

BALINCAN USA, INC.
(FORMERLY KNOWN AS MOQIZONE HOLDING CORPORATION)

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2016

Unaudited consolidated financial statements (the “financial statements”) for Balincan USA, INC. for the quarter ended March 31, 2016 has been prepared by management. Accordingly, the financial statements have not been audited, reviewed or compiled by independent accountants. The financial statements have been prepared in accordance with generally accepted accounting principals.

Trading Symbol: BCNN

CUSIP Number: 058479 10 6

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Balincan USA, INC			
Consolidated Balance Sheets			
		March 31, 2016	December 31, 2015
ASSETS			
Current assets:			
Cash	\$	55,990	149,221
Prepayments, deposits and other receivables		73,219	73,220
Due from related parties		262,215	256,737
Total current assets		391,424	479,178
Property and equipment, net		0	15,132
Total assets	\$	391,424	494,310
LIABILITIES			
Current liabilities:			
Other payables and accruals		1,408,154	1,326,710
Accrued directors' fee		69,684	69,684
Due to related parties		4,578	4,578
Interest payable		1,076,536	1,067,536
Preferred stock dividend payable		192,682	192,682
Convertible note		296,500	296,500
Note payable, net of debt discount		150,000	150,000
Total current liabilities		3,198,134	3,107,690
Shareholders' deficit			
Common stock, 1,500,000,000 share authorized, \$0.001 par value, 15,937,123 issued and outstanding as of March 31, 2016 and December 31, 2015		15,937	15,937
Series A preferred stock		1	1
Series C preferred stock		847	847
Placement Agent Warrants			
Additional paid-in capital		5,722,204	5,726,954
Deficit accumulated		(8,552,286)	(8,383,636)
Accumulated other comprehensive income/(loss) - foreign exchange adjustment		6,587	26,517
Total shareholders' deficit		(2,806,710)	(2,613,380)
Total liabilities and shareholders' deficit	\$	391,424	494,310
<i>See accompanying notes to consolidated financial statements</i>			

Balincan USA, INC			
Consolidated Statements of Operations and Comprehensive Loss			
		3 months ended of March 31	
		2016	2015
Revenue, net		0	0
Costs and expenses			
Cost of sales		0	0
Depreciation and amortization expense		(935)	0
Selling, general and administrative expenses		(120,570)	(144,447)
Loss from operations		(121,505)	(144,447)
Other expenses			
Interest expenses, net of interest income		(47,145)	(11,780)
Total other expenses		(47,145)	(11,780)
Net loss		(168,650)	(156,227)
Dividend of Series A convertible preferred stock		0	0
Deficit accumulated during development stage		(168,650)	(156,227)
Beneficial conversion feature related to issuance of series C convertible preferred stock		0	0
Net loss applicable to common stockholders		(168,650)	(156,227)
Other comprehensive income/(loss)			
Foreign currency translation adjustment		0	1,841
Comprehensive income/(loss)		(168,650)	(154,386)
Net income per share:			
Basic		(0.01)	(0.01)
Diluted		(0.01)	(0.01)
Weighted average number of shares used in computation:			
Basic		14,270,300	15,280,353
Diluted		15,937,123	15,280,353
<i>See accompanying notes to consolidated financial statements</i>			

