annual report
31 december 2016

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

contents

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

"I am proud to announce that IDC and Döhler's package in China has won the prestigious Marking Award, a global packaging award sponsored by the Food & Beverage Innovation Forum (FBIF) in Shanghai. Out of several hundred entries from all over the world, awards were granted in six categories: our entry won the Marking Award for Highest Mark in Practicality. Not only is it an honor to be conferred world-class status by such an esteemed and internationally diverse panel, but virtually the entire food & beverage industry was on hand to see it.

Meanwhile, in Q1 2017 Cold Star revenues are up over 120%, Döhler China is experiencing strong growth, and Naarmann will be making its first shipment into Pakistan in May. These success stories are spreading throughout the global industry. With several significant customers barreling toward commercialization, it would appear that 2017 will prove to be our breakout year."

-Greg Abbott
IDC founder & chairman

IDC has been committed to perfecting its IP, protecting its trade secrets, and setting the highest possible standards.

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 in vain to design an aseptic tap. 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. Obtaining a U.S. 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®" – which we believe is 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 U.S. 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, especially the major global brands, will accept nothing less. In 2005, IDC convinced 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 unit 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 harmful 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, and just one breach of the 800 bags tested 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 U.S. 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.

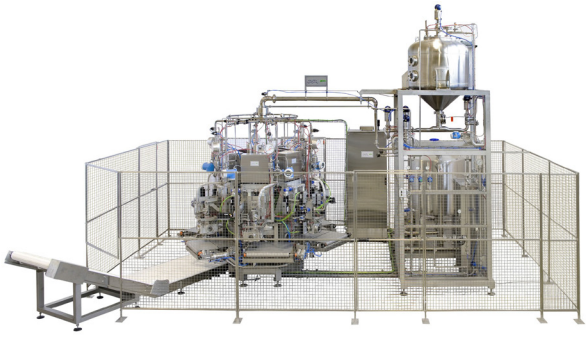
Meanwhile, awareness continued to build: In 2007, Jane Goodall endorsed The Answer® for its ability to deliver nutrition in bulk to every needy corner of the world without requiring refrigeration; in 2008, Allied Development released its independent Life Cycle Analysis scientifically proving that a BIB 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 U.S. 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® are now readily available. Any manufacturer who runs Tetra Pak or SIG Combibloc aseptic cartons is a potential candidate for IDC, and the Company 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 eyes opened by its exposure to China via PepsiCo, IDC made the decision to pivot its sales focus largely toward the developing world, which besides having less refrigeration and rapid growth is accustomed to aseptic products and more open to adapting new technology with greater speed to market.

Bolstering this global initiative, IDC's sales and business development personnel continues to evolve. Joining Bo Thörn and Li Xin on the IDC team are two senior ex-Tetra Pak executives with a combined 40+ years Tetra Pak experience and universal industry respect. Between them, IDC now has high-level entree to the leading aseptic players in Europe, Russia, Turkey, Pakistan, India, the Middle East and Africa. These individuals have agreed largely to success-based compensation, reflecting their belief in The Answer® and IDC's mission. IDC now has a presence in New York, Paris, Dubai and Shanghai.



The Company is in serious discussions with numerous such prospects who are progressing proactively toward commercialization.

sales & marketing

IDC is commercial in the USA (Cold Star) and China (Döhler), thus proving the product and the concept. Cold Star's business is up dramatically in 2017 and Döhler continues to expand not just in China but also Turkey and the Americas. The addition of just one major customer is likely to make IDC cash flow positive, and the Company is in serious discussions with numerous such prospects who are progressing proactively toward commercialization. Below are the customer prospects the Company believes it can consummate in 2017:

china

With 18 months of successful commercialization under its belt – with high-end Not-From-Concentrate (NFC) orange, apple, and mango juice, and coconut water – Döhler continues to gain customers and sign up distributors through trade shows, conferences, and one-on-one customer meetings. This success has sparked interest elsewhere within China, as IDC and Döhler remain in advanced discussions with the country's largest beverage brands and national retail outlets. One breakthrough with any one of these companies should result in several millions of units sold and propel IDC well into the black.

