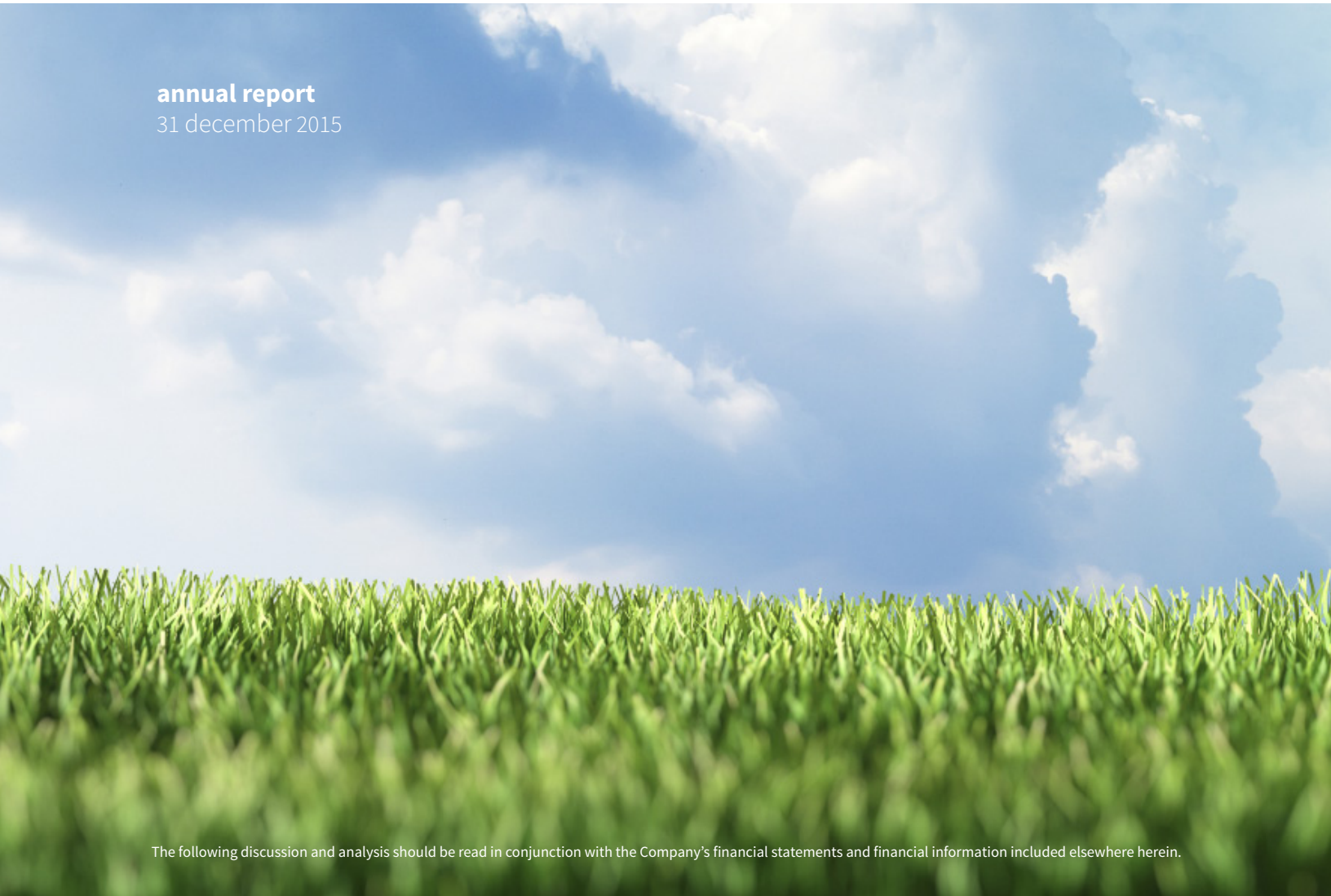
idc

protect the freshness™

annual report

31 december 2015



The following discussion and analysis should be read in conjunction with the Company's financial statements and financial information included elsewhere herein.

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management's discussion and analysis

the company and its mission

International Dispensing Corporation ("IDC" or the "Company") is incorporated in the state of Delaware and its core product, The Answer® tap, was patented in 2002. A flexible packaging R&D company targeting the food and beverage industry, the Company continues to pursue the original vision on which it was founded: to create and market a cost-effective dispensing system that can keep aseptic liquid contents fresh and uncontaminated (shelf-stable) through the entire dispensing cycle (days, weeks, or months, depending on the product) without recourse to refrigeration or preservatives. In recent years, the Company has broadened its scope over the supply chain and expanded its intellectual property in an effort to offer a complete packaging solution to customers. Its official mission statement reads: "To supply our customers innovative, cost effective, environmentally responsible dispensing solutions while delivering value to our shareholders."

message from the chairman

"We have freshened the 'management comment' section, which I hope you find informative. It lays out the magnitude of what we have accomplished, and the sizeable odds we have overcome, to bring our idea to the inflection point it is at today. A lot of heavy lifting went into creating a disposable product weighing just a few grams, but we are now commercial in the US and China and are fielding 18 requests for proposals from major food & beverage companies around the world – a list that is surely to grow. PepsiCo China has begun to resurrect The Answer® and a lot more is happening as well. Our management team is solid and built for the task ahead; the fact that we've attracted the likes of Bo Thörn (Tetra Pak), Tom Shaver (SIG Combibloc), and Li Xin (Sealed Air) – all of whom have staked their professional reputations on IDC – is testimony to our vision and value."

-Greg Abbott
IDC founder & chairman

IDC is dedicated to developing eco-friendly dispensing solutions with a strong commitment to sustainability.

the global opportunity

vision

To develop and commercialize the world's preeminent aseptic tap for large-format food & beverage packaging and become "the Tetra Pak of Foodservice."

execution & historical company timeline

With aseptic packaging projected to be a $62 billion industry by 2020 (Infiniti Research), and with more people consuming food and beverages away from home, a large-format aseptic package for foodservice represents a significant global opportunity, but one that comes with an exceedingly high technical bar. Some major companies tried to design an aseptic tap, only to fail. Several industry experts with PhD's told us that creating a true aseptic tap defied the laws of physics and was "impossible". Against this backdrop of inertia, and with most packaging companies cutting or eliminating R&D, IDC enlisted some very talented freelance engineers to create a workable design. Ever since, IDC has been committed to perfecting its IP, protecting its trade secrets, and setting the highest possible standards – erecting formidable barriers to entry. Earning a US patent in 2002 was just the beginning.