BALINCAN USA, INC

Unaudited Consolidated Statement of Shareholders' Deficit

	Ordinary shares (US\$0.001 par value)		Series A preferred shares (US\$0.001 par value)		Series C preferred shares (US\$0.001 par value)		Additional paid-in capital	Accumulated other comprehensive income	Accumulated losses	Total shareholders' equity
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value				
Balance as of December 31, 2013	13,875,727	13,876	1,095	1	847,200	847	3,535,016	32,834	(6,060,934)	(2,478,360)
Foreign exchange translation difference								4,506		4,506
Accrued preferred dividend	394,573	395					394,178		(99,600)	294,973
Net loss									(1,021,337)	(1,021,337)
Balance as of December 31, 2014	14,270,300	14,270	1,095	1	847,200	847	3,929,194	37,340	(7,181,871)	(3,200,217)
Foreign exchange translation difference								(10,823)		(10,823)
Accrued preferred dividend									(99,600)	(99,600)
Additional paid-in capital	1,666,823	1,667					1,797,760			1,799,427
Net income (loss)									(1,246,445)	(1,246,445)
以前年度损益调整									144,280.00	144,280
Balance as of Dec 31, 2015	15,937,123	15,937	1,095	1	847,200	847	5,726,954	26,517	(8,383,636)	(2,613,378)
Foreign exchange translation difference								(19,932)		(19,932)
Additional paid-in capital							(4,750)			(4,750)
Net loss									(168,650)	(168,650)
Balance as of Mar 31, 2016	15,937,123	15,937	1,095	1	847,200	847	5,722,204	6,585	(8,552,286)	(2,806,710)

Balincan USA, INC		
Consolidated Statements of Cash Flows		
	3 months ended of 31 March	
	2016	2015
Operating activities		
Net income/(loss)	\$ (168,650)	(156,227)
<i>Adjustments:</i>		
Expenses of share based compensation	0	116,667
Depreciation and amortization	935	0
Interest expenses	47,145	0
Other receivables	1	7
Other payables and accruals	81,444	36,279
Loss in disposal of fixed asset	14,197	0
Due from/to related parties	(5,479)	0
Net cash used in operating activities	<u>(30,407)</u>	<u>(3,274)</u>
Net cash used in investing activities	0	0
Financing activities		
Capital contribution	(4,750)	0
Net cash provided by financing activities	<u>(4,750)</u>	<u>0</u>
Effect of exchange rate on cash	(58,073)	1,818
Decrease in cash	(93,230)	(1,456)
Cash, beginning of period	149,221	1,430
Cash, end of period	<u>\$ 55,991</u>	<u>(26)</u>
Supplement disclosure of cash flow information		
Interest paid	<u>\$ 0</u>	<u>0</u>
Supplement disclosure of non-cash transactions		
Issuance of shares for dividends	<u>\$ 0</u>	<u>0</u>
Preferred stock dividend payable	<u>\$ 0</u>	<u>63,920</u>
Warrant liability incurred in connection with convertible notes	<u>\$ 0</u>	<u>0</u>
Forgiveness of directors' fee	<u>\$ 0</u>	<u>0</u>

NOTE 1 - DESCRIPTION OF BUSINESS

Organization

The accompanying consolidated financial statements include the financial statements of Balincan USA, Inc. (formerly known as MoqiZone Holding Corporation) (the “Company”), its subsidiaries of MoqiZone Holdings Limited, a Cayman Island corporation (“MoqiZone Cayman”), Beauty King Group Limited (formerly known as MobiZone Holdings Limited), a Hong Kong corporation (“Beauty King”), MoqiZone (Shanghai) Information Technology Company Limited (“Shanghai MoqiZone”) and a variable interest entity (“VIE”), Shenzhen Alar Technology Company Limited (“Shenzhen Alar”). The Company, its subsidiaries and VIE are collectively referred to as the “Group”. MobiZone Hong Kong operates a Chinese online game content delivery platform company that delivers last mile connectivity to internet cafes installed with our WiMAX equipment and which have joined into our MoqiZone WiMAX Network.

The Share Exchange Agreement, Reverse Merger and Reorganization

On March 15, 2009, Trestle Holdings, Inc. (the “Trestle”) entered into a Share Exchange Agreement with MoqiZone Cayman, Cheung ChorKiu Lawrence, the principal shareholder of MoqiZone Cayman (“Cheung”), and MKM Capital Opportunity Fund Ltd. (“MKM”), our principal shareholder (the “Agreement”). MoqiZone Cayman is the record and beneficial owner of 100% of the share capital of MobiZone Hong Kong and MobiZone Hong Kong is the record and beneficial owner of 100% of the share capital of Shanghai MoqiZone.

