GEOSPATIAL CORPORATION

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Geospatial Corporation

We have audited the accompanying consolidated balance sheets of Geospatial Corporation (a Nevada corporation) as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Geospatial Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the financial statements, the Company has incurred net losses since inception, operations and capital requirements since inception have been funded by sales of stock and advances from its chief executive officer and current liabilities exceed current assets by $4,890,766. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Goff Backa Alfera and Company, LLC
Pittsburgh, Pennsylvania
October 10, 2014

Geospatial Corporation and Subsidiaries
Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013	December 31, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	$ 181,104	$ 778,597	$ 3,928
Accounts receivable	162,300	264,750	—
Prepaid expenses and other current assets	271,508	119,426	109,309
Total current assets	614,912	1,162,773	113,237
Property and equipment:			
Field equipment	339,079	141,891	36,363
Field vehicles	43,285	43,285	16,870
Total property and equipment	382,364	185,176	53,233
Less: accumulated depreciation	(96,443)	(25,417)	(3,760)
Net property and equipment	285,921	159,759	49,473
Total assets	$ 900,833	$ 1,322,532	$ 162,710
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	$ 680,922	$ 889,856	$ 1,016,809
Accrued expenses	1,013,711	1,002,879	4,836,596
Due to related parties	95,405	65,786	878,913
Notes payable to related parties	—	—	676,629
Current portion of capital lease liability to related party	3,355	3,283	3,189
Senior convertible redeemable notes, net of deferred debt issue costs	1,487,015	1,456,006	1,414,331
Notes payable	249,739	136,280	332,877
Accrued registration payment arrangement	2,525,075	—	—
Total current liabilities	6,055,222	3,554,090	9,159,344
Non-current liabilities:			
Notes payable	43,241	275,875	383,738
Capital lease liability to related party	7,611	10,136	13,419
Accrued registration payment arrangement	—	2,525,075	1,066,977
Other non-current liabilities	—	19,887	30,611
Total non-current liabilities	50,852	2,830,973	1,494,745
Total liabilities	6,106,074	6,385,063	10,654,089
Commitments and contingencies	—	—	—
Stockholders' deficit:			
Preferred stock:			
Undesignated, $0.001 par value; 20,000,000, 20,000,000 and 3,425,000 shares authorized at September 30, 2014, December 31, 2013, and December 31, 2012, respectively; no shares issued and outstanding at September 30, 2014, December 31, 2013, and December 31, 2012	—	—	—
Series A Convertible Preferred Stock, $0.001 par value; 0, 0, and 1,575,000 shares authorized at September 30, 2014, December 31, 2013, and December 31, 2012, respectively; no shares issued and outstanding at September 30, 2014, December 31, 2013, and December 31, 2012	—	—	—
Series B Convertible Preferred Stock, $0.001 par value; 5,000,000, 5,000,000, and 0 shares authorized at September 30, 2014, December 31, 2013, and December 31, 2012, respectively; 530,049, 3,804,358, and 0 shares issued and outstanding at September 30, 2014, December 31, 2013, and December 31, 2012, respectively	530	3,804	—
Common stock, $.001 par value; 350,000,000, 350,000,000, and 100,000,000 shares authorized at September 30, 2014, December 31, 2013 and December 31, 2012, respectively; 125,681,606, 89,514,092, and 45,980,623 shares issued and outstanding at September 30, 2014, December 31, 2013, and December 31, 2012, respectively	125,682	89,514	45,981
Series B Convertible Preferred Stock subscribed	—	—	846,685
Additional paid-in capital	33,403,224	31,910,317	22,869,831
Accumulated deficit	(38,734,677)	(37,066,166)	(34,253,876)
Total stockholders' deficit	(5,205,241)	(5,062,531)	(10,491,379)
Total liabilities and stockholders' deficit	$ 900,833	$ 1,322,532	$ 162,710

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

Geospatial Corporation and Subsidiaries
Consolidated Statements of Operations

	For the Years Ended December 31,		For the Nine Months Ended September 30,	
	2013	2012	2014	2013
			(Unaudited)	
Sales	$ 556,088	$ 336,672	$ 254,151	$ 494,738
Cost of sales	193,321	145,916	145,626	162,781
Gross profit	362,767	190,756	108,525	331,957
Selling, general and administrative expenses	2,134,111	1,256,128	1,967,784	1,194,556
Net loss from operations	(1,771,344)	(1,065,372)	(1,859,259)	(862,599)
Other income (expense):				
Interest expense, net of interest income	(422,802)	(335,900)	(119,254)	(380,521)
Gain on extinguishment of debt	909,682	1,733	310,002	909,682
Registration payment arrangements	(1,527,826)	—	—	—
Other income	—	8,038	—	—
Total other income (expenses)	(1,040,946)	(326,129)	190,748	529,161
Net loss before income taxes	(2,812,290)	(1,391,501)	(1,668,511)	(333,438)
Provision for income taxes	—	—	—	—
Net loss	$ (2,812,290)	$ (1,391,501)	$ (1,668,511)	$ (333,438)
Basic and fully-diluted net loss per share of common stock	$ (0.05)	$ (0.03)	$ (0.02)	$ (0.01)

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

Geospatial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Deficit
For the Years Ended December 31, 2013 and 2012 (Audited); and for the Nine Months Ended September 30, 2014 (Unaudited)

