miller certify that:

1. I have reviewed this report on Form 10-Q of Abakan Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: January 11, 2013

/s/ Robert H. Miller
Robert H. Miller
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David G. Charbonneau certify that:

1. I have reviewed this report on Form 10-Q of Abakan Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including any consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: January 11, 2013

/s/ David G. Charbonneau
David G. Charbonneau
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report on Form 10-Q of Abakan Inc. for the quarterly period ended November 30, 2012, as filed with the Securities and Exchange Commission on the date hereof, I, Robert H. Miller, do hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) This report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in this report fairly presents, in all material respects, the financial condition of the registrant at the end of the period covered by this report and results of operations of the registrant for the period covered by this report.

Date: January 11, 2013

/s/ Robert H. Miller
Robert H. Miller
Chief Executive Officer

This certification accompanies this report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the registrant for the purposes of §18 of the Securities Exchange Act of 1934, as amended. This certification shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this report), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report on Form 10-Q of Abakan Inc. for the quarterly period ended November 30, 2012, as filed with the Securities and Exchange Commission on the date hereof, I, David G. Charbonneau, do hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) This report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in this report fairly presents, in all material respects, the financial condition of the registrant at the end of the period covered by this report and results of operations of the registrant for the period covered by this report.

Date: January 11, 2013

/s/ David G. Charbonneau
David G. Charbonneau
Chief Financial Officer

This certification accompanies this report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the registrant for the purposes of §18 of the Securities Exchange Act of 1934, as amended. This certification shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this report), irrespective of any general incorporation language contained in such filing.

NOTE 2: Significant Accounting Policies: Advertising Expenses (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Advertising Expenses	*Advertising Expenses* Advertising costs are expensed as incurred. Advertising expenses are included in general and administrative expense in the accompanying statement of operations. Total advertising expenses were $1,125 and none for the three months ended August 31, 2012 and 2011, respectively.

NOTE 2: Significant Accounting Policies: Consolidation Policy: Schedule of Subsidiaries Ownership (Tables)	6 Months Ended
	Nov. 30, 2012
Tables/Schedules	
Schedule of Subsidiaries Ownership	

Name of Subsidiary	Percentage of Ownership
AMP Distributors (Cayman)	100.00%
AMP Distributors (Florida)	100.00%
MesoCoat, Inc.	52.50%

Note 13 - Stock - Based Compensation: Stock Option Plan - Mesocoat (Policies)

6 Months Ended

Nov. 30, 2012

Policies

Stock Option Plan - Mesocoat

Stock Option Plan - MesoCoat

MesoCoat accounts for equity awards using the grant-date fair value.

The Company' s stock option plan (the Stock Option Plan) is intended to advance the interest of the Company and its shareholders. Options granted under the Stock Option Plan can be either incentive stock options or non-qualified stock options. The Stock Option Plan authorized the issuance of a maximum of 9,000 shares of the Company' s common stock. These options have a term of six years and will expire beginning August 2014 through November 2014.

A summary of the Company' s stock option plan as of November 30, 2012, and the changes during the period then ended is presented in the table below:

Outstanding	Options		
	Number of Shares		Weighted Average Exercise Price
Outstanding at May 31, 2012	4,450	$	2.68
Granted	-		
Exercised	-		
Forfeited	-		
Outstanding at November 30, 2012	4,450	$	2.68
Options exercisable at November 30, 2012	3,150	$	1.95

NOTE 2: Significant Accounting Policies: Depreciation: Schedule of Depreciation (Tables)

	6 Months Ended
	Nov. 30, 2012
Tables/Schedules	
Schedule of Depreciation	

Computer equipment and software	3 - 5 years
Office furniture and equipment	5 - 7 years
Machinery and equipment	7 - 10 years
Leasehold improvements	balance of lease term

Note 12 - Related Party Transactions: Notes Payable - Related Party (Policies)	6 Months Ended
	Nov. 30, 2012
Policies	
Notes Payable - Related Party	*Notes Payable – Related Party* For the six months ended November 30, 2012, we entered into two uncollateralized demand notes to a Company controlled by our Chief Executive Officer' s spouse, Prosper Financial, bearing 8% interest per annum for an aggregate total of $66,200. On August 31, 2012, we applied $6,200 of principal in addition to $59.24 of accrued interest to advances owed to us by the same company. On September 25, 2012, we also made a cash principal payment of $30,000. As of November 30, 2012 we owed $30,000, and $773 of accrued interest.

NOTE 2: Significant Accounting Policies: Patent and Technology Licenses (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Patent and Technology Licenses	*Patent and Technology Licenses* Patent costs are recorded at the cost to obtain the patent and are amortized on a straight-line basis over their estimated useful lives up to 20 years, beginning when the patent is secured by the Company. License costs are recorded at the cost to obtain the license and are amortized on a straight-line basis over effective term of the license, up to 15 years.

Note 5 - Patents and Licenses: Schedule of Patents and licenses (Tables)	6 Months Ended
	Nov. 30, 2012
Tables/Schedules	
Schedule of Patents and licenses	

		November 30, 2012		May 31, 2012
Patents	$	82,693	$	72,991
Website		21,000		21,000
Intellectual Property Research and Development		6,120,200		6,120,200
Licenses		1,855,949		1,843,200
		8,079,842		8,057,391
Less accumulated amortization		(407,614)		(281,076)
	$	**7,672,228**	$	**7,776,315**

NOTE 2: Significant Accounting Policies: Earnings (loss) Per Common Share (Policies)	**6 Months Ended**
	Nov. 30, 2012
Policies	
Earnings (loss) Per Common Share	*Earnings (Loss) Per Common Share* The Company computes net loss per share in accordance with FASB ASC 260-10, "Earnings per Share". FASB ASC 260 requires presentation of both basic and diluted earnings per share (EPS) on the face of the statement of operations. Basic EPS is computed by dividing net loss available to common stockholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the period. Diluted EPS excludes all potentially dilutive shares if their effect is anti-dilutive. The only potentially dilutive common shares outstanding are stock options and warrants from inception (Note 11).

Note 14 - Commitments: Consulting Agreement (Policies)	6 Months Ended
	Nov. 30, 2012
Policies	
Consulting Agreement	*Consulting agreement* On September 18, 2012, we entered into a consulting agreement commencing September 18, 2012, with an unrelated individual to provide investor public relations consulting. The terms of the consulting agreement are that the consultant is paid $5,000 per month; in addition the consultant was issued 25,000 shares of our restricted common stock for the initial three month period. Then commencing December 18, 2012 and each quarter after the Company will issue Shares of our restricted common stock valued at $60,000 per quarter. We also agreed to reimburse the consultant for all reasonable business expenses incurred by him in the performance of his duties, with a term expiring September 18, 2013. -

NOTE 2: Significant Accounting Policies: Income Taxes (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Income Taxes	*Income Taxes* Income taxes are provided for using the liability method of accounting. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Deferred tax expense (benefit) results from the net change during the year in deferred tax assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to more likely than not be realized in future tax returns. Tax law and rate changes are reflected in income in the period such changes are enacted.

NOTE 2: Significant Accounting Policies: Grant Revenue (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Grant Revenue	*Grant Revenue* Revenue from grants is generally recorded when earned as defined under the terms of the agreements. Each grant document sets the timing of amounts that are allowed to be billed and how to bill those amounts. The Company generally looks at a two week time period to bill from and work on the incurred costs for the same time period and bills according to preset amounts that are allowed to be billed for per the grant documents. This is then billed through a government billing system, reviewed by the government department, and then payment is sent to us.

Note 17- Subsequent Events: Board of Directors (Policies)	**6 Months Ended Nov. 30, 2012**
Policies	
Board of Directors	*Board of Directors* On December 5, 2012, we appointed a new member to our Board of Directors. We agreed to grant him 175,000 stock options for his service. The stock options have an exercise price of $2.61 per share of common stock, and expire ten years from the date of grant. These options vest as follows; 25,000 upon the date of this agreement and then in equal parts of 50,000 options beginning on December 5, 2013 and every December 5 after that. This agreement will be in force until December 5, 2015, unless terminated with a sixty day notice. We also agreed to reimburse the new member of the Board for all reasonable business expenses

NOTE 2: Significant Accounting Policies: Goodwill (Details) (USD $)	Mar. 31, 2013	Sep. 30, 2012	May 31, 2012
Goodwill	$ 364,384,000	$ 364,384	$ 364,384

Note 13 - Stock - Based Compensation: 2009 Stock Option Plan - The Company (Policies)	6 Months Ended
	Nov. 30, 2012
Policies	
2009 Stock Option Plan - The Company	*2009 Stock Option Plan – The Company*

Our board of directors adopted and approved our 2009 Stock option Plan ("Plan") on December 14, 2009, as amended on June 14, 2012, which provides for the granting and issuance of up to 10 million shares of our common stock.

On June 12, 2012, we granted 175,000 stock options to two consultants at an exercise price of $2.30 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On June 1, 2012, we granted 100,000 stock options to two consultants at an exercise price of $0.75 per share. The options will expire ten years from the grant date, and will vest in completely on March 15, 2013.

On June 15, 2012, we granted 150,000 stock options to a new director at an exercise price of $2.30 per share. The options will expire ten years from the grant date, and will vest in equal one third parts beginning on September 15, 2012, and then every September 15th for the next two years.

On June 20, 2012, we granted 50,000 stock options to a consultant at an exercise price of $2.05 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On July 27, 2012, we granted 75,000 stock options to a consultant at an exercise price of $1.95 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On August 7, 2012, we granted 150,000 stock options to a new director at an exercise price of $1.90 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

After these grants there will be 4,140,000 available for future grant.

Our board of directors administers our Plan, however, they may delegate this authority to a committee formed to perform the administration function of the Plan. The board of directors or a committee of the board has the authority to construe and interpret provisions of the Plan as well as to determine the terms of an award. Our board of directors may amend or modify the Plan at any time. However, no amendment or modification shall adversely affect the rights and obligations with respect to outstanding awards unless the holder consents to that amendment or modification.

The Plan permits us to grant Non-Statutory stock options to our employees, directors and consultants. The options issued under this Plan are intended to be Non-Statutory Stock Options exempt from Code Section 409A.

The duration of a stock option granted under our Plan cannot exceed ten years. The exercise price of an incentive stock option cannot be less than 100% of the fair market value of the common stock on the date of grant.

The Plan administrator determines the term of stock options granted under our Plan, up to a maximum of ten years, except in the case of certain events, as described below. Unless the terms of an optionee's stock option agreement provide otherwise, if an optionee's relationship with us ceases for any reason other than disability or death, the optionee may exercise any vested options for a period of ninety days following the cessation of service. If an optionee's service relationship with us ceases due to disability or death the optionee or a beneficiary may exercise any vested options for a period of 12 months in the event of disability or death.

Unless the Plan administrator provides otherwise, options generally are not transferable except by will, the laws of descent and distribution, or pursuant to a domestic relations order. An optionee may designate a beneficiary, however, who may exercise the option following the optionee's death.

The value of employee and non-employee stock warrants granted during the six months ended November 30, 2012 was estimated using the Black-Scholes model with the following assumptions:

	June 1, 2012	June 12, 2012	June 15, 2012	June 20, 2012
Expected volatility (based on historical volatility)	200.15%	154.39%	154.39%	154.39%
Expected dividends	0.00	0.00	0.00	0.00
Expected term in years	10	10	10	10
Risk-free rate	0.95%	1.67%	1.60%	1.65%

	July 27, 2012	August 7, 2012
Expected volatility (based on historical volatility)	154.39%	154.39%
Expected dividends	0.00	0.00
Expected term in years	10	10
Risk-free rate	1.58%	1.66%

The expected volatility assumption was based upon historical stock price volatility measured on a daily basis. The risk-free interest rate assumption is based upon U.S. Treasury bond interest rates appropriate for the term of the Company' s employee stock options. The dividend yield assumption is based on our history and expectation of dividend payments.