On June 1, 2009, pursuant to the Agreement, and as a result of MobiZone Hong Kong’s receipt of \$4,345,000 in gross proceeds from the financing described below, the Company acquired all of the issued and outstanding capital stock of MoqiZone Cayman in exchange for the issuance to Cheung and the other shareholders of MoqiZone Cayman of 10,743 shares of our soon to be created Series B convertible preferred stock. The transaction was regarded as a reverse merger whereby MoqiZone Cayman was considered to be the accounting acquirer as it retained control of Trestle after the exchange and Trestle is the legal acquirer. The share exchange was treated as a recapitalization and, accordingly, Trestle reclassified its common stock and additional paid-in-capital accounts for the quarter ended December 31, 2008. The Financial Statements have been prepared as if MoqiZone had always been the reporting company and then on the share exchange date, had changed its name and reorganized its capital stock.

As of August 28, 2009, our corporate name changed from Trestle Holdings, Inc. to MoqiZone Holding Corporation and our authorized capital increased by 15,000,000 shares of preferred stock. Pursuant to the additional financings we closed in August 2009 and the authority vested in our Board of Directors, we also filed a certificate of designation of Series A preferred stock and certificate of designation of Series B preferred stock with Delaware’s Secretary of State to designate 15,000 of the 15,000,000 shares of preferred stock as Series A preferred stock and 10,743 of the 15,000,000 shares of preferred stock as Series B preferred stock.

On August 31, 2009, a one-for-254.5 reverse stock split became effective and reduced outstanding shares of our common stock to 703,794 shares. Following the reverse stock split described and per the terms and conditions of our share exchange, the Series B Preferred Stock automatically (and without any action on the part of the holders) converted (on the basis of 1,000 shares of common stock for each share of Series B Preferred Stock) into an aggregate of 10,743,000 shares of our common stock, representing approximately 95% of our issued and outstanding shares of common stock, on a fully-diluted basis, as at the time of conversion (but prior to the issuance of any other equity or equity type securities).

As a result of these transactions, our authorized capital consisted of 40,000,000 shares of common stock and 15,000 and 2,250,000 shares of Series A and C preferred stock, respectively, as at December 31, 2009. There were 13,620,620 shares of common stock and 1,145 shares of Series A preferred stock issued and outstanding as at that date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist the reader in understanding and evaluating the Company's consolidated financial statements. The consolidated financial statements and notes are the representations of the Company's management, who are responsible for their integrity and objectivity. The accounting policies conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been consistently applied in the preparation of the consolidated financial statements.

Basis of Presentation

The condensed consolidated balance sheet as of March 31, 2016, which has been derived from unaudited financial statements and the interim unaudited condensed consolidated financial statements as of March 31, 2016 and 2015 have been prepared in accordance with U.S. GAAP for interim financial information. These condensed consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the Company's unaudited consolidated financial statements and notes thereto for the quarter ended March 31, 2016.

The condensed consolidated financial statements included herein as of and for the quarter ended March 31, 2016 and 2015 are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of the Company's management, are necessary to present fairly the condensed consolidated financial position of the Company as of March 31, 2016, the condensed consolidated results of its operations for the years ended March 31, 2016 and 2015 and condensed consolidated statements of cash flows for the years ended March 31, 2016 and 2015. The results of operations for the quarter ended March 31, 2016 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

Recently Issued Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-09, "*Revenue from Contracts with Customers (Topic 606)*" ("ASU 2015-09"). ASU 2015-09 amends the guidance for revenue recognition to replace numerous, industry specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. On July 9, 2015, the FASB approved amendments deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date and permitting early adoption of the standard, but not before the original effective date or for reporting periods beginning after December 15, 2016. The Company has not yet selected a transition method and is currently assessing the impact the adoption of ASU 2015-09 will have on our consolidated financial statements and disclosures.

