



**Priority Aviation, Inc. and Subsidiaries
Consolidated Financial Statements
For the Years Ended December 31, 2014 and 2013**

(Unaudited)

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Priority Aviation, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 186,552	\$ 43,310
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$0, respectively	7,691	66,136
Prepaid and other current assets	162,641	3,718
Total Current Assets	356,884	113,164
Property and equipment, net of accumulated depreciation of \$43,617 and \$33,182, respectively	5,568	9,333
Assets from discontinued operations (note 2 and note 3)	50,000	745,789
TOTAL ASSETS	\$ 412,452	\$ 868,286
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 139,390	\$ 286,767
Accrued expenses	123,105	211,494
Deferred revenue and customer deposits	192,027	26,068
Convertible notes, net	325,000	150,000
Derivative liability	5,447,400	-
Dividends payable:	1,482,442	1,275,502
Preferred stock, Series D convertible; \$0.001 par value, 25,000 shares authorized; 6,118 shares issued and outstanding	611,800	611,800
Preferred stock, Series E convertible; \$0.001 par value, 25,000 shares authorized; 2,418 shares issued and outstanding	241,800	241,800
Liabilities from discontinued operations (note 2 and note 3)	9,926,382	9,116,963
Total Current Liabilities	18,489,346	11,920,394
TOTAL LIABILITIES	18,489,346	11,920,394
Stockholders' Deficit		
Preferred stock; Series A; \$0.001 par; 6,000 shares authorized; 2,656 and 2,656 issued and outstanding	3	3
Preferred stock; Series C; \$0.001 par; 12,000,000 shares authorized; 5,000 and 5,000 issued and outstanding	5	5
Preferred stock; Series B; \$0.001 par; 100,000 shares authorized; 0 and 0 issued and outstanding	-	-
Preferred stock; Series F; \$0.001 par; 1,000 shares authorized; 0 and 0 issued and outstanding	-	-
Common stock: 250,000,000 authorized; \$0.001 par value 68,967,710 and 41,594,877 shares issued and outstanding, respectively	68,968	41,594
Additional paid in capital	(13,962,582)	(10,541,828)
Accumulated deficit	(4,183,288)	(551,882)
Total Stockholders' Deficit	(18,076,894)	(11,052,108)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 412,452	\$ 868,286

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

Priority Aviation, Inc. and Subsidiaries
Consolidated Statements of Operation
(unaudited)

	For the Year Ended	
	December 31,	
	2014	2013
Revenues	\$ 6,475,917	\$ 6,341,902
Cost of sales	5,492,993	5,491,967
Gross Profit	982,924	849,935
Operating Expenses		
Advertising and promotion	224,809	460,523
General and administrative	99,805	119,188
Compensation	424,506	562,268
Stock-based compensation	639,650	-
Professional	463,075	169,134
Rents and overhead	36,000	70,443
Depreciation and amortization	3,765	7,611
Total operating expenses	1,891,610	816,727
Net income (loss) from continuing operations	(908,686)	(539,232)
Other income (expense)		
Changes in fair value of derivative liabilities	(548,954)	-
Day-one loss on derivative liabilities	(256,209)	-
Interest expense	(347,847)	-
Total other income (expense)	(1,153,010)	-
Income (loss) before discontinued operations	(2,061,696)	(539,232)
Income (loss) from discontinued operations	(1,569,710)	-
Net income (loss) before provision for income taxes	(3,631,406)	(539,232)
Provision for Income taxes	-	-
Net income (loss)	(3,631,406)	(539,232)
Net income (loss) attributed to common stockholders	\$ (3,631,406)	\$ (539,232)
BASIC AND DILUTED LOSS PER SHARE		
- Continuing operation	\$ (0.034)	\$ (0.015)
- Discontinued operation	\$ (0.026)	\$ -
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	61,310,838	36,295,980

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

Priority Aviation, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Deficit
(unaudited)

	Preferred Stock				Common Stock		Additional	Accumulated	Total
	<u>Series A</u>		<u>Series C</u>				Paid in	Deficit	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>		
Balance, December 31, 2012	-	-	-	-	36,005,000	36,005	(35,955)	(12,650)	(12,600)
Recapitalization/shares issued as part of reverse merger	2,656	3	5,000	5	5,589,877	5,589	(10,505,873)		(10,500,276)
Net loss								(539,232)	(539,232)
Balance, December 31, 2013	2,656	3	5,000	5	41,594,877	41,594	(10,541,828)	(551,882)	(11,052,108)
Shares issued for convertible notes					10,000,000	10,000	20,500		30,500
Shares issued for settlement of accounts payable					2,833,333	2,834	31,166		34,000
Shares issued for services rendered					5,239,500	5,240	421,405		426,645
Shares issued for stock-based compensation					9,550,000	9,550	630,100		639,650
Shares cancelled					(250,000)	(250)	250		-
Initial derivative liability associated with tainted instruments							(4,317,237)		(4,317,237)
Dividend payable							(206,940)		(206,940)
Net loss								(3,631,406)	(3,631,406)
Balance, December 31, 2014	2,656	\$ 3	5,000	\$ 5	68,967,710	\$ 68,968	\$ (13,962,582)	\$ (4,183,288)	\$(18,076,894)

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

Priority Aviation, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

	For the Year Ended	
	December 31,	
	2014	2013
Cash Flows from Operating Activities:		
Net loss	\$ (3,631,406)	\$ (539,232)
Loss from discontinued operations	1,569,710	
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Shares issuance for stock-based compensation	639,650	-
Shares issuance for services rendered	426,645	
Depreciation and amortization	3,765	7,611
Day-one loss on derivative liabilities	256,209	-
Amortization of debt discount	325,000	-
Change in fair value of derivative liabilities	548,954	-
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	58,445	56,909
Prepaid expenses and other assets	(158,923)	346,411
Increase (decrease) in operating liabilities:		
Accounts payable	(147,377)	156,497
Accrued expenses	(88,389)	61,777
Deferred revenue and customer deposits	165,959	(320,679)
Net Cash Provided By (Used in) from continuing operations	(31,758)	(230,706)
Net Cash Provided By (Used in) from discontinued operations	-	-
Net Cash Provided By (Used in) Operating Activities	(31,758)	(230,706)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	-	(5,761)
Net Cash (Used in) Investing Activities from continuing operations	-	(5,761)
Net Cash (Used in) Investing Activities from discontinued operations	-	-
Net Cash (Used in) Investing Activities	-	(5,761)
Cash Flows from Financing Activities:		
Proceeds from Loan(s)	175,000	165,000
Net Cash Provided By (Used in) Financing Activities from continuing operations	175,000	165,000
Net Cash Provided By (Used in) Financing Activities from discontinued operations	-	-
Net Cash Provided By (Used in) Financing Activities	175,000	-
Net Increase (Decrease) in Cash and Cash Equivalents	143,242	(71,467)
Cash and Cash Equivalents, beginning of period	43,310	114,777
Cash and Cash Equivalents, end of period	\$ 186,552	\$ 43,310
Supplemental Disclosure Information:		
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -
Non-Cash Disclosure:		
Shares issuance for convertible notes	\$ 30,500	\$ -
Shares issuance for settlement accounts payable in discontinued operation	17,000	-

