SYLIOS CORP

(Formerly US Natural Gas Corp)

CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,971	$ 4,384
Accounts receivable:		
Joint interest billing	-	128,356
Other	-	73,199
Marketable equity securities	-	-
Prepaid expenses	-	-
Notes receivable, current	-	15,660
Notes receivable, stockholder	215,654	184,924
Total current assets	219,625	406,523
PROPERTY AND EQUIPMENT		
Oil and gas properties and equipment, net	3,952,576	3,742,855
OTHER ASSETS		
Notes receivable, net of current portion	300,000	499,084
Debenture escrow	-	-
Miscellaneous	104,557	50,567
TOTAL ASSETS	$ 4,576,758	$ 4,699,029
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 313,836	$ 250,217
Accounts payable, revenue distribution	-	3,930
Notes payable, current	1,172,650	1,378,964
Loans payable, other	-	-
Convertible debentures payable	228,876	252,069
Total current liabilities	1,715,362	1,885,180
LONG-TERM LIABILITIES		
Notes payable, net of current portion	-	-
STOCKHOLDERS' EQUITY		
Preferred stock:		
Series A	1000	1,000
Series B	300	300
Series C	0	0
Common stock	1,199,796	342,276
Additional paid in capital	7,064,448	7,499,351
Deficit accumulated during the development stage	(5,402,516)	(5,027,446)
Treasury stock, at cost	(1,632)	(1,632)
Total stockholders' equity	2,861,396	2,813,849
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,576,758	$ 4,699,029

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
CONSOLIDATED STATEMENTS OF OPERATIONS
Six Months Ended June 30, 2014 and 2013

	2014	2013
Revenue earned		
Oil and gas production sales	$ 18,439	$ 4,379
Other	43,720	54,501
Total revenue earned	62,159	58,880
Cost of oil and gas operations	9,758	5,470
Gross profit	52,401	53,401
Operating Expenses		
Selling, general and administrative	507,876	158,645
Stock issued for legal services	-	5,000
Stock issued for consulting and other services	25,000	20,000
Depreciation, depletion and amortization	127,362	25,825
Total operating expenses	660,238	209,470
Loss from operations	(607,837)	(156,069)
Other Income (expenses)		
Forgiveness of debt	279,457	-
Net gain on sale of oil and gas properties and equipment	-	2,500
Interest income	61	-
Refund of payroll taxes	-	-
Interest expense	(46,751)	(27,459)
Loss before provision for income taxes	(375,070)	(181,028)
Provision for income taxes	-	-
Net loss	$ (375,070)	$ (181,028)
Basic loss per common share	$ (0.00)	$ (0.00)
Diluted loss per common share	$ (0.00)	$ (0.00)
Weighted average common shares outstanding - basic	615,930,834	17,739,558
Weighted average common shares outstanding - diluted (see Note A)	-	-

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2014 and 2013

		2014	2013
OPERATING ACTIVITIES:			
Net loss	$	(375,070)	$ (181,028)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation, depletion and amortization		127,362	25,825
Issuance of stock for consulting and other services		25,000	25,000
Issuance of stock for debt and note conversions		46,111	-
Gain from sale of oil and gas properties and equipment, net		-	2,500
Changes in operating assets and liabilities:			
Accounts receivable, joint interest billing		-	-
Accounts receivable, other		-	18,252
Marketable Equity Securities		-	6,233
Prepaid expenses		-	-
Other assets		(6,110)	58,792
Accounts payable and accrued expenses		63,619	74,306
Accounts payable, revenue distribution		(3,930)	-
Net cash flows from operating activities		(123,018)	29,880
INVESTING ACTIVITIES:			
Purchases of marketable equity securities		-	-
Collections on notes receivable		605	5,430
Collections on notes receivable, stockholders		-	-
Lending on notes receivable, stockholder		-	(20,846)
Proceeds from sale of oil and gas properties and equipment		-	-
Net cash flows from investing activities		605	(15,416)
FINANCING ACTIVITIES:			
Borrowings from Notes Payable		-	-
Payments on Notes Payable		-	-
Borrowings from loans payable - other, net		-	-
Payments on convertible debentures		-	(9,160)
Borrowings from convertible debentures		122,000	-
Net cash flows from financing activities		122,000	(9,160)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(413)	5,304
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		4,384	878
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	3,971	$ 6,182

SYLIOS CORP

(Formerly US Natural Gas Corp)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2014 and 2013

	2014		2013	
Supplemental Disclosures of Cash Flow Information:				
Taxes paid	$	-	$	-
Interest paid	$	-	$	-
Issuance of common stock for reduction of convertible debenture	$	145,193	$	-
Issuance of common stock in A/R other	$	-	$	-
Issuance of common stock for reduction of accounts payable and accrued expenses	$	-	$	439,615
Issuance of common stock for reduction of notes payable	$	206,314	$	-
Write-off of receivables		201,555		

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

NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Sylios Corp (the “Company”) (formerly “US Natural Gas Corp”) was incorporated in the state of Florida on March 28, 2008. The Company is an independent oil and natural gas operator engaged in exploration, development and production activities in the Appalachian Basin, particularly in Kentucky and West Virginia. The Company recently expanded its business of operations into the medical and recreational marijuana market.

On July 20, 2009, the Company formed E 2 Investments, LLC ("E 2") to actively make equity investments in private and publically owned companies and to acquire energy related holdings.

On August 25, 2009, the Company formed Wilon Resources, Inc. in the state of Tennessee. On February 9, 2010, Wilon Resources, Inc. ("Wilon") merged with and into Wilon Resources of Tennessee, Inc. ("WRT"), a publically owned Tennessee Corporation. All of the stock of Wilon owned by the Company was acquired by WRT for consideration equal to 1,000 shares of WRT for every one share of Wilon held by the Company. Subsequent to the merger, Wilon approved the use of the name Wilon Resources, Inc. by WRT.

On September 4, 2009, the Company entered into a lender acquisition agreement with SLMI Holdings, LLC, a Nevada Limited Liability Company. Through this agreement, the Company acquired SLMI Options, LLC. The sole purpose of this acquisition of SLMI Options, LLC is to hold three commercial notes issued by Wilon Resources, Inc., (formerly "Wilon Resources of Tennessee, Inc.') in the years 2005 through 2007.

On February 1, 2010, the Company formed US Natural Gas Corp in the state of Florida. Subsequently, on March 22, 2010 the Company changed the name to US Natural Gas Corp KY. With this name change, all assets held in the state of Kentucky were transferred from US Natural Gas Corp to US Natural Gas Corp KY.