IDC & Döhler's BIB package with The Answer® has won the prestigious Marking Award, a global packaging competition sponsored by the Food & Beverage Innovation Forum (FBIF) in Shanghai. Out of several hundred package design entries originally submitted from all over the world, Marking Awards were granted in six categories. IDC and Döhler's entry won the Marking Award for

Highest Mark in Practicality. Joining Tetra Pak, Coca-Cola, and Mengniu on the winner's podium to accept their awards were Greg Abbott, Döhler Asia Pacific CEO Roman Kupper, and IDC Director Li Xin. Brands in attendance included Coca-Cola, PepsiCo, Hershey's, The Yili Group, Danone, Starbucks, Unilever, Campbell's, Carlsberg, Tetra Pak, Vita Coco, McDonald's, Mondelez, and Master Kong (Tingyi).

The recent visit to Shanghai by Mr. Abbott was accompanied by other positive developments. PepsiCo China has informed the Company that Master Kong (Tingyi) is now focusing on introducing a BIB program with The Answer®. In addition, both Want-Want and The Yili Group (China's largest dairy company) have expressed strong interest in the platform, and meetings are being organized for the near future.

mexico & latin america

FEMSA, Coca Cola's largest global bottler (approximately $19 billion in revenues, based in Mexico City), is planning a Q3 2017 launch with The Answer®. FEMSA's juice competitors in the region are paying close attention.

Grupo LaLa, the largest dairy in Mexico and largest aseptic producer in the Americas is quickening its pace. It has requested and received housing/chilling units and sample bags of aseptic milk, and has expressed a desire to move things along quickly.

The Company believes that the adoption by either FEMSA or Grupo LaLa will lead to widespread and heightened interest by leading beverage companies in the region, from Mexico to Brazil.

pakistan

IDC and Naarmann (the leading aseptic foodservice dairy in Germany) have agreed that Naarmann will gear up to ship 100 tons of milk per day to Pakistan, all in various sized packages with The Answer®. This represents the entire output of a production line, though given the size of the market this amount could increase. Shipments are expected to commence in late May 2017 and gear up from there. The appearance of The Answer® in the marketplace is likely to spur action from the leading local dairy processors, as well as a consortium of dairy farmers that is interested in setting up its own production. In addition, IDC is in negotiation with a leading dairy entrepreneur in Pakistan, who plans to order a BIB filler and dedicate it solely to The Answer®.

Pakistan (as well as India and Bangladesh) represents a unique opportunity for a safe, unadulterated aseptic dairy package – a closed system that cannot be tampered with that offers pure aseptic product. While Pakistan is the world's fourth largest dairy consuming country, only 10% of the market is packaged. Virtually all the rest is in the form of "loose milk" sold in shops around the country. Raw, unprocessed milk in open, exposed tubs and loaded with bacteria is ladled into plastic bags; merchants typically dilute the milk with flood water, as well as with glue-like chemicals to give it a white appearance. The consumer takes the bags of milk, home to boil the contents. The Answer® is uniquely suited to transform "loose milk" into a safe, dependable product.

Between "loose milk" and home delivery, the overall target market for The Answer® in Pakistan alone is estimated to be 22 billion liters per year.

turkey & the middle east

The success of The Answer® with Döhler China has spurred active interest with Döhler Turkey (and Döhler the Americas, see below). Executives from Döhler Turkey, including the President, recently visited Mr. Abbott in New York City. They informed him that their filler is in the process of being converted to run The Answer® and that they intend to launch BIB's with The Answer® in time for the summer season. Products include lemonade and iced tea for outdoor stands throughout the country and juices for more conventional foodservice venues. Döhler Turkey has a healthy export business as well, primarily to the Middle East. The President invited IDC to visit them in early to mid-June, when they will be in production.

europe

The Company has entered into a strategic sales-and-marketing alliance with Privatmolkerei Naarmann GmbH, the leading ultra-high temperature (UHT) dairy in Germany specializing in foodservice. A 113-year-old fourth-generation family business known for its high quality and exclusive focus on foodservice, Naarmann will work in concert with IDC to promote Naarmann branded BIB dairy products with The Answer® across Europe and in Pakistan (see above). Other potential markets include India, Bangladesh, Nigeria, China, Mongolia, Malaysia, Vietnam, and Indonesia. After conducting rigorous tests, Naarmann is willing to guarantee 10 days of unrefrigerated dairy dispensing. Its actual tests kept the milk shelf stable for a considerably longer period, but 10 days, while wisely conservative, represents an unprecedented milestone and a commercial homerun.

