INTELLIGENT HIGHWAY SOLUTIONS
BALANCE SHEETS

	December 31, 2014		December 31, 2013	
ASSETS				
Current assets				
Cash and cash equivalents	$	95,685	$	28,664
Contracts receivable, net		139,908		-
Costs and estimated earnings in excess of billings on uncompleted contracts		113,671		-
Prepaid expenses		146,532		194,481
Deferred loan costs, current		65,793		138,324
Total current assets		561,589		361,469
Property and equipment, net of accumulated depreciation of $8,731 and $1,607		14,940		1,752
Deferred loan costs, net		1,279		60,128
Total assets	$	577,808	$	423,349
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities				
Bank overdraft	$	40	$	40
Accounts payable		170,529		89,562
Accrued expenses and other liabilities		1,002,854		909,105
Notes payable, current portion		185,000		252,274
Convertible notes payable, current portion, net of discounts of $82,197,484 and $0		592,303		30,000
Notes payable, related party, current portion		10,000		-
Derivative liability		167,970		46,023
Accrued interest		76,885		113,599
Total current liabilities		2,205,367		1,440,603
Convertible notes payable, net of discounts of $63,203 and $651,780		35,260		248,220
Total liabilities		2,240,627		1,688,823
Stockholders' deficit				
Common stock, $0.00001 par value; 100,000,000 shares authorized; 30,589,839 and 11,933,666 issued; 30,539,839 and 11,933,666 outstanding at December 31, 2014 and 2013		306		119
Additional paid-in capital		5,247,786		2,071,274
Treasury stock, 50,000 shares at $.084 per share		(4,200)		-
Accumulated deficit		(6,906,711)		(3,336,867)
Total stockholders' deficit		(1,662,711)		(1,265,474)
Total liabilities and stockholders' deficit	$	577,808	$	423,349

See accompanying notes to financial statements.

INTELLIGENT HIGHWAY SOLUTIONS
STATEMENTS OF OPERATIONS

	Year Ended December 31, 2014	Year Ended December 31, 2013
Revenue	$ 1,014,358	$ 833,528
Cost of sales	809,339	778,139
Gross profit	226,892	55,389
Operating expenses		
Salaries and wages	279,735	238,081
General and administrative	1,786,564	1,253,838
Total operating expenses	2,066,299	1,491,919
Loss from operations	(1,839,407)	(1,436,530)
Other income (expense)		
Gain on extinguishment of debt	108,576	(87,219)
Loss on derivative fair value adjustment	(128,969)	27,428
Loss on settlement	(175,000)	-
Interest expense	(1,535,044)	(490,195)
Total other expense	(1,730,437)	(549,986)
Loss before income taxes	(3,569,844)	(1,986,516)
Provision for income taxes	-	-
Net loss	$ (3,569,844)	$ (1,986,516)
Basic and diluted loss per common share	$ (0.19)	$ (0.18)
Basic and diluted weighted average shares outstanding	18,820,724	11,056,661

See accompanying notes to financial statements.

INTELLIGENT HIGHWAY SOLUTIONS
STATEMENT OF STOCKHOLDERS' DEFICIT

	Common Stock		Additional Paid-in	Treasury	Accumulated	
	Shares	Amount	Capital	Stock	Deficit	Total
Balance, December 31, 2012	10,729,666	$ 107	$ 161,523	$ -	$ (1,350,351)	$ (1,188,721)
Common stock issued for services	1,104,000	11	744,604	-	-	744,615
Common stock issued for extension of note	100,000	1	88,499	-	-	88,500
Options issued for loan costs	-	-	276,648	-	-	276,648
Debt discounts recorded on convertible notes payable	-	-	800,000	-	-	800,000
Net loss, year ended December 31, 2013	-	-	-	-	(1,986,516)	(1,986,516)
Balance, December 31, 2013	11,933,666	119	2,071,274	-	(3,336,867)	(1,265,474)
Common stock issued for services	5,275,000	53	828,270	-	-	828,323
Common stock issued for loan costs	650,000	6	115,244	-	-	115,250
Common stock issued for conversion of notes payable	8,796,579	88	952,900	-	-	952,988
Common stock issued for conversion of interest payable	582,928	6	63,721	-	-	63,727
Common stock issued as settlement of accounts payable	7,500	-	3,000	-	-	3,000
Common stock issued as legal settlement	752,616	8	354,056	-	-	354,064
Common stock issued for penalties	1,160,000	12	93,404	-	-	93,416
Common stock issued for cash	1,431,550	14	87,902	-	-	87,916
Common stock repurchased	(50,000)	-	-	(4,200)	-	(4,200)
Options issued for loan costs	-	-	11,331	-	-	11,331
Debt discounts recorded on convertible notes payable	-	-	80,000	-	-	80,000
Change in fair market value of derivative liabilities	-	-	586,786	-	-	586,684
Net loss, year ended December 31, 2014	-	-	-	-	(3,569,844)	(3,569,844)
Balance, December 31, 2014	30,539,839	$ 306	$ 5,247,786	$ (4,200)	$ (6,906,711)	$ (1,662,819)

See accompanying notes to financial statements.