	Preferred Stock		Common Stock		Series B Convertible Preferred Stock Subscribed	Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2011	—	$ —	43,935,623	$ 43,936		$22,728,726	$ (32,862,375)	$(10,089,713)
Issuance of common stock for registration penalty	—	—	45,000	45	—	3,105	—	3,150
Issuance of common stock for services	—	—	2,000,000	2,000	—	138,000	—	140,000
Series B Convertible Preferred Stock subscribed	—	—	—	—	631,685	—	—	631,685
Series B Convertible Preferred Stock subscribed in settlement of liabilities	—	—	—	—	215,000	—	—	215,000
Net loss for the year ended December 31, 2012	—	—	—	—	—	—	(1,391,501)	(1,391,501)
Balance, December 31, 2012	—	—	45,980,623	45,981	846,685	22,869,831	(34,253,876)	(10,491,379)
Issuance of common stock for registration penalty	—	—	996,120	996	—	68,732	—	69,728
Issuance of common stock in settlement of liabilities	—	—	30,280,922	30,281	—	4,459,384	—	4,489,665
Sale of common stock, net of issuance costs	—	—	5,124,287	5,124	—	1,367,846	—	1,372,970
Sale of Series B Convertible Preferred Stock, net of issuance costs	3,280,270	3,281	—	—	(631,685)	2,501,067	—	1,872,663
Issuance of Series B Convertible Preferred Stock in settlement of liabilites	1,237,302	1,237	—	—	(215,000)	649,875	—	436,112
Conversion of Series B Convertible Preferred Stock to common stock	(713,214)	(714)	7,132,140	7,132	—	(6,418)	—	—
Net loss for the year ended December 31, 2013	—	—	—	—	—	—	(2,812,290)	(2,812,290)
Balance, December 31, 2013	3,804,358	3,804	89,514,092	89,514	—	31,910,317	(37,066,166)	(5,062,531)
Sale of common stock, net of issuance costs	—	—	6,391,751	6,392	—	2,229,694	—	2,236,086
Exercise of warrants to purchase common stock, net of issuance costs	—	—	21,428	21	—	5,311	—	5,332
Exercise of warrants to purchase Series B Convertible Preferred Stock, net of issuance costs	106,745	107	—	—	—	266,464	—	266,571
Conversion of Series B Convertible Preferred Stock to common stock	(3,381,054)	(3,381)	33,810,540	33,811	—	(30,430)	—	—
Repurchase of shares of common stock for cancellation	—	—	(4,321,205)	(4,321)	—	(1,110,367)	—	(1,114,688)
Issuance of common stock for services	—	—	165,000	165	—	82,335	—	82,500
Issuance of common stock in settlement of liabilities	—	—	100,000	100	—	49,900	—	50,000
Net loss for the nine months ended September 30, 2014	—	—	—	—	—	—	(1,668,511)	(1,668,511)
Balance, September 30, 2014	530,049	$ 530	125,681,606	$ 125,682	$ —	$33,403,224	$ (38,734,677)	$ (5,205,241)

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

Geospatial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		For the Nine Months Ended September 30,	
	2013	2012	2014	2013
			(Unaudited)	
Cash flows from operating activities:				
Net loss	$ (2,812,290)	$ (1,391,501)	$ (1,668,511)	$ (333,438)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	21,657	3,760	71,026	15,427
Amortization of deferred debt issue costs	27,814	42,953	—	27,814
Gain on extinguishment of debt	(909,682)	(1,733)	(310,002)	(909,682)
Accrued registration payment arrangement	1,527,826	—	—	—
Issuance of common stock for services	—	140,000	82,500	—
Accrued interest payable	375,187	274,021	108,812	338,897
Changes in operating assets and liablities:				
Accounts receivable	(264,750)	10,550	102,450	(203,400)
Costs and estimated earnings in excess of billings on uncompleted contracts	—	21,789	—	—
Prepaid expenses and other current assets	(10,117)	(41,695)	(152,082)	(68,963)
Accounts payable	(91,074)	6,742	73,265	471,449
Accrued expenses	(35,134)	359,109	10,832	(174,169)
Billings in excess of costs and estimated earnings on uncompleted contracts	—	(86,195)	—	—
Due to related parties	29,029	82,086	29,619	(562,359)
Other long-term liabilities	(10,724)	30,611	(19,887)	(7,813)
Net cash used in operating activities	(2,152,258)	(549,503)	(1,671,978)	(1,406,237)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(131,943)	(36,363)	(197,188)	(88,840)
Net cash used in investing activities	(131,943)	(36,363)	(197,188)	(88,840)
Cash flows from financing activities:				
Proceeds from issuance of notes payable	—	150,000	—	—
Principal payments on notes payable	(183,574)	(350,478)	(119,175)	(145,078)
Principal payments on capital lease liabilities	(3,189)	(262)	(2,453)	(2,383)
Proceeds from sale of common stock, net of offering costs	1,372,970	—	2,236,086	104,839
Proceeds from sale of Series B Convertible Preferred Stock, net of offering costs	1,872,663	631,685	—	1,790,005
Proceeds from exercise of warrants to purchase common stock, net of offering costs	—	—	5,332	—
Proceeds from exercise of warrants to purchase Series B Convertible Preferred Stock, net of offering costs	—	—	266,571	—
Repurchase of shares of common stock for cancellation	—	—	(1,114,688)	—
Net cash provided by financing activities	3,058,870	430,945	1,271,673	1,747,383
Net change in cash and cash equivalents	774,669	(154,921)	(597,493)	252,306
Cash and cash equivalents at beginning of period	3,928	158,849	778,597	3,928
Cash and cash equivalents at end of period	$ 778,597	$ 3,928	$ 181,104	$ 256,234
Supplemental disclosures:				
Cash paid during period for interest	$ 47,615	$ 18,926	$ 10,442	$ 13,810
Cash paid during period for income taxes	—	—	—	—
Non-cash transactions:				
Issuance of common stock for registration penalty	69,728	—	—	3,150
Issuance of common stock for services	—	140,000	82,500	—
Issuance of common stock in settlement of liabilities	4,489,665	—	50,000	1,489,665
Acquisition of property, plant and equipment through capital lease	—	16,870	—	—
Conversion of note payable to Series B Convertible Preferred Stock subscription	—	215,000	—	—
Issuance of Series B Convertible Preferred Stock in settlement of liabilities	651,112	—	—	—

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

Geospatial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2014 (unaudited), and December 31, 2013 and 2012 (audited)

Note 1 – Summary of Significant Accounting Policies

This summary of significant accounting policies of Geospatial Corporation, a Nevada corporation, formerly known as Geospatial Holdings, Inc., (the "Company"), is presented to assist in the understanding of the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The Company utilizes innovative technologies to acquire and manage data related to underground assets. The Company's services include pipeline data acquisition and professional data management. The Company also provided utility locating services through March, 2011. The Company is located in Sarver, Pennsylvania, and provides services throughout the United States.