Following on these successes, Arla Food Industries in Denmark, the world's fourth largest diary by milk volumes, reached out to the Company to explore using The Answer® and we look forward to developing this relationship.

africa

The Company has established a productive relationship with top management at House of Chi Ltd., Africa's largest aseptic beverage producer (and a division of the Dutch-owned TGI conglomerate). The Coca-Cola Company has purchased a 40% stake in House of Chi. House of Chi, which owns a large aseptic production facility in Nigeria, has expressed strong interest in running various products with The Answer® for foodservice, and also possibly expanding its reach into Southeast Asia.

india

The Company is planning a visit to Jain, the world's largest grower of mangoes, to re-kindle their Coca-Cola project.

asia pacific

Two major aseptic players in Malaysia, MDI (Malaysia Dairy Industries) and Yeo Hiap Seng, have expressed renewed interest based on the success IDC is having elsewhere. IDC plans to reach out to leading aseptic companies in Indonesia and Vietnam, though it expects success to come in 2018.

usa

Georgia Pacific and IDC have begun an exploratory collaboration in which Georgia Pacific will present The Answer® aseptic technology to its network of foodservice customers around the world. Georgia Pacific is a wholly owned subsidiary of Koch Industries.

IDC and Döhler Americas are in high-level discussions to explore various opportunities in the USA and Latin America. Döhler has made considerable capital investments in its Cartersville, GA plant and is projected to be in a position to run product with The Answer® by June 2017.

Besides Döhler Americas, IDC has received high levels of interest from Gregory Packaging, Smith Foods, and Whitlock. Both juice and dairy are under consideration.

A major distributor that supplies 20% of the colleges and universities in the USA has requested a meeting with IDC.

"IDC and Döhler Americas are in high-level discussions to explore various opportunities in the USA and Latin America. Döhler has made considerable capital investments in its Cartersville, GA plant and is projected to be in a position to run product with The Answer® by June 2017."

IDC believes that its fixed expenses will increase only marginally even as the Company's growth spikes and reaches its global promise.

overhead & personnel

By making some key personnel decisions, IDC has managed to reduce overhead and enhance its global reach, thus lowering the threshold for profitability. With this increased operational leverage, the Company believes that the addition of just one new significant customer 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 we believe it 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 spikes and reaches its global promise.

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

Bo Thörn, a 25-year industry veteran with 15 of those years spent in senior positions at Tetra Pak, has had a powerful impact on the Company's business development, management, and organization. As Managing Director of Tetra Pak China, Mr. Thörn was largely responsible for building that business into the world's largest market. He is based on the East Coast in close proximity to New York City and works closely with Mr. Abbott to oversee IDC's business globally.

Prior to joining IDC, Li Xin managed the Cryovac food packaging business 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/ profit growth, food safety, and sustainability, Mr. Xin is responsible for securing IDC's Döhler relationship, managing PepsiCo China, and developing other accounts within China. He is based in Shanghai.

Joining Bo Thörn and Li Xin on the IDC team are the two ex-Tetra Pak senior executives mentioned above, both of whom have agreed to be compensated primarily based on success. IDC believes that this core group is world-class, highly respected at all levels throughout the industry, and will accelerate the pace of implementation in their respective regions.

The Company has upgraded its controller function into a CFO position with the hiring of Christopher Westwood. Mr. Westwood has 20+ years' experience in finance and investment banking at UBS, Lehman Brothers, and HSBC.

the answer & industry trends

Food safety, food waste, contamination outbreaks, nutrition, the adverse health effects 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 & trade secrets

The Answer® received initial U.S. patent protection in 2002, and additional U.S. 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 it has 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 complexity of IDC's assembly process. IDC went through three U.S. 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 competition.

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

Twelve Months Ended Dec 31, 2016 compared to Twelve Months Ended December 31, 2015

Revenue: For the twelve months ended December 31, 2016, the Company produced net revenues of $348,783 compared to $328,131 for the twelve months ended December 31, 2015, an increase of $20,652 or 6.3%. The improvement was in line with the long-term growth in revenues.