INTELLIGENT HIGHWAY SOLUTIONS
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2014	Year Ended December 31, 2013
Cash flows from operating activities		
Net loss	$ (3,569,844)	$ (1,986,516)
Adjustments to reconcile net loss to net cash used in operating activities		
Common stock issued for services	828,323	314,616
Common stock issued for penalties	93,417	-
Common stock issued for settlement	354,064	-
Common stock issued as loan origination fee	-	-
Gain on forgiveness of debt	(96,179)	87,219
Depreciation	3,918	672
Amortization of deferred loan costs	349,290	366,240
Amortization of loan origination fee	115,250	-
Loss on derivative fair value adjustment	90,688	(27,428)
Excess derivative liability charged to interest	128,969	43,451
Allowance for doubtful accounts	-	(45,820)
Amortization of debt discount	874,618	240,925
Expenses paid on behalf of company	-	55,664
Changes in operating assets and liabilities		
Contracts receivable	(139,908)	512,106
Earnings in excess of billings	(113,671)	
Other receivables	-	120
Deposits	-	6,005
Prepaid expenses	47,949	21,965
Deferred loan costs	-	-
Accounts payable	135,146	23,374
Accrued interest	42,200	76,481
Accrued expenses and other liabilities	93,749	(399,080)
Net cash used in operating activities	(743,499)	(710,006)
Cash flows from investing activities		
Purchase of equipment	(17,106)	-
Net cash used in investing activities	(17,106)	-
Cash flows from financing activities		
Repayment of bank overdraft	-	(1,678)
Proceeds from bank overdraft	-	40
Proceeds from convertible notes payable	755,500	760,836
Proceeds from notes payable	225,000	20,000
Repayments of notes payable	(246,590)	(40,528)
Proceeds from related party notes payable	10,000	-
Proceeds from common stock issued for cash	87,916	-
Purchase of treasury stock	(4,200)	-
Net cash provided by financing activities	827,626	738,670
Change in cash and cash equivalents	67,021	28,664
Cash at beginning of period	28,664	-
Cash at end of period	$ 95,685	$ 28,664
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 16,129	$ 25,271
Cash paid for income taxes	$ -	$ -
Supplemental disclosure of non-cash financing activities:		
Common stock issued for note conversion	$ 952,988	$ -
Common stock issued for accrued interest conversion	$ 63,727	$ -
Common stock issued for settlement of account payable	$ 3,000	-

Debt discount on convertible notes	$ 80,000	$ 800,000
Initial measurements of derivative liabilities	$ 579,661	$ 30,000
Stock options issued for prepaid expenses	$ -	$ 276,648
Common stock issued for prepaid expenses	$ -	$ 518,000

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, Nature of Business and Trade Name

Intelligent Highway Solutions, Inc. (the "Company" or "IHS") was formed on April 22, 2011; IHS is a technology based intelligent highway solutions contractor. Through June 30, 2013, the Company's primary focus was in the California transportation market providing services that range from providing labor, materials, and related equipment for corrective service and maintenance services for the State's transportation infrastructure. Since that time, the Company has devoted its time to electrical service contracts. Additionally, the Company intends to develop transportation technology services that enable vehicles, roads, traffic lights, message signs, and other elements to become "intelligent" by embedding them with microchips and sensors and by empowering them to communicate with each other via wireless technologies. The acceleration of data collection and communication will allow state governments to improve transportation system performance by reducing congestion and increasing both traveler safety and convenience.

NOTE 2 – GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by obtaining capital from management and significant shareholders sufficient to meet its minimal operating expenses and seeking equity and/or debt financing. However management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. A change in managements' estimates or assumptions could have a material impact on the Company's financial condition and results of operations during the period in which such changes occurred.

Actual results could differ from those estimates. The Company's financial statements reflect all adjustments that management believes are necessary for the fair presentation of their financial condition and results of operations for the periods presented.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Contracts Receivable

Contracts receivable from construction, operations and maintenance are based on amounts billed to customers. The Company provides an allowance for doubtful collections which is based upon a review of outstanding receivable, historical collection information, and existing economic conditions. Normal contracts receivable are due 30 days after issuance of the invoice. Contract retentions are usually due 30 days after completion of the project and acceptance by the owner. Contracts receivable past due more than 60 days are considered delinquent. Delinquent contracts receivable are written off based on individual credit evaluation and specific circumstances of the customer. The Company had bad debt expense of $0 and $1,607 during the years ended December 31, 2014 and 2013, respectively.

INTELLIGENT HIGHWAY SOLUTIONS, INC.
Notes to Financial Statements
December 31, 2014 and 2013

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment

Property and equipment are carried at cost. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period.