On February 2, 2010, the Company formed E 3 Petroleum Corp ("E 3") in the state of Florida. E 3 acts as the operator and bonding entity for the Company’s wells in the states of Kentucky and West Virginia.

On March 19, 2010, the shareholders of Adventure Energy, Inc. (now Sylios Corp) approved an amendment to its Articles of Incorporation changing the name of the Company to US Natural Gas Corp, and an amendment deleting Article 8 thereof to eliminate reference to a non-existent Shareholders' Restrictive Agreement. Wilon simultaneously completed a name change to US Natural Gas Corp WV. On April 13, 2010, the Company received approval from FINRA recognizing the name change and approving a corresponding change of the Company's trading symbol from "ADVE" to "UNGS".

On March 19, 2010, the Company's shareholders approved with 16,611,138 votes "for" and zero votes "against" to an exchange of shares between the Company and Wilon Resources, Inc. ("Wilon"), whereby the Company acquired all of the outstanding shares of Wilon. For each share of common stock of Wilon exchanged, the Company issued one share of the Company's common stock plus one warrant to purchase one additional share of common stock of the Company at an exercise price of $.25 (25 cents) per share to be exercisable for a period of 5 years from the date of issue. Wilon's shareholders approved the share exchange with 27,843,109 votes "for" and zero votes "against".

NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On June 3, 2010, the Financial Industry Regulatory Authority (FINRA) made the final approval of the share exchange. The Company accounted for the acquisition of Wilon using the purchase method on June 3, 2010.

On January 11, 2011, the Board of Directors of B.T.U. Pipeline, Inc. ("BTU"), a wholly owned subsidiary of the Company, elected to dissolve the corporation. BTU was organized under the state of Tennessee and was acquired in the Wilon Resources, Inc. acquisition in 2010. BTU's sole purpose of existence was to serve as the bonding company and operator of the Company's West Virginia natural gas wells. Any remaining assets of BTU were assigned to US Natural Gas Corp WV on January 11, 2011 and appropriate documentation filed with the County Clerk of Wayne County, West Virginia. The Articles of Dissolution and Articles of Termination were filed with the State of Tennessee Department of State on March 4, 2011 after the Company's Certificate of Tax Clearance was received from the Tennessee Department of Revenue. The corporation was effectively terminated and dissolved on March 15, 2011 with the Tennessee Secretary of State.

On July 19, 2013, the Company filed an Amendment to its Articles of Incorporation reducing the Authorized number of common shares from 9,000,000,000 to 2,000,000,000 and to effectively reduce the number of common shares outstanding through a 1:300 reverse stock split.

On August 12, 2013, the Company effectively completed a 1:300 reverse stock split of its common stock.

On March 13, 2014, the Company formed The Greater Cannabis Company, LLC ("GCC") in the state of Florida. GCC will act as the Company's operating subsidiary for its new operation in the medical and recreational marijuana market.

On April 14, 2014, the Company filed an Amendment to its Articles of Incorporation with the State of Florida Division of Corporations for a name change from US Natural Gas Corp to Sylios Corp. On April 25, 2014, the Company filed the appropriate documentation with the Financial Industry Regulatory Authority ("FINRA") to effectively change the name of the publicly traded entity from US Natural Gas Corp to Sylios Corp. The name change was effective on June 20, 2014. The Company's new Cusip number associated with the name change is 871324 109.

Principles of Consolidation

The consolidated financial statements include the accounts of Sylios Corp, and all of its wholly owned subsidiaries, US Natural Gas Corp WV, US Natural Gas Corp KY, SLMI Options, LLC, E2 Investments, LLC, E3 Petroleum Corp and The Greater Cannabis Company, LLC. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying interim unaudited financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial statements and in the opinion of management contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, the Company's consolidated financial position as of June 30, 2014, and the results of its operations for the six months ended June 30, 2014 and 2013 and cash flows for the six months ended June 30, 2014 and 2013. These results have been determined on the basis of accounting principles generally accepted in the United States of America and have been applied consistently as those used in the preparation of the Company's 2013 Unaudited Annual Report filed with OTC Markets..

Cash and Cash Equivalents

The Company considers all liquid debt securities with an original maturity of 90 days or less that are readily convertible into cash to be cash equivalents.

NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Marketable Equity Securities

Marketable equity securities are stated at lower of cost or market value with unrealized gains and losses included in operations. The Company has classified its marketable equity securities as trading securities.

Recently Enacted Accounting Standards

In July 2010, the "Dodd-Frank Wall Street Reform and Consumer Protection Act" ("Wall Street Reform Act") was signed into law. The Wall Street Reform Act permanently exempts small public companies with less than $75 million in market capitalization (nonaccelerated filers) from the requirement to obtain an external audit on the effectiveness of internal financial reporting controls provided in Section 404(b) of the Sarbanes-Oxley Act of 2002. Section 404(b) requires a registrant to provide an attestation report on management's assessment of internal controls over financial reporting by the registrant's external auditor. Disclosure of management's attestation on internal controls over financial reporting under existing Section 404(a) is still required for nonaccelerated filers.

In February, 2010, the FASB issued Accounting Standards Update ("ASU") 2010-09, effective immediately, which amended ASC Topic 855, Subsequent Events. The amendment was made to address concerns about conflicts with SEC guidance and other practice issues. Among the provisions of the amendment, the FASB defined a new type of entity, termed an "SEC filer," which is an entity required to file with or furnish its financial statements to the SEC. Entities other than registrants whose financial statements are included in SEC filings (e.g., businesses or real estate operations acquired or to be acquired, equity method investees, and entities whose securities collateralize registered securities) are not SEC filers. While an SEC filer is still required by U.S. GAAP to evaluate subsequent events through the date its financial statements are issued, it is no longer required to disclose in the financial statements that it has done so or the date through which subsequent events have been evaluated. The Company does not believe the changes have a material impact on its results of operations or financial position.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements". This update requires more robust disclosures about valuation techniques and inputs to fair value measurements. The update is effective for interim and annual reporting periods beginning after December 15, 2009. This update had no material effect on the Company's consolidated financial statements.

In July 2009, the FASB issued ASC 855-10-50, "Subsequent Events", which requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the preparation of the financial statements. The final rules were effective for interim and annual reports issued after June 15, 2009. The Company has adopted the policy effective September, 2009. There was no material effect on the Company's consolidated financial statements as a result of adoption.