Consolidation

The Company's financial statements include wholly-owned subsidiaries Geospatial Mapping Systems, Inc. and Utility Services and Consulting Corporation ("USCC"). USCC ceased operations in March, 2011. All material intercompany accounts and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of September 30, 2014, the consolidated statements of operations and statements of cash flows for the nine months ended September 30, 2014 and 2013 and the consolidated statement of changes in stockholders' deficit for the nine months ended September 30, 2014 are unaudited. The interim unaudited financial statements have been prepared on the same basis as the annual audited financial statements; and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the Company's financial position as of September 30, 2014, and the results of its operations and its cash flows for the nine months ended September 30, 2014 and 2013. The financial data and other information disclosed in these notes related to the nine months ended September 30, 2014 and 2013 are unaudited. The results for the nine months ended September 30, 2014 are not necessarily indicative of results to be expected for the year ending December 31, 2014, or any other interim periods, or any future year or period.

Geospatial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2014 (unaudited), and December 31, 2013 and 2012 (audited)

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Estimates and assumptions which, in the opinion of management, are significant to the underlying amounts included in the financial statements and for which it would be reasonably possible that future events or information could change those estimates include:

- Estimated useful lives of property and equipment;
- Estimated costs to complete fixed-price contracts;
- Realization of deferred income tax assets;
- Estimated number and value of shares to be issued pursuant to registration payment arrangements.

These estimates are discussed further throughout these Notes to Financial Statements.

Going Concern

Since its inception, the Company has incurred net losses. In addition, the Company's operations and capital requirements have been funded since its inception by sales of its common stock and advances from its chief executive officer. At September 30, 2014, the Company's current liabilities exceeded its current assets by $5,440,310, and total liabilities exceeded total assets by $5,205,241. Those factors create an uncertainty about the Company's ability to continue as a going concern. The Company's management has implemented plans to secure financing sufficient for the Company's operating and capital requirements, and to negotiate settlements or extensions of existing liabilities. There can be no assurance that such efforts will be successful. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Accounting Method

The Company's financial statements are prepared on the accrual method of accounting.

Cash and Cash Equivalents

The Company considers all highly liquid debt investments with a maturity of three months or less when purchased to be cash equivalents.

Geospatial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2014 (unaudited), and December 31, 2013 and 2012 (audited)

Note 1 – Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are presented in the balance sheet net of estimated uncollectible amounts. The Company records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. The Company had no allowance for doubtful accounts at September 30, 2014, and December 31, 2013 and 2012.

Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes, and accelerated methods for tax purposes, based on estimated useful lives ranging from three to ten years. Depreciation expense was $71,026 for the nine months ended September 30, 2014, and $21,657 and $3,760 for the years ended December 31, 2013 and 2012, respectively.

Expenditures for major renewals and betterments that materially extend the useful lives of assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

The Company leases equipment under leases with terms of three years. Each lease is analyzed using the criteria in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 840, *Leases*, to determine whether the lease is a capital or operating lease. Capital leases are recorded at the inception of the lease as property and equipment, and a capital lease liability of the same amount, at the lesser of the fair value of the leased asset or the present value of the minimum lease payments. Assets recorded under capital lease agreements are depreciated over their estimated useful lives. Depreciation of assets recorded under capital leases is included with depreciation expense related to owned assets. At September 30, 2014, assets under capital leases and the related accumulated depreciation amounted to $16,870 and $6,326, respectively. At December 31, 2013, assets under capital leases and the related accumulated depreciation amounted to $16,870 and $3,796, respectively. At December 31, 2012, assets under capital leases and the related accumulated depreciation amounted to $16,870 and $422, respectively.

Geospatial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2014 (unaudited), and December 31, 2013 and 2012 (audited)

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Company records revenue when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The price to the buyer is fixed or determinable; and
- Collectibility is reasonably assured.

Substantially all of the Company's services are rendered under the following types of contracts:

Fixed-price contracts are contracts in which the Company's clients are billed at defined milestones for an agreed amount negotiated in advance for a specified scope of work. Revenues for fixed-price contracts are recognized under the percentage-of-completion method of accounting, whereby revenues are recognized ratably as those contracts are performed. This rate is based primarily on the proportion of contract costs incurred to date to total contract costs projected to be incurred for the entire project, or the proportion of measurable output completed to date to total output anticipated for the entire project.

Units of delivery contracts are contracts in which the Company's clients are billed an agreed amount for each unit of service, as defined in the contract, that is delivered to the client. Revenues for units of delivery contracts are recognized as each unit of service is completed.

Time-and-materials contracts are contracts in which the Company and the client negotiate billing rates, typically hourly, and bill based on the actual time expended, plus other direct costs incurred in connection with the contract. Revenues for time-and-materials contracts are recognized as the services are rendered.

Advance customer payments are recorded as deferred revenue until such time as the related services are rendered or performed.

Revenues are recorded net of sales taxes collected.

Deferred Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the related debt.

Geospatial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2014 (unaudited), and December 31, 2013 and 2012 (audited)

Note 1 – Summary of Significant Accounting Policies (continued)

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes,* which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryovers.

The Company currently has a deferred tax asset resulting from differences in accounting methods for financial reporting and income tax reporting purposes. This deferred tax asset is completely offset by a valuation allowance due to the uncertainty of realization.

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities and various state authorities for the years 2009 through 2012. Due to financial constraints, the Company has not filed its federal and state tax returns for 2009 through 2013.

Stock-Based Payments

The Company accounts for its stock-based compensation in accordance with FASB ASC 718, *Stock Compensation*. The Company records compensation expense for employee stock options at the fair value of the stock options at the grant date, amortized over the vesting period. The Company records expense for stock options, warrants, and similar grants issued to non-employees at their fair value at the grant date, or the fair value of the consideration received, whichever is more readily available.

Registration Payment Arrangements

The Company is contractually obligated to issue shares of its common stock to certain investors for failure to register shares of its common stock under the Securities Act of 1933, as amended (the "Securities Act"). The Company has recorded a liability for the estimated number of shares to be issued at the fair value of the stock to be issued. The Company measures fair value by the price of its common stock at its most recent sale. The Company reviews its estimate of the number of shares to be issued and the fair value of the stock to be issued quarterly. The liability is included on the Consolidated Balance Sheet under the heading "accrued registration payment arrangement," and amounted to $2,525,075 at September 30, 2014 and December 31, 2013, and $1,066,977 at December 31, 2012. Gains or losses resulting from changes in the carrying amount of the liability are included in the Consolidated Statement of Operations in other income and expense under the heading "registration payment arrangements", which amounted to a loss of $1,527,826 during the year ended December 31, 2013. There was no such gain or loss during the nine months ended September 30, 2014 or the year ended December 31, 2012.