A summary of the options granted to employees and non-employees under the plan and changes during the year ended May 31, 2012 and the six months ended November 30, 2012 is presented below:

A summary of the options granted to employees and non-employees under the plan and changes during the year ended May 31, 2012 and the six months ended November 30, 2012 is presented below:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (In Years)		Aggregate Intrinsic Value
Balance at June 1, 2011	5,420,000	$	0.75			
Granted	520,000		1.06			
Exercised	-		-			
Forfeited or expired	(780,000)		-			
Balance at May 31, 2012	5,160,000	$	0.77	9.00 years	$	185,000
Exercisable at May 31, 2012	2,980,829	$	0.71	9.00 years	$	--
Weighted average fair value of options granted during the year ended May 31, 2012		$	1.06			
Balance at June 1, 2012	5,160,000	$	0.77			
Granted	700,000		1.93			
Exercised	-		-			
Forfeited or expired	-		-			
Balance at November 30, 2012	5,860,000	$	0.90	9.00 years	$	185,000
Exercisable at November 30, 2012	2,980,829	$	0.71	9.00 years	$	--
Weighted average fair value of options granted during the year ended November 30, 2012		$	1.06			

2009 Stock Option Plan – The Company - continued

The following table summarizes information about employee stock options under the 2009 Plan outstanding at November 30, 2012:

Options Outstanding					Options Exercisable		
Range of Exercise Price	Number Outstanding at November 30, 2012	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value	Number Exercisable at November 30, 2012	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 0.60	1,945,000	8.00 Years	$ 0.60	$ --	1,900,040	$ 0.60	$ --
$ 0.65	1,400,000	8.00 Years	$ 0.65	$ 120,000	394,968	$ 0.65	$ --
$ 0.75	200,000	9.00 Years	$ 0.75	$ 15,000	100,000	$ 0.75	$ --
$ 1.00	50,000	10.00 Years	$ 1.00	$ --	--	$ 0.00	$ --
$ 1.01	225,000	9.00 Years	$ 1.01	$ --	106,656	$ 1.01	$ --
$ 1.02	650,000	10.0 Years	$ 1.02	$ 50,000	116,660	$ 1.02	$ --
$ 1.03	50,000	4.00 Years	$ 1.03	$ --	--	$ 0.00	$ --
$ 1.05	270,000	10.0 Years	$ 1.05	$ --	83,330	$ 1.05	$ --
$ 1.07	95,000	10.00 Years	$ 1.07	$ --	12,500	$ 1.07	$ --
$ 1.20	100,000	5.0 Years	$ 1.20	$ --	100,000	$ 1.20	$ --
$ 1.25	25,000	10.0 Years	$ 1.25	$ --	--	$ 0.00	$ --
$ 1.30	250,000	10.0 Years	$ 1.30	$ --	166,675	$ 1.30	$ --
$ 1.90	150,000	10.0 Years	$ 1.90	$ --	--	$ 0.00	$ --
$ 1.95	75,000	10.0 Years	$ 1.95	$ --	--	$ 0.00	$ --
$ 2.05	50,000	10.0 Years	$ 2.05	$ --	--	$ 0.00	$ --
$ 2.30	325,000	10.0 Years	$ 2.30	$ --	--	$ 0.00	$ -
	5,860,000	9.0 Years	$ 0.90	$ 185,000	2,980,829	$ 0.71	$ --

The total value of employee and non-employee stock options granted during the six months ended November 30, 2012 and 2011, was $1,315,619 and $143,267, respectively. During six months ended November 30, 2012 and 2011 the Company recorded $899,211 and $791,856, respectively, in stock-based compensation expense relating to stock option grants.

At November 30, 2012 and 2011 there was $1,747,689 and $2,130,783, respectively, of total unrecognized compensation cost related to stock options granted under the plan. That cost is expected to be recognized pro-rata through August 7, 2015. The following table represents the stock options expense for the each of the next four fiscal years ended May 31:

For years ended May 31,		**Expense**
2013	$	622,717
2014		706,184
2015		408,568
2016		10,220
	$	**1,747,689**

Note 4 - Property, Plant and Equipment	6 Months Ended Nov. 30, 2012

Notes

Note 4 - Property, Plant and Equipment

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

		November 30, 2012		May 31, 2012
Machinery and equipment	$	734,099	$	427,641
Construction in progress		3,516,352		2,617,196
Computer equipment and office furniture		43,538		35,369
Leasehold improvements		54,177		53,818
		4,348,166		3,134,024
Less accumulated depreciation and amortization		(160,597)		(112,936)
	$	**4,187,569**	**$**	**3,021,088**

Depreciation and amortization expense was $47,661] and $18,878 for the three months ended August 31, 2012 and 2011, respectively.

NOTE 2: Significant Accounting Policies: Research and Development Costs (Details) (USD $)	3 Months Ended				6 Months Ended		77 Months Ended
	Nov. 30, 2012	Aug. 31, 2012	Nov. 30, 2011	Aug. 31, 2011	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012
Research and Development Expense	$ 242,586	$ 293,608,000	$ 139,964	$ 133,248,000	$ 536,194	$ 273,212	$ 1,273,510

NOTE 2: Significant Accounting Policies: Subsequent Events (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Subsequent Events	*Subsequent Events* In accordance with ASC 855-10 "Subsequent Events", the Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were issued (Note 17).)

NOTE 2: Significant Accounting Policies: Accounts Receivable (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Accounts Receivable	*Accounts Receivable* Accounts receivable are stated at face value, less an allowance for doubtful accounts. The Company provides an allowance for doubtful accounts based on management's periodic review of accounts, including the delinquency of account balances. Accounts are considered delinquent when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no allowance for doubtful accounts is required.

NOTE 2: Significant Accounting Policies: Reclassifications (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Reclassifications	*Reclassifications* Certain amounts in the period ended November 30, 2011 financial statements have been reclassified to conform to the current period ended November 30, 2012 presentation.

Note 4 - Property, Plant and Equipment: Schedule of Property, Plant and Equipment (Tables)	6 Months Ended
	Nov. 30, 2012

Tables/Schedules

Schedule of Property, Plant and Equipment

	November 30, 2012	May 31, 2012
Machinery and equipment	$ 734,099	$ 427,641
Construction in progress	3,516,352	2,617,196
Computer equipment and office furniture	43,538	35,369
Leasehold improvements	54,177	53,818
	4,348,166	3,134,024
Less accumulated depreciation and amortization	(160,597)	(112,936)
	$ 4,187,569	**$ 3,021,088**

Note 5 - Patents and Licenses: Patent License Agreement (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Patent License Agreement	*Patent license agreement* The Company has an exclusive commercial patent license agreement with a third party which requires the Company to invest in the research and development of technology and the market for products by committing to a certain level of personnel hours and $350,000 of expenditures. The patent license agreement required a total of $50,000 in execution fees which are included in intangible assets. The patent license agreements requires royalty payments equal to 2.5% of net sales of the product sold by the Company beginning after the first commercial sale. For the first calendar year after the achievement of a certain milestone and the following two calendar years during the term of the agreement, the Company will pay a minimum annual royalty payment of $10,000, $15,000 and $20,000 respectively. .

NOTE 2: Significant Accounting Policies: Notes Receivable (Policies)	**6 Months Ended**
	Nov. 30, 2012
Policies	
Notes Receivable	*Accounts Receivable* Accounts receivable are stated at face value, less an allowance for doubtful accounts. The Company provides an allowance for doubtful accounts based on management's periodic review of accounts, including the delinquency of account balances. Accounts are considered delinquent when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no allowance for doubtful accounts is required. *Notes Receivable* Notes receivable are stated at face value, plus any accrued interest earned. The Company analyzes each note receivable each period for probability of collectability. Notes are considered in default when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no occurrence of default exists.

NOTE 2: Significant Accounting Policies: Property, Plant and Equipment (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Property, Plant and Equipment	*Property, Plant and Equipment* Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to operations as incurred. Depreciation and amortization are based on the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in operations in the period realized.

NOTE 3 GOING CONCERN	6 Months Ended Nov. 30, 2012
Notes	
NOTE 3 GOING CONCERN	**NOTE 3 - GOING CONCERN** The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has net losses for the period of June 27, 2006 (inception) to the period ended November 30, 20121, 2012, of $9,302,201, and a working capital deficit of $3,345,574These conditions raise substantial doubt about the Company' s ability to continue as a going concern. The Company' s continuation as a going concern is dependent on its ability to develop additional sources of capital, and/or achieve profitable operations and positive cash flows. Management' s plan is to aggressively pursue its present business plan. Since inception we have funded our operations through the issuance of common stock, debt financing, and related party loans and advances, and we will seek additional debt or equity financing as required. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2: Significant Accounting Policies: Asset Construction in Progress (Policies)	6 Months Ended Nov. 30, 2012

Policies

Asset Construction in Progress

Asset Construction in Progress

Construction in progress assets, represent assets that are in process of construction and rehabilitation in order to bring them to operational status. All costs are captured in a separate Construction in Progress account, and are included in the "Property, plant and equipment – net" amounts, and when the asset is ready to enter service, the total costs are capitalized and depreciation commences per the schedule below.

Depreciation

Depreciation is computed on the straight-line method net of salvage value with useful lives as follows:

Computer equipment and software	3 - 5 years
Office furniture and equipment	5 - 7 years
Machinery and equipment	7 - 10 years
Leasehold improvements	balance of lease term

NOTE 2: Significant Accounting Policies: Shipping and Handling Costs (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Shipping and Handling Costs	*Shipping and Handling Costs* The Company' s shipping and handling costs are included in cost of sales for all periods presented.

Note 17- Subsequent Events: Employment Agreement (Policies)	6 Months Ended
	Nov. 30, 2012
Policies	
Employment Agreement	*Employment agreement* On December 5, 2012, we entered into an employment agreement commencing December 10, 2012 with a related individual to perform duties as our Chief Financial Officer. The individual was a prior director and resigned the effective date of this agreement. The employee retained previously issued stock options. The terms of the employment agreement are $16,000 per month salary of which a portion is deferred. The employment agreement will end on December 31, 2015 and which time it can be renewed for 2 one year periods. In the event that this agreement is terminated, the employee may be eligible for severance pay based upon the length of employment. The employee was also granted 125,000 stock options with an exercise price of $2.61 per share; they will vest equally over 3 years beginning December 9, 2013. The employee was also given a retention award to be paid $20,000 in common shares the month following the anniversary date of his employment.