In June 2009, the FASB issued ASC 105, Codification which establishes FASB Codification as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The final rule was effective for interim and annual reports issued after September 15, 2009. The Company has adopted the policy effective September 30, 2009. There was no material effect on the presentation of the Company's consolidated financial statements as a result of the adoption of ASC 105.

On December 31, 2008, the SEC published the final rules and interpretations updating its oil and gas reporting requirements ("Modernization of Oil and Gas Reporting"). In January 2010, the FASB released ASU 2010-03, Extractive Activities - Oil and Gas ("Topic 932"); Oil and Gas Reserve Estimation and Disclosures, aligning U.S. GAAP standards with the SEC's new rules. Many of the revisions were updates to definitions in the existing oil and gas rules to make them consistent with the petroleum resource management system, which is a widely accepted standard for the management of petroleum resources that was developed by several industry organizations.

NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key revisions include: (a) changes to the pricing used to estimate reserves utilizing a 12-month average price rather than a single day spot price which eliminates the ability to utilize subsequent prices to the end of a reporting period when the full cost ceiling was exceeded and subsequent pricing exceeds pricing at the end of a reporting period; (b) the ability to include nontraditional resources in reserves; (c) the use of new technology for determining reserves; and (d) permitting disclosure of probable and possible reserves. The SEC requires companies to comply with the amended disclosure requirements for registration statements filed after January 1, 2010, and for annual reports on Form 10-K for fiscal years ending on or after December 15, 2009. ASU 2010-03 is effective for annual periods ending on or after December 31, 2009. Adoption of Topic 932 did not have a material impact on the Company's results of operations or financial position. In April 2010, the FASB issued ASU 2010-14, Accounting for Extractive Activities-Oil & Gas: Amendments to Paragraph 932-10-S99-1. This ASU amends terminology as defined in Topic 932-10-S99-1.

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 disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. (See Note B - Acquisition of Wilon Resources, Inc.)

Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk consists primarily of trade accounts receivable from a variety of local, national, and international oil and natural gas companies. Such credit risk is considered by management to be limited due to the financial resources of those oil and natural gas companies.

Risk Factors

The Company operates in an environment with many financial risks including, but not limited to, the ability to acquire additional economically recoverable gas reserves, the continued ability to market drilling programs, the inherent risks of the search for, development of and production of gas, the ability to sell natural gas at prices which will provide attractive rates of return, the volatility and seasonality of gas production and prices, and the highly competitive nature of the industry as well as worldwide economic conditions.

Fair Value of Financial Instruments

The Company defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. Financial instruments included in the Company's financial statements include cash and cash equivalents, short-term investments, accounts receivable, other receivables, other assets, accounts payable, notes payable and due to affiliates. Unless otherwise disclosed in the notes to the financial statements, the carrying value of financial instruments is considered to approximate fair value due to the short maturity and characteristics of those instruments. The carrying value of debt approximates fair value as terms approximate those currently available for similar debt instruments.

NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and Gas Properties

The Company has adopted the successful efforts method of accounting for gas producing activities. Under the successful efforts method, costs to acquire mineral interests in gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip developmental wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, costs of developmental wells on properties the Company has no further interest in, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed. Unproved gas properties that are significant are periodically assessed for impairment of value, if any, and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproven properties are expensed when surrendered or expired.

When a property is determined to contain proved reserves, the capitalized costs of such properties are transferred from unproved properties to proved properties and are amortized by the unit-of-production method based upon estimated proved developed reserves. To the extent that capitalized costs of groups of proved properties having similar characteristics exceed the estimated future net cash flows, the excess, if any, of capitalized costs are written down to the present value of such amounts. Estimated future net cash flows are determined based primarily upon the estimated future proved reserves related to the Company's current proved properties and, to a lesser extent, certain future net cash flows related to operating and related fees due the Company related to its management of various partnerships. The Company follows U.S. GAAP in Accounting for Impairments.

On sale or abandonment of an entire interest in an unproved property, gain or loss is recognized, taking into consideration the amount of any recorded impairment. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Revenue Recognition

Revenue from product sales is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) the price is fixed or determinable, (3) collectability is reasonably assured, and (4) delivery has occurred.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value in accordance with U.S. GAAP.

Income Taxes

Income taxes are accounted for under the assets and liability method. Current income taxes are provided in accordance with the laws of the respective taxing authorities. Deferred income taxes are provided for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is not more likely than not that some portion or all of the deferred tax assets will be realized.

NOTE A – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed based on the weighted average number of common shares outstanding during the period.

Diluted net income (loss) per common share is computed based on the weighted average number of common shares and dilutive securities (such as stock options, warrants, and convertible securities) outstanding. Dilutive securities having an anti-dilutive effect on diluted net income (loss) per share and are excluded from the calculation.

At June 30, 2014, diluted weighted average common shares outstanding exclude 14,215,378 shares issuable on exercise of the 14,215,378 warrants outstanding at June 30, 2014.

NOTE B - ACQUISITION OF WILON RESOURCES, INC.

On May 28, 2010, the Company received notification from the appropriate state agencies that the acquisition of Wilon Resources by the Company was effective. On June 3, 2010, final approval was given by FINRA for the share exchange between the Company and Wilon Resources. The Company issued one share of common stock for each share of Wilon stock outstanding (49,207,973 shares) plus one warrant to purchase an additional share exercisable for a period of 5 years from the issue date. In July 2010, the Company canceled 1,000,000 shares of common stock relating to the Wilon acquisition. These shares were owned by the Company. The Company's common stock at June 3, 2010 had a value of $.035 per share making the acquisition price $1,687,279.

The Company accounted for the business combination using the purchase method. The estimated fair market value of Wilon's net assets (assets less liabilities) was recorded at the value of the acquisition price of $1,687,279. Management reduced its original estimate of the fair market value. This reduction in the estimate had no effect on the recorded amount of the transaction as the excess fair market value over the acquisition price reduced the recorded value of oil and gas properties and equipment. The oil and gas properties consist of 115 natural gas wells, 12,000 acres of mineral rights leases and the gathering system interconnecting the wells. The Company intends to retain a third party to complete a Reserve Report covering the 12,000 acres located in Wayne County, West Virginia substantiating proven and unproven wells. The estimates used by the Company in recording the acquisition could change significantly pending the valuation results of the third party.