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

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Priority Aviation, Inc. (the “Company”) was organized under the laws of Nevada on March 25, 1999 as Thoroughbred Interests, Inc. On May 18, 2004, the Company changed its name to Phoenix Interests, Inc.; on July 14, 2009 the Company changed its name to NuMobile, Inc.; and on December 27, 2013, following completion of an agreement and plan of merger as described below, the Company changed its name to Priority Aviation, Inc.

On December 13, 2013 the Company entered into an Agreement and Plan of Merger and Reorganization (“Agreement”) with PJET. Following the merger the Company’s common stock was issued to owners of PJET. This resulted in the prior owners of PJET owning the equivalent to 86.6% of our total issued and outstanding stock after issuance. At the direction of the prior owners an additional 12.6% were issued related to the reverse merger to other individuals and affiliates associated with them.

The business combination was accounted for as a reverse acquisition and recapitalization using accounting principles applicable to reverse acquisitions whereby the financial statements subsequent to the date of the transaction are presented as a continuation of PJET. Under reverse acquisition accounting PJET (subsidiary) is treated as the accounting parent (acquirer) and the Company (parent) is treated as the accounting subsidiary (acquiree). All outstanding shares have been restated to reflect the effect of the business combination.

Concurrent with the closing of the Agreement, the Company changed its business from creating a comprehensive and global mobile computing technology business to providing on-demand charter, jet charter membership cards and aircraft sales and operations of wholly owned subsidiary NuMobile Inc. and its subsidiaries, were allocated to discontinued operations.

Concurrent with the merger the Company filed a Certificate of Change with the Secretary of State of Nevada on December 13, 2013 decreasing the number of authorized common shares from 6,000,000,000 to 250,000,000 and exchanging the common shares issued on the basis of one new share for every old share. On January 6, 2014, the Company affected the one-for-one thousand (1 for 1,000) reverse stock split of its common stock. All share information for common shares has been retroactively restated for the impact of this reverse stock split.

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has incurred a net loss of \$3,631,406 and used cash for operations of \$31,758 for the year ended December 31, 2014 and has an accumulated deficit of \$4,183,288 and has a working capital deficit of \$18,132,462 as of December 31, 2014. These conditions raise substantial doubt as to the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management believes that it can continue to raise equity or debt financing to support its operations. Management believes that this may cause additional dilution to its shares of common stock.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Stock Splits

On January 6, 2014, the Company affected a one-for-one thousand (1 for 1,000) reverse stock split of its common stock. All share information for common shares has been retroactively restated for these three reverse stock splits.

Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, PJET and NuMobile, Inc. NuMobile includes the consolidation of its wholly-owned subsidiaries, Enhance Network Communication, Inc. and Stonewall Networks, Inc. All NuMobile operations were discontinued upon completion of the business combination as more fully described below in Note 2. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All inter-company accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. As of December 31, 2014, the Company used estimates in determining accrued expenses, the value of stock based compensation issued for services and the value of the accrued derivative liability. Actual results could differ from these estimates.

Fair Value of Financial Instruments

FASB ASC 820, Fair Value Measurements and Disclosures, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fair Value of Financial Instruments (cont'd)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level of input that is significant to the fair value measurement of the instrument.

The following table provides a summary of the fair value of our derivative liabilities as of December 31, 2014:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Liabilities			
Accrued derivative liability	-	\$ 5,447,400	-
Accrued derivative liability from discontinued operation		\$ 2,370,310	

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company defines cash equivalents as all highly liquid debt instruments purchased with a maturity of three months or less, plus all certificates of deposit.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Based on its analysis, as of December 31, 2014 and December 31, 2013, the Company has not provided a reserve for receivables.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and accounts receivables. The Company places its cash with high quality financial institutions and at times may exceed the FDIC \$250,000 insurance limit. The Company extends credit based on an evaluation of the customer's financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses, as required.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of 5-7 years.

Intangible Assets

Intangible assets consist of purchased technology in connection with the acquisition of Enhance Network Communication, Inc. and Stonewall Networks, Inc. Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets is measured by comparing its net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. During the year ended December 31, 2014 and the year ended December 31, 2013, there was no impairment of long-lived assets.

Accrued Derivative Liability

The Company's convertible debt and the Series A, D and E preferred stock can be converted into common stock at a conversion price that is a percentage of the market price; therefore the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate. The Company has bifurcated the beneficial conversion features embedded in its convertible debentures and preferred stock and has recorded the fair value of these beneficial conversion features as a current liability.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Convertible Preferred Stock and Convertible Note

The Company's Series D and E preferred stock and convertible debt are presented as liabilities since the Company has financial instruments that are convertible into common stock at a conversion price that is a percentage of the market price; therefore the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate and the Company may not have enough authorized shares to satisfy the conversion of its convertible preferred stock.

Revenue Recognition

The Company's revenue recognition policies are in compliance with SEC Staff Accounting Bulletin (SAB) 104. Revenue is recognized when services are rendered to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification ("ASC") Topic 740, Income Taxes, which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

Loss Per Share

In accordance with ASC Topic 280 – "Earnings Per Share", the basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The following potential common shares have been excluded from the computation of diluted net loss per share for the year ended December 31, 2014 because the effect would have been anti-dilutive:

	December 31, 2014
Common stock issuable (approximate) upon conversion of convertible debt	1,093,911,200
Common stock issuable (approximate) upon conversion of convertible preferred stock	100,543,577

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Recently Issued Accounting Pronouncements

On June 10, 2014, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, consolidation, which removes all incremental financial reporting requirements from GAAP for development stage entities, including the removal of Topic 915 from the FASB Accounting Standards Codification. For the first annual period beginning after December 15, 2014, the presentation and disclosure requirements in Topic 915 will no longer be required for the public business entities. The revised consolidation standards are effective one year later, in annual periods beginning after December 15, 2015. Early adoption is permitted. The Company has adopted the amendment effective the fiscal year ended December 31, 2013.