ABAKAN, INC. CONDENSED CONSOLIDATED BALANCE SHEETS NOVEMBER 30 2012 (USD $)	Sep. 30, 2012	May 31, 2012
Assets, Current		
Cash and Cash Equivalents, at Carrying Value	$ 715,591	$ 859,566
Accounts Receivable, Net, Current	85,912	22,854
Due from Related Parties, Current	4,500	4,500
Prepaid Expense, Current (Note 7)	124,103	183,134
Assets, Current	930,106	1,070,054
Assets, Noncurrent		
Property, Plant and Equipment, Net (Note 4)	4,187,569	3,021,088
Patents and licenses, net (Note 5)	7,672,228	7,776,315
Assignment agreement Mesocoat (Note 6)	230,267	250,000
Investment - Powdermet (Note 6)	2,651,088	2,710,189
Goodwill	364,384	364,384
Assets	16,035,642	15,192,030
Liabilities, Current		
Accounts Payable, Current	643,750	425,868
Accounts Payable related parties (Note 12)	190,867	80,773
Accrued Liabilities, Current	366,232	310,997
Loans Payable, Current net of discounts of $323.819 (Note 9)	2,678,132	2,465,165
Loan payable - related parties (Note 12)	30,000	
Accrued interest -loans payable (Note 9)	329,331	183,106
Accrued interest -related parties (Note 11)	773	
Capital Lease Obligations, Current	36,595	42,999
Liabilities, Current	4,275,680	3,508,908
Liabilities, Noncurrent		
Loans Payable, net of discounts of $554,290 (Note 9), Noncurrent	2,091,696	1,146,277
Capital Lease Obligations, Noncurrent	60,557	72,176
Liabilities	6,427,933	4,727,361
Stockholders' Equity, Including Portion Attributable to Noncontrolling Interest		
Common Stock, Value, Issued	6,226	6,147
Additional Paid in Capital, Common Stock	15,785,140	13,321,527
Subscription receivable	(27,500)	
Subscription payable	12,000	
Contributed Capital	5,050	5,050
Accumulated Deficit during the development stage	(9,302,201)	(6,322,365)
Stockholders' Equity Attributable to Noncontrolling Interest	3,128,994	3,454,310
Stockholders' Equity, Including Portion Attributable to Noncontrolling Interest	9,607,709	10,464,669
Liabilities and Equity	$ 16,035,642	$ 15,192,030

Note 12 - Related Party Transactions: Board of Advisors (Policies)	6 Months Ended
	Nov. 30, 2012
Policies	
Board of Advisors	*Board of Advisors*

On June 1, 2012, we appointed a new member to our Board of Advisors and granted him 100,000 stock options for their service. The stock options have an exercise price of $2.30 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on June 1, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until June 1, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

On June 20, 2012, we appointed a new member to our Board of Advisors and agreed to pay him $5,000 per month for his services beginning July 1, 2012. We also granted him 50,000 stock options for their service. The stock options have an exercise price of $2.05 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on June 20, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until May 31, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

On August 1, 2012, we appointed a new member to our Board of Advisors and agreed to pay him $3,000 per month for his services beginning August 1, 2012. We also granted him 75,000 stock options for his service. The stock options have an exercise price of $1.95 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on August 1, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until August 1, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

Note 1 - Business	6 Months Ended Nov. 30, 2012

Notes
Note 1 - Business

NOTE 1 - BUSINESS

Your Digital Memories, Inc. was incorporated in the state of Nevada on June 27, 2006.

Waste to Energy Group Inc., a wholly-owned subsidiary of Your Digital Memories Inc., was incorporated in the state of Nevada on August 13, 2008. Waste to Energy Group Inc. and Your Digital Memories Inc. entered into an Agreement and Plan of Merger on August 14, 2008. The board of directors of Waste to Energy Group Inc. and Your Digital Memories Inc. deemed it advisable and in the best interest of their respective companies and shareholders that Waste to Energy be merged with and into Your Digital Memories Inc. with Your Digital Memories Inc. remaining as the surviving corporation under the name Waste to Energy Group Inc.

Abakan Inc., a wholly-owned subsidiary of Waste to Energy Group Inc., was incorporated in the state of Nevada on November 6, 2009. Abakan Inc. and Waste to Energy Group Inc. entered into an Agreement and Plan of Merger on November 6, 2009. The board of directors of Abakan Inc. and Waste to Energy Group Inc. deemed it advisable and in the best interest of their respective companies and shareholders that Abakan Inc. be merged with and into Waste to Energy Group Inc. with Waste to Energy Group Inc. remaining as the surviving corporation under the name “Abakan Inc.”

Unless the context indicates otherwise, all references herein to the “Company”, “we,” “us,” and “our” refer to Abakan Inc. and its consolidated subsidiaries. The Company is in the development stage as defined under FASB ASC 915-10, "Development Stage Entities."

On December 10, 2009 the Company purchased a thirty-four percent (34%) interest in MesoCoat, Inc. ("MesoCoat"), and on July 13, 2011 purchased an additional eighteen and one-half percent (18.50%), for an aggregate total of fifty two and one-half percent (52.50%) of the outstanding stock of MesoCoat.

MesoCoat (formerly “Powdermet Coating Technologies, Inc.”) was incorporated in Nevada as a wholly owned subsidiary of Powdermet, Inc. (“Powdermet”) on May 18, 2007. Operations began in 2008 and effective March 31, 2008 it was renamed as MesoCoat. Future success of operations is subject to several technical hurdles and risk factors, including satisfactory product development, regulatory approval and market acceptance of MesoCoat’ s products and its continued ability to obtain future funding. MesoCoat is currently in the development stage, as operations consist primarily of research and development expenditures, and revenues from planned principal operations that have not yet been realized. MesoCoat has invested heavily in intellectual property, machinery and equipment to initiate the research and development of its core technology. Currently, MesoCoat' s revenue consists almost entirely of government grants and cooperative reimbursement agreements.

On March 21, 2011, the Company purchased 596,813 shares of Powdermet from Kennametal, Inc., an unrelated party, equal to a fully diluted 41% interest in Powdermet.

Powdermet was formed in 1996 as a Delaware corporation and has since developed a product platform of advanced materials solutions derived from nano-engineered particle agglomerate technology and derived hierarchically structured materials. Powdermet also owns 47.50% of MesoCoat.

On June 8, 2011, the Company formed a wholly owned subsidiary company named, AMP Distributors, Ltd. ("AMP Distributors"), a Grand Cayman corporation. AMP Distributors was formed to distribute MesoCoat products to consumer markets.

On June 8, 2011, the Company formed a wholly owned subsidiary company named, AMP Distributors, Ltd. ("AMP Distributors"), a Grand Cayman corporation. AMP Distributors was formed to distribute MesoCoat products to consumer markets.

On July 27, 2012, the Company formed a wholly owned subsidiary company named, AMP Distributors, Inc. ("AMP FL"), a Florida corporation. AMP Distributors was formed to distribute MesoCoat products to consumer markets.

The Company' s plan of operation is to acquire interests in early stage companies. Since those firms are typically pre-commercialization, it is anticipated that each firm the Company decides to acquire will need successive rounds of financing to fund research & development, lengthy qualification periods, sales and marketing efforts. However, this may not necessarily be the case if the Company acquires a new technology company with existing sales or we agree to a licensing strategy.

The Company' s acquisition strategy is to make sure it negotiates upfront future ownership based on a series of value creating steps whereby we have the right to continue or discontinue investing based on an investee meeting those milestone steps. Our approach allows management to forecast potential financing needs of any given firm in stages to plan for present and future fundraising efforts. Further, our approach also enables the Company to hedge its investing if it feels a company is not performing up to the goals that were anticipated during the negotiating process. By taking this approach, each investee company is expected to reach certain operating milestones prior to receiving the next round of fundraising or us exercising our next round of acquisition. .

Note 7 - Prepaid Expenses: Schedule of Prepaid Expenses (Tables)

6 Months Ended

Nov. 30, 2012

Tables/Schedules

Schedule of Prepaid Expenses

November 30, 2012

Name	Description		Amount
Steven Ferris	Prepayment retainer for services		15,000
Better Investing	Prepayment retainer for services	$	1,875
IPFS Corporation	Prepayment for insurance		9,070
Optiminera SA	Prepayment retainer for services		25,500
Financial Insights	Prepayment retainer for services		5,000
Crystal Research Associates	Prepayment retainer for services		10,417
Hall, Lamb, & Hall	Prepayment retainer for legal fees		5,782
Fulcrum Financial Inquiry	Prepayment retainer for services		15,800
Antenna Group	Prepayment retainer for services		2,555
Steven Rosenfeld, PC	Prepayment retainer for legal fees		2,000
Wolf, Rifkin, Shapiro	Prepayment retainer for legal fees		12,000
Rick Beck Engineering	Prepayment retainer for services		18,304
Deposits	Prepayment retainer for services		18,304
	Total	$	133,161

Prepaid expenses consisted of the following at May 31, 2012:

May 31, 2012

Name	Description		Amount
Steven Ferris	Prepayment retainer for services	$	7,500
Better Investing	Prepayment retainer for services		4,125
Urish Popeck & Co	Prepayment retainer for valuation		8,000
Optiminera SA	Prepayment retainer for services		76,500
The Money Channel	Prepayment retainer for services		8,775
Crystal Research Associates	Prepayment retainer for services		41,667
Hall, Lamb, & Hall	Prepayment retainer for legal fees		29,572
Deposits	Prepayment retainer for services		6,995
	Total	$	183,134

NOTE 2: Significant Accounting Policies: Goodwill (Policies)	6 Months Ended
	Nov. 30, 2012
Policies	
Goodwill	*Goodwill* In accordance with GAAP, goodwill in the amount of $364,384 related to the acquisition of MesoCoat will be evaluated for impairment on an annual basis starting fiscal year ending May 31, 2013.

Note 5 - Patents and Licenses: Schedule of Patents and licenses (Details) (USD $)	Nov. 30, 2012	May 31, 2012
Finite-Lived Patents, Gross	$ 82,693	$ 72,991
Website	21,000	21,000
Intellectual Property Research and Development	6,120,200	6,120,200
Finite-Lived License Agreements, Gross	1,855,949	1,843,200
Accumulated Amortization of Other Deferred Costs	$ (407,614)	$ (281,076)

Note 17- Subsequent Events

6 Months Ended
Nov. 30, 2012

Notes

Note 17- Subsequent Events

NOTE 17- SUBSEQUENT EVENTS

Management has evaluated subsequent events after the balance sheet date, through the issuance of the financial statements, for appropriate accounting and disclosure. The Company has determined that there were no such events that warrant disclosure or recognition in the financial statements, except for the below:

Private Placements

On December 7, 2012, we closed two private placements for a total of $279,450, or 121,500 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $279,450.

On December 10, 2012, we closed a private placement for $230,000, or 100,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $230,000.

On December 18, 2012, we closed three private placements for a total of $211,600, or 92,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $211,600.

On December 24, 2012, we closed a private placement for $103,500, or 45,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $103,500.

Board of Directors

On December 5, 2012, we appointed a new member to our Board of Directors. We agreed to grant him 175,000 stock options for his service. The stock options have an exercise price of $2.61 per share of common stock, and expire ten years from the date of grant. These options vest as follows; 25,000 upon the date of this agreement and then in equal parts of 50,000 options beginning on December 5,

2013 and every December 5 after that. This agreement will be in force until December 5, 2015, unless terminated with a sixty day notice. We also agreed to reimburse the new member of the Board for all reasonable business expenses
.

Employment agreement

On December 5, 2012, we entered into an employment agreement commencing December 10, 2012 with a related individual to perform duties as our Chief Financial Officer. The individual was a prior director and resigned the effective date of this agreement. The employee retained previously issued stock options. The terms of the employment agreement are $16,000 per month salary of which a portion is deferred. The employment agreement will end on December 31, 2015 and which time it can be renewed for 2 one year periods. In the event that this agreement is terminated, the employee may be eligible for severance pay based upon the length of employment. The employee was also granted 125,000 stock options with an exercise price of $2.61 per share; they will vest equally over 3 years beginning December 9, 2013. The employee was also given a retention award to be paid $20,000 in common shares the month following the anniversary date of his employment.