Geospatial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2014 (unaudited), and December 31, 2013 and 2012 (audited)

Note 1 – Summary of Significant Accounting Policies (continued)

Segment Reporting

The Company operates as one segment. Accordingly, no segment reporting is presented.

Recent Accounting Pronouncements

The Company has reviewed accounting pronouncements and interpretations thereof that have effective dates during the periods reported and in future periods. The Company believes that the following impending standards may have an impact on its future filings. The applicability of any standard will be evaluated by the Company and is still subject to review by the Company.

In July, 2013, the FASB issued Accounting Standards Update ("ASU") 2013-11, *Liabilities (Topic 405): Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU 2013-11 provides guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The Company adopted ASU 2013-11 effective January 1, 2014. The Company's adoption of ASU 2013-11 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, a new revenue recognition standard that supersedes the existing standard and eliminates all industry-specific standards. The largely principles-based standard provides a comprehensive framework that can be applied to all contracts with customers, regardless of industry-specific or transaction-specific fact patterns. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities should apply the five-step model outlined in the standard to achieve that core principal. The standard will be effective for us on January 1, 2017, and may be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the financial statement impact of adopting this new standard.

Geospatial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2014 (unaudited), and December 31, 2013 and 2012 (audited)

Note 1 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In June 2014, FASB issued ASU 2014-12, *Compensation – Stock Compensation (Topic 718)*, an update regarding accounting for share-based payments for which the terms of an award provide that a performance target could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target could be achieved and still be eligible to vest in the award if and when the performance target is achieved. The updated standard clarifies that such awards should be treated as a performance condition that affects vesting. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The standard will be effective for us on January 1, 2016, and may be applied either prospectively or retrospectively. We are currently assessing the financial statement impact of adopting this new standard.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*, which provides authoritative guidance regarding management's evaluation of conditions or events that raise substantial doubts about an entity's ability to continue as a going concern, management's plans to mitigate the effect of the conditions or events that raise such doubts, and disclosure requirements for entities in which there exists a substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 will be effective for us on January 1, 2017. Early application is permitted. We are currently assessing the financial statement impact of adopting this new standard.

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Note 2 – Capital Stock

The Company has authorized 350,000,000 shares of common stock with a par value of $0.001 per share. Each outstanding share of common stock entitles the holder to one vote on all matters. Stockholders do not have preemptive rights to purchase shares in any future issuance of common stock. Upon the Company's liquidation, common stockholders are entitled to a pro-rata share of assets, if any, after payment of creditors and preferred stockholders.

The Company has authorized 25,000,000 shares of preferred stock with a par value of $0.001 per share. All powers and rights of the shares of preferred stock are determined by the Company's Board of Directors at issuance.

On December 11, 2009, the Company filed a Certificate of Designations, Powers, Preferences and Rights of the Series A Preferred Stock of Geospatial Holdings, Inc. (the "Certificate of Designations") with the State of Nevada. The Certificate of Designations designated 1,575,000 shares of Series A Convertible Preferred Stock ("Series A Stock") for issuance by the Company. Each share of Series A Stock was convertible to shares of common stock in accordance with the terms of the Certificate of Designations. Each holder of Series A Stock was entitled to the number of votes equal to the number of shares of common stock into which the Series A Stock may be converted. The holders of Series A Stock were entitled to a liquidation preference equal to the original issue price, and a dividend preference over the holders of common stock. All shares of Series A were automatically converted to common stock on June 7, 2010. On August 20, 2013, the Company filed a Certificate of Withdrawal of Certificate of Designation to withdraw the Series A Stock.

On August 20, 2013, the Company filed a Certificate of Designation to designate 5,000,000 shares of Series B Convertible Preferred Stock ("Series B Stock") for issuance by the Company. Each share of Series B Stock is convertible to ten shares of common stock at the option of the holder, or automatically upon the occurrence of certain events. The holders of Series B Stock have the same voting rights and dividend participation rights as common stockholders in proportion to the number of shares of common stock the holders of Series B Stock would hold if those shares were converted to common stock. The holders of Series B stock are entitled to a liquidation preference of 150% of the original issue price, after payment of which they participate in liquidation with the holders of common stock.

The Company entered into a series of Subscription and Purchase Agreements with certain investors dated October 9, 2009 (the "October 2009 Subscription Agreement") in connection with the sale of 2,000,000 shares of the Company's common stock (the "October 2009 shares"). Pursuant to the October 2009 Subscription Agreement, the Company agreed to register the October 2009 shares under the Securities Act by March 1, 2010. The Company failed to register the October 2009 shares by March 1, 2010, and consequently each investor that invested pursuant to the October 2009 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the October 2009 Shares for each 30-day period that elapses after March 1, 2010, subject to certain restrictions.

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Note 2 – Capital Stock (continued)

The Company entered into a series of Subscription and Purchase Agreements with certain investors dated December 14, 2009 (the "December 2009 Subscription Agreement") in connection with the sale of 1,500,000 shares of the Company's Series A Stock (the "December 2009 shares"). Each share of Series A Stock subsequently converted to 1.25 shares of the Company's common stock. Pursuant to the December 2009 Subscription Agreement, the Company agreed to register the December 2009 shares under the Securities Act by March 1, 2010. The Company failed to register the December 2009 shares by March 1, 2010, and consequently each investor that invested pursuant to the December 2009 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the December 2009 Shares for each 30-day period that elapses after March 1, 2010, subject to certain restrictions.

The Company entered into a series of Subscription and Purchase Agreements with certain investors dated March 19, 2010 (the "March 2010 Subscription Agreement") in connection with the sale of 8,589,771 shares of the Company's common stock (the "March 2010 shares"). Pursuant to the March 2010 Subscription Agreement, the Company agreed to register the March 2010 shares under the Securities Act by September 1, 2010. The Company failed to register the March 2010 shares by September 1, 2010, and consequently each investor that invested pursuant to the March 2010 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the March 2010 Shares for each 30-day period that elapses after September 1, 2010, subject to certain restrictions.

