quarterly report

30 september 2016

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

contents

management's discussion and analysis

the company and its mission

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

message from the chairman

"IDC is closer to widespread commercial traction than ever before."

-Greg Abbott
IDC founder & chairman

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

the global opportunity

vision

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

execution & historical company timeline

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

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

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

Hoffer

FAMILY INTEGRITY SERVICE TRUST

starlim sterner

silicone at its best

In 2006, IDC commissioned the Institute of Environmental Health (IEH), a leading FDA processing authority, to conduct rigorous sterility protocols. Inoculating spouts with abnormally high concentrations of harmful bacteria, creating a condition that can only exist with sabotage, IEH dispensed volatile growth-promoting liquids to determine if any of the bacteria would migrate into the bags. The process was repeated for 35 days, and just one breach of the 800 bags tested would doom the entire test to failure. Not only did The Answer® pass this stringent protocol, but the IEH test findings were published in the peer-reviewed Journal of Food Protection (2008).

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

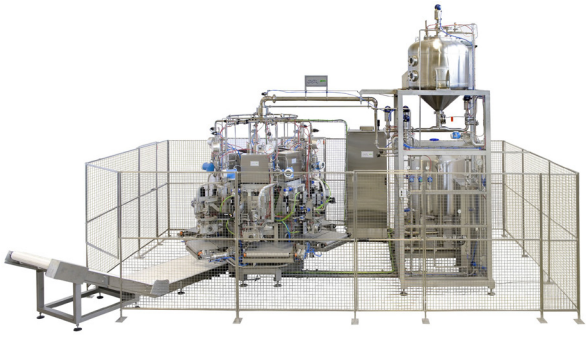
Meanwhile, awareness continued to build: In 2007, Jane Goodall endorsed The Answer® for its ability to deliver nutrition in bulk to every needy corner of the world without requiring refrigeration; in 2008, Allied Development released its independent Life Cycle Analysis scientifically proving that a BIB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

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

Concurrently, IDC was busy addressing infrastructure issues and the handicap stemming from offering a component part rather than a total packaging system. In 2010, IDC partnered with Sealed Air and Alfa-Laval to co-develop the world's fastest BIB billing machine for high volume users. Recently, the Company worked out an arrangement with Elpo, a leading Italian equipment manufacturer, to offer more affordable fillers for business development, and signed bag supply agreements with Sealed Air and Goglio. These and other on-going initiatives have enabled IDC to leverage the sales forces of other companies and negotiate new revenue streams on the package and manufacturing components; but even more significantly, these alliances have bolstered IDC's go-to-market strategy. In a broader sense, IDC's relentless marketing efforts have transformed its industry. Virtually every BIB filling machine made today is faster and capable of running The Answer® as a single fitment, and for older machines conversion kits to run The Answer® are now readily available. Any manufacturer who runs Tetra Pak or SIG Combibloc aseptic cartons is a potential candidate for IDC, and the Company is now in a position to offer them a turnkey solution: bag, filler, and of course The Answer®, which is what makes the large-format aseptic packaging possible.

With the forming of its Industry Advisory Board in 2013, and eyes opened by its exposure to China via PepsiCo, IDC made the decision to pivot its sales focus largely toward the developing world, which besides having less refrigeration and rapid growth is accustomed to aseptic products and more open to adapting new technology with greater speed to market.

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



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

sales & marketing

IDC is commercial in the USA (Cold Star) and China (Döhler), thus proving the product and the concept, and Döhler China in particular has caused the aseptic industry to take notice. The addition of just one major customer is likely to make IDC cash flow positive, and the Company is in serious discussions with numerous such prospects who are progressing proactively toward commercialization. With the evolution of IDC's management team, the roster of prospects continues to expand, although the Company's top priority is to close the most imminent deals as quickly as possible.

china

With one year of successful commercialization under its belt (orange, apple, and mango juice, and coconut water), Döhler continues to gain customers and sign up distributors through trade shows, conferences, and one-on-one customer meetings. This success has sparked interest elsewhere within China, as IDC and Döhler remain in advanced discussions with three of the country's largest beverage brands. One breakthrough with any one of these companies should result in several millions of units sold and propel IDC well into the black.