NOTE 2: Significant Accounting Policies: Revenue Recognition (Policies)	**6 Months Ended**
	Nov. 30, 2012
Policies	
Revenue Recognition	*Revenue Recognition* The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price if fixed or determinable, and collectability is reasonably assured.

NOTE 2: Significant Accounting Policies: Consolidation Policy (Policies)	6 Months Ended
	Nov. 30, 2012
Policies	
Consolidation Policy	*Consolidation Policy* The accompanying November 30, 2012 financial statements include the Company' s accounts and the accounts of its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Company' s ownership of its subsidiaries as of November 30, 2012 is as follows:

Name of Subsidiary	Percentage of Ownership
AMP Distributors (Cayman)	100.00%
AMP Distributors (Florida)	100.00%
MesoCoat, Inc.	52.50%

NOTE 2: Significant Accounting Policies

6 Months Ended Nov. 30, 2012

Notes
NOTE 2: Significant Accounting Policies

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company' s financial position as of November 30, 2012, and the results of its operations and cash flows for the three and six months ended November 30, 2012, have been made. Operating results for the six months ended November 30, 2012 are not necessarily indicative of the results that may be expected for the year ended May 31, 2013.

These condensed consolidated financial statements should be read in conjunction with the financial statements and notes for the year ended May 31, 2012, thereto contained in the Company' s Form 10-K.

Consolidation Policy

The accompanying November 30, 2012 financial statements include the Company' s accounts and the accounts of its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Company' s ownership of its subsidiaries as of November 30, 2012 is as follows:

Name of Subsidiary	Percentage of Ownership
AMP Distributors (Cayman)	100.00%
AMP Distributors (Florida)	100.00%
MesoCoat, Inc.	52.50%

Earnings (Loss) Per Common Share

The Company computes net loss per share in accordance with FASB ASC 260-10, "Earnings per Share". FASB ASC 260 requires presentation of both basic and diluted earnings per share (EPS) on the face of the statement of operations. Basic EPS is computed by dividing net loss available to common stockholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the period. Diluted EPS excludes all potentially dilutive shares if their effect is anti-dilutive. The only potentially dilutive common shares outstanding are stock options and warrants from inception (Note 11).

Non-Controlling Interest

Non-controlling interest represents the minority members' proportionate share of the equity of MesoCoat, Inc. The Company' s controlling interest in MesoCoat requires that its operations be included in the consolidated financial statements. The equity interest of MesoCoat that is not owned by the Company is shown as non-controlling interest in the consolidated financial statements.

Development Stage Enterprise

At November 30, 2012, the Company' s business operations had not fully developed and the Company is highly dependent upon funding and therefore is considered a development stage enterprise

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Reclassifications

Certain amounts in the period ended November 30, 2011 financial statements have been reclassified to conform to the current period ended November 30, 2012 presentation.

Accounts Receivable

Accounts receivable are stated at face value, less an allowance for doubtful accounts. The Company provides an allowance for doubtful accounts based on management's periodic review of accounts, including the delinquency of account balances. Accounts are considered delinquent when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no allowance for doubtful accounts is required.

Accounts Receivable

Accounts receivable are stated at face value, less an allowance for doubtful accounts. The Company provides an allowance for doubtful accounts based on management's periodic review of accounts, including the delinquency of account balances. Accounts are considered delinquent when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no allowance for doubtful accounts is required.

Notes Receivable

Notes receivable are stated at face value, plus any accrued interest earned. The Company analyzes each note receivable each period for probability of collectability. Notes are considered in default when payments have not been received within the agreed upon terms, and are written off when management determines that collection is not probable. As of November 30, 2012 management has determined that no occurrence of default exists.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to operations as incurred. Depreciation and amortization are based on the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in operations in the period realized.

Asset Construction in Progress

Construction in progress assets, represent assets that are in process of construction and rehabilitation in order to bring them to operational status. All costs are captured in a separate Construction in Progress account, and are included in the "Property, plant and equipment – net" amounts, and when the asset is ready to enter service, the total costs are capitalized and depreciation commences per the schedule below.

Depreciation

Depreciation is computed on the straight-line method net of salvage value with useful lives as follows:

Computer equipment and software	3 - 5 years
Office furniture and equipment	5 - 7 years
Machinery and equipment	7 - 10 years
Leasehold improvements	balance of lease term

Patent and Technology Licenses

Patent costs are recorded at the cost to obtain the patent and are amortized on a straight-line basis over their estimated useful lives up to 20 years, beginning when the patent is secured by the Company. License costs are recorded at the cost to obtain the license and are amortized on a straight-line basis over effective term of the license, up to 15 years.

Indefinite-Lived Intangible Assets

In accordance with GAAP, Intellectual Property – Research and Development in the amount of $6,120,200 related to the acquisition of MesoCoat, will not be amortized and will be reviewed for impairment on an annual basis starting fiscal year ending May 31, 2013, due to its indefinite life.

Goodwill

In accordance with GAAP, goodwill in the amount of $364,384 related to the acquisition of MesoCoat will be evaluated for impairment on an annual basis starting fiscal year ending May 31, 2013.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price if fixed or determinable, and collectability is reasonably assured.

Grant Revenue

Revenue from grants is generally recorded when earned as defined under the terms of the agreements. Each grant document sets the timing of amounts that are allowed to be billed and how to bill those amounts. The Company generally looks at a two week time period to bill from and work on the incurred costs for the same time period and bills according to preset amounts that are allowed to be billed for per the grant documents. This is then billed through a government billing system, reviewed by the government department, and then payment is sent to us.

Research and Development Costs

Research and development costs are charged to expense as incurred and are included in operating expenses. Total research and development costs were $293,608 and $133,248 for the three months ended August 31, 2012 and 2011, respectively.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses are included in general and administrative expense in the accompanying statement of operations. Total advertising expenses were $1,125 and none for the three months ended August 31, 2012 and 2011, respectively.

Shipping and Handling Costs

The Company' s shipping and handling costs are included in cost of sales for all periods presented.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The more significant areas requiring the use of estimates include asset impairment, stock-based compensation, beneficial conversion features on debt instruments, and future income tax amounts. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. Actual results may differ from the estimates.

Income Taxes

Income taxes are provided for using the liability method of accounting. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Deferred tax expense (benefit) results from the net change during the year in deferred tax assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to more likely than not be realized in future tax returns. Tax law and rate changes are reflected in income in the period such changes are enacted.

Subsequent Events

In accordance with ASC 855-10 "Subsequent Events", the Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were issued (Note 17).

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Statement of Financial Position - Parenthetical Abakan November 30, 2012 (USD $)	Sep. 30, 2012	May 31, 2012
Preferred Stock, Par Value	$ 0	$ 0
Preferred Stock, Shares Authorized	0	0
Preferred Stock, Shares Issued	0	0
Preferred Stock, Shares Outstanding	0	0
Common Stock, Par Value	$ 0.0001	$ 0.0001
Common Stock, Shares Authorized	2,500,000,000	2,500,000,000
Common Stock, Shares Issued	62,243,003	61,465,445
Common Stock, Shares Outstanding	62,243,003	61,465,445

Note 12 - Related Party Transactions	6 Months Ended Nov. 30, 2012

Notes
Note 12 - Related Party Transactions

NOTE 12 – RELATED PARTY TRANSACTIONS

Due to the common control between the Company and its related parties, the Company is exposed to the potential that ownership risks and rewards could be transferred among the parties.

In addition to related party transactions mentioned elsewhere, we have the below agreements and transactions:

Board of Advisors

On June 1, 2012, we appointed a new member to our Board of Advisors and granted him 100,000 stock options for their service. The stock options have an exercise price of $2.30 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on June 1, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until June 1, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

On June 20, 2012, we appointed a new member to our Board of Advisors and agreed to pay him $5,000 per month for his services beginning July 1, 2012. We also granted him 50,000 stock options for their service. The stock options have an exercise price of $2.05 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on June 20, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until May 31, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

On August 1, 2012, we appointed a new member to our Board of Advisors and agreed to pay him $3,000 per month for his services beginning August 1, 2012. We also granted him 75,000 stock options for his service. The stock options have an exercise price of $1.95 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on August 1, 2013, and every grant date anniversary for the next two years. The term of the Board of Advisors Agreement will be in force until August 1, 2013, and shall renew automatically on an annual basis unless terminated in writing. We also agreed to reimburse the advisor for all reasonable business expenses.

Board of Directors

On June 15, 2012, we appointed a new member to our Board of Directors. We agreed to pay him $15,000 per annum, payable in four equal payments. We also agreed to issue him 10,000 restricted shares of our common stock and granted him 150,000 stock options for their service. The stock options have an exercise price of $2.30 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on September 15, 2012, and every September 15 after that. We also agreed to pay for continuing education classes and related travel expenses, for a maximum of $4,500. This agreement will be in force until May 31, 2015, unless terminated with a sixty day notice. We also agreed to reimburse the new director for all reasonable business expenses.

On August 7, 2012, we appointed a new member to our Board of Directors. We agreed to issue him 10,000 restricted shares of our common stock and granted him 150,000 stock options for their service. The stock options have an exercise price of $1.90 per share of common stock, and expire ten years from the date of grant. These options vest in equal one-third parts beginning on August 7, 2013 and every August 7 after that. This agreement will be in force until August 7, 2015, unless terminated with a sixty day notice. We also agreed to reimburse the new director for all reasonable business expenses.

Notes Payable – Related Party

For the six months ended November 30, 2012, we entered into two uncollateralized demand notes to a Company controlled by our Chief Executive Officer' s spouse, Prosper Financial, bearing 8% interest per annum for an aggregate total of $66,200. On August 31, 2012, we applied $6,200 of principal in addition to $59.24 of accrued interest to advances owed to us by the same company. On September 25, 2012, we also made a cash principal payment of $30,000. As of November 30, 2012 we owed $30,000, and $773 of accrued interest.

Document and Entity Information (USD $)	6 Months Ended Nov. 30, 2012	Jan. 14, 2013
Document and Entity Information:		
Entity Registrant Name	ABAKAN, INC	
Document Type	10-Q	
Document Period End Date	Nov. 30, 2012	
Amendment Flag	false	
Entity Central Index Key	0001400000	
Current Fiscal Year End Date	--05-31	
Entity Common Stock, Shares Outstanding		62,243,003
Entity Public Float		$ 0
Entity Filer Category	Smaller Reporting Company	
Entity Current Reporting Status	Yes	
Entity Voluntary Filers	No	
Entity Well-known Seasoned Issuer	No	
Document Fiscal Year Focus	2013	
Document Fiscal Period Focus	Q2	

Note 13 - Stock - Based Compensation | **6 Months Ended Nov. 30, 2012**

Notes

Note 13 - Stock - Based Compensation

NOTE 13 – STOCK – BASED COMPENSATION

2009 Stock Option Plan – The Company

Our board of directors adopted and approved our 2009 Stock option Plan ("Plan") on December 14, 2009, as amended on June 14, 2012, which provides for the granting and issuance of up to 10 million shares of our common stock.

On June 12, 2012, we granted 175,000 stock options to two consultants at an exercise price of $2.30 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On June 1, 2012, we granted 100,000 stock options to two consultants at an exercise price of $0.75 per share. The options will expire ten years from the grant date, and will vest in completely on March 15, 2013.

On June 15, 2012, we granted 150,000 stock options to a new director at an exercise price of $2.30 per share. The options will expire ten years from the grant date, and will vest in equal one third parts beginning on September 15, 2012, and then every September 15^{th} for the next two years.