Depreciation is computed over the estimated useful lives of the related assets. The estimated useful lives of depreciable assets are:

	Estimated Useful Life
Furniture and fixtures	3 - 5 years
Machinery and equipment	5 years
Vehicles	5 years

For federal income tax purposes, depreciation is computed under the modified accelerated cost recovery system. For financial statements purposes, depreciation is computed under the straight-line method. Balances of each asset class as of December 31, 2014 and 2013 were:

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (continued)

	December 31, 2014	December 31, 2013
Machinery and equipment	$ 2,149	$ 2,149
Furniture and fixtures	6,273	1,210
Vehicles	15,249	-
Sub Total	$ 23,671	$ 3,359
Accumulated depreciation	(8,731)	(1,607)
Total	$ 14,940	$ 1,752

Depreciation expense for the years ended December 31, 2014 and 2013 was $7,123 and $672, respectively.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following at December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Deferred rent payable	$ (51)	$ 2,673
Payroll tax liabilities	767,109	637,139
Other payroll accruals	25,234	51,711
Other	210,562	217,582
Total	$ 1,002,854	$ 909,105

Revenues and Cost of Revenues

Revenues from fixed-price and cost-plus contracts are recognized on the percentage of completion method, whereby revenues on long-term contracts are recorded on the basis of the Company's estimates of the percentage of completion of contracts based on the ration of the actual cost incurred to total estimated costs. This cost-to-cost method is used because management considers it to be the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured on the cost-to-cost method.

INTELLIGENT HIGHWAY SOLUTIONS, INC.
Notes to Financial Statements
December 31, 2014 and 2013

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Cost of Revenues (continued)

Cost of revenues include all direct material, sub-contract, labor, and certain other direct costs, as well as those indirect costs related to contract performance, such as indirect labor and fringe benefits. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changed in job performance, job conditions and estimated profitability may result in revisions to cost and income, which are recognized in the period in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, contract penalty provisions, claims, change orders, and settlements, are accounted for as changes in estimates in the current period. Claims for additional contract revenue are recognized when realization of the claim in probable and the amount can be reasonably determined.

The asset, “cost and estimated earnings in excess of billings on uncompleted contracts” represents revenues recognized in excess of amounts billed. The liability, “billings in excess of costs and estimated earnings on uncompleted contracts,” represents billings in excess of revenues recognized.

Cost of sales totaled $809,339 and $778,139 during the years ended December 31, 2014 and 2013, respectively.

Reclassifications

Certain prior-year amounts have been reclassified in order to conform to the current-year presentation. These reclassifications related to notes payable where prior periods had incorrectly shown certain notes as being related party, when in fact they were not.

Fair Value Measurements

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

Convertible debt

The Company records a beneficial conversion feature related to the issuance of convertible debts that have conversion features at fixed or adjustable rates. The beneficial conversion feature for the convertible instruments is recognized and measured by allocating a portion of the proceeds as an increase in additional paid-in capital and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion features. The beneficial conversion feature will be accreted by recording additional non-cash interest expense over the expected life of the convertible notes.

Net Loss Per Share

Net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the specified period. Diluted earnings per common share is computed by dividing net income by the weighted average number of common shares and potential common shares during the specified period. For the years ended December 31, 2014 and 2013, potential common shares are not included in the diluted net loss per share calculation as their effect would be anti-dilutive. Such potentially dilutive shares are excluded when the effect would be to reduce net loss per share. There were 9,974,788 and 3,274,868 such potentially dilutive shares excluded for the years ended December 31, 2014 and 2013, respectively.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

The Company has evaluated recent accounting pronouncements and their adoption has not had or is not expected to have a material impact on the Company's financial position, or statements.

NOTE 4 – CONTRACTS RECEIVABLE, NET

Contracts receivable consisted of the following at December 31, 2014:

Completed contracts	$	-
Contracts in progress		139,908
Unbilled		-
		139,908
Retentions:		
Completed contracts		-
Contracts in progress		-
		-
		139,908
Allowance for doubtful accounts		-
	$	139,908

NOTE 5 – COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

The following is a summary of the contracts in progress at December 31, 2014:

Costs incurred on uncompleted contracts	$	999,328
Estimated net loss on uncompleted contracts		-
		999,328
Billings to date		(885,657)
	$	113,671

This amount is included in the accompanying balance sheet under the following captions at December 31, 2014:

Costs and estimated earnings in excess of billings on uncompleted contracts	$	113,671

NOTE 6 - FAIR VALUE MEASUREMENTS

On a recurring basis, we measure certain financial assets and liabilities based upon the fair value hierarchy. The following table presents information about the Company's liabilities measured at fair value as of December 31, 2014 and 2013:

	Level 1	Level 2	Level 3	Fair Value at December 31, 2014
Liabilities				
Derivative Liability	-	$ 167,970	-	$ 167,970

	Level 1	Level 2	Level 3	Fair Value at December 31, 2013
Liabilities				
Derivative Liability	-	46,023	-	46,023

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

The changes in the fair value of recurring fair value measurements are measured using the Black Scholes valuation model, and relate solely to the derivative liability as follows:

Balance at December 31, 2013	$	46,023
Derivative liabilities recorded		579,661
Change due to note conversion		(586,683)
Fair value adjustment		128,969
Balance at December 31, 2014	$	167,970