The Company entered into a series of Subscription and Purchase Agreements with certain investors dated April 6, 2010 (the "April 2010 Subscription Agreement") in connection with the sale of 112,000 shares of the Company's common stock (the "April 2010 shares"). Pursuant to the April 2010 Subscription Agreement, the Company agreed to register the April 2010 shares under the Securities Act by September 1, 2010. The Company failed to register the April 2010 shares by September 1, 2010, and consequently each investor that invested pursuant to the April 2010 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the April 2010 Shares for each 30-day period that elapses after September 1, 2010, subject to certain restrictions.

The Company entered into a series of Subscription and Purchase Agreements dated October 15, 2010 (the "October 2010 Subscription Agreement") in connection with the issuance of $1,155,000 of 10% Senior Secured Redeemable Notes (the "Senior Notes"). Pursuant to the October 2010 Subscription Agreement, the Company agreed to register the common stock into which the Senior Notes are convertible (the "Conversion Shares") by April 15, 2011. The Company failed to register the Conversion Stock by April 15, 2011, and consequently each investor that invested pursuant to the October 2010 Subscription Agreement is entitled to receive an additional allocation of 2% of its portion of the Conversion Shares for each 30-day period that elapses after April 15, 2011, subject to certain restrictions.

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Note 2 – Capital Stock (continued)

The Company has recorded a liability for its obligation to issue shares for failure to register shares pursuant to the October 2009 Subscription Agreement, the December 2009 Subscription Agreement, the March 2010 Subscription Agreement, the April 2010 Subscription Agreement, and the October 2010 Subscription Agreement (collectively, the "Subscription Agreements"). There is no limitation to the maximum potential consideration to be paid for failure to register shares pursuant to the Subscription Agreements. The liability for accrued registration payment arrangements was $2,525,075 at September 30, 2014 and December 31, 2013, and $1,066,977 at December 31, 2012.

On June 22, 2014, the Company and its officers entered into a Settlement Agreement (the "Brooks Settlement Agreement") with a group of investors (the "Brooks Investors"), to settle a lawsuit filed by the Brooks Investors against the Company and its officers in the Court of Common Pleas of Butler County, Pennsylvania. Pursuant to the Brooks Settlement Agreement, the Company acquired all shares of the Company's common stock owned by the Brooks Investors, and the Brooks Investors agreed to forego their rights to receive additional shares for the Company's failure to register shares pursuant to the October 2009 Subscription Agreement, the December 2009 Subscription Agreement, and the March 2010 Subscription Agreement. The Company acquired 4,321,205 shares of common stock from the Brooks Investors in consideration for $1,114,688, and agreed to cancel the shares.

Note 3 – Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2014	December 31, 2013	December 31, 2012
License fees	$ —	$ —	$ 3,000,000
Payroll and taxes	747,456	838,248	1,419,295
Damage claims	—	12,646	46,804
Accounting	119,454	75,485	112,101
Insurance	73,819	30,486	24,131
Contractors and subcontractors	4,750	11,569	—
Other	68,232	34,445	234,265
Accrued expenses	$ 1,013,711	$ 1,002,879	$ 4,836,596

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Note 4 – Related-Party Transactions

The Company leases its headquarters building from Mark A. Smith, the Company's Chairman and Chief Executive Officer. The building has approximately 3,200 square feet of office space, and is used by the Company's corporate, technical, and operations staff. The Company incurred $58,500 of lease expense for this building in the nine months ended September 30, 2014, and $78,000 of lease expense in each of the years ended December 31, 2013 and 2012. The lease is cancellable by either party upon 30 days' notice.

At December 31, 2011, the Company owed Mr. Smith $162,354 on a note payable (the "Smith Note"). Interest on the Smith Note at 8% amounted to $8,336, and $13,514 for the years ended December 31, 2013 and 2012, respectively. The balance due on the Smith Note was $175,867 at December 31, 2012.

At December 31, 2011, the Company owed Mr. Smith $35,818 on a convertible note payable (the "Convertible Note"). The Convertible Note was convertible to the Company's common stock at a price of $1.00 per share. Interest on the Convertible Note at 8% amounted to $1,839, and $2,981 for the years ended December 31, 2013 and 2012, respectively. The balance due on the note was $38,799 at December 31, 2012.

At December 31, 2011, the Company owed Mr. Smith $152,489 on a demand note payable (the "Demand Note"). Interest on the Demand Note at 8% amounted to $7,830 and $12,692 for the years ended December 31, 2013 and 2012, respectively. The balance due on the note was $165,182 at December 31, 2012.

On November 9, 2012, the Company and Mr. Smith entered into a Lease Agreement, pursuant to which the Company leases a field vehicle from Mr. Smith. The lease is for 60 months, and is for substantially the same terms for which Mr. Smith leases the vehicle from the manufacturer. Interest on the lease amounted to $268 for the nine months ended September 30, 2014, and $439 and $41 for the years ended December 31, 2013 and 2012, respectively. The lease is recorded as a capital lease. At September 30, 2014, gross assets recorded under the lease and associated accumulated depreciation were $16,870 and $6,326, respectively. Future minimum payments under the capital lease are as follows as of September 30, 2014:

Balance of 2014	$	907
Year ending December 31, 2015		3,628
Year ending December 31, 2016		3,628
Year ending December 31, 2017		3,326
Thereafter		—
Total minimum payments		11,489
Less: minimum interest payments		(524)
Minimum principal payments	$	10,965

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Note 4 – Related-Party Transactions (continued)

On August 20, 2013, the Company and Mr. Smith entered into a Conversion Agreement (the "Smith Conversion Agreement"), pursuant to which liabilities totaling $1,253,644 were converted to 17,909,203 shares of the Company's common stock and warrants to purchase 1,790,920 shares of the Company's common stock at an exercise price of $0.25 per share. The liabilities to Mr. Smith included $573,635 of accrued salary, $282,156 of unreimbursed business expenses and unpaid rent for the Company's offices, $184,204 for unpaid principal and accrued interest on the Smith Note, $40,638 for unpaid principal and accrued interest on the Convertible Note, and $173,011 for unpaid principal and accrued interest on the Demand Note. As required by the Smith Conversion Agreement, the Company paid taxes owed by Mr. Smith as a result of the conversion in the amount of $57,887. In addition to the liabilities to Mr. Smith converted pursuant to the Smith Conversion Agreement, the Company agreed to use reasonable commercial efforts to pay additional accrued salary of $97,500, and additional unreimbursed business expenses and unpaid rent of $21,366.