On June 20, 2012, we granted 50,000 stock options to a consultant at an exercise price of $2.05 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On July 27, 2012, we granted 75,000 stock options to a consultant at an exercise price of $1.95 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

On August 7, 2012, we granted 150,000 stock options to a new director at an exercise price of $1.90 per share. The options will expire ten years from the grant date, and will vest in equal one third parts on the anniversary of the option grant date.

After these grants there will be 4,140,000 available for future grant.

Our board of directors administers our Plan, however, they may delegate this authority to a committee formed to perform the administration function of the Plan. The board of directors or a committee of the board has the authority to construe and interpret provisions of the Plan as well as to determine the terms of an award. Our board of directors may amend or modify the Plan at any time. However, no amendment or modification shall adversely affect the rights and obligations with respect to outstanding awards unless the holder consents to that amendment or modification.

The Plan permits us to grant Non-Statutory stock options to our employees, directors and consultants. The options issued under this Plan are intended to be Non-Statutory Stock Options exempt from Code Section 409A.

The duration of a stock option granted under our Plan cannot exceed ten years. The exercise price of an incentive stock option cannot be less than 100% of the fair market value of the common stock on the date of grant.

The Plan administrator determines the term of stock options granted under our Plan, up to a maximum of ten years, except in the case of certain events, as described below. Unless the terms of an optionee's stock option agreement provide otherwise, if an optionee's relationship with us ceases for any reason other than disability or death, the optionee may exercise any vested options for a period of ninety days following the cessation of service. If an optionee's service relationship with us ceases due to disability or death the optionee or a beneficiary may exercise any vested options for a period of 12 months in the event of disability or death.

Unless the Plan administrator provides otherwise, options generally are not transferable except by will, the laws of descent and distribution, or pursuant to a domestic relations order. An optionee may designate a beneficiary, however, who may exercise the option following the optionee's death.

The value of employee and non-employee stock warrants granted during the six months ended November 30, 2012 was estimated using the Black-Scholes model with the following assumptions:

	June 1, 2012	June 12, 2012	June 15, 2012	June 20, 2012
Expected volatility (based on historical volatility)	200.15%	154.39%	154.39%	154.39%
Expected dividends	0.00	0.00	0.00	0.00
Expected term in years	10	10	10	10
Risk-free rate	0.95%	1.67%	1.60%	1.65%

	July 27, 2012	August 7, 2012
Expected volatility (based on historical volatility)	154.39%	154.39%
Expected dividends	0.00	0.00
Expected term in years	10	10
Risk-free rate	1.58%	1.66%

The expected volatility assumption was based upon historical stock price volatility measured on a daily basis. The risk-free interest rate assumption is based upon U.S. Treasury bond interest rates appropriate for the term of the Company' s employee stock options. The dividend yield assumption is based on our history and expectation of dividend payments.

A summary of the options granted to employees and non-employees under the plan and changes during the year ended May 31, 2012 and the six months ended November 30, 2012 is presented below:

A summary of the options granted to employees and non-employees under the plan and changes during the year ended May 31, 2012 and the six months ended November 30, 2012 is presented below:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (In Years)		Aggregate Intrinsic Value
Balance at June 1, 2011	5,420,000	$	0.75			
Granted	520,000		1.06			
Exercised	-		-			
Forfeited or expired	(780,000)		-			
Balance at May 31, 2012	5,160,000	$	0.77	9.00 years	$	185,000
Exercisable at May 31, 2012	2,980,829	$	0.71	9.00 years	$	--
Weighted average fair value of options granted during the year ended May 31, 2012		$	1.06			
Balance at June 1, 2012	5,160,000	$	0.77			
Granted	700,000		1.93			
Exercised	-		-			
Forfeited or expired	-		-			
Balance at November 30, 2012	5,860,000	$	0.90	9.00 years	$	185,000
Exercisable at November 30, 2012	2,980,829	$	0.71	9.00 years	$	--
Weighted average fair value of options granted during the year ended November 30, 2012		$	1.06			

2009 Stock Option Plan – The Company - continued

The following table summarizes information about employee stock options under the 2009 Plan outstanding at November 30, 2012:

Options Outstanding					Options Exercisable		
Range of Exercise Price	Number Outstanding at November 30, 2012	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value	Number Exercisable at November 30, 2012	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 0.60	1,945,000	8.00 Years	$ 0.60	$ --	1,900,040	$ 0.60	$ --
$ 0.65	1,400,000	8.00 Years	$ 0.65	$ 120,000	394,968	$ 0.65	$ --
$ 0.75	200,000	9.00 Years	$ 0.75	$ 15,000	100,000	$ 0.75	$ --
$ 1.00	50,000	10.00 Years	$ 1.00	$ --	--	$ 0.00	$ --
$ 1.01	225,000	9.00 Years	$ 1.01	$ --	106,656	$ 1.01	$ --
$ 1.02	650,000	10.0 Years	$ 1.02	$ 50,000	116,660	$ 1.02	$ --
$ 1.03	50,000	4.00 Years	$ 1.03	$ --	--	$ 0.00	$ --
$ 1.05	270,000	10.0 Years	$ 1.05	$ --	83,330	$ 1.05	$ --
$ 1.07	95,000	10.00 Years	$ 1.07	$ --	12,500	$ 1.07	$ --
$ 1.20	100,000	5.0 Years	$ 1.20	$ --	100,000	$ 1.20	$ --
$ 1.25	25,000	10.0 Years	$ 1.25	$ --	--	$ 0.00	$ --
$ 1.30	250,000	10.0 Years	$ 1.30	$ --	166,675	$ 1.30	$ --
$ 1.90	150,000	10.0 Years	$ 1.90	$ --	--	$ 0.00	$ --
$ 1.95	75,000	10.0 Years	$ 1.95	$ --	--	$ 0.00	$ --
$ 2.05	50,000	10.0 Years	$ 2.05	$ --	--	$ 0.00	$ --
$ 2.30	325,000	10.0 Years	$ 2.30	$ --	--	$ 0.00	$ -
	5,860,000	9.0 Years	$ 0.90	$ 185,000	2,980,829	$ 0.71	$ --

The total value of employee and non-employee stock options granted during the six months ended November 30, 2012 and 2011, was $1,315,619 and $143,267, respectively. During six months ended November 30, 2012 and 2011 the Company recorded $899,211 and $791,856, respectively, in stock-based compensation expense relating to stock option grants.

At November 30, 2012 and 2011 there was $1,747,689 and $2,130,783, respectively, of total unrecognized compensation cost related to stock options granted under the plan. That cost is expected to be recognized pro-rata through August 7, 2015. The following table represents the stock options expense for the each of the next four fiscal years ended May 31:

For years ended May 31,		**Expense**
2013	$	622,717
2014		706,184
2015		408,568
2016		10,220
	$	**1,747,689**

Stock Option Plan - MesoCoat

MesoCoat accounts for equity awards using the grant-date fair value.

The Company' s stock option plan (the Stock Option Plan) is intended to advance the interest of the Company and its shareholders. Options granted under the Stock Option Plan can be either incentive stock options or non-qualified stock options. The Stock Option Plan authorized the issuance of a maximum of 9,000 shares of the Company' s common stock. These options have a term of six years and will expire beginning August 2014 through November 2014.

A summary of the Company' s stock option plan as of November 30, 2012, and the changes during the period then ended is presented in the table below:

	Options Outstanding		
	Number of Shares		Weighted Average Exercise Price
Outstanding at May 31, 2012	4,450	$	2.68
Granted	-		
Exercised	-		
Forfeited	-		
Outstanding at November 30, 2012	4,450	$	2.68
Options exercisable at November 30, 2012	3,150	$	1.95

ABAKAN, INC, UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THREE AND SIX MONTHS ENDED NOVEMBER 30TH 2012 AND 2011 AND CUMULATIVE (USD $)	3 Months Ended		6 Months Ended		77 Months Ended
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012
Revenues					
Sales Revenue, Goods, Net	$ 50,781	$ 25,338	$ 70,081	$ 31,515	$ 147,472
Contract and Grants	777,502	391,654	1,324,829	689,768	3,423,583
Other Revenue, Net	(268,756)	131,885		175,982	764,879
Revenues	559,527	548,877	1,394,910	897,265	4,335,934
Cost of Revenue					
Cost of Revenue	205,227	220,948	542,001	391,031	1,591,199
Gross Profit	354,300	327,929	852,909	506,234	2,744,735
Operating Expenses					
Research and Development Expense	242,586	139,964	536,194	273,212	1,273,510
Depreciation, Nonproduction	108,432	84,171	193,932	166,230	526,016
General and Administrative Expense	176,990	111,098	338,677	217,303	1,233,944
Professional Fees	136,933	81,782	257,237	156,543	827,038
Professional fees - related parties	15,000	15,000	30,000	30,000	195,000
Consulting	259,085	159,417	623,017	384,789	2,327,312
Consulting - related parties	123,250	76,500	222,677	153,077	1,462,657
Payroll and benefits expense	160,701	215,442	343,677	353,049	1,341,982
Impairment of asset					180,000
Stock expense on note conversion	37,223		37,223		528,200
Stock options expense	439,427	453,339	899,211	791,856	3,487,995
Operating Expenses	1,699,627	1,336,713	3,481,845	2,526,059	13,383,654
Operating Income (Loss)	(1,345,327)	(1,008,784)	(2,628,936)	(2,019,825)	(10,638,919)
Investment Income, Nonoperating					
Interest Income, Net	62	74	3,755	221	8,126
Loss on debt settlement					(5,257)
Gain on debt settlement					257,252
Gain (Loss) on Sale of Assets					429,717
Unrealized gain on MesoCoat acquisition				1,764,345	1,764,345
Equity in Powdermet income/ (loss)	(100,276)	(24,775)	(59,101)	21,274	1,001,088
Equity in MesoCoat loss				(44,408)	(586,020)
Investment Income, Nonoperating	(436,188)	(223,581)	(676,216)	(1,383,437)	1,053,212
Interest and Debt Expense					
Interest Expense loans	(119,244)	(42,960)	(223,012)	(78,540)	(548,757)

Interest Expense related parties	(773)	(133)	(773)	(133)	(7,333)
Liquidated damages					(250,000)
Amortization of discount on debt	(215,957)	(155,787)	(397,085)	(279,322)	(1,009,949)
Interest and Debt Expense	(335,974)	(198,880)	(620,870)	(357,995)	(1,816,039)
Income (Loss) from Continuing Operations before Income Taxes, Extraordinary Items, Noncontrolling Interest	(1,781,515)	(1,232,365)	(3,305,152)	(636,388)	(9,585,707)
Noncontrolling interest in MesoCoat Loss	209,062	69,975	325,316	123,867	283,506
Net Income (Loss) Attributable to Abakan Inc	(1,572,453)	(1,162,390)	(2,979,836)	(1,634,929)	(9,302,201)
Net Income (Loss) Attributable to Parent	$ (1,572,453)	$ (1,162,390)	$ (2,979,836)	$ (512,521)	$ (9,302,201)
Earnings Per Share					
Earnings Per Share, Basic	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.01)	
Earnings Per Share, Diluted	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.01)	
Weighted Average Number of Shares Outstanding, Basic	61,999,242	59,377,425	61,806,104	59,353,818	
Weighted Average Number of Shares Outstanding, Diluted	61,999,242	59,377,425	61,806,104	59,353,818	