There are several new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") which are not yet effective. Each of these pronouncements, as applicable, has been or will be adopted by the Company. As of December 31, 2014 none of these pronouncements is expected to have a material effect on the financial position, results of operations or cash flows of the Company.

NOTE 2 – DISCONTINUED OPERATIONS

On December 13, 2013 the Company entered into an Agreement and Plan of Merger and Reorganization ("Agreement") with PJET. Following the merger the Company's common stock was issued to owners of PJET. This resulted in the prior owners of PJET owning the equivalent to 86.6% of our total issued and outstanding stock after issuance. At the direction of the prior owners an additional 12.6% were issued related to the reverse merger to other individuals and affiliates associated with them. Upon the closing, the Company changed its business from creating a comprehensive and global mobile computing technology business to providing on-demand charter, jet charter membership cards and aircraft sales.

The major classes of assets and liabilities from discontinued operations as of December 31, 2014 and December 31, 2013 included in the consolidated balance sheets, are as gathered from the records transferred to the Company, unaudited, and subject to further verification are reported below as follows:

(1) Property, equipment and intellectual property:

	December 31, 2014	December 31, 2013
Software	\$ 485,078	\$ 485,078
Property and equipment	25,820	25,820
Purchased Technology	4,638,049	4,638,049
	<hr/> 5,148,947	<hr/> 5,148,947
Accumulated Amortization	(5,148,947)	(4,453,158)
	<hr/> \$ -	<hr/> \$ 695,789

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 2 – DISCONTINUED OPERATIONS (cont’d)

(2) Convertible Notes and derivate liabilities

Date of Convertible Debt Issuance		December 31, 2014	December 31, 2013
October 9, 2009	(a)	\$ 100,000	\$ 100,000
March 3, 2010	(c)	272,440	272,440
May 27, 2010	(e)	46,935	47,185
September 28, 2010	(f)	100,000	100,000
October 20, 2010 and October 22, 2010	(g)	237,750	238,000
December 2, 2010	(h)	494,000	494,000
February 15, 2011	(i)	200,000	200,000
March 23, 2011	(d)	50,000	50,000
March 23, 2011	(d)	60,000	60,000
March 28, 2011	(j)	100,000	100,000
July 27, 2011	(k)	37,500	37,500
September 20, 2011	(c)	10,000	10,000
December 31, 2011	(b)	30,000	60,000
December 31, 2012	(b)	105,000	105,000
March 13, 2013	(k)	10,000	10,000
March 31, 2013	(b)	22,500	22,500
June 30, 2013	(b)	30,000	30,000
April 4, 2013, July 19, 2013 and August 2013	(m)	100,000	100,000
November 20, 2013 and December 6, 2013	(l)	20,000	20,000
January 3, 2014 and January 6, 2014	(n)	30,000	-
Subtotal		2,056,125	2,056,625
Less: Debt discount		-	-
Total		\$ 2,056,125	\$ 2,056,625

- (a) On October 9, 2009, in consideration for compensation earned, the Company issued two unsecured notes payable to Jim Tilton, the Company’s President and Chief Executive Officer in the amount of \$50,000 each, for a total principal amount of \$100,000. These notes were pledged to St. George Investments and assigned on February 4, 2014 by St. George to Mastiff Group LLC (“Mastiff”), a party unaffiliated with the Company, in an amended and restated note due February 4, 2015 bearing interest at the rate of 4% per annum; provided that upon occurrence of an event of default interest shall accrue at a rate of 18% per annum. At any time prior to payment in full of the entire outstanding principal amount of this note, plus accrued interest hereunder, fees and collection costs, the holder shall have the right, at holder’s option, to convert the outstanding amount on this note, in whole or in part, into shares of common stock at conversion price of \$.0001.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(2) Convertible Notes and derivate liabilities (cont'd)

- (b) On December 31, 2011, in consideration for compensation earned, the Company issued an unsecured note payable to Jim Tilton, in the amount of \$60,000. On December 31, 2012, in consideration for compensation earned, the Company issued a further unsecured note payable to Jim Tilton, in the amount of \$105,000. On March 31, 2013, in consideration for compensation earned, the Company issued third unsecured note payable to Jim Tilton, in the amount of \$22,500. On June 30, 2013, in consideration for compensation earned, the Company issued a fourth unsecured note payable to Jim Tilton, in the amount of \$30,000. All of the above notes issued to Jim Tilton bear interest at 8% per annum and are due upon demand. Principal and accrued unpaid interest on the notes is convertible at the option of the holder at 50% of the closing price of the Company's common stock on the date of conversion.

On July 24, 2014 Jim Tilton converted \$30,000 of such notes into 5,000,000 shares.

- (c) On September 1, 2009 the Company entered into a convertible debenture for cash proceeds of \$42,440, with Tom Duszynski. The debenture initially matures on March 31, 2011 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the closing bid price of the common stock on the date the Company receives notice of conversion.

On September 29, 2009, the Company entered into a convertible debenture for cash proceeds of \$140,000, with Tom Duszynski. The debenture initially matures on March 31, 2010 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the closing bid price of the common stock on the date the Company receives notice of conversion.

On March 3, 2010, the Company entered into a convertible debenture for cash proceeds of \$90,000, with Tom Duszynski. The debenture initially matures on September 30, 2010 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the closing bid price of the common stock on the date the Company receives notice of conversion.

On August 25, 2010, the Company entered into a convertible debenture for cash proceeds of \$10,000, with DCB, LLC an entity affiliated with Tom Duszynski. The debenture initially matures on September 30, 2011 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the closing bid price of the common stock on the date the Company receives notice of conversion.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(2) Convertible Notes and derivate liabilities (cont'd)

(c) (continued)

The entire \$282,440 debenture matures on December 31, 2011 and bears interest at 8% per annum. The holder is entitled, is entitled at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the On Company's common stock, at a price per share equal to 50% of the closing bid price of the common stock on the date that the Company receives notice of conversion. The initial fair value of the conversion option feature was estimated at \$287,354 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at March 3, 2010 in connection with this debenture are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.19%, and (4) expected life of 0.59 years.