On August 20, 2013, the Company and Thomas R. Oxenreiter, the Company's Chief Financial Officer, entered into a Conversion Agreement (the "Oxenreiter Conversion Agreement"), pursuant to which accrued salary of $223,959 and unreimbursed business expenses of $12,062 were converted to 3,371,719 shares of the Company's common stock and warrants to purchase 337,172 shares of the Company's common stock at an exercise price of $0.25 per share. As required by the Oxenreiter Conversion Agreement, the Company paid taxes owed by Mr. Oxenreiter as a result of the conversion in the amount of $18,925. In addition to the liabilities to Mr. Oxenreiter converted pursuant to the Conversion Agreement, the Company agreed to use reasonable commercial efforts to pay additional accrued salary of $31,250, and additional unreimbursed business expenses of $1,759.

In 2010, the Company entered into a Strategic Advisory Agreement (the "Strategic Advisory Agreement") with Pace Global Energy Services, LLC ("Pace") and Ridge Global, LLC ("Ridge") to provide the Company with certain strategic advisory and other support services. Pursuant to the Strategic Advisory Agreement, the Company issued Pace and Ridge warrants to purchase 1,600,000 and 2,400,000 shares, respectively, of the Company's common stock. The warrants expired on March 2, 2012. Further, pursuant to the Strategic Advisory Agreement, the Company agreed to expand the number of members of the Company's board of directors from three to five, and to appoint Timothy F. Sutherland, chairman and chief executive officer of Pace, and Thomas J. Ridge, president and chief executive officer of Ridge, to fill the newly-created vacancies. The fees due pursuant to the Strategic Advisory Agreement amounted to $560,000 at December 31, 2012.

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Note 4 – Related-Party Transactions (continued)

On October 19, 2010, the Company, Pace, and Ridge entered into a Fee Deferral Agreement and Promissory Note (the "Promissory Note"), pursuant to which the company memorialized $238,030 of unpaid accounts payable to the Promissory Note bearing interest at 10% per annum. Interest on the Promissory Note totaled $4,864 for the nine months ended September 30, 2013, and $28,349 and $25,575 for the years ended December 31, 2012 and 2011, respectively. The balance due on the Promissory Note was $296,781 at December 31, 2012.

Mr. Sutherland resigned his position on the Company's Board of Directors on February 6, 2012, and Mr. Ridge resigned his position on the Company's Board of Directors on May 31, 2012.

On February 28, 2013, the Company, Pace, and Ridge, Mr. Sutherland, and Mr. Ridge entered into a Mutual Termination and Release Agreement, which terminated all prior agreements and released all parties from all obligations related to all prior agreements, including the Promissory Note. As a result of the Mutual Termination and Release Agreement, the Company recorded a gain on extinguishment of debt of $861,645.

Note 5 – Senior Convertible Redeemable Notes

On October 15, 2010, the Company entered into a series of Senior Notes with certain investors. The initial principal amount of the Senior Notes totaled $1,155,000. Interest accrues on the Senior Notes at 10% per annum, payable quarterly by increasing the principal amounts of the Senior Notes. Upon certain instances of default, the interest rate may increase to 12% per annum. The principal and unpaid interest on the Senior Notes was due after 15 months, and was extendable for three additional six-month periods. The principal and unpaid interest on the Senior Notes is convertible at the option of the holders of the Senior Notes into the Company's common stock at $0.50 per share.

On July 31, 2013, the Company entered into a Note Conversion Agreement with a holder of a Senior Note pursuant to which the Senior Note's outstanding principal and interest of $132,342 were converted to 189,060 shares of the Company's Series B Stock and warrants to purchase 18,906 shares of the Company's Series B Stock.

On June 22, 2014, a Senior Note was extinguished pursuant to the Brooks Settlement Agreement, resulting in a gain on extinguishment of debt of $77,803.

The balance due on the Senior Notes amounted to $1,487,015 at September 30, 2014, and $1,456,006 and $1,414,331 at December 31, 2013 and 2012, respectively.

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Note 6 – Notes Payable

Current notes payable consisted of the following:

	September 30, 2014	December 31, 2013	December 31, 2012
Note payable to an individual due February 1, 2013, bearing interest at 10% plus shares of Series B Stock	$ —	$ —	$ 180,313
Current portion of long-term notes payable	249,739	136,280	152,564
Current notes payable	$ 249,739	$ 136,280	$ 342,152

Long-term notes payable consisted of the following:

	September 30, 2014	December 31, 2013	December 31, 2012
Notes payable under settlement agreements with former employees, payable monthly with terms of up to 39 months, with interest rates ranging from 0% to 4%	$ 235,739	$ 340,154	$ 462,526
Notes payable under settlement agreements with vendors, payable monthly with terms of up to 60 months, with interest rates ranging from 0% to 32%	57,241	72,001	73,776
Total long-term notes payable	292,980	412,155	536,302
Less: current portion	(249,739)	(136,280)	(152,564)
Long-term notes payable, less current portion	$ 43,241	$ 275,875	$ 383,738

Future maturities of long-term debt are as follows as of September 30, 2014:

Balance of 2014	$ 28,798
Year ending December 31, 2015	224,441
Year ending December 31, 2016	14,000
Year ending December 31, 2017	14,000
Year ending December 31, 2018	11,741
Thereafter	—
	$ 292,980

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Note 7 – Commitments and Contingencies

Reduct License Agreement

The Company, Reduct N.V., a Belgian company ("Reduct"), and Delta Networks, S.A., a Luxembourg company ("Delta"), the owner of substantially all the stock of Reduct, were parties to an Amended and Restated Exclusive License and Distribution Agreement dated December 15, 2009 (the "License Agreement"), pursuant to which Reduct granted the Company an exclusive license to promote, market, use, and distribute certain Reduct products and technology. On December 16, 2010, Reduct issued the Company a notice of termination under the License Agreement, and terminated the License Agreement effective January 17, 2011. At the time of termination, the Company owed Reduct $3.0 million under the License Agreement, and Reduct claimed the Company was liable for accelerated payments of future license fees under the License Agreement.