Note 7 - Prepaid Expenses

6 Months Ended
Nov. 30, 2012

Notes
Note 7 - Prepaid Expenses

NOTE 7 – PREPAID EXPENSES

Prepaid expenses consisted of the following at November 30, 2012:

	November 30, 2012		
Name	**Description**		**Amount**
Steven Ferris	Prepayment retainer for services		15,000
Better Investing	Prepayment retainer for services	$	1,875
IPFS Corporation	Prepayment for insurance		9,070
Optiminera SA	Prepayment retainer for services		25,500
Financial Insights	Prepayment retainer for services		5,000
Crystal Research Associates	Prepayment retainer for services		10,417
Hall, Lamb, & Hall	Prepayment retainer for legal fees		5,782
Fulcrum Financial Inquiry	Prepayment retainer for services		15,800
Antenna Group	Prepayment retainer for services		2,555
Steven Rosenfeld, PC	Prepayment retainer for legal fees		2,000
Wolf, Rifkin, Shapiro	Prepayment retainer for legal fees		12,000
Rick Beck Engineering	Prepayment retainer for services		18,304
Deposits	Prepayment retainer for services		18,304
	Total	$	133,161

Prepaid expenses consisted of the following at May 31, 2012:

	May 31, 2012		
Name	**Description**		**Amount**
Steven Ferris	Prepayment retainer for services	$	7,500
Better Investing	Prepayment retainer for services		4,125
Urish Popeck & Co	Prepayment retainer for valuation		8,000
Optiminera SA	Prepayment retainer for services		76,500
The Money Channel	Prepayment retainer for services		8,775
Crystal Research Associates	Prepayment retainer for services		41,667
Hall, Lamb, & Hall	Prepayment retainer for legal fees		29,572
Deposits	Prepayment retainer for services		6,995
	Total	$	183,134

Note 6 - Assignment Agreement - Mesocoat	6 Months Ended Nov. 30, 2012
Notes	
Note 6 - Assignment Agreement - Mesocoat	**NOTE 6 – ASSIGNMENT AGREEMENT – MESOCOAT** On March 25, 2011, the Company entered into an assignment agreement (the Agreement) whereby it would assume the exclusive rights to distribute MesoCoat' s products intended for applications specific to the oil and gas pipeline industry in consideration of $250,000. The Agreement was entered into with a company that entered into an exclusive distribution agreement with MesoCoat dated October 10, 2008 which was in effect for 10 years following the original date of the exclusive distribution agreement. On May 31, 2011, the Company completed the transfer of consideration and assumed all rights to the agreement. We commenced amortization on June 1, 2012, over the remaining term of 76 months, and have recorded $19,733 in amortization expense as of the six months ended November 30, 2012.

NOTE 2: Significant Accounting Policies: Basis of Presentation (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Basis of Presentation	*Basis of Presentation* In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company' s financial position as of November 30, 2012, and the results of its operations and cash flows for the three and six months ended November 30, 2012, have been made. Operating results for the six months ended November 30, 2012 are not necessarily indicative of the results that may be expected for the year ended May 31, 2013. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes for the year ended May 31, 2012, thereto contained in the Company' s Form 10-K.

Note 14 - Commitments

6 Months Ended
Nov. 30, 2012

Notes
Note 14 - Commitments

NOTE 14 – COMMITMENTS

Leases

In August 2011, the Company entered into a non-cash leasing arrangement where services are provided in exchange for an asset. The Company has an obligation to provide 600 hours of services at a fair value of $120,000 as consideration during the period from August 2011 to August 2017. The Company has recorded this capital lease at its fair value.

The Company leases its office space in Miami on a month to month basis at a cost of $2,213 a month paid to Prosper Financial, Inc., a related party. The Company is also committed to a non-cancellable operating lease for a vehicle that expired in March 2012.

MesoCoat subleases its research and development and laboratory space, in Ohio, from Powdermet, a related party. The cost of the sub-lease to MesoCoat is $6,700 per month that expires on May 31, 2020.

Leases - continued

MesoCoat also leases machinery and equipment under various capital lease arrangements, which expires through September 2016. These leases are included in long-term and short-term debt and the related assets have been capitalized.

Total expense related to the operating leases was $40,200 and $26,889 for the six months ended November 30, 2012 and 2011. Interest expense for the leases for the six months ended November 30, 2012 and for the period of July 13 through November 30, 2012 was $612 and $1,991.

Minimum annual rental commitments are as follows at November 30, 2012:

For the years ended May 31,		Capital Leases		Operating Leases
2013	$	28,562	$	40,200
2014		23,181		80,400
2015		22,197		80,400
2016		21,273		80,400
2017 and thereafter		7,951		328,300
Total minimum lease payments	$	103,164	$	609,700
Less amount representing interest		(6,012)		

Present value of net minimum capital lease payments		97,152
Less current maturities		(36,595)
Long-term obligations under capital leases	$	60,557

Consulting agreement

On September 18, 2012, we entered into a consulting agreement commencing September 18, 2012, with an unrelated individual to provide investor public relations consulting. The terms of the consulting agreement are that the consultant is paid $5,000 per month; in addition the consultant was issued 25,000 shares of our restricted common stock for the initial three month period. Then commencing December 18, 2012 and each quarter after the Company will issue Shares of our restricted common stock valued at $60,000 per quarter. We also agreed to reimburse the consultant for all reasonable business expenses incurred by him in the performance of his duties, with a term expiring September 18, 2013.

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Note 10 - Stockholders' Equity	6 Months Ended Nov. 30, 2012

Notes

Note 10 - Stockholders' Equity **NOTE 10 – STOCKHOLDERS' EQUITY**

Common Shares – Authorized

The Company has 2,500,000,000 common shares authorized at a par value of $0.0001 per share and 50,000,000 shares of preferred stock, par value $0.0001 per share. All common stock shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and, therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all the directors of the Company.

Common Stock Issuances

Private placements

For the six months ended November 30, 2012, we issued the following shares:

On July 30, 2012, we closed a private placement for $525,000, or 300,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.00 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $525,000.

On September 28, 2012, we closed a private placement for $262,500, or 150,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.00 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $262,500.

On October 18, 2012, we closed a private placement for $230,000, or 100,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $230,000.

Private placements- continued

On November 26, 2012, we closed a private placement for $16,100, or 7,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $16,100.

On November 26, 2012, we closed a private placement for $16,100, or 7,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $16,100.

On November 30, 2012, we closed a private placement for $57,500, or 25,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $57,500.

Conversion of debt to shares

On November 30, 2012, we converted several debt obligations for $168,033, or 73,058 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we incurred stock expense on conversion of $29,223.

On November 30, 2012, we converted several accounts payables for $46,000, or 20,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we incurred stock expense on conversion of $8,000.

Share based compensation

For the six months ended November 30, 2012, we issued the following shares for compensation:

On June 1, 2012, we issued 12,500 shares of our common stock for services performed valued at $32,625.

On June 1, 2012, we issued 12,500 shares of our common stock for services performed valued at $27,750.
On July 1, 2012, we issued 12,500 shares of our common stock for services performed valued at $25,000.
On July 9, 2012, we issued 10,000 shares of our common stock for services performed valued at $20,000.
On August 7, 2012, we issued 10,000 shares of our common stock for services performed valued at $19,000.
On September 18, 2012, we issued 25,000 shares of our common stock for services performed valued at $42,750.
On November 29, 2012, we issued 20,000 shares of our common stock for services performed valued at $51,000, including costs of $21,000.

Common Stock Warrants

In connection with the above private placement we valued the common stock warrants granted during the six months ended November 30, 2012, using the Black-Scholes model with the following assumptions:

	July 30, 2012	September 28, 2012	October 18, 2012	November 26, 2012	November 30, 2012
Expected volatility (based on historical volatility)	154.31%	150.62%	150.62%	150.62%	150.62%
Expected dividends	0.00	0.00	0.00	0.00	0.00
Expected term in years	2.00	2.00	2.00	2.00	2.00
Risk-free rate	0.23%	0.23%	0.29%	0.27%	0.25%

The expected volatility assumption was based upon historical stock price volatility measured on a daily basis. The risk-free interest rate assumption is based upon U.S. Treasury bond interest rates appropriate for the term of the Company' s warrants. The dividend yield assumption is based on our history and expectation of dividend payments. All warrants are immediately exercisable upon granting.

A summary of the common stock warrants granted during the year ended May 31, 2012 and the six months ended November 30, 2012 is presented below:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (In Years)		Aggregate Intrinsic Value
Balance at June 1, 2011	2,670,233	$	0.85			
Granted	1,696,063		1.67			
Exercised	-		-			
Forfeited or expired	(2,300,000)		0.75			
Balance at May 31, 2012	2,066,296	$	1.64	2.00 years	$	--
Exercisable at May 31, 2012	2,066,296	$	1.64	2.00 years	$	--
Weighted average fair value of options granted during the year ended May 31, 2012		$	1.64			
Balance at June 1, 2012	2,066,296	$	1.64			
Granted	337,500		2.23			
Exercised	-		-			
Forfeited or expired	-		-			
Balance at November 30, 2012	2,403,796	$	1.85	2.00 years	$	--
Exercisable at November 30, 2012	2,403,796	$	1.85	2.00 years	$	--
Weighted average fair value of options granted during the three months ended November 30, 2012		$	1.85			

The following table summarizes information about the warrants outstanding at November 30, 2012:

Options Outstanding					Options Exercisable		
Range of Exercise Price	Number Outstanding at November 30, 2012	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value	Number Exercisable at November 30, 2012	Weighted Average Exercise Price	Aggregate Intrinsic Value

$	1.25	706,600	2.00 Years	$	1.25	$	--	706,600	$	1.25	$	--
$	1.50	410,233	2.00 Years	$	1.50	$	--	410,233	$	1.50	$	--
$	2.00	1,174,463	2.00 Years	$	2.00	$	--	1,174,463	$	2.00	$	--
$	2.70	112,500	2.00 Years	$	2.70	$	--	112,500	$	2.00	$	--
		2,403,796	2.00 Years	$	1.85	$	--	2,403,796	$	1.85	$	--

NOTE 2: Significant Accounting Policies: Indefinite-lived Intangible Assets (Details) (USD $)	May 31, 2013
Deferred Tax Liabilities, Deferred Expense, Capitalized Research and Development Costs	$ 6,120,200

Note 8 - Investment in Non-controlling Interest	6 Months Ended Nov. 30, 2012

Notes

Note 8 - Investment in Non-controlling Interest

NOTE 8 – INVESTMENT IN NON-CONTROLLING INTEREST

Powdermet, Inc.

Under the terms of our September 7, 2010 amendment to our stock purchase agreement dated June 28, 2010, the Company entered into a stock purchase agreement with Kennametal Inc. (“Kennametal”) to purchase from Kennametal five hundred and ninety six thousand eight hundred and thirteen (596,813) shares, representing a forty one percent (41%) interest in Powdermet, Inc. (“Powdermet”), in exchange for one million six hundred fifty thousand dollars ($1,650,000).

The terms and conditions of the stock purchase agreement required the Company to pay an initial payment of five hundred thousand dollars ($500,000) to Kennametal on September 7, 2010, and the remainder on or before September 30, 2010. The stock purchase agreement contains additional terms related to monthly liquidated damages in the amount of fifty thousand ($50,000) per month starting October 1, 2010. The transaction was to close no later than December 31, 2010.

We made the initial payment of $500,000 on September 7, 2010 and did not make the payment on the balance as agreed; accordingly we recorded liquidating damages of $50,000 per month beginning October 1, 2010, for a total of $250,000 as of the period ended February 28, 2011.