In August 2015, the FASB issued ASU No. 2015-15, "*Presentation of Financial Statements - Going Concern*". The amendments in this update provide guidance in U.S. GAAP about management's responsibilities to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The main provision of the amendments are for an entity's management, in connection with the preparation of financial statements, to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known or reasonably knowable at the date the consolidated financial statements are issued. When management identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, the entity should disclose information that enables users of the consolidated financial statements to understand all of the following: (1) principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans); (2) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations; and (3) management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern or management's plans that are intended to mitigate the conditions or events that raise substantial doubt about the

entity's ability to continue as a going concern. The amendments in this update are effective for interim and annual reporting periods after December 15, 2016 and early application is permitted. The Company is currently assessing this guidance for future implementation.

In April 2015, the FASB issued Accounting Standard Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update requires capitalized debt issuance costs to be classified as a reduction to the carrying value of debt rather than a deferred charge, as is currently required. This update will be effective for the Company for all annual and interim periods beginning after December 15, 2015 and is required to be adopted retroactively for all periods presented, and early adoption is permitted. The Company is currently evaluating the expected impact of this new accounting standard on its consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIE subsidiary for which the Company is the primary beneficiary. All transaction and balances among the Company, its subsidiaries and VIE subsidiary have been eliminated upon consolidation.

The Group has adopted "*Consolidation of Variable Interest Entities*. This interpretation requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

To comply with PRC laws and regulations that restrict foreign ownership of companies that operate online games, the Company operates its online games mainly through Shenzhen Alar, which is wholly owned by certain PRC citizens. Shenzhen Alar holds the licenses and approvals to operating online games in the PRC.

Pursuant to the contractual arrangements with Shenzhen Alar, MoqiZone Shanghai mainly provides the following intra-group services to Shenzhen Alar.

- Gaming related licensing service;
- Software licensing service;
- Equipment and maintenance service;
- Strategic consulting service;
- Licensing of billing technology; and
- Billing service.

In addition, MoqiZone Shanghai has entered into agreements with Shenzhen Alar and its equity owners with respects to certain shareholder rights and corporate governance matters that provide the Company with the substantial ability to control Shenzhen Alar. Pursuant to these contractual arrangements:

The equity owners of Shenzhen Alar have granted an irrevocable proxy to individuals designated by MoqiZone Shanghai to exercise the right to appoint directors, general manager and other senior management of Shenzhen Alar;

Shenzhen Alar will not enter into any transaction that may materially affect its assets, liabilities, equity or operations without the prior written consent of MoqiZone Shanghai.

Shenzhen Alar will not distribute any dividend;

The equity owners of Shenzhen Alar have pledged their equity interest in Shenzhen Alar to MoqiZone Shanghai to secure the payment obligations of Shenzhen Alar under all the agreements between Shenzhen Alar and MoqiZone Shanghai; and

The equity owners of Shenzhen Alar will not transfer, sell, pledge or dispose of their equity interest in Shenzhen Alar without any prior written consent of MoqiZone Shanghai.

As a result of these agreements, the Company is considered the primary beneficiary of Shenzhen Alar and accordingly Shenzhen Alar's results are consolidated in the Company's financial statements.

Revenue Recognition and Deferred Revenue

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. We license client-end software to internet cafes for them to automatically update their client-end software on a real time basis. Revenue for such licensing fee is recognized on a straight-line basis over the license period.

Concentrations of Credit Risk

Financial instruments that potentially subject the Group to significant concentrations of credit risk consist primarily of cash and cash equivalents and prepayments and other current assets. As of March 31, 2016 and December 31, 2015 substantially all of the Group's cash and cash equivalents were held by major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods.

Significant estimates made by management include, among others, fair value of common stock and preferred stock issued, fair value of derivative liabilities and realization of deferred tax assets. The Company bases its estimates on historical experience, knowledge of current conditions and belief of what could occur in the future considering available information. The Company reviews its estimates on an on-going basis. The actual results experienced by the Company may differ materially and adversely from its estimates. To the extent there are material differences between the estimates and actual results, future results of operations will be affected.