NOTE C - GOING CONCERN

The Company is a development stage enterprise and although it has commenced planned principal business operations, there are insignificant revenues there from. The Company has incurred losses of $5,402,516 for the period March 28, 2008 (inception) through June 30, 2014 and has negative working capital balance aggregating $1,495,737. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

There can be no assurance that sufficient funds required during the next year, or thereafter, will be generated from operations or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and therefore would have a material adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company’s existing stockholders.

NOTE C - GOING CONCERN (continued)

The Company intends to overcome the circumstances that affect its ability to remain a going concern through a combination of the commencement of revenues, with interim cash flow deficiencies being addressed through additional equity and debt financing. The Company anticipates raising additional funds through public or private financing, strategic relationships or other arrangements in the near future to support its business operations; however the Company may not have commitments from third parties for a sufficient amount of additional capital. The Company cannot be certain that any such financing will be available on acceptable terms, or at all, and its failure to raise capital when needed could limit its ability to continue its operations. The Company's ability to obtain additional funding will determine its ability to continue as a going concern. Failure to secure additional financing in a timely manner and on favorable terms would have a material adverse effect on the Company's financial performance, results of operations and stock price and require it to curtail or cease operations, sell off its assets, seek protection from its creditors through bankruptcy proceedings, or otherwise. Furthermore, additional equity financing may be dilutive to the holders of the Company's common stock, and debt financing, if available, may involve restrictive covenants, and strategic relationships, if necessary to raise additional funds, and may require that the Company relinquish valuable rights.

The accompanying financial statements do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

NOTE D - MARKETABLE EQUITY SECURITIES

At June 30, 2014 and December 31, 2013, marketable equity securities consisted of equity securities held with a cost and fair market value of $- and $-, respectively.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

	6/30/2014	12/31/2013
Land and mineral rights	$ -	$ -
Computer Software	33,000	33,000
Field Equipment	10,829	10,828
Transportation Equipment	8,200	8,200
Oil and Gas Properties	4.597,822	4,260,739
Accumulated depreciation and depletion	(697,275)	(569,912)
Net property and equipment	$ 3,952,576	$ 3,742,855

The Company uses the straight-line method of depreciation for computer software and field and transportation equipment with an estimated useful life ranging from three to twenty years. The Company uses the straight-line method of depletion for oil and gas properties with an estimated useful life ranging from seven to twenty-five years. Included in the June 30, 2014 balances are the estimated fair market values of property and equipment acquired from Wilon Resources during 2010. These estimates could change significantly pending a valuation by third parties. (See Note B - Acquisition of Wilon Resources, Inc.)

NOTE F - NOTES RECEIVABLE

Notes receivable consist of the following at:

	6/30/2014	12/31/2013
Note receivable, interest at 1%, ,		
balance to be deducted from gas revenue distributions	$ -	$ 200,000
Note receivable, interest at 3%, due September 2014, collateralized		
by Series B preferred stock	300,000	300,000
Non-interest bearing note due on demand	-	-
Note receivable, interest at 9%, $605 due monthly through December 2025	-	14,744
Less current portion	-	(15,660)
Notes receivable long-term	$ 300,000	$ 499,084

NOTE G - MISCELLANEOUS

Miscellaneous assets consist of the following at:

	6/30/2014	12/31/2013
Loan commitment fee	$ -	$ 169,683
Accumulated amortization	-	(169,683)
Deposits	-	1,010
Operating bonds	49,557	49,557
Other	55,000	-
Total Other Assets	$ 104,557	50,567

Loan commitment fee is amortized over the life of the agreement using a straight line method.

NOTE H – LOANS PAYABLE-OTHER

Loans payable with no interest to potential investors aggregated $- and $- at June 30, 2014 and December 31, 2013, respectively.

NOTE I - CONVERTIBLE DEBENTURE PAYABLE

Convertible debentures payable consist of the following at:

	6/30/2014	12/31/2013
Caesar Capital	$ -	$ 49,000
Beaufort Capital	50,000	-
Asher	-	35,700
Tangiers	178,876	167,369
Total convertible debenture payable	$ 228,876	$ 252,069

NOTE I - CONVERTIBLE DEBENTURE PAYABLE (continued)

On June 3, 2014, the Company entered into a Promissory Note ("Promissory Note") with Tangiers Investment Group, LLC, ("Tangiers") in the amount of Twenty Eight Thousand Five Hundred Dollars ($28,500). The Promissory Note was fully funded on June 3, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at June 30, 2014 is $28,500.

On May 8, 2014, the Company entered into a Promissory Note ("Promissory Note") with Beaufort Capital, LLC, ("Beaufort") in the amount of Twenty Thousand Dollars ($20,000). The Promissory Note was fully funded on May 8, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to eight percent (8%) per year. The balance owed at June 30, 2014 is $20,000.

On April 25, 2014, the Company entered into a Promissory Note ("Promissory Note") with Tangiers Investment Group, LLC, ("Tangiers") in the amount of Twenty Eight Thousand Five Hundred Dollars ($28,500). The Promissory Note was fully funded on April 25, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at June 30, 2014 is $28,500.

On April 11, 2014, the Company entered into a Promissory Note ("Promissory Note") with Beaufort Capital, LLC, ("Beaufort") in the amount of Fifteen Thousand Dollars ($15,000). The Promissory Note was fully funded on April 11, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to eight percent (8%) per year. The balance owed at June 30, 2014 is $15,000.

On April 2, 2014, the Company entered into a Promissory Note ("Promissory Note") with Beaufort Capital, LLC, ("Beaufort") in the amount of Fifteen Thousand Dollars ($15,000). The Promissory Note was fully funded on April 2, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to eight percent (8%) per year. The balance owed at June 30, 2014 is $15,000.

On March 21, 2014, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investment Group, LLC, ("Tangiers") in the amount of Seventeen Thousand Five Hundred Dollars ($17,500). The Convertible Note was fully funded on March 21, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at lower of $.002 or fifty percent (50%) of the lowest trading price of the Company's common stock during the twenty (20) consecutive trading days prior to the date on which Holder elects to convert all or part of the Note. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to eight percent (8%) per year. The balance owed at June 30, 2014 is $17,500.

On September 26, 2013, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investment Group, LLC, ("Tangiers") in the amount of Sixty Seven Thousand Five Hundred Dollars ($67,500). The Convertible Note was fully funded on September 27, 2013. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable

NOTE I - CONVERTIBLE DEBENTURE PAYABLE (continued)

Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at June 30, 2014 is $67,500.

On September 16, 2013, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investment Group, LLC, ("Tangiers") in the amount of Twenty Thousand Dollars ($20,000). The Convertible Note was fully funded on September 18, 2013. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 50% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 10 (ten) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at June 30, 2014 is $20,000.