On January 19, 2011, we amended the Stock Purchase Agreement with Kennametal to complete the purchase of Powdermet shares from Kennametal no later than February 15, 2011 for $1,150,000. We did not make our payment on the balance as agreed. On March 21, 2011, we entered into an accord and satisfaction agreement to fulfill the terms of our agreement and settled our debt in full to Kennametal in the amount of $1,200,000.

Powdermet was the parent company of MesoCoat, owning 66% of MesoCoat at May 31, 2011. Andy Sherman serves as the chief executive officer of both Powdermet and MesoCoat in addition to his duties as a member of the Company’ s board of directors. Through the Company’ s purchase of 41% of Powdermet, we also gain indirect ownership of the additional shares of MesoCoat that Powdermet owns.

We have analyzed our investment in accordance of *“Investments – Equity Method and Joint Ventures”* (ASC 323), and concluded that when the stock purchase agreement was completed our 41% minority interest investment gave us significant influence over Powdermet’ s business actions, board of directors, and its management, and therefore we account for our investment using the Equity Method. The table below reconciles our investment amount and equity method amounts to the amount on the accompanying balance sheet.

March 21, 2011, initial investment	$ 1,650,000
Equity in profit for period of March 21 through May 31, 2011	71,656
Investment balance, May 31, 2011	$ 1,721,656
Equity in profit for year ended May 31, 2012	988,533
Investment balance, May 31, 2012	$ 2,710,189
Equity in loss for six months ended November 30, 2012	(59,101)

Investment balance, November 30, 2012	$ 2,651,088

Powdermet' s ownership in MesoCoat was diluted when the Company exercised its initial option to purchase 86,156 shares of common stock from MesoCoat. Powdermet' s ownership in MesoCoat as of November 30, 2012 is 47.50%.

Below is a table with summary financial results of operations and financial position of Powdermet:

Powdermet Inc.					
		For the six months ended November 30, 2012			**For the six months ended November 30, 2011**
Equity Percentage		41%			41%
Condensed income statement information:					
Total revenues	$	1,238,694	$	$	983,055
Total cost of revenues		492,708			417,300
Gross margin		745,986			565,755
Total expenses		890,134			513,866
Net profit/ (loss)	$	(144,148)	$	$	51,890
Company' s equity in net profit/ (loss)	$	(59,101)	$	$	21,274
Condensed balance sheet information:		**November 30, 2012**			**May 31, 2012**
Total current assets	$	650,246	$		578,725
Total non-current assets		4,652,477			4,234,600
Total assets	$	5,302,723	$		4,813,325
Total current liabilities	$	255,398	$		395,614
Total non-current liabilities		2,886,727			2,105,370
Total equity		2,160,598			2,312,341
Total liabilities and equity	$	5,302,723	$		4,813,325

Note 9 - Loans Payable | **6 Months Ended Nov. 30, 2012**

Notes
Note 9 - Loans Payable

NOTE 9 – LOANS PAYABLE

As of November 30, 2012 and May 31, 2012, the loans payable balance comprised of:

Description	November 30, 2012	May 31, 2012
Convertible demand note to an unrelated entity bearing 5% interest per annum which matures on April 13, 2013. The note is shown net of a discount of $48,739 and $99,769, respectively, attributable to the beneficial conversion feature, and an effective interest rate of 30.19%.	$ 451,261	$ 400,231
Convertible demand note to an unrelated entity bearing 5% interest per annum which matures on March 17, 2013. The note is shown net of a discount of $122,876 and $285,083, respectively, attributable to the beneficial conversion feature, and an effective interest rate of 31.19%.	1,377,124	1,214,917
Convertible demand note to an unrelated entity bearing 5% interest per annum which matures on June 7, 2013. The note is shown net of a discount of $119,705 and $161,469, respectively, attributable to the beneficial conversion feature, and an effective interest rate of 175.84%.	80,295	38,531
Convertible demand note to an unrelated entity bearing 5% interest per annum which matures on July 14, 2013. The note is shown net of a discount of $325,176 and $429,329, respectively, attributable to the beneficial conversion feature, and an effective interest rate of 142.77%.	174,824	70,671
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	70,000	70,000
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	3,850	3,850
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	33	303
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	19,350	19,350
Uncollateralized demand note to an unrelated entity bearing 8% interest per annum	20,000	20,000
Collateralized note to an unrelated entity bearing 1% interest for the first year and then 7% per annum for years two - seven	900,543	-
Uncollateralized demand note to a related entity bearing 8% interest per annum	30,000	-
Convertible demand note to an unrelated entity bearing 7.5% imputed interest per annum which matures on July 10, 2018.	54,435	56,043
Capital leases payable to various vendors expiring in various years through September 2016; collateralized by certain equipment with a cost of $205,157.	97,152	115,175
Uncollateralized demand note to an unrelated entity for royalties shown net of discount of $46,788 and $82,454, respectively	1,618,112	1,717,546
	$ 4,896,979	$ 3,726,617
Less current liabilities	2,744,726	2,508,164
Total long term liabilities	$ 2,152,253	$ 1,218,453

We also owed $330,104 and $183,106 in accrued interest for the above notes as of November 30, 2012 and May 31, 2012, respectively. We also amortized $397,085 and $279,322 in discount on debt as of November 30, 2012, and 2011, respectively.

As of November 30, 2012 and May 31, 2012, we had no restrictive covenants attached to any of the above referenced notes.

Future maturity of our notes payable as of November 30, 2012 is presented in the table below:

For the years ended May 31,	
2013	$ 2,744,726
2014	1,133,227
2015	342,378
2016	151,303
2017 and beyond	525,345
	$ 4,896,979

Development Loan - MesoCoat

On October 2, 2012 we began drawing against a development loan from the State of Ohio with a maximum amount of $1,000,000, and bearing an interest rate of one percent the first year after the disbursement date, and then for years two through seven, the interest rate is seven percent. On October 2, 2012, we received our first payout from this loan of $584,066, and then we received on October 5, 2012 a second payout of $316,477, for a total of $900,543. The loan is to be repaid over seven years, and is collateralized the project equipment, one CermaClad system and automated pipe blasting equipment, and all inventory, equipment, all fixtures, all intangibles and accounts receivables owned by MesoCoat.

Note 11 - Earnings-per-share Calculation | **6 Months Ended Nov. 30, 2012**

Notes

Note 11 - Earnings-per-share Calculation

NOTE 11 – EARNINGS-PER-SHARE CALCULATION

Basic earnings per common share for the three and six months ended November 30, 2012 and 2011 are calculated by dividing net income by weighted-average common shares outstanding during the period. Diluted earnings per common share for the six months ended November 30, 2012 and 2011 are calculated by dividing net income by weighted-average common shares outstanding during the period plus dilutive potential common shares, which are determined as follows:

	For the three months ended November 30, 2012	***For the three months ended November 30, 2011***
Net earnings (loss) from operations	$ (1,572,453)	$ (1,162,390)
Weighted-average common shares	61,999,242	59,377,425
Effect of dilutive securities:		
Warrants	-	-
Options to purchase common stock	-	-
Dilutive potential common shares	61,999,242	59,377,425
Net earnings per share from operations:		
Basic	$ (0.03)	$ (0.02)
Diluted	$ (0.03)	$ (0.02)

	For the six months ended November 30, 2012	***For the six months ended November 30, 2011***
Net earnings (loss) from operations	$ (2,979,836)	$ (512,521)
Weighted-average common shares	61,806,104	59,353,818
Effect of dilutive securities:		
Warrants	-	-
Options to purchase common stock	-	-
Dilutive potential common shares	61,806,104	59,353,818
Net earnings per share from operations:		
Basic	$ (0.05)	$ (0.01)
Diluted	$ (0.05)	$ (0.01)

Dilutive potential common shares are calculated in accordance with the treasury stock method, which assumes that proceeds from the exercise of all warrants and options are used to repurchase common stock at market value. The amount of shares remaining after the proceeds are exhausted represents the potentially dilutive effect of the securities. The increasing number of warrants used in the calculation is a result of the increasing market value of the Company' s common stock.

In periods where losses are reported the weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive.

These securities below were excluded from the calculations above because to include them would be anti-dilutive:

	For the three months ended November 30, 2012	*For the three months ended November 30, 2011*
Common Stock Equivalents:		
Warrants	2,403,796	2,710,233
Options to purchase common stock	5,860,000	5,545,000
Total of Common Stock Equivalents:	8,263,796	8,255,233

	For the six months ended November 30, 2012	*For the six months ended November 30, 2011*
Common Stock Equivalents:		
Warrants	2,403,796	2,710,233
Options to purchase common stock	5,860,000	5,545,000
Total of Common Stock Equivalents:	8,263,796	8,255,233

Note 4 - Property, Plant and Equipment: Schedule of Property, Plant and Equipment (Details) (USD $)	Nov. 30, 2012	May 31, 2012
Machinery and Equipment, Gross	$ 734,099	$ 427,641
Construction in Progress, Gross	3,516,352	2,617,196
Furniture and Fixtures, Gross	43,538	35,369
Leasehold Improvements, Gross	54,177	53,818
Preconfirmation, Accumulated Depreciation and Amortization	$ (160,597)	$ (112,936)

Note 5 - Patents and Licenses (Details) (USD $) In Thousands, unless otherwise specified	6 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011
Amortization Expense Per Dollar of Gross Revenue	$ 126,538	$ 147,354
Interest Costs Capitalized Adjustment	$ 22,451	$ 27,148

NOTE 2: Significant Accounting Policies: Advertising Expenses (Details) (USD $) In Thousands, unless otherwise specified	5 Months Ended
	Aug. 31, 2012
Advertising Expense	$ 1,125

NOTE 2: Significant Accounting Policies: Indefinite-lived Intangible Assets (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Indefinite-lived Intangible Assets	*Indefinite-Lived Intangible Assets* In accordance with GAAP, Intellectual Property – Research and Development in the amount of $6,120,200 related to the acquisition of MesoCoat, will not be amortized and will be reviewed for impairment on an annual basis starting fiscal year ending May 31, 2013, due to its indefinite life.

Note 17- Subsequent Events: Private Placements (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Private Placements	*Private Placements* On December 7, 2012, we closed two private placements for a total of $279,450, or 121,500 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $279,450. On December 10, 2012, we closed a private placement for $230,000, or 100,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $230,000. On December 18, 2012, we closed three private placements for a total of $211,600, or 92,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $211,600. On December 24, 2012, we closed a private placement for $103,500, or 45,000 units consisting of one share of our restricted common stock and one-half common stock warrant to purchase shares of our common stock, with a purchase price of $2.70 per share and an expiration date of two years from the closing. In connection with this placement we had no offering costs for a net of $103,500.

Note 16 - Recent Accounting Pronouncements	6 Months Ended Nov. 30, 2012
Notes	
Note 16 - Recent Accounting Pronouncements	**NOTE 16 – RECENT ACCOUNTING PRONOUNCEMENTS** We have examined all recent accounting pronouncements and believe that none of them will have a material impact on the financial statements of the Company.

NOTE 2: Significant Accounting Policies: Non-controlling Interest (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Non-controlling Interest	*Non-Controlling Interest* Non-controlling interest represents the minority members’ proportionate share of the equity of MesoCoat, Inc. The Company’ s controlling interest in MesoCoat requires that its operations be included in the consolidated financial statements. The equity interest of MesoCoat that is not owned by the Company is shown as non-controlling interest in the consolidated financial statements.