On May 10, 2013, the parties to the License Agreement entered into a Mutual Release and Settlement Agreement (the "Reduct Settlement"), pursuant to which the parties agreed to terminate all obligations arising from the License Agreement and all prior agreements in consideration for (i) the Company issuing to Delta 9,000,000 shares of common stock; (ii) the Company issuing Delta warrants to purchase 3,000,000 shares of common stock exercisable at $0.50 per share through December 31, 2015; and (iii) the Company placing orders for Reduct equipment totaling $300,000 over nine months following the close of the Company's Series B Stock financing. The Company has issued Delta the shares of common stock and the warrants to purchase common stock, and has completed its equipment purchase requirements.

The Company must deliver additional shares of common stock to Delta in the event that the Company sells its stock for less than $0.07 per share. This anti-dilution provision expires if Delta's shares become registered with the U.S. Securities and Exchange Commission and the Company raises at least $5.0 million in cash from the sale of its capital stock, including the Series B Stock financing.

Bank Deposits

The Company maintains its cash in bank deposit accounts at financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. The bank accounts at times exceed FDIC limits. The Company has not experienced any losses on such accounts.

Legal Matters

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. The Company believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or the results of operations of the Company.

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Note 8 – Income Taxes

The Company's provision for (benefit from) income taxes is summarized below:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Current:			
Federal	$ —	$ —	$ —
State	—	—	—
	—	—	—
Deferred:			
Federal	(523,091)	(402,364)	(455,570)
State	(166,061)	(127,735)	(144,626)
	(689,152)	(530,098)	(600,196)
Total income taxes	(689,152)	(530,098)	(600,196)
Less: valuation allowance	689,152	530,098	600,196
Net income taxes	$ —	$ —	$ —

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Note 8 – Income Taxes (continued)

The reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes (net of federal benefit)	6.5	6.5	6.5
Valuation allowance	(41.5)	(41.5)	(41.5)
Effective rate	0.0%	0.0%	0.0%

Significant components of the Company's deferred tax assets and liabilities are summarized below. A valuation allowance has been established as realization of such assets has not met the more-likely-than-not threshold requirement under FASB ASC 740.

	September 30, 2014	December 31, 2013	December 31, 2012
Start-up costs	$ 49,783	$ 57,158	$ 66,991
License fees	—	—	356,597
Depreciation	(48,820)	(14,985)	20,903
Accrued expenses	192,506	260,295	1,758,367
Net operating loss carryforward	14,714,182	13,916,030	11,476,542
Deferred income taxes	14,907,651	14,218,498	13,688,401
Less: valuation allowance	(14,907,651)	(14,218,498)	(13,688,401)
Net deferred income taxes	$ —	$ —	$ —

At September 30, 2014, the Company had federal and state net operating loss carryforwards of approximately $35,456,000. The federal and state net operating loss carryforwards will expire beginning in 2021 and 2026, respectively. The amount of the state net operating loss carryforward that can be utilized each year to offset taxable income is limited by state law.

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Note 9 – Net Loss Per Share of Common Stock

Basic net loss per share are computed by dividing earnings available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share reflects per share amounts that would have resulted if dilutive potential common stock had been converted to common stock. 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 number of shares remaining after the proceeds are exhausted represents the potentially dilutive effect of the securities.

The following reconciles amounts reported in the financial statements:

	Year Ended December 31, 2013	Year Ended December 31, 2012	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net loss	$ (2,812,290)	$ (1,391,501)	$ (1,668,511)	$ (333,438)
Weighted average number of shares of common stock outstanding	57,229,466	44,908,967	105,226,831	49,368,040
Dilutive potential shares of common stock	57,229,466	44,908,967	105,226,831	49,368,040
Net loss per share of common stock:				
Basic	$ (0.05)	$ (0.03)	$ (0.02)	$ (0.01)
Diluted	$ (0.05)	$ (0.03)	$ (0.02)	$ (0.01)

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Note 9 – Net Loss Per Share of Common Stock (continued)

The following securities were not included in the computation of diluted net loss per share, as their effect would have been anti-dilutive:

	Year Ended December 31, 2013	Year Ended December 31, 2012	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Series B Convertible Preferred Stock	19,021,790	—	21,672,035	22,587,860
Smith Convertible Note	19,400	37,309	—	19,400
Options and warrants to purchase common stock	17,405,317	18,728,772	10,698,719	1,468,421
Warrants to purchase Series B Convertible Preferred Stock	2,258,690	—	2,337,517	—
Senior Convertible Redeemable Notes	2,898,151	2,746,535	2,936,579	2,834,047
Total	41,603,348	21,512,616	37,644,850	26,909,728

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Note 10 – Stock-Based Payments

On September 23, 2013, the Company adopted the 2013 Equity Incentive Plan (the "2013 Plan"), pursuant to which up to 25,000,000 shares of the Company's common stock shall be available for grants of awards, including incentive stock options, non-qualified stock options, stock appreciation rights, restricted awards, performance share awards, or performance compensation awards to eligible employees, consultants, and directors, provided that no more than 15,000,000 shares of common stock may be granted as incentive stock options. The Board of Directors has reserved 25,000,000 shares of the Company's common stock for issuance under the 2013 Plan. The Company granted stock appreciation rights on 96,000 shares of the Company's common stock to eligible employees pursuant to the 2013 Plan during the nine months ended September 30, 2014. The Company granted stock appreciation rights on 15,900,000 shares of the Company's common stock to eligible employees and consultants pursuant to the 2013 Plan during the year ended December 31, 2013.

In 2007, the Company adopted the 2007 Stock Option Plan (the "2007 Plan"), pursuant to which the Compensation Committee of the Board of Directors (the "Committee") may award grants of options to purchase up to 15,000,000 shares of the Company's common stock to eligible employees, directors, and consultants, subject to exercise prices and vesting requirements determined by the Committee. On September 23, 2013, the Company reduced the number of shares of the Company's common stock that may be subject to awards under the 2007 Plan to 9,050,000. The Board of Directors has reserved 9,050,000 shares of the Company's common stock for issuance under the 2007 Plan. The Company did not grant any options to purchase shares of the Company's common stock pursuant to the 2007 Plan during the years ended December 31, 2013 and 2012, and the nine months ended September 30, 2014.