Each of the tap's five parts underwent several refinements and costly tooling modifications before becoming "The Answer®" – the only aseptic tap in the world today. The actuator started as a spring and evolved into a snap-action "inverted umbrella" robust enough to withstand the high doses of radiation required in aseptic dairy packaging. The body underwent numerous adjustments to enhance flow and function. The silicone seal, the "brains" of the tap, went through three design and tooling iterations in the US before Austrian-based Starlim-Sterner, the world's preeminent manufacturer of silicone medical parts, improved the strength and suppleness of the seal to robust new levels with a proprietary design and high-cavity tooling.

Design alone does not give you an aseptic tap. The manufacturing process must incorporate sophisticated quality control checks to detect microscopic flaws – the aseptic industry will accept nothing less. In 2005, IDC began a collaboration with Hoffer Plastics, an injection molding and assembly company supplying several Fortune 500 companies, to be its manufacturer. IDC collaborated with Hoffer to design a state-of-the-art, fully automated assembly machine specifically for The Answer®, which resulted in cutting units costs in half and obtaining in-plant regulatory approvals from NSF and FDA.

Hoffer
FAMILY INTEGRITY SERVICE TRUST

starlim sterner
silicone at its best

In 2006, IDC commissioned the Institute of Environmental Health (IEH), a leading FDA processing authority, to conduct rigorous sterility protocols. Inoculating spouts with abnormally high concentrations of deadly bacteria, creating a condition that can only exist with sabotage, IEH dispensed volatile growth-promoting liquids to determine if any of the bacteria would migrate into the bags. The process was repeated for 35 days. Just one breach of the several hundred bags tests would doom the entire test to failure. Not only did The Answer® pass this stringent protocol, but the IEH test findings were published in the peer-reviewed *Journal of Food Protection* (2008).

Although it was premature, IDC worked in a parallel path on market development. While aseptic was widely accepted and the predominant form of processing overseas, North America remained its smallest market due to an established cold chain; there was no urgency for companies to adopt and plenty of skepticism. Even though The Answer® was ahead of its time and still in the process of being proven, IDC managed to garner strong interest from Hershey's, Coffeecol, and Steuben Foods – all of whom issued press releases, which bolstered IDC's industry exposure. Hershey's used The Answer® to dispense flavored milk at its Chocolate World theme park and at major trade shows; Coffeecol dispensed its dairy-based Juan Valdez coffee beverages from Coca-Cola trade show booths; Steuben Foods featured its own dairy-based coffee beverages at industry events. Lack of suitable manufacturing infrastructure ultimately killed these projects. Bag-in-box (BIB) filling speeds were dramatically slower than other packaging formats. No BIB filler in the US could run The Answer® as a single fitment, and a double fitment bag was cost prohibitive. It was difficult even for Hershey's to get manufacturers to invest time and money in something unproven. Costco agreed to carry orange juice with The Answer® packed by Country Pure Foods, but when Hurricane Katrina wiped out the orange juice crop the project was cancelled. Despite these false starts, clear interest had been demonstrated. Cold Star became a customer in 2009 and has remained one ever since.



Meanwhile, awareness continued to build: In 2007, Jane Goodall endorsed The Answer® for its ability to deliver nutrition in bulk to every needy corner of the world without requiring refrigeration; in 2008, Allied Development released its independent Life Cycle Analysis scientifically proving that a BIB package with The Answer® consumed dramatically less energy, green-house gases, and landfill than other mainstream packaging formats, including aseptic cartons.

In 2009, PepsiCo launched a BIB package in the US using its own tap and experienced widespread sterility breaches; every package had to be recalled. The debacle prompted PepsiCo to conduct a formal global search for an aseptic tap, which found that The Answer® was the world's only bona fide solution. PepsiCo sent several delegations to Hoffer; PepsiCo China ran successful sterility and market tests in numerous foodservice venues and with IDC's guidance procured a filling machine; and in 2012 PepsiCo International signed a global supply agreement with IDC. A mere two weeks later, PepsiCo China announced a sweeping joint venture with Taiwan-based Tingyi, who became its bottler, causing all new projects to be put on hold while the two companies underwent a government approval process followed by a long and complex integration. Despite doing no business, PepsiCo renewed its contract with IDC in early 2015, and in February 2016 PepsiCo began to resurrect the project (see sales & marketing).

Concurrently, IDC was busy addressing infrastructure issues and the handicap stemming from offering a component part rather than a total packaging system. In 2010, IDC partnered with Sealed Air and Alfa-Laval to co-develop the world's fastest BIB billing machine for high volume users. Recently the Company worked out an arrangement with Elpo, a leading Italian equipment manufacturer, to offer more affordable fillers for business development, and signed bag supply agreements with Sealed Air and Goglio. These and other on-going initiatives have enabled IDC to leverage the sales forces of other companies and negotiate new revenue streams on the package and manufacturing components; but even more significantly, these alliances have bolstered IDC's go-to-market strategy. In a broader sense, IDC's relentless marketing efforts have transformed its industry. Virtually every BIB filling machine made today is faster and capable



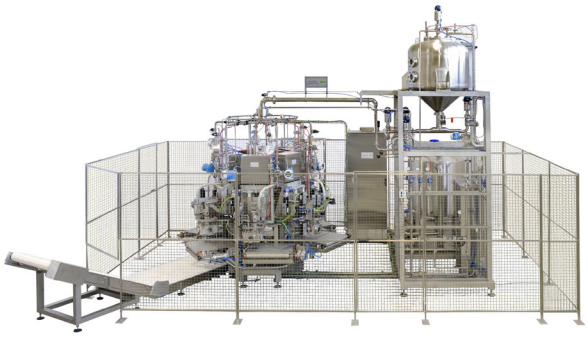
of running The Answer® as a single fitment, and for older machines conversion kits to run The Answer® have been developed.

With the hiring of Tom Shaver (formerly SIG Combibloc) and Bo Thörn (formerly Tetra Pak) IDC has attracted first-rate management experienced in aseptic "systems selling" and rich in customer contacts around the world. Any manufacturer who runs Tetra Pak or SIG Combibloc aseptic cartons is a potential candidate for IDC, and IDC is now in a position to offer them a turnkey solution: bag, filler, and of course The Answer®, which is what makes the large-format aseptic packaging possible.

With the forming of its Industry Advisory Board in 2013 (and influenced by its exposure to China via PepsiCo), IDC made the decision to pivot its sales focus largely toward the developing world, which besides having far less refrigeration and rapid growth is accustomed to aseptic products and is more open to adapt new technologies

with greater speed to market. To increase its reach, IDC hired Li Xin, former President of Sealed Air China, for his contacts and experience in China. The Company has also begun to leverage industry contacts in the Middle East, Europe, and Mexico, enlisting the help of accomplished industry people who see the opportunity to carve out a role for themselves and have agreed to be compensated strictly upon success. IDC has also established an informal alliance with the Obeikan Industrial Group, a packaging conglomerate company with sales spanning the Middle East and Africa, to co-market the solution in those regions.