Gross Profit: For the twelve months ended December 31, 2016 the Company had a gross profit of $73,708 compared to $54,001 for the twelve months ended December 31, 2015, an increase of $19,707 or 36.5%. The increase was primarily due to reduced freight costs.

Operating Expenses: For the twelve months ended December 31, 2016 the Company had operating expenses of $1,225,573 compared to $1,418,379 for the twelve months ended December 31, 2015, a decline of $192,806 or 13.6% compared to the same period in 2015. Most of this decline was due to a reduction in expenses due to issuance of stock options and warrants in lieu of other compensation.

Loss from Operations: For the twelve months ended December 31, 2016 the Company had a loss from operations of $(1,151,866), an improvement of $212,512 or 15.6% compared to a loss of ($1,364,378) for the twelve months ended December 31, 2015. This improvement stems mostly from a 38% reduction in expense for options and warrants issuances in lieu of cash compensation and, to a lesser extent, lower travel related expenses compared to the extensive sales

and marketing program in 2015.

Interest Expense: For the twelve months ended December 31, 2016 the Company had a net interest expense of $74,869 compared to $144,951, a decrease of $70,082 or 48.3% compared to the twelve months ended December 31, 2015. This is due to the repayment of certain outstanding loans.

Other Income/Expense: For the twelve months ended December 31, 2016 the Company had other income of $90,578 compared to other expenses of $316,009 for the twelve months ended December 31, 2015. These amounts are non-cash items recording the fluctuations in fair value of certain warrants.

Net Loss: For the twelve months ended December 31, 2016 the Company had a net loss of $(1,317,313) compared to a net loss of $(1,825,338), an improvement of $(508,025) or 27.8% compared to the twelve months ended December 31, 2015. The improvement is due to the decrease in operating costs, financing costs and warrant valuations 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, 2016. 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 quarter of 2016 one individual investor purchased a total of 714,286 shares of the Company's common stock for a purchase price of $300,000 ($0.42 per share).

During the second quarter of 2016 one individual investor purchased a total of 238,095 shares of the Company's common stock for a purchase price of $100,000 ($0.42 per share).

During the third quarter of 2016 seven individuals purchased a total of 1,726,191 shares of the Company's common stock for a purchase price of $725,000 ($0.42 per share).

During the fourth quarter of 2016 one investor purchased a total of 357,143 shares of the Company's common stock for a purchase price of $150,000 ($0.42 per share).

The Company believes that it has sufficient capital and access to funding to continue operations through December 31, 2017. 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. 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

May 26, 2017

To the Board of Directors and Stockholders
International Dispensing Corporation
New York City, New York

Report on the Financial Statements

We have audited the accompanying financial statements of International Dispensing Corporation which comprise the statements of financial position as of December 31, 2016, and the related statements of activities, changes in members' capital and cash flow for the year then ended 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of 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 auditor's 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, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

B F Beyer CPA PC

Certified Public Accountants
Lakewood, CO

International Dispensing Corporation

Balance Sheets
December 31, 2016 and December 31, 2015

ASSETS		*December 2016*		*December 2015*
CURRENT ASSETS:				
Cash	$	66,298	$	1,085,432
Accounts Receivable Trade		38,181		102,345
Prepaid Expenses		19,934		53,161
Total Current Assets		124,413		1,240,938
PROPERTY AND EQUIPMENT:				
Office Equipment		95,351		95,351
Production Equipment		3,336,268		3,336,268
		3,431,619		3,431,619
Less Accumulated Depreciation		(3,230,799)		(3,110,441)
Total Property and Equipment		200,820		321,178
Restricted cash		600,468		
OTHER ASSETS:				
Discount - Beneficial Conversion Feature (BCF)		-		422,901
Discount - Warrants		-		422,901
Total Other Assets		-		845,802
TOTAL ASSETS	$	*925,701*	$	*2,407,918*

LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES:				
Accounts payable	$	113,512	$	127,695
Accrued expenses		147,131		170,633
Note payable to stockholders		581,056		963,269
Line of credit		92,997		587,721
Other liabilities, warrants, at fair value		1,131,560		1,040,982
Total current liabilities		2,066,256		2,890,300
MEZANNINE EQUITY:				
Convertible, redeemable preferred stock, $.001 par value; 1,700,000 shares authorized; 1,500,000 and 0 shares issued and outstanding as of December 31st, 2016 and 2015 respectively		1,500,000		1,500,000
STOCKHOLDERS' DEFICIT:				
Common stock, $0.001 par value; 125,000,000 shares authorized; 85,559,490 and 82,001,793 shares issued and outstanding as of December 31st, 2016 and 2015 respectively.		85,559		82,001
Additional Paid-in Capital		39,594,792		38,033,406
Accumulated Deficit		(42,320,905)		(40,097,789)
Total Stockholders' Deficit		(2,640,555)		(1,982,382)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	925,701	$	2,407,918

see accompanying notes.

International Dispensing Corporation

Statements of Operations
For the years ended December 31, 2016 and 2015

	2016	2015
REVENUES:	$ 348,783	$ 328,131
COST OF GOODS SOLD:	275,075	274,133
GROSS PROFIT:	73,708	54,001
OPERATING EXPENSES:		
Engineering expenses	47,054	38,009
General & administrative expenses	35,960	27,092
Operating expenses	857,996	1,014,046
Selling expenses	164,205	211,246
Depreciation	120,358	127,986
Total operating expenses	1,225,573	1,418,379
LOSS FROM OPERATIONS:	(1,151,866)	(1,364,378)
INTEREST EXPENSE:	(74,869)	(144,951)
OTHER INCOME/EXPENSE:	90,578	(316,009)
NET LOSS:	(1,317,313)	(1,825,338)
Preferred stock dividends and discount accretion:	(905,802)	(629,336)
Net loss available to common stock holders:	$ 2,223,115	$ 2,454,674
NET LOSS PER COMMON SHARE BASIC & DILUTED:	(0.02)	(0.02)
BASIC & DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING:	84,719,804	80,984,251

see accompanying notes.

International Dispensing Corporation

Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,317,313)	$ (1,825,338)
Non-cash items:		
Depreciation	120,358	127,986
Stock-based compensation	201,196	324,743
BCF/warrant valuation	-	54,611
Stock issued for interest	19,533	-
Change in fair value of warrant liability	90,578	316,009
Net changes in:		
Accounts receivable	64,164	(7,669)
Prepaid expenses	49,995	(19,828)
Inventory The Answer	(16,768)	-
Accounts payable	(109,894)	(77,275)
Accrued expenses	41,564	-
Net cash (used in) operating activities	$ (856,588)	$ (987,445)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	$ -	$ (12,500)
Net cash used in investing activities	$ -	$ (12,500)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from preferred stock issue	-	1,500,000
Repayment of bank term loan	-	(27,778)
Stock subscriptions payable	(30,000)	-
Proceeds/(Repayment) of notes from stockholders, net	(325,000)	(100,000)
Net borrowings on line of credit	(494,724)	587,721
Proceeds from issuance of common stock	1,287,000	220,000
Net cash provided by financing activities	437,276	2,179,943
NET INCREASE (DECREASE) IN CASH	(419,312)	1,069,998
CASH AT BEGINNING OF PERIOD	1,086,078	15,434
CASH AT END OF PERIOD	666,766	1,085,432
Supplemental disclosure of cash flow information:		
Cash paid for interest	-	76,195
Stock issuance in exchange for debt	57,214	140,000

see accompanying notes.

International Dispensing Corporation

Statements of Changes in Stockholders' Deficit
For the twelve months ended December 31, 2016
and the twelve months ended December 31, 2015

	Common Shares	*Common Stock Amount*	*Paid-In Capital*	*Accumulated Deficit*	*Total Stockholders' Deficit*
BALANCE AT DECEMBER 31, 2015	$ 82,001,793	$ 82,001	$ 38,033,406	$ (40,097,789)	$ (1,982,382)
Additional shares issued for cash	3,045,715	3,046	1,273,955	-	1,277,000
Stock subscription converted into shares	33,333	33	9,967	-	10,000
Stock issued for interest	46,508	47	19,487	-	19,533
Stock issued for loan repayment	136,223	136	57,078	-	57,214
Options Exercised	295,918	296	(296)	-	0
Stock-based compensation expense	-	-	201,196	-	201,196
Discount on Preferred Stock - BCF	-	-	-	(422,901)	(422,901)
Preferred Stock - Warrant Discount	-	-	-	(422,901)	(422,901)
Preferred stock dividend payable	-	-	-	(60,000)	(60,000)
Net loss	-	-	-	(1,317,313)	(1,317,313)
BALANCE AT DECEMBER 31, 2016	85,559,490	$ 85,559	$ 39,594,792	$ (42,320,906)	$ (2,640,554)

see accompanying notes.