NOTE 7 – NOTES PAYABLE

On November 21, 2011 the Company received a loan in the amount of $27,000 from Byrd & Company LLC, Emerging Markets Consulting LLC, and Douglas S. Hackett ($9,000 from each party). The loan is unsecured and bears a simple interest of 12% per annum to be amortized in 6 equal installments of principal and interest commencing January 1, 2012 through June 1, 2012. Our Chief Executive Officer, Devon Jones, and our Chief Financial Officer and Chief Operating Officer, Philip Kirkland, have personally guaranteed this loan. On March 1, 2012, the Company issued Emerging Markets Consulting, LLC shares of common stock equivalent to $19,000, $10,000 for cash and $9,000 in satisfaction of the outstanding loan. Accordingly, the loan from Emerging Markets Consulting, LLC is no longer outstanding. Byrd & Company was repaid $3,803 and $3,917 during the years ended December 31, 2013 and 2012 with the remaining balance of $1,200 being forgiven during the year ended December 31, 2013. During the year ended December 31, 2014, the Company issued a total of 200,000 shares of common stock in satisfaction of the remaining $9,000 principal on the note with accrued interest of $2,888 being forgiven. There was $0 and $9,000 in principal plus accrued interest of $0 and $2,278 due at December 31, 2014 and 2013, respectively.

On April 14, 2014, the Company received a loan in the amount of $90,000 from Innovest, LLC. The loan is due on August 14, 2014 with $30,000 payment due on each June 14, 2014; July 14, 2014 and August 14, 2014. The loan is unsecured and non-interest bearing. In the event of default, the note shall bear interest at 18% per annum. Additionally, the Company is obligated to issue 50,000 shares of common stock in the event of late payments. The note holder was also issued 75,000 shares of common stock as an incentive to enter into the note. The Company did not make the required principal payment on July 17, 2014 resulting in 50,000 shares of common stock being issued to Innovest and the note beginning to accrue interest at the rate of 18% per annum. Additionally, the Company did not make the required principal payment on August 17, 2014 resulting in an additional 50,000 shares of common stock being issued to Innovest. There was $60,000 of principal plus accrued interest of $900 outstanding as of December 31, 2014.

On May 22, 2014, the Company entered into two separate note agreements for $50,000 ($100,000 total). The notes carried a fixed interest amount of $400 and were due on June 15, 2014. If the loans were not repaid by the due date, the Company had the obligation to issue 25,000 shares of common stock to each note holder for each consecutive week the notes were outstanding. Additionally, the note holders each received 100,000 shares of common stock as an incentive to enter into the notes and had the right to sell back 25,000 shares of common stock to the Company for $2,100. The notes, including the fixed interest amounts, were repaid on June 26, 2014. Additionally, each note holder exercised its right to sell back 25,000 shares of common stock each to the Company for $2,100. Late penalties yielded an additional 50,000 common shares being issued to each note holder.

On August 5, 2014, the Company entered into two separate note agreements for $50,000 ($100,000 total). The notes carried a fixed interest amount of $800 and are due on October 4, 2014. If the loans were not repaid by the due date, the Company had the obligation to issue 25,000 shares of common stock to each note holder for each consecutive week the notes were outstanding. The Company did not repay the notes during the year ended December 31, 2014 resulting in 325,000 common shares being issued to each note holder (750,000 total common shares) as penalties. Additionally, the note holders each received 125,000 shares of common stock as an incentive to enter into the notes and had the right to sell back 50,000 shares of common stock to the Company for $4,200. There was a total of $100,000 in principal and $1,600 of accrued interest due at December 31, 2014.

On April 17, 2014, the Company received a loan in the amount of $20,000 from Seton Securities. An additional $5,000 was received on July 15, 2014. The loans are unsecured, due on demand and non-interest bearing. There was $25,000 and $0 in principal and no accrued interest due at December 31, 2014 and 2013.

NOTE 7 – NOTES PAYABLE (CONTINUED)

On September 25, 2014, the Company received a loan from an unrelated party totaling $10,000. The note carried a fixed interest amount of $700 and is due on October 9, 2014. The note holder is entitled to receive 10,000 shares of common stock for each week beyond the due date the note is not repaid. The note was repaid on November 13, 2014 resulting in a total of 60,000 common shares being issued as a penalty. Additionally, the Company issued 25,000 shares of common stock as an incentive to enter into the note. There was no principal or accrued interest due as of December 31, 2014.

On October 22, 2014, the Company received a loan from an unrelated party totaling $100,000. The note carries an interest rate of 12% per annum and is due on October 22, 2016. Additionally, the note is secured by the vehicles owned by the company. There was $100,000 of principal and accrued interest of $2,301 due as of December 31, 2014.

NOTE 8 – CONVERTIBLE NOTES PAYABLE

On October 26, 2012, the Company received a loan totaling $30,000 from an unrelated party. The note bears interest at 10% per annum and had an original maturity date of April 26, 2013; however, the Company is in negotiations to extend the maturity date. There was $30,000 in principal plus accrued interest of $6,542 and $4,627 at December 31, 2014 and 2013. The principal and accrued interest may be converted at the option of the holder to common stock at $0.30.