To reflect its evolution, IDC redesigned its corporate logo, website, and sales materials in 2013.



The Company is establishing an entirely new packaging format with leading global beverage brands.

sales & marketing

Since the Q3 report there has been much progress and a number of positive new developments. Döhler's launch in China has caused industry players to take notice. Thanks to the Döhler partnership, IDC is now, for the first time, presenting real samples to the marketplace, which is considerably more impactful than talking about a concept. Samples have been sent to prospective customers all over the world. With IDC's go-to-market strategy now encompassing a "systems sell", customer discussions are focused more on implementation; the expectation is to expedite the sales cycle. Any aseptic producer who runs Tetra Pak or SIG Combibloc aseptic cartons is a potential candidate for aseptic BIB with The Answer®, and the "entry fee" is very low by comparison: i.e. the cost of an aseptic BIB filler is approximately one-tenth that of a Tetra Pak or SIG Combibloc filling machine. Below is a region-by-region list of the most immediate opportunities in the Company's sights:



china

Döhler continues to sell its BIB product line with The Answer® to foodservice accounts and to sign up distributors. More significantly, two of the largest juice companies in China – Want-Want and Uni President – are in the process of commencing trials with Döhler as their co-packer. National adoption by either of these companies is likely to result in several millions of units sold.

PepsiCo China has resumed working with IDC, targeting a popular beverage geared for the Chinese consumer. Several meetings have taken place between IDC and PepsiCo China and initial product samples are being produced for evaluation.

mexico & latin america

In January 2016 the Company met with FEMSA, Coca Cola's largest bottler in the world (based in Mexico City). One scheduled meeting morphed into three meetings with several FEMSA and Coca Cola executives, and the following action plan resulted: FEMSA has ordered a conversion kit for its filler in order to run The Answer® for an industrial trial; it plans to visit Hoffer in the US and Döhler in China to see the manufacturing and product first hand and is putting together a marketing plan for its region, which encompasses Mexcio, Central America, and parts of South America. It is too early to predict outcomes, timing, and volumes, but interest and sense of urgency are apparent.





The following Mexican companies are in the process of considering IDC systems proposals: Grupo LaLa (Mexico's largest dairy), Leche Pradel (dairy), Cremeria Aguascalientes (dairy), Jumex (juice), and Pascual (water).

The Company recently met with the AJE Group (Lima, Peru), the world's tenth largest soft drink company with a presence in 23 countries in Latin America, Africa, and Asia. AJE is taking delivery of an aseptic BIB filler and has asked IDC for technical and pricing information. IDC also met with Laive, Peru's leading aseptic dairy. Both companies have requested and received go-to-market proposals and are seriously considering the opportunity.

IDC has been asked to quote a finished juice package for a large retail project in Central America. Because the customer has stipulated that the juice be made in the US, IDC is working with US co-packers, including Döhler Americas, to arrive at the most competitive pricing.

pakistan

Engro Foods, Pakistan's leading packager of aseptic dairy products, has been working with IDC on a plan to penetrate the loose milk segment. Although Engro Foods commands 53% of Pakistan's packaged milk market and is Tetra Pak's fifth largest customer worldwide, 82% of the milk consumed in Pakistan (and India) falls into the loose milk category. This entails local dairy providers ladling raw unprocessed milk into plastic bags, which consumers take home and boil the contents. This primitive method is fraught with contamination dangers. Engro Foods earlier attempts at entering the loose-milk market through a refrigerated system failed for a number of logistical reasons, and it sees The Answer® as a unique solution to keep the source of loose milk sanitary and safe. It also presents a strong branding opportunity to dominate this segment. IDC has presented inexpensive plastic

housing units with Engro Foods graphics, which will eliminate the cost of the corrugated box on each package.



africa

The Company has had several productive discussions with top management at Chi Ltd., Africa's largest aseptic beverage producer (and a division of the Dutch-owned TGI conglomerate). Recently, the Coca-Cola Company bought a 40% stake in Chi. Chi, which owns a large aseptic production facility in Nigeria, has expressed strong interest in running broths, juices, and dairy in a BIB package with The Answer® for foodservice, and also possibly expanding its reach into Asia and India. In February 2016 at the Gulfood Show in Dubai, IDC organized meeting with a bag supplier and filling machine producer so that Chi's top management could see the level of support behind the project. Efforts are underway to provide Chi with filled bag samples for evaluation.

The Company has been working with a multinational corporation that, along with its subsidiaries, employs approximately 60,000 people across 76 countries. Working in conjunction with several West African governments and some private entities, this multinational is endeavoring to launch the most ambitious food program ever attempted in human history. A BIB package with The Answer® has been designated as the beverage component of the program, but IDC has been in a holding pattern while the multinational endeavors to shore up supply for its unique low-cost food packages. IDC remains in regular contact with the multinational.

india

Jain, the world's largest grower of mangoes and primary supplier to Coca Cola India, has indicated that a BIB project with The Answer® is on the front burner. IDC recently responded to a large sample request so Jain can fill bags for evaluation. Jain has confirmed that the project is with Coca Cola and a top priority, and suggested that the potential numbers are massive.

middle east

At the February 2016 Gulfood Show in Dubai, IDC met with Al Rabie, the largest juice brand in the Middle East. Al Rabie is in the process of showing samples produced by Döhler to various foodservice clients; they reported that the concept has been well received. However, due to the fact that Al Rabie's plant for the project is very near the Yemen border, where considerable fighting and destruction has occurred, its overall business has suffered significant disruption, necessitating that the IDC project be delayed. While Al Rabie expressed optimism about the viability of the opportunity, and IDC will continue to support its efforts, IDC is in the process of targeting other important juice and dairy brands in the region that don't have the same geographic challenges. In that vein, it plans to enlist the

Obeikan Industrial Group, a major aseptic packaging force in the region that has agreed to an informal marketing alliance with IDC in the Middle East and parts of Africa.

asia pacific

Two major aseptic players in Malaysia, MDI (Malaysia Dairy Industries) and Yeo Hiap Seng, continue to give serious consideration to the foodservice opportunity presented by The Answer® tap. IDC has responded to their requests for samples, dispensing units, filler proposals, and pricing models. Both companies are very active in Southeast Asia and South China with juice, dairy, soy, and tea products. IDC plans to visit them in Q2 with the expectation of garnering commitments. IDC also plans to reach out to leading aseptic companies in Indonesia and Vietnam.

usa

IDC has received high levels of interest from three large US co-packers: Döhler Americas, Whitlock, and Gregory Packaging. All three indicated a willingness to invest in filling equipment, and each has articulated its own distinctive vision as to how it can deploy IDC's technology. Both juice and dairy are under consideration. In addition to co-packing, Gregory Packaging has had prior experience with its own retail brand of BIB juices and teas. While market acceptance was robust, Gregory Packaging experienced problems with its filler and dispensing tap, two issues that IDC can rectify.