International Dispensing Corporation

Notes to the Financial Statements
For the twelve months ended December 31, 2016 and 2015

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, 2016, with continued risks. 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, 2016, of over $41 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, 2016, the Company had a negative working capital of $975,189. 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. In addition, the Company has bank Lines of Credit totaling $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. The collateral for these Lines of Credit is cash held in segregated accounts and appears on the balance sheet as an asset under "Restricted Cash". Borrowings against the lines of credit appear as a liability on the balance sheet and interest payments are expensed through the Profit and Loss Statement while the total asset of $600,000 remains unchanged. Also included under cash are the Company's interest bearing accounts at its banks, which are only funded if interest rates are favorable.

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. Generally, the Company requests payment within 30 days. 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 production 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 twelve months ended December 31, 2016 and 2015 was $120,358 and $127,986, respectively. As of December 31, 2016, and December 31, 2015, property and equipment consisted of the following:

	December 31 2016	*December 31 2015*
Production equipment	$ 3,336,268	$ 3,336,268
Office equipment	95,351	95,351
	3,431,619	3,431,619
Less accumulated depreciation and amortization	(3,230,799)	(3,110,441)
	$ 200,800	**$ 321,178**

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. Impairments are evaluated at the end of each year.

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. Terms of business with customers are negotiated at the beginning of the relationship; generally, these are for payment 30 days' net upon receipt of goods and they are reiterated in the Company's invoices. The Company performs due diligence on its customers' ability to pay through trade connections and, if required, the Company could ask for bank guarantees if a customer had a reputation for missed payments, however, this has never been an issue so far. An additional layer of protection from a customer's inability to pay comes from the relatively small production runs between invoices minimizing the Company's offsetting liability with its vendors. For large scale contracts (defined as single orders of 1,000,000 The Answer© taps) the Company generally negotiates for upfront down payments or escrow to cover the cost of manufacturing if the customer was deemed a credit risk.

The Company recognizes revenue when all the following five criteria are met:

- persuasive evidence of a sales arrangement exists,
- shipping terms are FOB shipping point,
- delivery has occurred,
- the sales price is fixed or determinable and
- collectability is probable.

Shipping and handling charges related to sales transactions are recorded as sales revenues when billed to customers or included in the sales price. Shipping and handling costs are included in cost of goods sold.

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. We continue to maintain a full valuation allowance against any deferred tax assets due to the uncertainty of the utilization of any deferred tax asset.

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. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Net Loss per Share

Basic net loss per share is computed by dividing net 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.

Reclassifications

Certain reclassifications to 2015 financial presentation have been made to conform to the 2016 presentation. These reclassifications did not affect previous reported net loss or total stockholders' deficit. Due to a typographical error the cashflow number for 2015 was misrepresented in the Financial Filing for 2015. The books and records were not affected and no adjustments were required to Financial Results or Filings for 2016 or 2015.

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, 2016 and 2015.

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 totaled $6,479 for the twelve months ended December 31, 2016 compared to $833 for the twelve months ended December 31, 2015.

4. private placements of stock

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 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 after a one-year time period. The warrant redemption period expires after five years.

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.

In addition, the convertible provision was evaluated to determine if it was subject to a beneficial conversion feature ("BCF"). A BCF was concluded since 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 originally recognized a 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 and is netted against the convertible, redeemable preferred stock in the balance sheet.

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 a contra convertible redeemable preferred stock 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, and is netted against the convertible, mezzanine equity redeemable preferred stock in the balance sheet. 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, 2016, a loss in the change in fair value of the warrants liability of ($275,608) was recorded as other expense.

During the first quarter of 2016 one individual investor purchased a total of 714,286 shares of the Company's common stock for a purchase price of $300,000 ($0.42 per share).