On May 14, 2013, the Company entered into a Promissory Note ("Promissory Note") with Tangiers Investment Group, LLC, ("Tangiers") in the amount of Twenty Five Thousand Dollars ($25,000). The Promissory Note was fully funded on May 14, 2013. The Promissory Note is due on or before June 14, 2013. In the event of such default, the amount due and owing to the Holder shall be the 125% of the outstanding Principal Amount of the Notes held by the Holder plus all accrued and unpaid interest, fees, and liquidated damages, if any. During the second quarter of 2014, the Promissory Note was paid in full through the issuance of common stock of the Company.

On May 14, 2013, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investment Group, LLC, ("Tangiers") in the amount of Ten Thousand Dollars ($10,000). The Convertible Note was fully funded on May 14, 2013. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. During the second quarter of 2014, the convertible debenture was paid in full through the issuance of common stock of the Company.

On January 16, 2013, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investment Group, LLC, ("Tangiers") in the amount of Twenty Two Thousand Five Hundred Dollars ($22,500). The Convertible Note was fully funded on January 21, 2013. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 5 (five) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. During the first quarter of 2014, the convertible debenture was paid in full through the issuance of common stock of the Company.

On November 15, 2012, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP, ("Tangiers") in the amount of Twenty One Thousand Five Hundred Dollars ($21,500). The Convertible Note was fully funded on November 18, 2012. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 5 (five) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. During the second quarter of 2014, the convertible debenture was paid in full through the issuance of common stock of the Company.

NOTE I - CONVERTIBLE DEBENTURE PAYABLE (continued)

On April 16, 2012, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Fifteen Thousand Dollars ($15,000) and a Securities Purchase Agreement. The Convertible Promissory Note was fully funded on April 16, 2012. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 50% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of one (1) year and accrues interest at a rate equal to nine percent (9%) per year. During the second quarter of 2014, the convertible debenture was paid in full through the issuance of common stock of the Company.

On April 9, 2012, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Fifteen Thousand Dollars ($15,000) and a Securities Purchase Agreement. The Convertible Promissory Note was fully funded on April 9, 2012. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 50% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of one (1) year and accrues interest at a rate equal to nine percent (9%) per year. During the first quarter of 2014, the convertible debenture was paid in full through the issuance of common stock of the Company.

On April 3, 2012, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Nineteen Thousand Dollars ($19,000) and a Securities Purchase Agreement. The Convertible Promissory Note was fully funded on April 3, 2012. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 50% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of one (1) year and accrues interest at a rate equal to nine percent (9%) per year. During 2013, the convertible debenture was paid in full through the issuance of common stock of the Company.

On March 8, 2012, the Company entered into a Convertible Promissory Note ("Promissory Note") with Hanover Holdings, LLC ("Hanover") in the amount of Eighteen Thousand Dollars ($18,000) and a Securities Purchase Agreement. The Promissory Note was fully funded on March 22, 2012. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 50% of the Market Price. The Market Price is defined as the average of the three (3) lowest Trading Prices for the common stock during the ten (10) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of six (6) months and accrues interest at a rate equal to six percent (6%) per year. During the second quarter of 2013, the convertible debenture was paid in full through the issuance of common stock of the Company.

On December 1, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Asher Enterprises, Inc. ("Asher") in the amount of Thirty Thousand Dollars ($30,000) and a Securities Purchase Agreement. The Promissory Note was fully funded on December 12, 2011. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 58% of the Market Price. The Market Price is defined as the average of the three (3) lowest Trading Prices for the common stock during the ten (10) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of nine (9) months and accrues interest at a rate equal to eight percent (8%) per year. During the second quarter of 2014, the convertible debenture was paid in full through the issuance of common stock of the Company.

On November 22, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Seventeen Thousand Five Hundred Dollars ($17,500) and a Securities Purchase Agreement. The Promissory Note was fully funded on November 22, 2011. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 60% of the Market Price. The Market Price is defined as the lowest

NOTE I - CONVERTIBLE DEBENTURE PAYABLE (continued)

Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of one (1) year and accrues interest at a rate equal to nine percent (9%) per year. During the first quarter of 2013, the convertible debenture was paid in full through the issuance of common stock of the Company.

On September 8, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Asher Enterprises, Inc. ("Asher") in the amount of Forty Thousand Dollars ($40,000) and a Securities Purchase Agreement. The Promissory Note was fully funded on September 14, 2011. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 58% of the Market Price. The Market Price is defined as the average of the three (3) lowest Trading Prices for the common stock during the ten (10) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of nine (9) months and accrues interest at a rate equal to eight percent (8%) per year. During the second quarter of 2014, the convertible debenture was paid in full through the issuance of common stock of the Company.

On August 23, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Twenty Five Thousand Dollars ($25,000) and a Security Agreement. The Promissory Note was fully funded on August 24, 2011. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of one (1) year and accrues interest at a rate equal to nine percent (9%) per year. During the first quarter of 2013, the convertible debenture remaining balance was paid in full through the issuance of common stock of the Company.

On August 5, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Asher Enterprises, Inc. ("Asher") in the amount of Thirty Thousand Dollars ($30,000) and a Securities Purchase Agreement. The Promissory Note was fully funded on August 12, 2011 The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 58% of the Market Price. The Market Price is defined as the average of the three (3) lowest Trading Prices for the common stock during the ten (10) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of nine (9) months and accrues interest at a rate equal to eight percent (8%) per year. During 2012, the convertible debenture was paid in full through the issuance of common stock of the Company.

On August 4, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Fifteen Thousand Dollars ($15,000) and a Security Agreement. The Promissory Note was fully funded on August 4, 2011. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. During 2012, the convertible debenture was paid in full through the issuance of common stock of the Company.

On July 21, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Fifteen Thousand Dollars ($15,000) and a Security Agreement. The Promissory Note was fully funded on July 21, 2011. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of one (1) year and accrues interest at a rate equal to nine percent (9%) per year. During 2012, the convertible debenture was paid in full through the issuance of common stock of the Company.

On July 11, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Ten Thousand Dollars ($10,000) and a Security Agreement. The Promissory Note was fully funded on July 11, 2011. The Promissory Note is convertible, in whole or in part, at any

NOTE I - CONVERTIBLE DEBENTURE PAYABLE (continued)

time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of one (1) year and accrues interest at a rate equal to nine percent (9%) per year. During 2012, the convertible debenture was paid in full through the issuance of common stock of the Company.