"Thanks to the Döhler partnership, IDC is now, for the first time, presenting real samples to the marketplace, which is considerably more impactful than talking about a concept. Samples have been sent to prospective customers all over the world. "

Management believes that these basic expenses will increase only marginally even as the Company's growth significantly ramps up and reaches its global promise.

overhead & personnel

Without sacrificing any operational effectiveness, IDC recently took measures to reduce overhead and thus lower even further the threshold for profitability. With its increased operational leverage, the Company believes that the addition of just one new customer on its current list (see above) will result in IDC becoming cash flow positive. One success is likely to trigger many more successes; the interest generated from the Döhler launch is already evidence of this, and is likely to intensify as more customers deploy The Answer®. IDC believes that its fixed expenses will increase only marginally even as the Company's growth significantly ramps up and reaches its global promise.

With a team of four highly experienced individuals, plus its Industry Advisory Board, IDC has cast a wide net of opportunity over the global food & beverage industry. Everyone is a stakeholder, which enhances not only motivation but also the degree of teamwork within IDC.

The recent addition of Bo Thörn has had a powerful impact. With over 20 years experience in the aseptic packaging industry, including 15 years in senior executive positions at Tetra Pak, Mr. Thörn was largely responsible for building Tetra Pak's China business into its world's largest market.

Tom Shaver, formerly seven years at SIG Combibloc, is a results-oriented, collaborative leader with proven capabilities in strategic planning, business development, brand management, key accounts, and negotiations. Since joining IDC in 2012, Mr. Shaver helped chart the Company's marketing shift toward the developing world, oversaw the development of IDC's new website and marketing materials, and has had a transformative impact on IDC's business and organization.

Prior to joining IDC, Li Xin managed the Cryovac food packaging business units for the Asia region and built a large green-field investment in Shanghai before ascending to the Presidency of Sealed Air China. A Chinese national experienced in market entry, strategy, sales and profit growth, food safety, and sustainability, Mr. Xin is

responsible for securing the Döhler relationship, managing PepsiCo China, and developing other accounts within China.

Greg Abbott, IDC's founder and chairman, continues to dedicate his full time to IDC without salary.

IDC's Industry Advisory Board continues to be very active and helpful. Recently Bill Hickey (former CEO of Sealed Air and current IDC Advisor) visited China and joined Li Xin for several successful meetings on IDC's behalf.

the answer & industry trends

Food safety, food waste, contamination outbreaks, nutrition, the adverse health affects of preservatives, and sustainability are all recurring issues that The Answer® squarely addresses. In its independent and comprehensive Life Cycle Analysis (2008), Allied Development concluded that the IDC solution expended "significantly less energy and greenhouse gases" and dramatically less landfill than other mainstream packaging formats. Based on these findings, IDC has reason to believe that its packaging solution may be, arguably, the most sustainable package in the marketplace.

> *"Based on these findings, IDC has reason to believe that its packaging solution may be, arguably, the most sustainable package in the marketplace."*

intellectual property

The Answer® received initial US patent protection in 2002, and additional US patent protection in 2004. Currently The Answer® has patent protection in Australia, Brazil, Canada, China, Eurasia (consisting of nine countries including Russia), Europe (UK, France, Italy, Germany, Spain, and The Netherlands), Hong Kong, Mexico, New Zealand, South Africa, and Japan. A patent application is currently pending in India.



Strong as these global patents are, IDC believes that its trade secrets constitute at least as much IP protection. Years of refining its various components and the assembly process, and the stringent sterility tests its successfully conducted, have set an extremely very high technical bar that any other competitor must attain in order to lay claim to having an "aseptic tap". There is absolutely no guarantee – in fact, it is highly unlikely – that even a direct knock-off of The Answer® will produce the consistency demanded by the aseptic industry. Any knock-off will be regarded a separate part, and no reputable food & beverage company will risk product recalls on a tap that hasn't been as thoroughly vetted as The Answer®. There are no short-cuts around the years of tooling, re-tooling, inoculated testing,

regulatory approvals, and validation that are now in IDC's rear-view mirror. PepsiCo sent three delegations to Hoffer Plastics with the idea of manufacturing in China, only to abandon the notion when they saw the intricacies of IDC's assembly process. IDC went through three US silicone manufacturers before Austrian-based Starlim-Sterner designed the definitive seal, one that is proprietary to IDC.

The Company believes that between its patents and trade secrets, the barriers to entry are considerable. The technical standards IDC has set are high enough, and the process expensive enough, to discourage would-be competitors.

public relations

In August 2013, IDC launched a new updated website: www.idcinnovation.com.

Designed primarily for business-to-business, it is easy to navigate and very scalable.

results of operations

Year Ended December 31, 2015 compared to Year Ended December 31, 2014

Revenue: For the year ended December 31, 2015, the Company had net revenues from The Answer® of $328,131 compared to the $390,152 of net revenues generated for the year ended December 31, 2014, a decrease of $62,021 or 15.9%. This decrease in net revenues is due to the timing of shipments to customers.

Gross Profit/(Loss): For the year ended December 31, 2015, the Company had a gross profit of $54,001 compared to a gross loss of ($27,890) for the year ended December 31, 2014, an increase of $81,891 or 293.6%. Decreased costs per unit and one-time tooling costs incurred in 2014 contributed to the increase in gross profit for the year ended December 31, 2015.

Operating Expenses: For the year ended December 31, 2015, the Company had total operating expenses of $1,418,379 representing a decrease of $59,791 or 4.1%, compared to the Company's total operating expenses of $1,478,170 for the year ended December 31, 2014. Decreases in travel and depreciation expense were the primary driver of the decrease in operating expenses for the year ended December 31, 2015.

Loss from Operations: For the year ended December 31, 2015, the Company had a loss from operations of ($1,364,378) representing a decrease in loss from operations of $141,682 or 9.4% compared to the ($1,506,060) operating loss for the year ended December 31, 2014. This decrease in loss from operations was primarily driven by increased gross profit and decreased operating expenses as noted above.

Interest Expense: Interest expense for the year ended December 31, 2015, was $145,317 compared to $195,933 for the year ended December 31, 2014. The decrease in interest expense for 2015 is due primarily to the accounting for warrants issued in conjunction with loans obtained by the Company during 2014.