On February 27, 2014, the Company received a loan totaling $339,026 from an unrelated party. The note bears interest at 10% per annum and matures February 27, 2015. Of the $339,026 total note, $212,526 was paid to former note holders on our behalf and $1,500 was withheld as debt issue costs resulting in net cash proceeds to the company of $125,000. Additionally, the note may be converted to common stock at the option of the holder at a rate equal to a 35% discount from the lowest daily volume weighted average price in the five days prior to conversion, but not less than $0.00004. On various dates during the year ended December 31, 2014, the Company accepted twenty separate partial conversions of the note resulting in a total of 4,063,247 shares of common stock being issued in exchange for $242,526 of principal. Additionally, the Company accepted a single conversion of accrued interest resulting in 408,727 shares being issued in exchange for $8,369 of accrued interest. There was $96,500 in principal plus $10,165 in accrued interest due at December 31, 2014.

On January 30, 2014, the Company entered into a note with an unrelated party to borrow up to $300,000 which would carry $35,000 as an original issue discount bringing the total note to $335,000 if fully borrowed. Upon closing the agreement, the Company received a loan totaling $50,000 which carried a prorated original issue discount of $5,833 bringing the total note to $55,833. An additional $55,000 was borrowed during the year ended December 31, 2014 which carried a prorated original issue discount of $17,137. Additionally, the note may be converted to common stock at the option of the holder at a rate equal to the lesser of $0.65 or 60% of the lowest trade price in the twenty five (25) trading days prior to conversion and become convertible 180 days after the effective date which is July 29, 2014. The note requires a minimum of two million five hundred thousand (2,500,0000) to be held in reserve in the instance of conversion. The note carried interest at 12% per annum and is due on January 30, 2016. During the year ended December 31, 2014, the Company accepted six separate partial conversions from the note holder resulting in 2,500,000 shares of common stock being issued in exchange for $66,462 of principal and made cash repayments of $27,917. There was no interest or principal due as of December 31, 2014.

On September 3, 2014, the Company received a loan totaling $100,000 from an unrelated party. The note carried fixed interest of $10,000 and was due on September 11, 2014. Additionally, the note may be converted to common stock at the option of the holder at a rate equal to a 35% discount from the lowest daily volume weighted average price in the five days prior to conversion, but not less than $0.00004. The note holder did not elect to convert any portion of the note and the principal plus fixed interest totaling $110,000 was repaid on September 11, 2014.

On November 13, 2014, the Company received a loan totaling $104,000 from an unrelated party. The note carries interest at 8% per annum and is due on August 17, 2015 with a default interest rate of 22% should the note not be repaid by the maturity date. The holder has the right to convert the principal and accrued but unpaid interest to common stock at any time after 180 days from the note date at a 52% discount from the average of the lowest three trading prices of the Company's common stock during the preceding ten trading days. There was $104,000 of principal and $1,094 of accrued interest payable at December 31, 2014.

On December 16, 2014, the Company received a loan totaling $54,000 from an unrelated party. The note carries interest at 8% per annum and is due on September 18, 2015 with a default interest rate of 22% should the note not be repaid by the maturity date. The holder has the right to convert the principal and accrued but unpaid interest to common stock at any time after 180 days from the note date at a 52% discount from the average of the lowest three trading prices of the Company's common stock during the preceding ten trading days. There was $54,000 of principal and $178 of accrued interest payable at December 31, 2014.

NOTE 8 – CONVERTIBLE NOTES PAYABLE (CONTINUED)

On December 12, 2014, the Company received a loan totaling $50,000 from an unrelated party. The note carries interest at 10% per annum and is due on December 12, 2015. The holder has the right to convert the principal and accrued but unpaid interest to common stock at any time after 180 days from the note date at a 40% discount from the lowest closing bid price for the Company's common stock for the fifteen prior trading days. There was $50,000 of principal and $260 of accrued interest payable at December 31, 2014.

During the year ended December 31, 2013, the Company entered into debt agreements with various individuals to borrow a total of $900,000, of which $55,664 went directly to third parties to pay off amounts owed by the Company, $83,500 went to the placement agent and were recorded as debt issuance costs to be amortized over the life of the note, leaving the Company with net proceeds of $760,836. The notes accrue interest at 10% per annum and are due in are due in full between January and December 2015 with no repayments due before maturity. The principal and accrued interest may be converted at the option of the holder to common stock at $0.30. The intrinsic value of the conversion feature in these notes resulted in debt discounts totaling $800,000 which will be amortized over the lives of the notes. $210,925 of the debt discounts were recognized in interest expense during the year ended December 31, 2013 leaving an unamortized discount of $589,075 at December 31, 2013. The following table depicts the amounts due for each note as of December 31, 2013:

	Maturity Date	Principal	Debt Discount	Carrying Amount	Accrued Interest
Note holder 1	1/24/2015	$ 100,000	$ -	$ 100,000	$ 8,795
Note holder 2	4/26/2015	60,000	(39,370)	20,630	4,126
Note holder 3	5/3/2015	25,000	(16,712)	8,288	1,658
Note holder 4	5/9/2015	100,000	(67,671)	32,329	6,466
Note holder 4	5/31/2015	50,000	(35,342)	14,658	2,932
Note holder 5	5/17/2015	50,000	(33,836)	16,164	3,233
Note holder 6	5/30/2015	100,000	(66,849)	33,151	6,630
Note holder 7	5/9/2015	50,000	(33,836)	16,164	3,233
Note holder 8	5/9/2015	50,000	(34,315)	15,685	3,137
Note holder 9	6/7/2015	25,000	(17,911)	7,089	1,418
Note holder 10	7/1/2015	100,000	(74,932)	25,068	5,014
Note holder 10	10/29/2015	25,000	(23,048)	1,952	390
Note holder 11	7/15/2024	50,000	(38,425)	11,575	2,315
Note holder 12	8/20/2015	25,000	(20,925)	4,075	815
Note holder 12	10/18/2015	25,000	(22,911)	2,089	418
Note holder 13	10/23/2015	20,000	(18,055)	1,945	389
Note holder 16	12/30/2015	45,000	(44,939)	63	12
Total		**$ 900,000**	**$ (589,075)**	**$ 310,925**	**$ 50,981**