On May 3, 2011, the Company entered into a Convertible Promissory Note ("Promissory Note") with Tangiers Investors, LP ("Tangiers") in the amount of Fifty Two Thousand Five Hundred Dollars ($52,500) and a Security Agreement. The Promissory Note was fully funded on May 3, 2011. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at the Variable Conversion Price which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the five (5) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Promissory Note has a term of one (1) year and accrues interest at a rate equal to nine percent (9%) per year. During 2012, the convertible debenture was paid in full through the issuance of common stock of the Company.

On November 16, 2010, the Company entered into a Convertible Promissory Note ("Promissory Note") with Caesar Capital Group, LLC, ("Caesar Capital") in the amount of Twenty Five Thousand Dollars ($25,000) and a Securities Purchase Agreement. The Promissory Note was fully funded on November 19, 2010. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at a per share price equal to Sixty Percent (60%) of the average of the last Five (5) trading days closing volume weighted average price. The Promissory Note has a term of six (6) months and accrues interest at a rate equal to twelve percent (12%) per year. During the second quarter of 2014, the convertible debenture was paid in full through the issuance of common stock of the Company. Please see ITEM 3.-LEGAL PROCEEDINGS within the Company's 2013 Unaudited Annual Report filed with OTC Markets for further Information.

On September 7, 2010, the Company entered into a Convertible Promissory Note ("Promissory Note") with Caesar Capital Group, LLC, ("Caesar Capital") in the amount of Fifty Thousand Dollars ($50,000) and a Securities Purchase Agreement. The Promissory Note was fully funded on September 10, 2010. The Promissory Note is convertible, in whole or in part, at any time from time to time before maturity at the option of the holder at a per share price equal to Sixty Percent (60%) of the average of the last Five (5) trading days closing volume weighted average price. The Promissory Note has a term of six (6) months and accrues interest at a rate equal to twelve percent (12%) per year. During the second quarter of 2013, the convertible debenture was paid in full through the issuance of common stock of the Company.

NOTE J - NOTES PAYABLE

Notes payable consist of the following at:

	6/30/2014	12/31/2013
Note payable, interest at 1% per annum, due in 2011	$ 100,000	$ 100,000
Note payable, interest at 3% per annum, due in annual installments of $250,000 through March 2013	880,000	980,000
Notes payable, non-interest bearing, due in January 2011	-	-
Notes payable, interest at 100% through maturity date, interest at maximum rate allowable by law thereafter, due July 2010	175,000	298,964
Note payable, interest at 3%, due on demand	17,650	-
	-	-
Note payable, principle plus $1,500 interest due October 2011	-	-
Note payable, interest at 4%, effective May 2011 payable in monthly installments based upon 1.5% of gas revenues received	-	-
		-
Less current portion	(1,172,650)	(1,378,964)
Notes payable long term	$ -	$ -

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through June 30, 2014 (Unaudited)

NOTE K - INCOME TAXES

The Company accounts for income taxes using the asset and liability method described in SFAS No. 109, "Accounting For Income Taxes", the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting and the tax basis of the Company's assets and liabilities at the enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In recognition of the uncertainty regarding the ultimate amount of income tax benefits to be derived, the Company has recorded a full valuation allowance at June 30, 2014 and December 31, 2013.

The provision (benefit) for income taxes includes income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The provision (benefit) for income taxes consists of the following at:

	6/30/2014	12/31/2013
Federal income taxes:		
Current	$ (78,765)	$ 166,442)
Deferred	78,765	166,442
State income taxes:		
Current	$ (19,560)	$ (29,372)
Deferred	19,560	29,372
	-	-
Total	$ -	$ -

Significant components of the Company's deferred tax assets and liabilities calculated at an estimated effective tax rate of 21% are as follows:

	6/30/2014	12/31/2013
Noncurrent deferred tax assets (liabilities):		
Accrued wages deducted for financial purposes not deducted for tax purposes	$ 10,342	$ 98,500
Other non-cash wages not deducted for tax purposes	-	140,361
Capital losses deducted for financial purposes carried over to future years for tax purposes (expiring in years through 2014)	-	-
Well costs deducted for financial purposes capitalized for tax purposes	-	-
Excess depletion on oil and gas properties taken for tax purposes over financial purposes	-	-
Excess depreciation on oil and gas properties taken for tax purposes over financial purposes	-	-
Excess loss on sale of investments taken for tax purposes over financial purposes over financial purposes	-	-
NOL from the acquisition of Wilon Resources (subject to potential I.R.C. Section 382 limitations)	601,000	601,000
NOL remaining not attributable to timing differences (expiring in years through 2020)	531,593	489,536
Deferred noncurrent tax asset, net	1,142,935	1,329,297
Valuation allowance	(1,142,935)	(1,329,397)
	$ -	$ -

NOTE L - COMMON STOCK ISSUANCES/WARRANTS

For the six months ended June 30, 2014, the Company had the following unregistered sale/issuance of its securities:

In January 2014, the Company issued 25,000,000 shares of common stock at $.001 per share to an accredited investor as payment towards consulting services.

In February 2014, the Company issued 34,460,000 shares of common stock at $.00035 per share to an accredited investor as payment towards a note.

In March 2014, the Company issued 40,405,438 shares of common stock at $.00016 per share to an accredited investor as payment towards a note.

In March 2014, the Company issued 35,714,286 shares of common stock at $.0007 per share to an accredited investor as payment towards a note.

In March 2014, the Company issued 41,000,000 shares of common stock at $.001 per share to an accredited investor as payment towards Consulting services.

In March 2014, the Company issued 48,243,300 shares of common stock at $.0002 per share to an accredited investor as payment towards a note.

In March 2014, the Company issued 53,067,125 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In April 2014, the Company issued 12,516,700 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In April 2014, the Company issued 38,876,830 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In April 2014, the Company issued 32,304,287 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In April 2014, the Company issued 9,604,598 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In April 2014, the Company issued 16,873,563 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In April 2014, the Company issued 25,666,667 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In April 2014, the Company issued 27,777,778 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In May 2014, the Company issued 3,846,154 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In May 2014, the Company issued 26,724,138 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In May 2014, the Company issued 35,714,286 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

NOTE L - COMMON STOCK ISSUANCES/WARRANTS (continued)

In May 2014, the Company issued 17,857,143 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In May 2014, the Company issued 30,601,222 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In May 2014, the Company issued 23,000,000 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In May 2014, the Company issued 38,473,180 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In June 2014, the Company issued 46,296,296 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In June 2014, the Company issued 27,000,000 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In June 2014, the Company issued 52,681,992 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In June 2014, the Company issued 55,555,556 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In June 2014, the Company issued 19,592,476 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

In June 2014, the Company issued 41,666,667 shares of common stock at $.00048 per share to an accredited investor as payment towards a note.