- (d) On February 18, 2010, the Company entered into a convertible debenture for cash proceeds of \$50,000 with Cove Partners an unrelated party. The debenture initially matured on August 18, 2010 and bears interest at 8% per annum. In October 2010, the note's maturity was extended to March 31, 2011.

On May 20, 2010, the Company entered into a second convertible debenture with the same holder, for cash proceeds of \$60,000. This debenture matured November 20, 2010, was issued on the same terms as the first convertible debenture.

On March 23, 2011, Cove Partners who held these notes dated February 18, 2010 and May 20, 2010 due from the Company in the amounts of \$50,000 and \$60,000 respectively plus accrued interest sold the notes to Glenwood Partners LLC a party unaffiliated with the Company, and the assignee renegotiated the terms of the note and amount due and payable from the Company. The Company and the holder executed replacement unsecured convertible promissory notes with the same principal amounts dated March 23, 2011 and due December 31, 2012. Interest on the replacement note accrues at a rate of 8 % per annum. The note is due on demand. The new note, plus any accrued and unpaid interest, is convertible at the holder's option at any time, into shares of the Company's common stock at a conversion price equal to 50% of the lowest of the closing bid prices for the common stock for the ten trading days prior to and including the conversion date.

- (e) On May 27, 2010, the Company issued and sold a convertible note in the principal amount of \$260,000, for a purchase price of \$250,000 (reflecting an original issue discount of \$10,000), to St. George Investments, LLC. Principal and unpaid interest on the note is due six months from the date of issuance. The note bears interest at the rate of 12% per annum, payable upon maturity. Outstanding principal, and accrued interest thereon is convertible into such number of shares of the Company's common stock, as is determined by dividing (i) the sum of (A) the Outstanding Amount, plus (B) an amount equal to 1% of the Outstanding Amount multiplied by the number of whole months elapsed from May 31, 2010 until the date of conversion but in no event less than 10% of the Outstanding Amount by (ii) the Conversion Price (as defined in the note) at that time. The conversion price is defined in the note as the lesser of (a) 60% of the average of the closing bid price of the Company's common stock on each of the five immediately preceding trading days or (b) \$1.25. During the year ended December 31, 2011, \$190,420 of the outstanding balance was converted into 993,000 shares of common stock. Subsequently additional principal of \$22,395 was converted reducing the principal balance on the note to \$47,185. The initial fair value of the conversion option feature was estimated at \$151,637 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at May 27, 2010 in connection with this debenture are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.23%, and (4) expected life of 0.50 years.

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NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(2) Convertible Notes and derivate liabilities (cont'd)

(e) (continued)

In or about January 2014 St. George Investments assigned the notes to Mastiff.

On February 4, 2014 Mastiff converted \$250 of such notes into 2,500,000 shares.

- (f) On December 15, 2009, the Company entered into a convertible debenture for cash proceeds of \$100,000 with Cove Partners, LLC. The debenture initially matured on June 15, 2010 and bears interest at 8% per annum. On June 15, 2010, the note's maturity was extended to March 31, 2011. On January 20, 2011, the party who held the debenture assigned the debenture to DCB LLC a party unaffiliated with the Company. The note bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the lowest closing bid price for the preceding 10 days prior to the Company receiving notice of conversion.
- (g) On October 20, 2010, James Hinderliter, an employee who held a note dated October 1, 2009 due from the Company in the amount of \$300,000 plus \$27,000 in accrued interest assigned the note to St. George Investments LLC a party unaffiliated with the Company, and the assignee renegotiated the terms of the note and amount due and payable from the Company. The original note was past due and the new holder waived any defaults, and the Company and the holder executed a replacement unsecured convertible promissory note with principal of \$169,000. Interest on the replacement note accrues at a rate of 12% per annum; provided that upon occurrence of an event of default interest shall accrue at a rate of 18% per annum. The note is due on demand. At any time prior to payment in full of the entire outstanding principal amount of this note, plus accrued interest hereunder, fees and collection costs, the holder shall have the right, at holder's option, to convert the outstanding amount on this note, in whole or in part, into the number of shares of common stock as is determined by dividing (i) the sum of (A) the conversion amount, plus (B) an amount equal to 1% of the conversion amount multiplied by the number of whole months elapsed from the date hereof until the date of conversion but in no event less than 10% of the conversion amount by (ii) the conversion price at that time. The conversion price means 60% of the lesser of (y) the average of the closing bid prices of the common stock on each of the five immediately preceding trading days, or (z) the closing bid price for the common stock for the trading day immediately preceding the date of conversion. The assumptions used in the Black-Scholes option pricing model at October 20, 2010 in connection with this replacement note are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.17%, and (4) expected life of 0.50 years.

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NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(2) Convertible Notes and derivative liabilities (cont'd)

(g) (continued)

On October 22, 2010, John Murphy an unrelated party who held a note dated October 1, 2009 due from the Company in the amount of \$223,844 plus \$20,146 in accrued interest assigned the note to St. George Investments LLC a party unaffiliated with the Company, and the assignee renegotiated the terms of the note and amount due and payable from the Company. The original note was past due and the new holder waived any defaults, and the Company and the holder executed a replacement unsecured convertible promissory note with principal of \$133,152. Interest on the replacement note accrues at a rate of 12% per annum; provided that upon occurrence of an event of default interest shall accrue at a rate of 18% per annum. The note is due on demand. At any time prior to payment in full of the entire outstanding principal amount of this note, plus accrued interest hereunder, fees and collection costs, the holder shall have the right, at holder's option, to convert the outstanding amount on this note, in whole or in part, into the number of shares of common stock as is determined by dividing (i) the sum of (A) the conversion amount, plus (B) an amount equal to 1% of the conversion amount multiplied by the number of whole months elapsed from the date hereof until the date of conversion but in no event less than 10% of the conversion amount by (ii) the conversion price at that time. The conversion price means 60% of the lesser of (y) the average of the closing bid prices of the common stock on each of the five immediately preceding trading days, or (z) the closing bid price for the common stock for the trading day immediately preceding the date of conversion. The assumptions used in the Black-Scholes option pricing model at October 22, 2010 in connection with this replacement note are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.17%, and (4) expected life of 0.50 years.