During the year ended December 31, 2014, the Company entered into debt agreements with various individuals to borrow a total of $80,000 which was $75,000 in cash and $5,000 as a reduction of accounts payable. The notes accrue interest at 10% per annum and are due in are due in full between March and April 2016 with no repayments due before maturity. The principal and accrued interest may be converted at the option of the holder to common stock at $0.30. The intrinsic value of the conversion feature in these notes resulted in debt discounts totaling $80,000 which will be amortized over the lives of the notes. $30,171 of the debt discounts were recognized in interest expense during the year ended December 31, 2014 leaving an unamortized discount of $49,829 at December 31, 2014. Additionally, during the year ended December 31, 2014, the Company accepted the full conversion of nine notes and the partial conversion of another to common stock at $0.30 per share resulting in 1,733,332 shares of common stock being issued in consideration of $610,000 of principal plus 174,201 shares of common stock being issued in consideration of $55,358 of accrued interest. The following table depicts the amounts due for each note as of December 31, 2014:

NOTE 8 – CONVERTIBLE NOTES PAYABLE (CONTINUED)

	Maturity Date	Principal	Debt Discount	Carrying Amount	Accrued Interest
Note holder 1	1/24/2015	$ 50,000	$ -	$ 50,000	$ 14,124
Note holder 1	4/24/2016	15,000	(9,842)	5,158	732
Note holder 4	3/21/2016	30,000	(18,288)	11,712	2,342
Note holder 7	5/9/2015	50,000	(8,836)	41,164	8,233
Note holder 10	10/29/2015	25,000	(10,548)	14,452	2,890
Note holder 11	7/15/2024	50,000	(13,425)	36,575	7,315
Note holder 12	8/20/2015	25,000	(8,425)	16,575	3,315
Note holder 12	10/18/2015	25,000	(10,411)	14,589	2,918
Note holder 13	10/23/2015	20,000	(8,055)	11,945	2,389
Note holder 16	12/30/2015	45,000	(22,438)	22,562	4,512
Note holder 17	3/26/2016	25,000	(15,411)	9,589	1,918
Note holder 18	4/4/2016	10,000	(6,288)	3,712	742
Total		**$ 370,000**	**$ (131,967)**	**$ 238,033**	**$ 51,430**

NOTE 9 – RELATED PARTY TRANSACTIONS

We have engaged an entity controlled by the director of the Company to perform consulting services related to the development of new technologies. Payments to this party totaled $2,500 and $12,625 during the year ended December 31, 2014 and 2013, respectively.

During the year ended December 31, 2014, the Company received an interest free $8,000 loan from a related party to fund operations. The loan is unsecured, due on demand and as such is included in current liabilities.

During the year ended December 31, 2014, the Company received an interest free $2,000 loan from a related party to fund operations. The loan is unsecured, due on demand and as such is included in current liabilities.

During the year ended December 31, 2014, the Company received a $10,000 loan from a related party to fund operations. The loan plus fixed interest of $1,000 was repaid in December 2014.

NOTE 10 – STOCKHOLDERS' DEFICIT

The Company is authorized to issue up to 100,000,000 shares of $0.00001 par value common stock. During the year ended December 31, 2014, the Company issued a total of 5,275,000 common shares for services provided by various consultants; 7,500 common shares as settlement of a payable; 752,616 common shares as settlements of certain claims brought against the company by two separate entities; 8,796,579 common shares for total note conversions of $952,988; 582,928 common shares for total accrued interest conversions of $63,727; 1,431,550 common shares for total cash proceeds of $159,750; 1,160,000 common shares valued at $93,416 for default penalties on notes payable; 650,000 common shares as debt issue costs and repurchased a total of 50,000 common shares for $4,200 of cash.

There was 30,589,839 shares issued and 30,539,839 outstanding as of December 31, 2014.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Company could become a party to various legal actions arising in the ordinary course of business. Matters that are probable of unfavorable outcomes to the Company and which can be reasonably estimated are accrued. Such accruals are based on information known about the matters, the Company's estimates of the outcomes of such matters and its experience in contesting, litigating and settling similar matters.

As of the date of this report, except as described below, there are no material pending legal proceedings to which the Company is a party or of which any of their property is the subject, nor are there any such proceedings known to be contemplated by governmental authorities.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of December 31, 2014 and 2013, the Company had accrued $791,743 and $637,139 and in payroll tax liabilities. The payment of these liabilities has not been made due to our limited profitability. Due to the uncertainty regarding our future profitability, it is difficult to predict our ability to pay these liabilities. As a result, a federal tax lien has been levied that will have to be satisfied.