Note 14 - Commitments: Leases (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Leases	*Leases* In August 2011, the Company entered into a non-cash leasing arrangement where services are provided in exchange for an asset. The Company has an obligation to provide 600 hours of services at a fair value of $120,000 as consideration during the period from August 2011 to August 2017. The Company has recorded this capital lease at its fair value. The Company leases its office space in Miami on a month to month basis at a cost of $2,213 a month paid to Prosper Financial, Inc., a related party. The Company is also committed to a non-cancellable operating lease for a vehicle that expired in March 2012. MesoCoat subleases its research and development and laboratory space, in Ohio, from Powdermet, a related party. The cost of the sub-lease to MesoCoat is $6,700 per month that expires on May 31, 2020. *Leases - continued* MesoCoat also leases machinery and equipment under various capital lease arrangements, which expires through September 2016. These leases are included in long-term and short-term debt and the related assets have been capitalized. Total expense related to the operating leases was $40,200 and $26,889 for the six months ended November 30, 2012 and 2011. Interest expense for the leases for the six months ended November 30, 2012 and for the period of July 13 through November 30, 2012 was $612 and $1,991. Minimum annual rental commitments are as follows at November 30, 2012:

For the years ended May 31,		Capital Leases		Operating Leases
2013	$	28,562	$	40,200
2014		23,181		80,400
2015		22,197		80,400
2016		21,273		80,400
2017 and thereafter		7,951		328,300
Total minimum lease payments	$	103,164	$	609,700
Less amount representing interest		(6,012)		
Present value of net minimum capital lease payments		97,152		

Less current maturities		(36,595)
Long-term obligations under capital leases	$	60,557

NOTE 2: Significant Accounting Policies: Use of Estimates in The Preparation of Financial Statements (Policies)	6 Months Ended
	Nov. 30, 2012
Policies	
Use of Estimates in The Preparation of Financial Statements	*Use of Estimates in the Preparation of Financial Statements* The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The more significant areas requiring the use of estimates include asset impairment, stock-based compensation, beneficial conversion features on debt instruments, and future income tax amounts. Management bases its estimates on historical experience and on other assumptions considered to be reasonable under the circumstances. Actual results may differ from the estimates.

ABAKAN INC UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED 30TH NOVEMBER 2012 AND 2011 AND CUMULATIVE (USD $)	6 Months Ended		75 Months Ended
	Nov. 30, 2012	Nov. 30, 2011	Sep. 30, 2012
Net Cash Provided by (Used in) Operating Activities			
Net Income (Loss), Including Portion Attributable to Noncontrolling Interest	$ (3,305,152)	$ (636,388)	$ (9,585,707)
Adjustments, Noncash Items, to Reconcile Net Income (Loss) to Cash Provided by (Used in) Operating Activities			
Depreciation and Amortization	193,932	166,230	526,016
Amortization of discount on debt	397,085	279,322	1,009,949
Amortization of deferred financing fees		730	
Stock options expense	899,211	791,856	3,487,995
Stock expense from note conversion	37,223		528,200
Stock issued for services	222,125	76,000	902,776
Equity in investee profit	(41,175)	(46,049)	(1,029,707)
Unrealized Gain (Loss) on MesoCoat acquisition		(1,764,345)	(1,764,345)
Gain (Loss) on Sale of capital asset			(429,717)
Increase (Decrease) in Operating Assets			
Increase (Decrease) in Receivables	(63,058)	75,513	85,545
Related Parties receivable			(4,500)
Increase (Decrease) in Prepaid Expense and Other Assets	59,031	(25,977)	(138,256)
Increase (Decrease) in Prepaid Expense related parties		1,485	14,152
Increase (Decrease) in Operating Liabilities			
Increase (Decrease) in Accounts Payable	217,875	272,145	857,433
Accounts Payable related increase	110,094	156,735	273,598
Increase (Decrease) in Accrued Interest -related parties			2,664
Increase (Decrease) in Accrued Interest loans payable	223,785	77,801	383,189
Increase (Decrease) in Accrued Liabilities	55,235	96,922	233,426
Increase (Decrease) in Other Operating Liabilities Waste to Energy Group Inc.			180,000
Adjustments to Reconcile Net Income (Loss) to Cash Provided by (Used in) Operating Activities	2,411,639	227,551	5,733,059
Net Cash Provided by (Used in) Development Stage Activities	(893,513)	(408,837)	(3,852,648)
Net Cash Provided by (Used in) Investing Activities			
Payments to Acquire Property, Plant, and Equipment	(1,214,142)	(626,105)	(2,321,016)
Proceeds from sale of capital assets			470,000
Payments for (Proceeds from) MesoCoat - minority interest, net of cash assumed in business combination		307,650	(2,390,266)

Investment in MesoCoat Activity			(750,070)
Payments to Acquire Powdermet minority Interest, Net of Cash Acquired			(1,650,000)
Assignment Agreement MesoCoat Investing			(100,000)
Capitalized patents and licenses	(22,451)	(27,148)	(120,636)
Payments for (Proceeds from) Waste to Energy Group Inc and Interest in Affiliates			(180,000)
Net Cash Provided by (Used in) Investing Activities	(1,236,593)	(354,603)	(7,041,988)
Net Cash Provided by (Used in) Financing Activities			
Proceeds from (Repayments of) Notes Payable	898,606	944,833	4,374,242
Proceeds from (Repayments of) Related Party Debt	29,947	9,000	130,690
Proceeds from (Repayments of) Long-term Debt and Capital Securities	(18,023)	(11,565)	(72,662)
Proceeds from Issuance of Common Stock	1,091,101	245,465	7,022,942
Proceeds from Issuance or Sale of Equity	(15,500)		149,965
Proceeds from Contributed Capital			5,050
Net Cash Provided by (Used in) Financing Activities	1,986,131	1,187,733	11,610,227
Cash and Cash Equivalents, Period Increase (Decrease)	(143,975)	433,293	715,591
Cash Beginning Period	859,566		
Cash End Period	715,591	433,293	715,591
Supplemental Disclosures			
Cash paid for interest			964
Notes and accounts payable converted to stock			
Accounts payable - related parties supplemental	(46,000)		(251,971)
Loans payable - supplemental	(157,788)		(807,957)
Accrued interest - supplemental	(10,245)		(14,576)
Notes payable - related parties supplemental			(99,515)
Accrued interest related parties- supplemental			(9,724)
Common Stock - supplemental	214,033		1,188,493
Subscription payable - supplemental			(3,000)
Subscription receivable - supplemental			(1,750)
Stock issued for assignment agreement - MesoCoat			
Assignment Agreement MesoCoat			(150,000)
Common Stock Assignment Agreement MesoCoat			150,000
Capital lease equipment acquired			
Property plant and equipment		38,532	126,907
Capital Lease Payable		(38,532)	(126,907)
Non-cash write off of balances			
Accounts payable - related parties non cash			52,030
Loans payable - non cash			(156)
Accrued interest - non cash			(553)
Notes payable - related parties non cash			(52,260)
Accrued interest related parties- non cash			(811)
Subscription receivable - non cash			1,750
Beneficial conversion valuation			
Additional paid-in capital		505,873	1,241,449

Discount on convertible debts	(505,873)	(1,241,449)
Controlling interest purchase - MesoCoat		
Accounts receivable MesoCoat	171,457	171,457
Property and equipment net MesoCoat	1,899,598	1,899,598
Patents and licenses net MesoCoat	2,170,391	7,938,206
Deferred financing fees MesoCoat	(3,608)	
Increase (Decrease) in Other Operating Assets and Liabilities, Net	4,245,053	10,009,261
Accounts payable - MesoCoat	(268,398)	(268,398)
Capital Leases MesoCoat	(42,906)	(42,907)
Loans Payable and Accrued interest - MesoCoat	(2,415,469)	(2,233,474)
Other accrued liabilities MesoCoat	(65,545)	(65,545)
Increase (Decrease) in Operating Liabilities	(2,792,318)	(2,610,324)
Assets, Current MesoCoat	1,452,735	7,398,937
Non-Controlling interest equity - MesoCoat	(1,468,023)	3,412,500
Goodwill MesoCoat	4,335,646	364,384
Investment in MesoCoat	(1,849,665)	(1,849,665)
MesoCoat net Assets, received	$ 2,470,693	$ 2,501,156

Note 5 - Patents and Licenses

6 Months Ended
Nov. 30, 2012

Notes

Note 5 - Patents and Licenses

NOTE 5 - PATENTS AND LICENSES

Patents and licenses consist of the following:

		November 30, 2012		May 31, 2012
Patents	$	82,693	$	72,991
Website		21,000		21,000
Intellectual Property Research and Development		6,120,200		6,120,200
Licenses		1,855,949		1,843,200
		8,079,842		8,057,391
Less accumulated amortization		(407,614)		(281,076)
	$	**7,672,228**	$	**7,776,315**

Amortization expense was $126,538 and $147,354 for the three months ended November 30, 2012 and 2011, respectively. In the three months ended November 30, 2012 and 2011, we have capitalized an additional $22,451 and $27,148, respectively, on patents and licenses, and have begun amortizing those according to our policy.

Future amortization patents and licenses as of November 30, 2012 are presented in the table below:

For the years ended May 31,		
2013	$	161,860
2014		288,398
2015		288,398
2016		288,398
2017 and beyond		524,974
	$	1,552,028

Patent license agreement

The Company has an exclusive commercial patent license agreement with a third party which requires the Company to invest in the research and development of technology and the market for products by committing to a certain level of personnel hours and $350,000 of expenditures.

The patent license agreement required a total of $50,000 in execution fees which are included in intangible assets. The patent license agreements requires royalty payments equal to 2.5% of net sales of the product sold by the Company beginning after the first commercial sale. For the first calendar year after the achievement of a certain milestone and the following two calendar years during the term of the agreement, the Company will pay a minimum annual royalty payment of $10,000, $15,000 and $20,000 respectively.

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Note 5 - Patents and Licenses: Schedule of amortization of patents licenses (Tables)	6 Months Ended
	Nov. 30, 2012
Tables/Schedules	
Schedule of amortization of patents licenses	Future amortization patents and licenses as of November 30, 2012 are presented in the table below:

For the years ended May 31,		
2013	$	161,860
2014		288,398
2015		288,398
2016		288,398
2017 and beyond		524,974
	$	1,552,028

NOTE 2: Significant Accounting Policies: Development Stage Enterprise (Policies)	6 Months Ended Nov. 30, 2012
Policies	
Development Stage Enterprise	*Development Stage Enterprise* At November 30, 2012, the Company' s business operations had not fully developed and the Company is highly dependent upon funding and therefore is considered a development stage enterprise

NOTE 2: Significant Accounting Policies: Research and Development Costs (Policies)	**6 Months Ended**
	Nov. 30, 2012
Policies	
Research and Development Costs	*Research and Development Costs* Research and development costs are charged to expense as incurred and are included in operating expenses. Total research and development costs were $293,608 and $133,248 for the three months ended August 31, 2012 and 2011, respectively.

Note 15 - Employee Benefit Plans	6 Months Ended Nov. 30, 2012
Notes	
Note 15 - Employee Benefit Plans	**NOTE 15 - EMPLOYEE BENEFIT PLANS** The Company has a 401(k) Plan (the Plan) covering substantially all of its employees who are at least age 21 and have completed three months of service. Participating employees may elect to contribute, on a tax deferred basis, a portion of their compensation in accordance with Section 401(k) of the Internal Revenue Code. Additional matching contributions may be made to the Plan at the discretion of the Company. For the six months ended November 30, 2012, the Company contributed $10,339.