Other Income/Expense: Other income/expense for the year ended December 31, 2015 was $315,643 compared to $0 for the year ended December 31, 2014. The increase in other income/expense in driven by the accounting for the preferred stock purchase as discussed in Note 4 to the financial statements.

Net Loss: For the year ended December 31, 2015, the Company had a net loss of ($1,825,338) as compared to a net loss of ($1,701,993) for the year ended December 31, 2014, representing an increase in net loss of $123,345 or 7.3% compared to the year ended December 31, 2014. The increase in net loss is driven by an increase in other expense as discussed above.

financial condition & liquidity

As reflected in the Company's financial statements, the Company has experienced continuing net losses and negative cash flows from operations through December 31, 2015. The Company's continuing existence is dependent upon its ability to obtain additional financing, to generate sufficient cash flows to meet its obligations on a timely basis and to achieve and maintain profitable operations. The Company is attempting to obtain additional contracts to bolster sales of The Answer®. The Company is also seeking equity and/or debt financing. However, there can be no assurance that the Company will be successful in this regard.

During the first half of 2013 the Board of Directors approved the terms of Greg Abbott's cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. A portion of these loans was repaid in 2014 resulting in a principle balance of $563,269.



During the second quarter of 2014 affiliates of Mr. Abbott extended an aggregate of $300,000 in loans to the Company. Promissory notes were issued for these loans at an interest rate of 10% per annum. These loans have an original due date of April 30, 2015 and are currently being renegotiated by the Company.

During the third quarter of 2014 a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% which was to be payable no later than January 1, 2015. A principal payment of $100,000 was paid in September 2015 resulting in a principal balance as of December 31, 2015 of $100,000.

During the fourth quarter of 2014 several individuals extended loans to the Company totalling $140,000. Promissory notes were issued for these loans at a rate of 6% with a maturity date on or before May 31, 2015. These loans were converted to stock by the Company in the fourth quarter of 2015. A total of 488,037 shares of common stock were issued to cover the principal and partial interest payments due on those loans. Interest payments were also made in cash to the loan holders. In addition, one individual investor purchased 238,095 shares for a purchase price of $100,000 ($.42 per share) in Q4 2014.

During the third quarter of 2015 one individual purchased $1,500,000 of a new series of the Company's preferred stock. This is further discussed in Note 4 to the financial statements.

During the third quarter of 2015 the Company entered into agreements for bank lines of credit totalling $600,000. A line of credit in the amount of $350,000 is due on demand with an interest rate of prime plus 1%. The remaining $250,000 line of credit was issued at an interest rate of prime plus .75% with a term of 36 – 84 months.

During the fourth quarter of 2015 several individuals purchased a total of 733,332 shares of the Company's stock for an aggregate purchase price of $220,000 ($0.30 per share). As mentioned above, some loans extended to the company in Q4 2014 were converted to stock during this period.

The Company believes that it has sufficient capital and access to funding to continue operations through December 31, 2016. However, there is no assurance that the Company will raise sufficient capital or otherwise generate sufficient cash flows to enable the Company to continue as a going concern beyond such time. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.



independent auditor's report

to the board of directors and stockholders of international dispensing corporation

We have audited the accompanying financial statements of International Dispensing Corporation (the "Company"), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in stockholders' (deficit) equity, and cash flows for each of the two years in the period ended December 31, 2015, and the related notes to the financial statements.

management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The

procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Dispensing Corporation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

uncertainty regarding going concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred recurring operating losses and will need to raise additional capital to finance its business operations and repay or refinance its existing debt. These ongoing conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Baltimore, Maryland
April 1, 2016

International Dispensing Corporation

Balance Sheets
December 31, 2015 and 2014

ASSETS

CURRENT ASSETS:		*2015*		*2014*
Cash	$	1,085,432	$	15,434
Accounts Receivable trade		102,345		94,675
Prepaid expenses		53,161		33,333
Total current assets		1,240,938		143,442
PROPERTY AND EQUIPMENT:				
Office equipment		95,351		95,351
Production equipment		3,336,268		3,323,768
		3,431,619		3,419,119
Less accumulated depreciation		(3,110,441)		(2,982,455)
Total property and equipment		321,178		436,664
OTHER ASSETS:				
Discount - Beneficial Conversion Feature (BCF)		*422,901*		-
Discount - Warrants		*422,901*		-
Total other assets		*845,802*		-
TOTAL ASSETS	*$*	*2,407,918*	*$*	*580,106*

LIABILITIES & STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:		*2015*		*2014*
Accounts Payable	$	127,695	$	203,970
Accrued expenses		170,633		137,123
Note payable to stockholders		963,269		1,203,269
Bank term loan		-		27,778
Line of credit		587,721		-
Other liabilities warrants, at fair value		1,040,982		-
Total current liabilities		2,890,300		1,572,140
Convertible, redeemable preferred stock, $.001 par value; 1,700,000 shares authorized; 1,500,000 and 0 shares issued and outstanding as of December 31, 2015 and 2014, respectively		1,500,000		-
STOCKHOLDERS' DEFICIT:				
Common stock, $.001 par value; 125,000,000 shares authorized; 82,001,793 and 80,813,758 shares issued and outstanding as of December 31, 2015, and 2014, respectively		82,001		80,813
Additional paid-in capital		38,033,406		36,570,268
Accumulated deficit		(40,097,789)		(37,643,115)
Total stockholders' deficit		(1,982,382)		(992,034)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	*$*	2,407,918	*$*	580,106

see accompanying notes.

International Dispensing Corporation

Statements of Operations
For the years ended December 31, 2015 and 2014

	2015	2014
REVENUES:	$ 328,131	$ 390,152
COST OF GOODS SOLD:	274,130	418,042
GROSS PROFIT:	54,001	(27,890)
OPERATING EXPENSES:		
Engineering expenses	38,009	37,359
General & administrative expenses	27,092	47,097
Operating expenses	1,014,046	998,402
Selling expenses	211,246	252,827
Depreciation	127,986	142,485
Total operating expenses	1,418,379	1,478,170
LOSS FROM OPERATIONS:	(1,364,378)	(1,506,060)
INTEREST EXPENSE:	(144,951)	(195,933)
OTHER INCOME/EXPENSE:	(316,009)	-
NET LOSS:	(1,825,338)	(1,701,993)
Preferred stock dividends and discount accretion:	(629,336)	-
Net loss available to common stockholders:	$ (2,454,674)	$ (1,701,993)
NET LOSS PER COMMON SHARE (basic & diluted)	$ (0.02)	$ (0.02)
BASIC & DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	80,984,251	80,635,676

see accompanying notes.