For all common stock issuances and warrants issued from inception through December 31, 2013, please review the Company's 2013 Unaudited Annual report filed with OTC Markets (www.otcmarkets.com) on March 31, 2014.

Warrants outstanding at June 30, 2014 and December 31, 2013 are 14,215,378 and 1,715,378, respectively. Each warrant enables the holder to acquire one share of the Company's common stock at a specified exercise price for a term of three to five years. Warrants outstanding at June 30, 2014 have vesting dates through July 2014 and expiration dates through May 2019.

There were 12,500,000 warrants issued for the six months ending June 30, 2014. There were no warrants exercised or canceled for the three months ending June 30, 2014.
Please see NOTE O -COMMITMENTS AND CONTINGENCIES.

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NOTE M – STOCKHOLDERS' EQUITY

On April 14, 2011, the Board of Directors unanimously approved the designation of a series of preferred stock to be known as "Series C Preferred Stock". The designations, powers, preferences and rights, and the qualifications, limitations or restrictions hereof, in respect of the Series C Preferred Stock shall be as hereinafter described. The holders of Series C Preferred Stock shall not be entitled to receive dividends nor shall dividends be paid on common stock or any other Series Preferred Stock while Series C Preferred shares are outstanding. The holders of Series C Preferred Stock shall be entitled to vote on all matters submitted to a vote of the Shareholders of the Company and shall have such number of votes equal to the number of shares of Series C Preferred Stock held on a forty votes per one share basis. Upon the availability of a sufficient number of authorized but unissued and unreserved shares of common stock, the holders of Series C Preferred Stock may at their election convert such shares in to fully paid and non-assessable shares of common stock at the rate of forty shares of common stock for each share of series C Preferred Stock. The Board of directors of the Company, pursuant to authority granted in the Articles of Incorporation, created a series of preferred stock designated as Series C Preferred Stock (the "Series C Preferred Stock") with a stated value of $0.001 per share. The number of authorized shares constituting the Series C Preferred Stock was One Million (1,000,000) shares. At June 30, 2014 and December 31, 2013, there are 0 and 0 shares issued and outstanding, respectively.

On September 2, 2009, the Board of Directors unanimously approved the designation of a series of preferred stock to be known as “Series A Preferred Stock”. The designations, powers, preferences and rights, and the qualifications, limitations or restrictions hereof, in respect of the Series A Preferred Stock shall be as hereinafter described. The holders of Series A Preferred Stock shall not be entitled to receive dividends nor shall dividends be paid on common stock or any other Series Preferred Stock while Series A Preferred shares are outstanding.

The holders of Series A Preferred Stock shall be entitled to vote on all matters submitted to a vote of the Shareholders of the Company and shall have such number of votes equal to the number of shares of Series A Preferred Stock held on a one per one share basis. Upon the availability of a sufficient number of authorized but unissued and unreserved shares of common stock, the holders of any Series A Preferred Stock shall be entitled to convert such shares in to fully paid and non-assessable shares of common stock at the rate of 7.8 shares of common stock for each share of Series A Preferred Stock only if the Company has failed to satisfy all financial obligations by the designated time inclusive of the cure period. The Board of Directors of the Company, pursuant to authority granted in the Articles of Incorporation, created a series of preferred stock designated as Series A Preferred Stock (the “Series A Preferred Stock”) with a stated value of $0.001 per share. The number of authorized shares constituting the Series A Preferred Stock was Three Million (3,000,000) shares. At June 30, 2014 and December 31, 2013, there are 1,000,000 shares issued and outstanding.

On September 2, 2009, the Board of Directors unanimously approved the designation of a series of preferred stock to be known as “Series B Preferred Stock”. The designations, powers, preferences and rights, and the qualifications, limitations or restrictions hereof, in respect of the Series B Preferred Stock shall be as hereinafter described. The holders of Series B Preferred Stock shall not be entitled to receive dividends. The holders of Series B Preferred Stock shall not be entitled to vote on any matters submitted to a vote of the Shareholders of the Company. Upon the availability of a sufficient number of authorized but unissued and unreserved shares of common stock, the holders of Series B Preferred Stock may at their election convert such shares in to fully paid and non-assessable shares of common stock at the rate of ten shares of common stock for each share of series B Preferred Stock. The Board of Directors of the Company, pursuant to authority granted in the Articles of Incorporation, created a series of preferred stock designated as Series B Preferred Stock (the “Series B Preferred Stock”) with a stated value of $0.001 per share. The number of authorized shares constituting the Series B Preferred Stock was Two Million (2,000,000) shares. At June 30, 2014 and December 31, 2013, there are 300,000 shares issued and outstanding.

The number of common shares authorized with a stated value of $0.001 per share at June 30, 2014 and December 31, 2013 is 2,000,000,000 and 2,000,000,000, respectively. At June 30, 2014 and December 31, 2013, there are 1,199,796,074 and 342,276,381 shares of common stock issued and outstanding, respectively.

NOTE N – RELATED PARTY TRANSACTIONS

Notes receivable, stockholders, totals $215,654 and $184,924 at June 30, 2014 and December 31, 2013, respectively. Interest receivable on the notes total $- and $- at June 30, 2014 and December 31, 2013, respectively.

Included within accounts payable and accrued expenses are wages due officers and shareholders of $242,209 and $98,500 as of June 30, 2014 and December 31, 2013, respectively.

NOTE O -COMMITMENTS AND CONTINGENCIES

On February 1, 2013, the Company entered into an operating lease for office space. The lease term is for two years with monthly rent totaling $642/month for a total of $7,062 in year one and $7,704 in year two.

Future minimum rental obligations at June 30, 2014 are $3,852 in 2014 and $642 in 2015. The Company intends to sign a new lease prior to the end of the lease expiration date for the same space its corporate office is located.

On April 1, 2012, the Company executed employment agreements for the offices of President, Vice-President, Treasurer, and Secretary of the Company upon the terms and provisions and, subject to the conditions set forth in the Agreement, for a term of three (3) years, commencing on April 1, 2012, and terminating on March 31, 2015, unless earlier terminated as provided in the Agreement. The Agreement included options to the President to purchase 100,000,000 shares of common stock at an average price of $.00035 per share and 50,000,000 shares to the Vice-President at the same average price per share.