On August 21, 2013 St. George Investments assigned the notes to Blulife Inc. ("Blulife") a party unaffiliated with the Company, and the assignee renegotiated the terms of the note and amount due and payable from the Company. The original note was past due and the new holder waived any defaults, and the Company and the holder executed a replacement unsecured convertible promissory note with principal of \$250,000. Interest on the replacement note accrues at a rate of 4% per annum; provided that upon occurrence of an event of default interest shall accrue at a rate of 18% per annum. The note is due on demand. At any time prior to payment in full of the entire outstanding principal amount of this note, plus accrued interest hereunder, fees and collection costs, the holder shall have the right, at holder's option, to convert the outstanding amount on this note, in whole or in part, into shares of common stock at conversion price of \$.0001

On September 3, 2013 Blulife converted \$12,000 of such notes into 240,000 shares.

On February 4, 2014 Blulife converted \$250 of such notes into 2,500,000 shares.

On February 4, 2014 the notes were broken into two notes, one consisting of \$188,000 and one for \$49,750, for a total balance of \$237,750 owing.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(2) Convertible Notes and derivative liabilities (cont'd)

- (h) On December 1, 2010, Aubrey Brown the previous 100% owner of Enhance Communication Network, Inc. a holder of 7,500 shares of the Company's Series D convertible preferred stock, 2,500 shares of the Company's Series E preferred stock, and \$349,600 in a note payable, received and/or exchanged as part of NuMobile's purchase of Enhance sold these instruments and the Company exchanged these instruments into a new Series 2010-A convertible promissory note dated December 2, 2010 due December 31, 2012 in the amount of \$750,000 now held by Glenwood Partners. The new note bears interest at 8% per annum, payable semi-annually in arrears, on January 1 and July 1 of each year during the note's term, with the first payment due and payable on January 1, 2011. The new note, plus any accrued and unpaid interest, is convertible at the holder's option at any time, into shares of the Company's common stock at a conversion price equal to 50% of the lowest of the closing bid prices for the common stock for the ten trading days prior to and including the conversion date. During the year ended December 31, 2010 \$6,000 of the outstanding balance was converted in presplit 12,997,266 shares of common stock. During the year ended December 31, 2011, \$247,019 of the outstanding balance was converted into presplit 2,217,201 shares of common stock. On November 14, 2013 the note holder converted \$3,000 principal into 70,000 shares which were issued in the name of Kevin Pickard, for accounting services rendered by Mr. Pickard to the Company. The initial fair value of the conversion option feature was estimated at \$1,475,920 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at December 2, 2010 in connection with this debenture are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.55%, and (4) expected life of 2.00 years.
- (i) On February 15, 2011, the Company exchanged a note payable of \$200,000 and accrued interest of \$38,500 into a convertible note with Galleon Investments Ltd.. Principal and unpaid interest on the note is due upon demand. The note bears interest at the rate of 8% per annum, payable upon maturity. The note, plus any accrued and unpaid interest, is convertible at the holder's option at any time, into shares of the Company's common stock at a conversion price equal to 50% of the lowest of the closing bid prices for the common stock for the five trading days prior to and including the conversion date. The assumptions used in the Black-Scholes option pricing model at February 15, 2011 in connection with this debenture are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.17%, and (4) expected life of 0.66 years.
- (j) On March 28, 2011 the Company entered into a convertible debenture for cash proceeds of \$100,000 with Cove Partners LLC. The debenture initially matures on September 28, 2011 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the lowest closing bid price for the preceding 10 days prior to the Company receiving notice of conversion. The Company has complied with the provisions of ASC 815 "Derivatives and Hedging", and recorded the fair value of the embedded conversion option liability associated with the debenture. The initial fair value of the conversion option feature was estimated at \$73,433 on March 28, 2011 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at the issuance dates of the debentures are as follows: (1) dividend yield of 0%; (2) expected volatility of 0%, (3) risk-free interest rate of 0.18%, and (4) expected life of 0.50 years.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(2) Convertible Notes and derivate liabilities (cont'd)

- (k) On July 27, 2011 the Company entered into a convertible debenture for cash proceeds of \$50,000 with Glenwood Partners LLC.. The debenture initially matures on December 31, 2012 and bears interest at 8% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the lowest closing bid price for the preceding 10 days prior to the Company receiving notice of conversion. On August 30, 2013, \$12,500 of the outstanding balance was converted into 291,863 shares of common stock.

On March 13, 2013 the Company entered into a convertible debenture for cash proceeds of \$10,000 with Glenwood Partners LLP. The debenture initially matures on December 31, 2014 and bears interest at 10% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share equal to 50% of the lowest closing bid price for the preceding 20 days prior to the Company receiving notice of conversion.

- (l) On November 20, 2013 the Company entered into a convertible debenture for cash proceeds of \$10,000 with Blulife Inc. The debenture initially matures on November 20, 2014 and bears interest at 10% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price to be determined by the Holder and the Company at the time the Holder wishes to convert

On December 6, 2013 the Company entered into a convertible debenture for cash proceeds of \$10,000 with Blulife Inc. The debenture initially matures on December 6, 2014 and bears interest at 10% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price per share to be determined by the Holder and the Company at the time the Holder wishes to convert.

- (m) On April 4, 2013 the Company entered into a convertible debenture for cash proceeds of \$30,000 with Blulife Inc. The debenture initially matures on April 4, 2014 and bears interest at 10% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price to be determined by the Holder and the Company at the time the Holder wishes to convert.

On July 19, 2013 the Company entered into a convertible debenture for cash proceeds of \$5,000 with Blulife Inc. The debenture initially matures on August 7, 2014 and bears interest at 10% per annum. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price to be determined by the Holder and the Company at the time the Holder wishes to convert.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
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NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(2) Convertible Notes and derivate liabilities (cont'd)

(m) (continued)

In August 2013, the Company entered into four convertible notes for total proceeds of \$65,000. All notes were with one lender, Blulife. The terms of the notes were identical; maturing in one year from issuance, annual interest rate of 10%. The holder is entitled, at its option, to convert any or all of the outstanding principal plus accrued and unpaid interest at any time into shares of the Company's common stock, at a price to be determined by the Holder and the Company at the time the Holder wishes to convert.

On January 3, 2014 the Company entered into a convertible debenture for cash proceeds of \$10,000 with Blulife Inc. On January 6, 2014 the Company entered into a convertible debenture for cash proceeds of \$20,000 with Blulife Inc. The conversion terms stated that conversion, upon maturity and at the option of the holder, could convert the outstanding unpaid balance and accrued interest on the note at a floor price of \$0.06; however, if the market price of the company stock holds below the floor, the floor is to be adjusted ("new floor") to 50% of the lowest trading price in the ten (10) day period. The stock will have to continue to maintain a price above the new floor. If the price is unable to close above the new floor for three (3) consecutive trading days in ten (10) business days after the price has dipped, the Flex Floor will be eliminated and the conversion price will not have any floor and shall be equal to 50% of the average of the 5 lowest trading prices during the previous 20 (Twenty) trading days.