International Dispensing Corporation

Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,825,338)	$ (1,701,993)
Non-cash items:		
Depreciation	127,986	142,485
Stock-based compensation	324,743	396,647
BCF/warrant valuation	54,611	131,144
Change in fair value of warrant liability	316,009	-
Net changes in:		
Accounts receivable	(7,669)	(94,675)
Prepaid expenses	(19,828)	8,084
Accounts payable	(77,275)	91,122
Accrued expenses	4,513	(61,117)
Net cash used in operating activities	(987,445)	(966,069)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(12,500)	(57,034)
Net cash used in investing activities	(12,500)	(57,034)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from preferred stock issue	1,500,000	-
Repayment of bank term loan	(27,778)	(166,666)
Proceeds/(repayment) of notes from stockholders, net	(100,000)	640,000
Net borrowings on line of credit	587,721	-
Proceeds from issuance of common stock	220,000	100,000
Net cash provided by financing activities	2,179,943	573,334
NET INCREASE/(DECREASE) IN CASH	1,069,998	(449,769)
CASH AT BEGINNING OF PERIOD	15,434	465,203
CASH AT END OF PERIOD	$ 1,085,432	$ 15,434
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 76,195	$ 3,671
Stock issued in exchange for debt	$ 140,000	$ -

see accompanying notes.

International Dispensing Corporation

Statements of Changes in Stockholders' Deficit
For the years ended December 31, 2015 and 2014

	Common Shares	*Common Stock Amount*	*Additional Paid-In Capital*	*Accumulated Deficit*	*Total Stockholders' Deficit*
BALANCE AT JANUARY 1, 2014	80,575,663	$ 80,575	$ 35,942,713	$ (35,941,122)	$ 82,166
Additional shares issued	238,095	238	99,762	-	100,000
Stock-based compensation expense			396,647	-	396,647
Valuation of notes payable common stock warrants			131,142	-	131,142
Net loss	-	-	-	(1,701,993)	(1,701,993)
BALANCE AT DECEMBER 31, 2014	80,813,758	$ 80,813	$ 36,570,268	$ (37,643,115)	$ (992,034)
Additional shares issued	1,188,035	1,188	355,225	-	356,413
Stock-based compensation expense	-	-	324,743	-	324,743
Preferred stock BCF			724,973		724,973
Discount accretion on warrants				(604,144)	(604,144)
Valuation of notes payable common stock warrants			58,199		58,199
Preferred stock dividend				(25,192)	(25,192)
Net loss	-	-		(1,825,338)	(1,825,338)
BALANCE AT DECEMBER 31, 2015	82,001,793	$ 82,001	$ 38,033,406	$ (40,097,789)	$ (1,982,380)

see accompanying notes.

International Dispensing Corporation

Notes to the Financial Statements
For the years ended December 31, 2015 and 2014

1. the company & organization

International Dispensing Corporation ("IDC" or the "Company") was incorporated in the State of Delaware in October 1995. The Company designs and manufactures proprietary packaging and dispensing solutions for the flowable food, beverage, medical, pharmaceutical and chemical industries. IDC's business model offers companies proven market solutions that offer higher levels of product safety and product performance.

IDC's single focus is on the development of market solutions whose value may be optimized through a joint venture alliance, license agreement or sale of the technology. IDC's business plan is organized on five platforms.

I. Identify emerging packaging and dispensing market trends in the flowable foods, beverages, medical, pharmaceutical and chemical industries.

II. Design and incubate new packaging and dispensing technologies that delivers measurable improvements in product safety and product performance.

III. Demonstrate that the new technology can be mass marketed and mass produced.

IV. Deliver each new technology with the necessary patent and regulatory certifications completed.

V. Partner with leading flexible packaging companies in joint venture alliances, license agreements or sale of the technology to maximize shareholder value.

The Company continued to be subject to a number of on-going risks through December 31, 2015, which risks are continuing. For example, the Company is subject to risks related to the availability of sufficient financing to meet its future cash requirements and the uncertainty of future product development, regulatory approval, and market acceptance of existing and proposed products. Additionally, other significant risk factors such as loss of key personnel, lack of manufacturing capabilities,

difficulty in establishing new intellectual property rights and preserving and enforcing existing intellectual property rights, as well as product obsolescence due to the development of competing technologies could impact the future results of the Company.

2. going concern

The Company's financial statements have been presented on the basis that it will continue as a going concern. The Company's activities have resulted in an accumulated deficit from inception to December 31, 2015, of over $40 million. Losses are continuing as efforts to market the Company's products continue to develop. The Company's primary source of funds since inception has been from the sales of its common and preferred stock and to a lesser extent from the issuance of debt. As discussed under Financial Condition and Liquidity, several loans are now past due and are being renegotiated by the Company.

The Company's ability to continue as a going concern is dependent on its ability to obtain additional financing, to generate sufficient cash flows to meet its obligations on a timely basis, and ultimately to attain profitability.

As of December 31, 2015, the Company had a negative net working capital deficit of $1,649,362. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. significant accounting policies

Cash

Cash consists of cash in banks.

Accounts Receivable

The Company's accounts receivable consist of amounts due from customers operating in the food and beverage industry throughout the United States. Collateral is generally not required. The Company does not have a history of significant uncollectible accounts. For the periods reported, the Company has performed a detailed review of the current status of the existing receivables and determined that an allowance for doubtful accounts is not necessary.

Property and Equipment

Office equipment and productive equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives, generally five years. Depreciation expense for the years ended December 31, 2015 and 2014 was $127,986 and $142,485, respectively.

Impairment of Long-Lived Assets

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net undiscounted cash flows that the asset is expected to generate. If such asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset, if any, exceeds its fair value determined using a discounted cash flow model.

Patents

Costs to develop patents are expensed when incurred.

Revenue Recognition

Revenue is recognized upon shipping of the product to the customer. Terms are FOB the Company's loading dock.

Income Taxes

The Company uses the liability method in

accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. Any interest and penalties related to income tax matters is recognized as a component of operating expense.

Net Income/(Loss) per Share

Basic net income/(loss) per share is computed by dividing net income/(loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted loss per share is determined using the weighted-average number of shares of common stock outstanding during the period adjusted for the dilutive effect of common stock equivalents related to preferred stock, outstanding stock options and deferred contingent common stock awards. Such incremental shares were antidilutive for the periods presented.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

Stock-Based Compensation

Compensation cost for all stock-based awards is measured at fair value on date of grant and recognized over the service period for awards expected to vest. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. Management considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of accounts receivable, accounts payable and accrued expenses, bank term loan, and notes payable to stockholders. In management's opinion, the carrying amounts of these financial instruments approximated their fair value at December 31, 2015 and 2014.