During the second quarter of 2016 one individual investor purchased a total of 238,095 shares of the Company's common stock for a purchase price of $100,000 ($0.42 per share).

During the third quarter of 2016 seven individual investors purchased a total of 1,726,191 shares of the Company's common stock for a purchase price of $725,000 ($0.42 per share).

During the fourth quarter of 2016 one investor purchased a total of 357,143 shares of the Company's common stock for a purchase price of $150,000 ($0.42 per share)

5. related party transactions

During the first half of 2013 the Board of Directors approved the terms of Gregory Abbott's cumulative $400,000 investments during 2012 as loans. (Mr. Abbott is the Chief Executive Officer of the Company.) Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Partial loan repayments were made to Mr. Abbott in 2013 and 2016, bringing the aggregate principal balance of such loans down to $688,269. 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.

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 are due on demand.

During the fourth 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 made in September 2015 and a further principal payment of $100,000 was made in August 2016 and accrued interest was converted into common stock. The loan is paid in full.

During 2016, further loan repayments consisting of equity and cash were made to Mr. Abbott reducing the principal balance of these loans to $54,056 as of December 31, 2016.

6. income taxes

The Company's federal statutory income tax rate is approximately 35%. The Company is also subject to applicable state income taxes. As a result of operating losses at December 31, 2016 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, 2016, the Company had a net operating loss carryforward of more than $27 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.

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.

Total compensation cost charged related to stock based compensation amounted to $201,196 and $324,743 for the twelve months ended December 31, 2016 and 2015, respectively. No compensation cost related to share-based payment arrangements was capitalized as part of the cost of any asset at December 31, 2016 and December 31, 2015.

600,000 options were granted during the twelve months ended December 31, 2016. The weighted average fair value of all options granted from inception is $0.35 as of December 31, 2016.

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 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 non-qualified 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.

In December 2016, 2,864,500 options and 2,021,427 warrants due to expire were extended to expire on December 31, 2021. These expiration dates extensions are reflected in the calculations below.

The following table summarizes stock option activity for the Company for the twelve months ended December 31, 2016:

International Dispensing Corporation

Options Activity Summary
12/31/2016

	Number of Shares	*Weighted Average Exercise Price*	*Intrinsic Value*
OUTSTANDING AT DECEMBER 31, 2015	7,789,502	0.338	$ 802,470
Granted	-	0.000	-
Exercised	(500,000)	0.592	-
Cancelled	(20,000)	2.100	-
OUTSTANDING AT DECEMBER 31, 2016	7,269,502	0.338	$ 1,043,188

The following table summarizes information about stock options outstanding at December 31, 2016:

	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*
.20 - .30	4,236,667	3.96	0.2261	4,170,000	3.99	0.2265
.312 - .58	2,581,168	4.83	0.4168	2,467,837	4.75	0.4199
.64 - 1.00	231,667	2.82	0.7727	231,667	2.82	0.7727
1.01 - 2.10	220,000	3.28	1.1227	220,000	3.28	1.1227
	7,269,502	4.22	0.3383	7,089,504	4.19	0.3395

At December 31, 2016, 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, 2016 was $0.375.

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 $38,181 and $102,345 as of December 31, 2016 and December 31, 2015, respectively.

Sales for the twelve months ended December 31, 2016 and December 31, 2015 include sales to one major customer, who accounts for 90% of the total sales of the Company for each of the respective periods.

9. notes payable

Notes payable 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 $513,269. 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 are due on demand.

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 and a further principal repayment of $100,000 was made in August 2016 with accrued interest converted into equity. As of December 31, 2016, the loan is repaid in full.

During the third quarter of 2015 the Company entered into agreements for bank lines of credit totaling $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 totaling $600,000 as of June 30, 2016. The balance of the lines of credit accounts is $600,000 as of September 30th, 2016 and $587,721 as of December 31, 2015.

Net interest expense on the above notes payable and all other obligations of the Company was $74,869 and $145,317 for the twelve months ended December 31, 2016 and 2015, respectively.

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 an additional 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 2 fair value measurement. This consideration is determined given that inputs used in the calculation, including common stock market value, exercise price, risk free interest rate and volatility are considered observable inputs. 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 the date the financial statements were available to be issued. No subsequent events requiring disclosure were noted.

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