<u>Vehicle Leases</u>

The Company previously had entered into twelve separate month to month leases on various vehicles which required total monthly payments of $3,971. The vehicles related to these leases were purchased by the Company in April 2014.

<u>Office and Warehouse Lease</u>

The Company is required under the terms of the rental lease to make monthly lease payments.

The Company's property lease is for an initial period of thirteen months from October 2011 and may be extended in two separate thirteen-month increments for up to a total term of 39 months. The lease was extended for an additional twelve month period commencing on January 9, 2015 requiring monthly rental payments of $3,700. The Company may not terminate this lease prior to the agreed upon termination date. The minimum future annual rental commitments are as follows:

2015		44,480
2015		973
Total annual lease commitments	$	45,453

NOTE 12 – DERIVATIVE LIABILITIES

The embedded derivative for the note is carried on the Company's balance sheet at fair value. The derivative liability is marked-to-market each measurement period and any unrealized change in fair value is recorded as a component of the income statement and the associated fair value carrying amount on the balance sheet is adjusted by the change. The Company fair values the embedded derivative using the Black-Scholes option pricing model. The aggregate fair value of the derivative at the inception date of the note was $260,398 which was recorded as a debt discount, which is up to but not more than the net proceeds of the notes. The fair value of $260,398 was recorded as a derivative liability on the balance sheet.

The debt discount for the notes will be amortized over the term of the note, or one year. On December 31, 2014, the Company marked-to-market the fair value of the derivative liabilities related to notes and determined an aggregate fair value of $166,376 and recorded a $271,390 loss from change in fair value of derivatives for year ended December 31, 2014. The fair value of the embedded derivatives for the notes was determined using the Black-Scholes option pricing model based on the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 492%, (3) risk-free interest rate of 0%, (4) expected life of 0.16 of a year, and (5) estimated fair value of the Company's common stock of $0.03 per share.

As discussed in Note 7 – "Convertible Notes Payable", on January 30, 2014, the Company entered into a note with an unrelated party to borrow up to $300,000. The note may be converted to common stock at the option of the holder at a rate equal to the lesser of $0.65 or 60% of the lowest trade price in the twenty five (25) trading days prior to conversion and become convertible 180 days after the effective date which is July 29, 2014. The Company analyzed the conversion feature of the agreement for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the embedded conversion features should be classified as a derivative because the exercise price of these convertible notes are subject to "reset" provisions in the event the Company subsequently issues common stock, stock warrants, stock options or convertible debt with a stock price, exercise price or conversion price lower than conversion price of these notes. If these provisions are triggered, the conversion price of the note will be reduced. The Company has determined that the conversion feature is not considered to be solely indexed to the Company's own stock and is therefore not afforded equity treatment. In accordance with AC 815, the Company has bifurcated the conversion feature of the note and recorded a derivative liability.

INTELLIGENT HIGHWAY SOLUTIONS, INC.
Notes to Financial Statements
December 31, 2014 and 2013

NOTE 12 – DERIVATIVE LIABILITIES (CONTINUED)

The embedded derivative for the note is carried on the Company's balance sheet at fair value. The derivative liability is marked-to-market each measurement period and any unrealized change in fair value is recorded as a component of the income statement and the associated fair value carrying amount on the balance sheet is adjusted by the change. The Company fair values the embedded derivative using the Black-Scholes option pricing model. The aggregate fair value of the derivative at the date the note became convertible was $174,114 which resulted in a debt discount equal to the outstanding principal at the time of $100,053 with an excess of $74,061 being charged to interest expense. The fair value of $174,114 was recorded as a derivative liability on the balance sheet.

The debt discount for the notes will be amortized over the term of the note, or one year. On December 31, 2014, the Company marked-to-market the fair value of the derivative liabilities related to notes and determined an aggregate fair value of $0 and recorded a $47,157 loss from change in fair value of derivatives for year ended December 31, 2014. The fair value of the embedded derivatives for the notes was determined using the Black-Scholes option pricing model based on the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 262%, (3) risk-free interest rate of .11%, (4) expected life of 1.25 of a year, and (5) estimated fair value of the Company's common stock of $0.06 per share.

The embedded derivative for the note is carried on the Company's balance sheet at fair value. The derivative liability is marked-to-market each measurement period and any unrealized change in fair value is recorded as a component of the income statement and the associated fair value carrying amount on the balance sheet is adjusted by the change. The Company fair values the embedded derivative using the Black-Scholes option pricing model. The aggregate fair value of the derivative at the inception date of the note was $312,128 which was recorded as a debt discount, which is up to but not more than the net proceeds of the notes. The fair value of $368,056 was recorded as a derivative liability on the balance sheet.

The debt discount for the notes will be amortized over the term of the note, or one year. On December 31, 2014, the Company marked-to-market the fair value of the derivative liabilities related to notes and determined an aggregate fair value of $184,272 and recorded a $270,090 loss from change in fair value of derivatives for year ended December 31, 2014. The fair value of the embedded derivatives for the notes was determined using the Black-Scholes option pricing model based on the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 492%, (3) risk-free interest rate of 0%, (4) expected life of 0.16 of a year, and (5) estimated fair value of the Company's common stock of $0.03 per share.