Business Segments

The Company has determined that its current business and operations consist of one business segment.

Advertising

The Company expenses advertising costs as incurred. Advertising expenses totalled $833 and $239 for the years ended December 31, 2015 and 2014, respectively.

4. private placements of stock

During the fourth quarter of 2014, one individual investor purchased 238,095 shares for a purchase price of $100,000 ($.42 per share).

During the third quarter of 2015 one individual purchased 1,500,000 shares of the Company's Series E Preferred Stock for a total purchase price of $1,500,000 ($1.00 per share). These shares are redeemable after one year from issuance and can be converted to 5,000,000 shares of the Company's common stock after one year. The purchase agreement allows for a 4% dividend payable either in cash or in additional shares of Series E Preferred Stock. This agreement also allows for redemption of 5,000,000 warrants, issued in connection with the preferred stock agreement, after a one-year time period. The warrant redemption period expires after five years from issuance.

As the preferred stock contains a redeemable provision at the shareholder's option, the item is not included with permanent equity, but a component of mezzanine equity and included in the balance sheet as a single line item between liabilities and stockholders' deficit.

The preferred stock includes a beneficial conversion feature ("BCF") because the effective conversion price was below the per share fair value of the underlying stock into which it is convertible at the issue date. As a result, the Company recognized an asset discount from the BCF and a related credit to additional paid-in capital in the amount of $724,973, which will be amortized as a deemed dividend over one year, the redeemable period.

In connection with the preferred stock issuance, the Company also issued warrants to purchase an additional 5,000,000 shares of common stock. The warrants are deemed a derivative liability and will be measured at fair value at each reporting period (see Note 10). As a result, the Company recognized an asset discount for the warrants and a related credit to warrant liability in the original amount of $724,973. The discount will be amortized as a deemed dividend over one year, the redeemable period. The warrants will be measured at fair value at each reporting period with changes in fair value recorded in the income statement. Through December 31, 2015, a loss in the change in fair value of the warrants liability of $(316,009) was recorded as miscellaneous expense.

During the fourth quarter of 2015 several individuals purchased a total of 733,332 shares of the Company's common stock for an aggregate purchase price of $220,000 ($0.30 per share). Additionally, 454,703 common shares were issued to convert loans to common stock.

5. related party transactions

Greg Abbott, Chairman, loaned the Company a total of $700,000 during 2013 and 2012. The notes bear interest of 6% per annum. These loans are all due on demand. Mr. Abbott was paid $70,000 towards the interest due on these loans during the fourth quarter of 2015. The principle balance of Mr. Abbott's loans as of December 31, 2015 and 2014, was $563,269.

During the second quarter of 2014, affiliates of Mr. Abbott extended an aggregate of $300,000 in loans to the Company. Promissory notes were issued for these loans at an interest rate of 10% per annum. The principal balance of these loans as of December 31, 2015 and 2014, was $300,000.

During the third quarter of 2014, a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6%. A principal payment of $100,000 was paid in September 2015 resulting in a principal balance as of September 30, 2015 of $100,000. No further payments have been made towards this loan which is now due on demand.

Included in the accounts payable balance as of December 31, 2015 are payables owed to Mr. Abbott totalling $22,387.

6. income taxes

The Company's federal statutory income tax rate is approximately 34%. The Company is also subject to applicable state income taxes. As a result of operating losses at December 31, 2015 and losses incurred since inception, and due to uncertainties surrounding the ability of the Company to realize the tax benefits associated with these losses, there is no provision or benefit for income taxes in the accompanying financial statements. As of December 31, 2015, the Company had a net operating loss carryforward of approximately $26.4 million, which expire in 2018 through 2034. The Company has established a full valuation allowance against its net deferred tax assets (which consists primarily of net operating losses carryforward) as the Company's ability, to realize such assets, is predicated upon the Company achieving profitability. In addition, the use of net operating loss carryforwards may be limited as a result of ownership changes resulting from stock issuances. The Company had a deferred tax asset of approximately $10.6 million at December 31, 2015 and $11.1 million at December 31, 2014, both of which were offset by a full valuation allowance.

7. stock-based compensation

Stock-Based Compensation Expense

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was originally developed for use in estimating the fair value of traded options, which have different characteristics from the Company's employee stock options. The model is also sensitive to changes in assumptions, which can materially affect the fair value estimate. The Company used the following assumptions for determining the fair value of options granted under the Black-Scholes option- pricing model for the years ended December 31, 2015 and 2014.

	2015	*2014*
Risk-free interest rate	1.52% to 1.63%	1.52% to 1.70%
Expected volatility	101.3% to 102.3%	102.6% to 104.5%
Expected life (in years)	5	5 - 10
Expected dividend yield	0.00%	0.00%

Total compensation cost charged related to stock based compensation amounted to $324,743 and $396,647 for the years ended December 31, 2015 and 2014, respectively.

The weighted average grant-date fair values of the options granted during the years ended December 31, 2015 and 2014 was $0.34 and $0.32, respectively. The weighted average inception to date exercise price of these options was $0.33 during the years ended December 31, 2015 and 2014.

Stock Options Granted To Non-Employees

The Company accounts for its stock-based awards issued to non-employees in return for services using the fair value method. The fair value of the award is measured using the Black-Scholes option valuation model on the date that the services have been completed or on the performance commitment date, whichever is earlier (the "measurement date"). The fair value of the award is estimated on the date of grant and the measurement date and is recognized as an expense in the accompanying statements of operations over the vesting period.

Stock Options

The Company has two stock option plans (the "Plans"). The 1998 Stock Option Plan (the "Participant Plan") provides for the granting of stock options to key employees, consultants

or other persons ("Participants"). The objective of the Plans includes attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the Company by providing Participants the opportunity to acquire common stock.

The Plans provide for the granting of both options that will qualify as "incentive stock options" and options that are nonqualifying stock options. The objectives of the second plan, the Director Option Plan ("the Director Plan") is to attract and retain the best available personnel for service as outside directors of the Company, as well as to provide additional incentive to the outside directors of the Company to serve as directors and to encourage their continued service on the Board.

On June 18, 1999, the Board of Directors approved an increase in shares reserved for grant under the Participant Plan and Director Plan up to 850,000 and 450,000 shares, respectively. On September 11, 2000, the Board of Directors approved an increase in the number of shares reserved for grant under the Participant Plan to 2,500,000 and on December 5, 2001 the Board of Directors approved an increase in the number of shares reserved for grant under the Participant Plan to 5,000,000.