Using the Black-Scholes option pricing model, management has determined that the stock appreciation rights granted in 2013 had no value. Accordingly, no compensation cost or other expense was recorded for the stock appreciation rights. The current value of a share of the Company's common stock used in the Black-Scholes option pricing model was determined by an independent valuation. The value per share as determined by the valuation was $0.0118 per share as of December 31, 2013.

The assumptions used and the weighted average calculated value of the stock options are as follows at December 31, 2013:

Risk-free interest rate	1.72%
Expected dividend yield	None
Expected life of options	5 years
Expected volatility rate	50%
Weighted average fair value of options granted	$ 0.00

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Note 10 – Stock-Based Payments (continued)

The following is an analysis of the options to purchase the Company's common stock:

	Total Options	Weighted Average Exercise Price	Aggregate Fair Value	Weighted Average Remaining Contractual Term (In Years)
Total options outstanding at January 1, 2012	9,650,000	$ 0.51		
Granted	—	—		
Exercised	—	—		
Lapsed and forfeited	(600,000)	0.40		
Total options outstanding at December 31, 2012	9,050,000	$ 0.52	$ —	5.0
Options vested and expected to vest at December 31, 2012	9,050,000	$ 0.52	$ —	5.0
Options exercisable at December 31, 2012	9,050,000	$ 0.52	$ —	5.0
Total options outstanding at January 1, 2013	9,050,000	$ 0.52		
Granted	15,900,000	0.07		
Exercised	—	—		
Lapsed and forfeited	—	—		
Total options outstanding at December 31, 2013	24,950,000	$ 0.23	$ —	7.7
Options vested and expected to vest at December 31, 2013	13,216,666	$ 0.38	$ —	5.8
Options exercisable at December 31, 2013	13,216,666	$ 0.38	$ —	5.8

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Note 10 – Stock-Based Payments (continued)

The following is an analysis of nonvested options:

	Nonvested Options	Weighted Average Fair Value
Nonvested options at January 1, 2012	240,000	$ —
Granted	—	—
Vested	(83,332)	—
Forfeited	(156,668)	—
Nonvested options at December 31, 2012	—	—
Granted	15,900,000	—
Vested	(4,166,666)	—
Forfeited	—	—
Nonvested options at December 31, 2013	11,733,334	$ —

On December 1, 2012, the Company granted warrants to purchase 225,000 shares of the Company's common stock at $0.15 per share to a contractor. The warrants expire on November 30, 2015.

On August 20, 2013, the Company granted warrants to purchase 1,790,920 and 337,172 shares of its common stock at $0.25 per share to its chief executive officer and its chief financial officer, respectively, in connection with debt conversion agreements. The warrants expire on August 20, 2018.

On September 30, 2013, the Company granted warrants to purchase 149,998 shares of the Company's common stock at $0.25 per share to certain investors in connection with the sale of common stock. The warrants expire on September 30, 2018.

On October 22, 2013, the Company granted warrants to purchase 3,000,000 shares of the Company's common stock at $0.50 per share to Reduct in connection with the Reduct Settlement. The warrants expire on December 31, 2015.

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Note 10 – Stock-Based Payments (continued)

Using the Black-Scholes option pricing model, management has determined that the warrants to purchase the Company's Common Stock granted to non-employees in 2013 and 2012 have no value. Accordingly, no expense was recorded upon the grants of the warrants to purchase the Company's common stock. The current value of a share of the Company's common stock used in the Black-Scholes option pricing model was determined by an independent appraisal.

The assumptions used and the weighted average calculated value of the stock purchase rights are as follows for the year ended December 31:

	2013	2012
Risk-free interest rate	1.72%	1.41%
Expected dividend yield	None	None
Expected life of warrants	5 years	3 years
Expected volatility rate	50%	50%
Weighted average fair value of warrants granted	$ 0.00	$ 0.00

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Note 10 – Stock-Based Payments (continued)

The following is an analysis of the warrants to purchase the Company's common stock.

	Total Options	Weighted Average Exercise Price	Aggregate Fair Value	Weighted Average Remaining Contractual Term (In Years)
Total warrants outstanding at January 1, 2012	12,766,272	$ 0.65		
Granted	225,000	0.15		
Exercised	—	—		
Lapsed and forfeited	(7,000,000)	0.79		
Total warrants outstanding at December 31, 2012	5,991,272	$ 0.47	$ —	4.4
Warrants vested and expected to vest at December 31, 2012	5,841,272	$ 0.47	$ —	4.4
Warrants exercisable at December 31, 2012	5,841,272	$ 0.47	$ —	4.4
Total warrants outstanding at January 1, 2013	5,991,272	$ 0.47		
Granted	5,278,090	0.39		
Exercised	—	—		
Lapsed and forfeited	(550,000)	0.48		
Total warrants outstanding at December 31, 2013	10,719,362	$ 0.43	$ —	3.5
Warrants vested and expected to vest at December 31, 2013	10,719,362	$ 0.43	$ —	3.5
Warrants exercisable at December 31, 2013	10,719,362	$ 0.43	$ —	3.5

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Note 10 – Stock-Based Payments (continued)

The following is an analysis of nonvested warrants to purchase the Company's common stock:

	Nonvested Warrants	Weighted Average Fair Value
Nonvested warrants at January 1, 2012	—	$ —
Granted	225,000	—
Vested	(75,000)	—
Forfeited	—	—
Nonvested warrants at December 31, 2012	150,000	—
Granted	5,278,090	—
Vested	(5,428,090)	—
Forfeited	—	—
Nonvested warrants at December 31, 2013	—	$ —

On August 20, 2013, the Company granted warrants to purchase 451,738 shares of its Series B Stock at $2.50 per share to certain investors in connection with the sale of Series B Stock. The warrants expire on August 20, 2018.

During 2012, the Company issued 2,000,000 shares of the Company's common stock as payment for services. The Company recorded expense of $140,000, the fair value of the services received.

On August 14, 2014, the Company issued 165,000 shares of the Company's common stock as payment for services. The Company recorded expense of $82,500, the fair value of the services received.