Executives agree to accept, for the first year of the Employment Term a salary at an annual rate of $197,000 for the President and $110,000 for the Vice-President, payable in accordance with the Company's regular payroll practices as from time to time in effect, less all withholdings and other deductions required to be deducted in accordance with any applicable federal, state, local or foreign law, rule or regulation. After the first year during the Employment Term, the annual salary for each successive year will be increased by the lesser of (i) 10% or (ii) the percentage increase, if any, in the CPI for each year just completed measured for the entire twelve (12) month period, plus three percent (3%).

On May 17, 2013, the Company's Vice-President died unexpectedly. At the time of his passing, the Company owed Mr. Anderson $131,861.12 for accrued wages through May 17, 2013. During the third quarter, the Company issued 42,263,179 shares of common stock to Mr. Anderson's estate to satisfy the outstanding accrued wages. In addition, the Company shall pay to Mr. Anderson's estate one full year of salary, or $110,000.

NOTE P- LENDER ACQUISITION AGREEMENT

A lender acquisition agreement was entered into on September 4, 2009 by Sylios Corp and SLMI Holdings, LLC. Through the agreement, Sylios Corp acquired SLMI Options, LLC, a Nevada Limited Liability Company. SLMI Options, LLC is the secured lender of the three commercial notes defined below.

This Agreement is made with respect to loans made by SLMI Holdings, LLC to Harry Thompson ("Thompson"), Harlis Trust ("Trust"), Wilon Resources Inc. ("Wilon") and/or Wilon Gathering System Inc. Sylios Corp agrees to pay the following consideration herewith in return for conveyance of the Lender Units.

$500,000 in financing given May 6, 2005 for construction of a natural gas gathering system in Kentucky (the "Gathering System Loan"), $300,000 mortgage on the Wilon business offices given October 13, 2005 (the "Office Loan"), $175,000 in financing given on October 24, 2006 to finance 176 acres of land in West Virginia and to finance the placement of a natural gas treatment station (the "WV Loan"); these loans include that certain

NOTE P- LENDER ACQUISITION AGREEMENT (continued)

Amendment to Loan Agreements dated August 2, 2006, that certain Receipt for Shares Pledged as Collateral dated December 8, 2007 and that certain Second Amendment to Loan Agreements dated January 27, 2009 (with 7.8 million Wilon shares attached and pledged as additional collateral). Further, the Borrowers and SLMI have agreed to special terms for assignment of loan rights by SLMI and subsequent holders of the loans pursuant to that Acknowledgment by Borrowers delivered Jan. 5, 2009. At December 31, 2010 the notes receivable balance was eliminated through consolidation.

$1,000,000 in financing was made payable by secured promissory note. By December 31, 2010, Sylios Corp shall have paid at least $250,000 in cash toward the Secured Note. By December 31, 2011, Sylios Corp shall have paid at least $250,000 more. By December 31, 2012, Sylios Corp shall have paid at least $250,000 more. All unpaid principal and interest shall be due no later than December 31, 2013. To the extent, Sylios Corp tenders proceeds from dispositions of real estate collateral on the SLMI Loans (which dispositions shall require the written consent of Owner), said payments shall be applied toward the Secured Note, but they shall not reduce the minimum installments required for years 2010 through 2012. From January 2010 to December 2013, a minimum monthly cash installment of $4,000 shall be paid by Sylios Corp on the Secured Note until it is paid in full. Additional Security and Collateral for the Secured Note and the covenants hereunder: At June 30, 2014 and December 31, 2013 the notes payable balances were $880,000 and $980,000, respectively. (See Note J).

NOTE Q – SUBSEQUENT EVENTS

On July 2, 2014, the Company formed Bud Bank, LLC ("BB") in the state of Florida. BB will act as the Company’s operating subsidiary dedicated solely to the Company's cannabis dispensing product.

On July 9, 2014, the Company entered into two separate Consulting Agreements with Greenscape Laboratories, Inc., whereby the companies would provide one another with services related to strategic board level advisory, financial advisory, business development and acquisition and joint ventures advisory. The term of each agreement is 12 months.

On July 9, 2014, the Company entered into definitive agreements with Bayport International Holdings, Inc. for the disposition of certain assets currently operated by the Company's operating subsidiaries within the states of West Virginia. Included within the assets are certain leases covering mineral rights, oil and natural gas wells and ancillary facilities constructed by the Company for the delivery of natural gas in West Virginia. On July 31, 2014, the transaction closed.

On July 11, 2014, the Company filed a trademark for the name "Bud Bank" with the United States Office Patent and Trademark Office.

On July 31, 2014, the Company and Bayport International Holdings, Inc. ("Bayport") closed on the Asset Purchase Agreement entered into between the companies on July 9, 2014. Included within the assets sold by the Company were certain leases covering mineral rights, oil and natural gas wells, certain right of ways and ancillary facilities constructed by the Company for the delivery of natural gas in West Virginia. The Company will file the required Bill of Sales, Assignments and Deeds with the designated County Clerks for the transaction. At Closing, Bayport remitted the required funds as per the Asset Purchase Agreement and issued to the Company three Notes with varying maturity dates.

Om July 31, 2014, the Company entered into a Licensing Agreement with Artemis Dispensing Technologies ("Artemis") for the development and resell of its automated dispensing product. Under the collaboration and license agreement, Artemis will be responsible for the development of a high end automated dispensing product. Upon launch and sales of the product, Artemis will be responsible for the installation, training and customer support for the hardware and software. The Company will be responsible for direct sales, addition of key distributors and sub-licensing of specific territories within the U.S. Under the terms of the agreement, the Company will pay to Artemis a one-time licensing fee in the amount of $500,000.00 broken into tranches and based on development parameters. Artemis will also receive a percentage of transaction fees generated on a monthly basis per unit. The Company will receive revenue generated directly from sales either though its website or sales staff, a royalty from sales generated

NOTE Q- SUBSEQUENT EVENTS (continued)

through third party vendors/distributors or a percentage of any sub-licenses sold. In addition, the Company shall have the first right of refusal to purchase a license for the use of the same technology in other countries.

NOTE R- ACCRUED COMPENSATION

Accrued compensation consists of the following at June 30:

	6/30/2014	12/31/2013
Accrued officers compensation	$ 215,209	$ 98,500
Other accrued compensation	27,000	0
Accrued payroll taxes		0
Other	0	0
Total	$ 242,209	98,500