The stockholders at the June 7, 2002 stockholders' meeting approved the increase in the Plan. Options expire on such date as the Board of Directors or the Committee may determine. The term of director stock options issued after January 1, 1998 and scheduled to expire before December 31, 2015 have been extended to expire on June 30, 2018.

In addition, 200,000 options scheduled to expire on June 30, 2009 have been extended to expire on June 30, 2018; 80,000 options scheduled to expire in 2012 and 100,000 options scheduled to expire in 2014 have been extended to expire on September 30, 2016. Director stock options granted to Greg Abbott, George Kriste and William Hudson with an original expiration date prior to December 31, 2015 have been extended to June 30, 2018. Also, 50,000 options granted on August 12, 2014 have been extended to January 6, 2017 and a total of 281,250 warrants have been extended to May 20, 2017. These expiration dates extensions are reflected in the calculations below extended to January 6, 2017 and a total of 281,250 warrants have been extended to May 20, 2017. These expiration dates extensions are reflected in the calculations below.

The following table summarizes stock option activity for the Company for the years ended December 31, 2015 and 2014:

	Number Of Shares	*Weighted Average Exercise Price*	*Intrinsic Value*
OUTSTANDING AT JANUARY 1, 2014:	7,059,501	$ 0.376	
Granted	910,000	0.211	
Exercised	-	0.000	
Cancelled	(300,000)	0.950	
OUTSTANDING AT DECEMBER 31, 2014:	7,669,501	0.334	$ 797,270
Granted	140,000	0.344	
Exercised	-	0.000	
Cancelled	(19,999)	0.347	
OUTSTANDING AT DECEMBER 31, 2015:	7,789,502	$ 0.334	$ 802,470

The following table summarizes information about stock options outstanding at December 31, 2015:

	Options Outstanding			*Options Exercisable*		
Exercise Price Range	*Number Outstanding*	*Weighted-Average Remaining Life (Years)*	*Weighted-Average Exercise Price*	*Number Outstanding*	*Weighted-Average Remaining Life (Years)*	*Weighted-Average Exercise Price*
$0.20 - 0.30	4,736,667	4.76	$0.2233	4,470,000	4.86	$0.2247
$0.312 - 0.58	2,581,168	2.58	0.4182	2,434,504	2.31	0.4208
$0.60 - 1.00	231,667	3.10	0.7727	231,667	3.10	0.7727
$1.01 - 2.10	240,000	1.32	1.2042	240,000	1.32	1.2042
	7,789,502	3.88	$0.3340	7,376,171	3.85	$0.3385

As of December 31, 2015, warrants to purchase 4,916,962 shares of the Company's stock were outstanding at prices ranging from $0.20 to $0.80 per share. The weighted average warrant price as of December 31, 2015 was $0.30.

As of December 31, 2015, there was unrecognized compensation expense of $344,080 remaining to be amortized through 2020 relating to all unvested stock awards.

No stock options were exercised during the years ended December 31, 2015 or 2014.

8. concentration of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The deposits at a financial institution are guaranteed by the Federal Deposit Insurance Company (FDIC) up to $250,000. At various times during the year, the Company had deposits in excess of the FDIC limit. The Company had accounts receivable balances of $102,345 and $94,675 as of December 31, 2015 and 2014, respectively.

Revenues for the years ended December 31, 2015 and 2014 includes sales to one major customer, which accounts for a majority of the total revenues of the Company for each of the respective years.

9. notes payable

Notes payable at December 31, 2015 consist of the following:

Greg Abbott, Chairman, has continued to invest in the Company. During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott's cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Partial payment of Mr. Abbott's 2012 and 2013 loans was made, bringing the aggregate principal balance of such loans down to $563,269. These loans are all due on demand.

During the second quarter of 2014, affiliates of Mr. Abbott extended an aggregate of $300,000 in loans to the Company. Promissory notes were issued for these loans at an interest rate of 10% per annum. These loans were due on April 30, 2015 and are currently being renegotiated by the Company.

During the third quarter of 2014, a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015. A principal payment of $100,000 was paid in September 2015 resulting in a principal balance as of September 30, 2015 of $100,000.

During the fourth quarter of 2014 several individuals extended loans to the Company totalling $140,000. Promissory notes were issued for these loans at a rate of 6% with a maturity date on or before May 31, 2015. These loans were converted to stock by the Company in the fourth quarter of 2015. A total of 488,037 shares of common stock were issued to cover the principal and partial interest payments due on those loans. Interest payments were also made in cash to the loan holders.

During the third quarter of 2015 the Company entered into agreements for bank lines of credit totalling $600,000. A line of credit in the amount of $350,000 is due on demand with an interest rate of prime plus 1%. The remaining $250,000 line of credit was issued at an interest rate of prime plus .75% with a term of 36 – 84 months. Subject to the lines of credit, the Company has pledged certain cash amounts as collateral with balances totalling $600,000 as of December 31, 2015.

Interest expense on the above notes payable and all other obligations of the Company was $145,317 and $195,933 for the years ended December 31, 2015 and 2014, respectively.

In connection with the notes payable issued in 2014, as described above, the Company issued warrants to purchase 640,000 of the Company's common stock at per share exercise prices ranging from $0.32 through $0.43, expiring three to five years from date of issuance. The Company valued the warrants issued at inception of the loans using the Black-Scholes option pricing model, including the assumptions described in Note 7, and which resulted in total fair value of $189,343. This value was recognized as interest expense over the life of the loans. Interest expense

recognized during 2014 associated with these warrants totalled $131,144. Interest expense of $58,199 was recognized as of September 30, 2015. No further interest expense from those warrants is expected to be recognized subsequent to September 30, 2015.

10. fair value measurements

Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and

Disclosures, defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. In addition, ASC Topic 820 establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. These tiers include:

- Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2—Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.
- Level 3—Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In connection with the issuance of convertible, redeemable preferred stock during the third quarter of 2015, the Company issued warrants to purchase 5,000,000 shares of common stock. In accordance with ASC Topic 815, Derivatives and Hedging, the warrants are deemed a derivative liability and are measured at fair value on a recurring basis using the Black Scholes option pricing model, which is considered a Level 3 fair value measurement. The change in the fair value of the warrants of $316,009 for the period ended December 31, 2015, is included in other income/expense in the accompanying statements of operations.

The Company has no financial assets and liabilities measured at fair value on a nonrecurring basis.

11. commitments & contingencies

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business. We believe there is no litigation pending against the Company that could have a material adverse effect on the Company's financial position, results of operations or cash flows.

12. subsequent events

The Company has evaluated subsequent events for potential recognition and/or disclosure through April 1, 2016, the date the financial statements were available to be issued.



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