The fair value of the conversion option feature associated with the Company's outstanding convertible debentures at December 31, 2014 and December 31, 2013 was \$2,370,310 and \$2,002,872, respectively.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(3) Notes payable

Notes payable consisted of the following at December 31, 2014 and December 31, 2013:

	December 31, 2014 and 2013
Note payable to employee of Stonewall Networks, Inc.; does not accrue interest; note is unsecured and due on demand	\$ 102,026
Note payable to company wholly owned by officer of Stonewall Networks, Inc.; does not accrue interest; note is unsecured and due on demand	16,184
Note payable to investor; interest accrues at 12%; note is unsecured and due upon demand	43,400
Note payable to investor; interest accrues at 18%; note is unsecured and due upon demand	10,000
Note payable assumed in connection with purchase of Enhance Network Communication, Inc.	87,168
Note payable to company wholly owned by officer of Stonewall Networks, Inc.; interest accrued at Prime Rate plus 1%; note is unsecured and due upon demand	400,178
Note payable to shareholders of Stonewall Networks, Inc. - due on December 31, 2011	1,322,558
Note payable to investor; note is unsecured; interest accrues at 8% and due upon demand	100,000
Note payable to investor; note is unsecured; interest accrues at 8% and due upon demand	25,016
Note payable to investor; note is unsecured; interest accrues at 8% and due October 15, 2011.	
	<u>410,058</u>
	<u><u>\$ 2,516,588</u></u>

(4) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following at December 31, 2014 and December 31, 2013:

	December 31, 2014	December 31, 2013
Accounts payable	\$ 298,297	\$ 299,473
Accrued interest payable	1,919,260	1,522,122
Credit card payable	12,419	12,419
Accrued expenses	23,299	23,299
Accrued payroll	326,604	326,604
Sales taxes payable	3,111	3,111
	<u>2,582,990</u>	<u>\$ 2,187,028</u>

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 2 – DISCONTINUED OPERATIONS (cont'd)

(5) The results of the discontinued operations are as follows:

		Year Ended December 31, 2014
Revenues	\$	-
Operating Expenses		
General and administrative		77,344
Depreciation and amortization		695,789
Total operating expenses		<u>773,133</u>
Net loss from discontinued operations		(773,133)
Other income (expense)		
Changes in fair value of derivative liability		(367,438)
Loss on debt settlement		(17,000)
Interest expense		(412,139)
Total other income (expense)		<u>(796,577)</u>
Loss from discontinued operations	\$	<u>(1,569,710)</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Below are details of the Company's property and equipment at December 31, 2014 and December 31, 2013:

	Lives Years	December 31, 2014	December 31, 2013
Computer equipment	5	\$ 2,750	\$ 2,750
Office furniture and fixtures	7	42,404	42,404
Office equipment	5	4,972	4,972
		<u>50,126</u>	<u>50,126</u>
Less accumulated depreciation		(44,558)	(40,793)
		<u>\$ 5,568</u>	<u>\$ 9,333</u>

Depreciation expense was \$3,765 and \$7,611 for the years ended December 31, 2014 and 2013.

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
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NOTE 4 – CONVERTIBLE NOTES

Date of Convertible Debt Issuance		December 31, 2014	December 31, 2013
December 13, 2013	(q) \$	50,000	\$ 50,000
December 23, 2013	(q)	50,000	50,000
December 30, 2013	(r)	50,000	50,000
January 3, 2014	(s)	55,000	-
January 6, 2014	(t)	20,000	-
February 27, 2014	(t)	60,000	-
March 14, 2014	(t)	40,000	-
Total	\$	325,000	\$ 150,000

(q) On December 13, 2013 and December 23, 2013, the Company entered into convertible notes, each for \$50,000, for total proceeds of \$100,000.

(r) On December 30, 2013 the Company entered into a convertible debenture for cash proceeds of \$50,000 with Blulife Inc.

(s) On January 3, 2014 the Company entered into a convertible debenture for cash proceeds of \$55,000 with Blulife Inc.

(t) In addition, during the period February 14, 2014 through March 14, 2014 the Company entered into an additional series of three (3) convertible notes payable, for total proceeds of \$120,000. All notes were with Blulife Inc.

The terms of all above notes were identical; maturing in one year from issuance, annual interest rate of 10%. The conversion terms stated that conversion, upon maturity and at the option of the holder, could convert the outstanding unpaid balance and accrued interest on the note at a floor price of \$0.06; however, if the market price of the company stock holds below the floor, the floor is to be adjusted (“new floor”) to 50% of the lowest trading price in the ten (10) day period. The stock will have to continue to maintain a price above the new floor. If the price is unable to close above the new floor for three (3) consecutive trading days in ten (10) business days after the price has dipped, the Flex Floor will be eliminated and the conversion price will not have any floor and shall be equal to 50% of the average of the 5 lowest trading prices during the previous 20 (Twenty) trading days.

In our evaluation of the financing arrangement, we concluded that the conversion features were not afforded the exemption as a conventional convertible instrument and it did not otherwise meet the conditions set forth in current accounting standards for equity classification. Accordingly, they do not meet the conditions necessary to obtain equity classification and are required to be carried as derivative liabilities. (See footnote 5 for derivative disclosure)

Priority Aviation, Inc. and Subsidiaries
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NOTE 4 – CONVERTIBLE NOTES (cont'd)

Additionally, the Company evaluated the convertible notes above and concluded that these are tainted due to the variable conversion rate of the above the convertible notes and as such they do not meet the conditions necessary to obtain equity classification and are required to be carried as derivative liabilities. (See footnote 5 for derivative disclosure)

During the year ended December 31, 2014, the Company recorded a gain on mark-to-market of the conversion options of \$200,921. As of December 31, 2014, the aggregate unamortized discount is \$nil.