Fair Value Measurements

Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. U.S. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The established fair value hierarchy prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and must be used to measure fair value whenever available.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. For example, level 3 inputs would relate to forecasts of future earnings and cash flows used in a discounted future cash flows method.

The Company's financial instruments consist of cash, accounts payable, accrued expenses, notes payable, convertible notes payable and related party notes payable. The Company cannot determine the estimated fair value of its convertible notes payable as instruments similar to the convertible notes payable could not be found. Other than for convertible notes payable, the carrying value for all such instruments approximates fair value due to the short-term nature of the instruments.

The Company uses Level 3 of the fair value hierarchy to measure the fair value of the derivative liabilities and revalues its derivative convertible notes, preferred stock and warrant liabilities at every reporting period and

recognizes gains or losses in the statements of operations that are attributable to the change in the fair value of the derivative convertible notes, preferred stock and warrant liabilities.

Beneficial Conversion Features

In certain instances, the Company has entered into convertible notes that provide for an effective or actual rate of conversion that is below market value, and the embedded beneficial conversion feature (“BCF”) does not qualify for derivative treatment. In these instances, the Company accounts for the value of the BCF as a debt discount, which is then amortized to interest expense over the life of the related debt using the straight-line method, which approximates the effective interest method.

Advertising Expense

The Company expenses marketing, promotions and advertising costs as incurred. For the years ended March 31, 2016 and 2015, such costs were considered insignificant.

Stock-Based Compensation

All share-based payments, including grants of stock to employees, directors and consultants, are recognized in the consolidated financial statements based upon their estimated fair values.

The Company’s accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows ASC Topic 505. As such, the value of the applicable stock-based compensation is periodically re-measured and income or expense is recognized during their vesting terms. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor’s performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is primarily recognized over the term of the consulting agreement. In accordance with FASB guidance, an asset acquired in exchange for the issuance of fully vested, non-forfeitable equity instruments should not be presented or classified as an offset to equity on the grantor’s balance sheet once the equity instrument is granted for accounting purposes.

Income Taxes

The Company accounts for income taxes under the provision of ASC 740. As of March 31, 2016 and December 31, 2015, there were no unrecognized tax benefits included in the consolidated balance sheets that would, if recognized, affect the effective tax rate. The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on its consolidated balance sheets as of March 31, 2016 and December 31, 2015 and has not recognized interest and/or penalties in the consolidated statements of operations for the periods ended March 31, 2016 and 2015. The Company is subject to taxation in the United States and China.

Basic and Diluted Loss per Common Share

Basic net loss per common share is computed by dividing net loss attributable to common stockholders for the period by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders for the period by the weighted-average number of common and common equivalent shares, such as warrants outstanding during the period. Common stock equivalents from warrants and convertible notes payable were approximately 110,000 and 110,000 for the years ended March 31, 2016 and 2015, respectively, and are excluded from the calculation of diluted net loss per share for all periods presented because the effect is anti-dilutive.

Derivative Liabilities

The Company evaluates debt instruments, preferred stock, stock options, stock warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under the relevant sections of ASC Topic 815-40, *Derivative Instruments and Hedging: Contracts in*

Entity's Own Equity . The result of this accounting treatment could be that the fair value of a financial instrument is classified as a derivative instrument and is marked-to-market at each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income or other expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Financial instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815-40 are reclassified to a liability account at the fair value of the instrument on the reclassification date.

Certain of the Company's embedded conversion features on debt, preferred stock and derivative liabilities with potentially insufficient authorized shares to settle outstanding contracts in the future are treated as derivatives for accounting purposes. However, all such agreements expired in 2013.