As discussed in Note 7 – "Convertible Notes Payable", on January 30, 2014, the Company entered into a note with an unrelated party to borrow up to $300,000. The note may be converted to common stock at the option of the holder at a rate equal to the lesser of $0.65 or 60% of the lowest trade price in the twenty five (25) trading days prior to conversion and become convertible 180 days after the effective date which is July 29, 2014. The Company analyzed the conversion feature of the agreement for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the embedded conversion features should be classified as a derivative because the exercise price of these convertible notes are subject to "reset" provisions in the event the Company subsequently issues common stock, stock warrants, stock options or convertible debt with a stock price, exercise price or conversion price lower than conversion price of these notes. If these provisions are triggered, the conversion price of the note will be reduced. The Company has determined that the conversion feature is not considered to be solely indexed to the Company's own stock and is therefore not afforded equity treatment. In accordance with AC 815, the Company has bifurcated the conversion feature of the note and recorded a derivative liability.

The embedded derivative for the note is carried on the Company's balance sheet at fair value. The derivative liability is marked-to-market each measurement period and any unrealized change in fair value is recorded as a component of the income statement and the associated fair value carrying amount on the balance sheet is adjusted by the change. The Company fair values the embedded derivative using the Black-Scholes option pricing model. The aggregate fair value of the derivative on the date the note was entered into was $145,149 which resulted in a debt discount equal to the face value of the note of $110,000 an excess of $35,149 being charged to interest expense. The fair value of $145,149 was recorded as a derivative liability on the balance sheet.

The debt discount for the note was amortized over the term of the note, or one week. On September 17, 2014, the note was repaid resulting in the elimination of the derivative liability and a gain on change in fair market value of derivatives of $145,149.

NOTE 12 – DERIVATIVE LIABILITY (CONTINUED)

As discussed in Note 7 – "Convertible Notes Payable", on September 3, 2014, the Company received a loan totaling $100,000 from an unrelated party. The note carried fixed interest of $10,000 and was due on September 11, 2014. Additionally, the note may be converted to common stock at the option of the holder at a rate equal to a 35% discount from the lowest daily volume weighted average price in the five days prior to conversion, but not less than $0.00004. The Company analyzed the conversion feature of the agreement for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the embedded conversion features should be classified as a derivative because the exercise price of these convertible notes are subject to "reset" provisions in the event the
Company subsequently issues common stock, stock warrants, stock options or convertible debt with a stock price, exercise price or conversion price lower than conversion price of these notes. If these provisions are triggered, the conversion price of the note will be reduced. The Company has determined that the conversion feature is not considered to be solely indexed to the Company's own stock and is therefore not afforded equity treatment. In accordance with AC 815, the Company has bifurcated the conversion feature of the note and recorded a derivative liability.

The embedded derivative for the note is carried on the Company's balance sheet at fair value. The derivative liability is marked-to-market each measurement period and any unrealized change in fair value is recorded as a component of the income statement and the associated fair value carrying amount on the balance sheet is adjusted by the change. The Company fair values the embedded derivative using the Black-Scholes option pricing model. The aggregate fair value of the derivative on the date the note was entered into was $100,055 which resulted in a debt discount equal to the face value of the note of $100,000 an excess of $55 being charged to interest expense. The fair value of $100,055 was recorded as a derivative liability on the balance sheet.

The debt discount for the note was amortized over the term of the note, or one week. On September 17, 2014, the note was repaid resulting in the elimination of the derivative liability and a gain on change in fair market value of derivatives of $100,055.

NOTE 13 – STOCK OPTIONS AND WARRANTS

The following table summarizes all stock option and warrant activity for the year month period ended December 31, 2014:

	Shares	Weighted-Average Exercise Price Per Share
Outstanding, December 31, 2013	293,333	$ 0.30
Granted	338,572	0.30
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding, December 31, 2014	631,905	$ 0.30

The following table discloses information regarding outstanding and exercisable options and warrants at December 31, 2014:

	Outstanding			Exercisable	
Exercise Prices	Number of Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Number of Option Shares	Weighted Average Exercise Price
$ 0.30	631,905	$ 0.30	2.48	631,905	$ 0.30
	631,905	$ 0.30	2.48	631,905	$ 0.30

INTELLIGENT HIGHWAY SOLUTIONS, INC.
Notes to Financial Statements
December 31, 2014 and 2013

NOTE 13 – STOCK OPTIONS AND WARRANTS (CONTINUED)

In determining the compensation cost of the stock options granted, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used in these calculations are summarized as follows:

	December 31, 2014
Expected term of options granted	2 - 5 years
Expected volatility range	394 - 408%
Range of risk-free interest rates	1.70 – 1.73%
Expected dividend yield	0%

NOTE 14 – SUBSEQUENT EVENTS

On various dates from January to April 2015, the Company accepted six partial conversions of an outstanding note payable to common stock. As a result, the Company issued a total of 5,150,750 shares of common stock for a reduction of $39,000 of outstanding principal.