NOTE 5 – DERIVATIVE LIABILITIES

(1) Derivative liabilities from exceed authorized shares of common stock

As of December 31, 2014, we have determined that we currently have (i) the following shares of common stock issued, and (ii) outstanding instruments which are convertible into the shares of common stock indicated below in connection with warrants, convertible notes and preferred shares previously issued by the Company or for issue as a result of agreements with the Company:

68,967,710 Common Stock Issued and Outstanding
1,093,911,200 Common Shares convertible from convertible notes
<u>100,543,577 Common Shares convertible from convertible preferred shares</u>
1,263,422,487 Total Common Shares Outstanding and Accounted For/Reserved

Accordingly, given the fact that the Company currently only has 250,000,000 shares of common stock authorized, the Company could exceed its authorized shares of common stock by approximately 1,013,422,487 shares if all of the financial instruments described in the table above were exercised or converted into shares of common stock. 1,013,422,487 of these shares were in excess of the authorized shares and were accounted for as a derivative liability. The fair value of these 1,013,422,487 common shares was determined to be \$5,067,112 as of December 31, 2014 using the closing price of PJET's common stock. The company however intends to address this issue in the future by continuing to review and have further discussions with major holders of the listed debt transferred from discontinued operations, so as to attempt to reach an agreement that would substantially reduce such liability and its dilutive effect. There can however be no assurance that such an agreement will be voluntarily reached, which may the cause the Company to explore further other actions it may deem necessary.

(2) Derivative liabilities from convertible notes

Since equity classification is not available for the conversion feature of above convertible notes discussed in Note 4, we were required to bifurcate the embedded conversion feature and carry it as a derivative liability, at fair value. Derivative financial instruments are carried initially and subsequently at their fair values.

We estimated the fair value of the compound derivative on the inception dates, and subsequently, using the Black-Scholes Merton valuation technique, adjusted for the effect of dilution, because that technique embodies all of the assumptions (including, volatility, expected terms, and risk free rates) that are necessary to fair value complex compound derivative instruments.

Priority Aviation, Inc. and Subsidiaries
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5 – DERIVATIVE LIABILITIES

(2) Derivative liabilities from convertible notes (cont'd)

The fair value of the above instruments were determined to total \$581,209 using a Black-Scholes option-pricing model on issuance date. Upon the issuance dates of the Convertible Promissory Notes, \$325,000 was recorded as debt discount and \$256,209 was recorded as day one loss on derivative liability.

As a result of the application of ASC No. 815 in period ended December 31, 2014 the fair value of the conversion feature is summarized as follows:

Balance at December 31, 2013	-
Derivative addition due to the tainting of convertible notes	581,209
Derivative addition due to the exceed authorized shares of common stock	4,317,237
December 31, 2014 loss on change in fair value	548,954
Balance at December 31, 2014	5,447,400

The fair value at the commitment and re-measurement dates for the Company's derivative liabilities were based upon the following management assumptions as of December 31, 2014 and commitment date:

	Commitment Date	December 31, 2014
Expected dividends	0	0
Expected volatility	218.59 ~ 219.26	248.87%
Expect term	0.59 ~ 1 years	0~0.20 years
Risk free interest rate	0.10 %	0.02 ~ 0.03%

NOTE 6 –COMMITMENTS

On February 28, 2014, the company offered a contract to Jonah Meer for the appointment of a Board Member. The contract, as accepted and approved by the Board included the following:

- For each calendar year served on the Board, entitled to one percent (1 %) of the outstanding shares of the common stock of the Company at the vesting date, exercisable on a quarterly basis, one quarter of one percent (.25%). The purchase price payable for the shares shall be the closing market price per share on the Option Vesting Date.
- The term is for a one year period, with annual reappointments.

On May 22, 2014 Mr. Meer tendered his resignation from the Board. On September 4, 2014 ANS Investments LLC the holder of all the outstanding Series A Preferred stock of the Company, by written consent, appointed Mr. Meer and Mr. Guy Zahavi to the Board.

Effective December 5, 2013 and commencing January 1, 2014, the Company entered into a three year employment agreement with Peter Minikes, the Chief Executive Officer. The contract included the following:

Priority Aviation, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 6 –COMMITMENTS (cont'd)

- Annual base salary of \$120,000, with annual increases and entitlements in line with the benefit offerings of the Company, including vacation;
- The Executive shall be issued three million (3,000,000) shares which shall represent a five percent (5%) equity interest in the Company, based upon sixty million (60,000,000) shares outstanding at the time of Effective Date. Additionally, the Executive shall be entitled to receive 300,000 shares every six (6) months thereafter during the Term of the Agreement. The Executive shall be entitled to a minimum of eight percent (8%) equity interest in the Company subject to typical anti-dilution provisions.
- Issuance of Stock Options, based on attaining revenue milestones.

NOTE 7 –STOCKHOLDERS' DEFICIT

Common Stock

On December 13, 2013 the Company filed a Certificate of Change with the Secretary of State of Nevada decreasing the number of authorized common shares from 6,000,000,000 to 250,000,000 and exchanging the issued common shares on the basis of one new share for every old share. On January 6, 2014, the Company affected the one-for-one thousand (1 for 1,000) reverse stock split of its common stock. All share information for common shares has been retroactively restated for the impact of this reverse stock split.

Stock Splits

On January 6, 2014, the Company affected a one-for-one thousand (1 for 1,000) reverse stock split of its common stock. All share information for common shares has been retroactively restated for these three reverse stock splits.

Issuance of common stock

On August 30, 2013 Glenwood Partners, LP was issued 291,863 shares of common stock as a result of the conversion of \$12,500 of all principal.

On September 12, 2013 Blulife, Inc. was issued 240,000 shares of common stock as a result of the \$12,000 conversion of principal.

On November 15, 2013 Kevin Pickard was issued 70,000 shares of common stock for \$3,500 debt owed to Mr. Pickard.

On December 16, 2013 in connection with the reverse merger of NuMobile, Inc. into Priority Aviation, Inc. 36,005,000 shares of common stock were issued to the then shareholders of Priority One Aviation, Inc.

On February 19, 2014, three (3) employees received 6,000,000 shares of common stock upon their acceptance of positions. The Company recognized an expense, in the amount of \$366,000, for the fair market value of these shares (\$.061) at the date of grant.

In February 2014 the Company issued 2.5 million shares to its CEO. The Company recognized an expense in the amount of \$250,000 (\$.10 per share) in respect of this share issuance.

In February 2014, the Company issued 2,744,500 shares to LRGE, LLC and 2,495,000 shares to Michael Sokoloff for services rendered. The Company recognized an expense, in the amount of \$274,450 (\$.10 per share) and \$152,195 (\$.061 per share), respectively. Mr. Sokoloff is a partner at Mastiff (Ref Note 2 (a) and (e)).