NOTE 3 - GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's revenues since inception have been nominal. Additionally, since inception, the Company has had recurring operating losses and negative operating cash flows. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent on its ability to obtain additional financing to fund operations, implement its business model, and ultimately, to attain profitable operations. The Company will need to secure additional funds through various means, including equity and debt financing, funding from a licensing arrangement or any similar financing. There can be no assurance that the Company will be able to obtain additional debt or equity financing, if and when needed, on terms acceptable to the Company, or at all. Any additional equity or debt financing may involve substantial dilution to the Company's stockholders, restrictive covenants or high interest costs. The Company's long-term liquidity also depends upon its ability to generate revenues from the sale of its products and achieve profitability. The failure to achieve these goals could have a material adverse effect on the execution of the Company's business plan, operating results and financial condition. The Company intends to raise additional financing.

The condensed consolidated 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.

NOTE 4 - NOTES PAYABLE

During 2010, the Company entered into an aggregate of \$246,500 in convertible promissory notes bearing interest at 8%, due in August 2014. The convertible notes allow the lender to convert the unpaid principal and accrued interest into shares of the Company's common stock at a conversion price of \$2.25. The embedded conversion feature of approximately \$184,000 was treated as a debt discount and was amortized to interest expense over the life of the notes. The Company amortized the debt discount through the maturity of the convertible promissory notes. The amortization of the debt discount for the embedded conversion feature was approximately \$0 and \$0 for quarters ended March 31, 2016 and 2015 as such note matured in 2013. In connection with the issuance of the convertible notes, the Company issued warrants to purchase an aggregate of 246,500 shares of the Company's common stock at an exercise price of \$1.70. The relative fair value of the related warrants was approximately \$30,000 at the date of grant and was amortized over the life of the notes. During the quarters ended March 31, 2016 and 2015, the Company expensed approximately \$0 and \$0 related to the amortization of the debt discount as such note matured in 2013.

In March 2012, the Company entered into a contingently convertible note payable with a related party in the amount of \$150,000 bearing interest at 18%, due in September 2013. The note allows the lender to convert the unpaid principal and accrued interest into shares of the Company's common stock at a conversion price of 60% of a funding in the amount in excess of \$500,000. Until such time as the Company closes on such funding, the note is not convertible. Accordingly, the Company did not record any value to the conversion feature at the time of issuance or through December 31, 2014. In connection with the issuance of the note, the Company issued warrants to purchase an aggregate of 75,000 shares of the Company's common stock at an exercise price of \$1.00. The expiration date of

the note was extended to the fourth quarter of 2015. The relative fair value of the related warrants was approximately \$75,000 at the date of grant and was amortized over the life of the notes. During the quarters ended March 31, 2016 and 2015, the Company expensed approximately \$0 and \$0 related to the amortization of the debt discount as such note matured in 2013.

NOTE 5 - STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 15,000 shares of Series A Preferred Stock ("Series A") par value of \$0.001 per share. The Series A will, with respect to dividends and liquidation, winding up or dissolution, rank: (a) senior with respect to dividends and paripassu in right of liquidation with the common stock; (b) senior to any future designation of preferred stock; (c) junior to all existing and future indebtedness of the Company. Commencing on date of issuance, holders of Series C will be entitled to receive dividends on each outstanding share of Series A, which will accrue in shares of Series A at a rate equal to 8% per annum from the issuance date; (d) liquidation value of \$1,000 per share; and (e) votes with the common stock on an if-converted basis. The Conversion price of the Series A shall mean 556 shares of common stock for each shares of Series A converted. The Series A may be converted at any time. In each of the quarters ended March 31, 2016 and 2015, the Company accrued approximately \$50,000 of dividends payable related to the Series A.

The Company is authorized to issue 2,250,000 shares of Series C Preferred Stock ("Series C") par value of \$0.001 per share. The Series C will, with respect to dividends and liquidation, winding up or dissolution, rank: (a) senior with respect to dividends and paripassu in right of liquidation with the common stock; (b) junior to the Series C; (c) senior to any future designation of preferred stock; (d) junior to all existing and future indebtedness of the Company. Commencing on date of issuance, holders of Series C will be entitled to receive dividends, at the Company's option, on each outstanding share of Series C, which will accrue in shares of Series C at a rate equal to 8% per annum from the issuance date; (e) liquidation value of \$2.25 per share; and (f) votes with the common stock on an if-converted basis. The Conversion price of the Series C shall mean 1 share of common stock for each share of Series C converted. The Series C may be converted at any time. In each of the quarters ended March 31, 2016 and 2015, the Company accrued approximately \$78,000 of dividends payable related to the Series C.

Common Stock

In January 2015, the Company agreed to issue an aggregate of approximately 1,667,000 shares of common stock for service rendered. The shares were valued based on the closing price of the Company's common stock on the measurement date of \$0.07 per share and have been expensed as general and administrative expenses in the accompanying statement of operations for 2015. Such shares have been included in the issued and outstanding shares, although actual issuance did not happen until after period end.

In May 2015, the Company agreed to issue an aggregate of 398,159 shares of common stock for services rendered. The shares were valued based on the closing price of the Company's common stock on the measurement date of \$0.50 per share. The Company recognized a loss on settlement of approximately \$4,400 based on the amount accrued for certain services provided and the fair value of the related shares issued. Such shares have been included in the issued and outstanding shares, although actual issuance did not happen until after period end.

In July 2015, the Company issued approximately 190,000 shares of the Company's common stock for proceeds of approximately \$750,000. In addition, the Company issued approximately 614,000 shares of common stock for consulting services rendered.

Employee share option plan

On July 22, 2010, the Board of Directors approved the 2010 Equity Incentive Plan, pursuant to which 1,500,000 shares of our common stock are reserved for issuances to current and prospective employees, non-employee directors, consultants or other persons who provide services to us that hold positions of responsibility and whose performance, in management's – or other board appointed committee – judgment, can have a significant effect on our success.

On July 22, 2010, the Company granted an aggregate of 1,455,000 three-year options to 51 employees to purchase common stock at an exercise price of US\$2.25 per share. These options were to vest semi-annually in equal amounts over the life of the options. These options were valued at approximately US\$1,548,000 which represents the grant date fair value of these options. The cost of these options were to be expensed as they vested and were to be recorded in general and administrative expenses as share-based compensation expenses. Pursuant to these options, The Company was to incur approximately \$258,000 of expenses on January 22, 2011 and incurring in equal amounts every six months with the last expense incurring on July 22, 2014. However, all of the options were forfeited prior to vesting. Accordingly, during the periods ended March 31, 2016 and 2015, the Company did not record any stock based compensation expense.

There were no stock options outstanding at March 31, 2016 and December 31, 2015.

Warrants

The following represents a summary of all common stock warrant activity for the quarter ended March 31, 2016:

	Outstanding Common Stock Warrants		
	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2015	75,000	\$ 1.00	\$ -
Grants	-	-	-
Exercised	-	-	-
Cancelled/Expired	-	-	-
Outstanding and exercisable at March 31, 2016	<u>75,000</u>	<u>\$ 1.00</u>	<u>\$ -</u>

- (1) Represents the difference between the exercise price and the estimated fair value of the Company's common stock at the end of the reporting period.
- (2) The common stock warrants outstanding and exercisable as of March 31, 2016 and December 31, 2015 have a weighted-average contractual remaining life of 0.25 years and 0.75 years, respectively.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Legal

In the normal course of business, the Company may become involved in various legal proceedings. The Company knows of no pending or threatened legal proceeding to which the Company is or will be a party that, if successful, might result in material adverse change in the Company's business, properties or financial condition.

NOTE 8 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events after the balance sheet date and based upon its evaluation, management has determined that no subsequent events have occurred that would require recognition in the accompanying condensed consolidated financial statements or disclosure in the notes thereto other than as disclosed in the accompanying notes.