Priority Aviation, Inc. and Subsidiaries
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NOTE 7 –STOCKHOLDERS’ DEFICIT (continued)

Issuance of common stock (continued)

In February 2014 the Company issued 250,000 shares to a newly appointed director in anticipation of his joining the Board. The individual declined and during the period ended September 30, 2014 the shares were returned to the Company, and cancelled. The Company recognized an expense, in the amount of \$15,250 (\$0.061 per share) for the fair market value of these shares at the date of grant.

On March 5, 2014 and March 13, 2014, the Company converted an aggregate amount of notes in the principal amount of \$500 for the issuance of 5,000,000 shares of common stock.

On July 24, 2014 the Company issued 2,833,333 shares (\$0.006) to Kevin Pickard to settle the debt in the amount of \$17,000 from the discontinued operation. The Company recognized loss in debt settlement in the discontinued operation, in the amount of \$17,000 (Fair market value: \$.012 per share).

On July 24, 2014, the Company converted an aggregate amount of notes in the principal amount of \$30,000 held by Jim Tilton for the issuance of 5,000,000 shares of common stock.

On September 18, 2014, the Company issued an additional 800,000 shares to the CEO. The Company recognized an expense, in the amount of \$8,400 (\$.0105 per share) for the fair market value of these shares at the date of grant.

Preferred Stock

The Company has debt and equity instruments that can be converted into common stock at a conversion prices that are a percentage of the market price; therefore the number of shares that could be required to be delivered upon “net-share settlement” is essentially indeterminate. Therefore, the Series A, D and E Preferred Stock which can be converted into shares of common stock are shown in the accompanying consolidated balance sheet as a current liability.

Series A Preferred Stock – On October 7, 2013 the Company filed a Certificate of Amendment with the Nevada Secretary of State increasing the authorized number of Series A preferred stock to 6,000 shares. There are 6,000 shares of Series A preferred stock authorized.

The holders of the Class A Preferred Stock own 51% of the voting power of the shareholders vote of the Company.

Accordingly, the Company classifies its Series A preferred stock as equity in the accompanying consolidated balance sheet, as the instrument holds majority (51%) voting rights in Company decisions and thus is characterized more akin to an equity instrument.

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NOTE 7 – STOCKHOLDERS’ DEFICIT (continued)

Preferred Stock (cont’d)

Series B Preferred Stock - There are 100,000 shares of Series B preferred stock authorized, par value 0.001 per share. There are no shares of Series B preferred stock outstanding.

Series C Preferred Stock - There are 12,000,000 shares of Series C preferred stock authorized. Each share of Series C preferred stock is convertible into one share of our common stock. The Series C preferred stock is non-interest bearing, does not have voting rights, and is not entitled to receive dividends. In the event of liquidation, each share of Series C preferred stock will automatically convert into one share of our common stock and will otherwise not be entitled to any preference over shares of our common stock or any shares of our preferred stock. Shares of Series C preferred stock are entitled to name two members of our board of directors.

Series D Preferred Stock - There are 25,000 shares of Series D preferred stock authorized. Shares of Series D preferred stock are entitled to participate, on an as-converted basis, in any dividends declared on the common stock. Each share is entitled to vote with the Common Stock the basis of one vote per share.

The number of shares into which one share of Series D preferred stock is convertible will be determined by dividing the “Stated Value” (equal to \$100) by Conversion Price at that time. The “Conversion Price” adjusted for the reverse split is \$2 (subject to adjustment in the event of stock splits, combinations and stock dividends).

Series E Preferred Stock - There are 25,000 shares of Series E preferred stock authorized. Shares of Series E preferred stock may, at the option of the holder, be converted into shares of common stock at the conversion rate in effect at the time of conversion. Each share is entitled to vote with the Common Stock the basis of one vote per share. The number of shares into which one share of Series E preferred stock is convertible will be determined by dividing the “Stated Value” (equal to \$100) by Conversion Price at that time. The “Conversion Price” adjusted for the reverse split is \$2 (subject to adjustment in the event of stock splits, combinations and stock dividends).

Series F Preferred Stock – There are 1,000 shares of Series F preferred stock authorized, par value 0.001 per share. There are no shares of Series F preferred stock outstanding.

NOTE 8 – INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax liabilities and assets as of December 31, 2014 and 2013 are as follows:

	December 31, 2014	December 31, 2013
Deferred tax assets:		
Federal net operating loss	\$ 840,800	\$ 187,000
State net operating loss	123,700	27,600
Total deferred tax assets	965,400	214,600
Less valuation allowance	(965,400)	(214,600)
	\$ -	\$ -

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NOTE 8 – INCOME TAXES (continued)

At December 31, 2014 and 2013, the Company had federal and state net operating loss (“NOL”) carryforwards of approximately \$965,400 and \$214,600, respectively. NOLs could, if unused, expire in varying amounts in the years 2019 through 2021.

The valuation allowance increased by \$750,800 during the year ended December 31, 2014.

The reconciliation of the effective income tax rate to the federal statutory rate for the year ended December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Federal income tax rate	(34.0%)	(34.0%)
State tax, net of federal benefit	(5.0%)	(5.0%)
Increase in valuation allowance	39.0%	39.0%
Effective income tax rate	<u>0.0%</u>	<u>0.0%</u>

Utilization of the net operating loss and tax credit carryforwards is subject to significant limitations imposed by the change in control under I.R.C. 382, limiting its annual utilization to the value of the Company at the date of change in control times the federal discount rate.

NOTE 9 –SUBSEQUENT EVENTS

On March 10, 2015 the Company announced that it relocated its headquarters to 15 Maiden Lane, Suite 408, New York, NY 10038. Concurrently, the Company also disclosed that it has been the subject of a lawsuit in connection with the lease termination of its prior premises by entities controlled by Daniel Wainstein and Marissa Welner. Ms. Welner was a former CEO and member of the Board of Directors of the Company before her removal for cause in September 2014. The Company believes the lawsuit to be totally without merit and has filed counterclaims against the relevant parties. The Company is continuing to investigate certain actions taken by Mr. Wainstein, Ms. Welner and their attorneys and affiliated persons and may if necessary bring additional actions against those parties. Mr. Wainstein is also a controlling shareholder and partner of Mastiff (ref: Note 2 (a) and (e)), a company which acquired certain convertible notes payable from other third party creditors.

Management has evaluated subsequent events through April 1, 2015, the date the financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the balance sheet date that would have a material effect on the financial statements thereby requiring adjustment or disclosure.