In late November, the President of the Shanghai Food Safety Federation and the Shanghai Secretary-General, as part of an effort to promote healthy and natural trends in China, visited the Döhler facility where The Answer® is being employed. The resulting Food Safety Federation newsletter gave very favorable mention to The Answer® and is being widely circulated throughout the Chinese beverage industry. The

newsletter predicted that “demand … would increase rapidly” and is tantamount to an endorsement.

IDC has also received numerous requests for dairy samples from Chinese and Mongolian companies. Naarmann, the Company’s global dairy partner based in Germany, has successfully completed the tooling modifications on its filler, which took longer than anticipated, and will begin sending samples December 2016.

mexico & latin america

FEMSA, Coca Cola’s largest global bottler (based in Mexico City), is putting the finishing touches on its 2017 business plan around The Answer®. Recently their project manager flew to Shanghai to meet with Döhler China. The business case involves multiple products in multiple countries. FEMSA’s juice competitors in the region are paying close attention to these developments.

In October IDC met in Mexico City with the sales and marketing heads at Grupo LaLa, the largest dairy in Mexico and largest aseptic producer in North America. Grupo LaLa expressed clear interest and has appointed a dedicated project team.

In late November the Company will visit Peru to meet again with the AJE Group (the world’s tenth largest soft drink company with a presence in 23 countries in Latin America, Africa, and Asia) and Laive (Peru’s leading aseptic dairy). Both companies have asked IDC for technical and pricing information and go-to-market proposals.

IDC is in the process of arranging for juice boxes with The Answer® to be shipped to an interested customer in Guatamala. This customer has informed the Company that the program will encompass all of Central America and represent significant volume.

pakistan

Led by Pär Söderlund, former managing director of Tetra Pak Pakistan, IDC is focusing on multi-billion-dollar "loose milk" segment, which accounts for approximately 90% of milk consumption in Pakistan, India, and Bangladesh. Raw, unprocessed milk in open, exposed tubs is ladled into plastic bags; merchants typically dilute the milk with flood water, as well as with chemicals and glue to give it a white appearance. The consumer takes the bags of milk home to boil the contents. Pakistan's leading dairy packaged dairies desire to enter this segment, as it represents the greatest opportunity for growth, and they recognize that The Answer® is uniquely suited to transform "loose milk" into a closed, safe, unadulterated aseptic system. Mr. Söderlund has advanced discussions with the top three dairy processors – Engro Foods, Fauji Foods, and Haleeb.

Mr. Söderlund is exploring the feasibility study of partnering with the country's largest dairy farms to set up an independent aseptic manufacturing facility solely dedicated to bag-in-box with The Answer®, which will target home delivery.

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

turkey & the middle east

The Company recently visited Döhler Turkey in Istanbul and met with its entire team. Having observed the success of Döhler China, Döhler Turkey is proceeding "full steam" with The Answer® for juices and potentially other products. Supplying Turkey and exporting to the Gulf region, Döhler Turkey already has filling equipment in place and is in the throes of putting together a business plan. They informed the Company that the project is on a fast track and that The Answer® is a "game changer".

Through Pär Söderlund, the Company has renewed high-level talks with Al Rabie, the largest juice brand in the Middle East. The Company believes that its presence in Dubai and Mr. Söderlund's wealth of Tetra Pak customer contacts will hasten business development in the region.

europe

The Company has entered into a strategic sales-and-marketing alliance with Privatmolkerei Naarmann GmbH, the leading ultra high temperature (UHT) dairy in Germany specializing in foodservice. A 113-year-old fourth-generation family business known for its high quality and exclusive focus on foodservice, Naarmann will supply samples of UHT dairy products in aseptic bag-in-box (BIB) equipped with IDC's The Answer® tap to potential IDC dairy customers throughout the world. IDC and Naarmann also will work in concert to promote Naarmann branded BIB dairy products with The Answer® across Europe and in key markets where Naarmann currently exports, thus making Naarmann IDC's first European customer.

Securing a top-tier UHT dairy willing to undergo the necessary machine conversions for IDC's specialized product, and to schedule multiple small sample runs, is a major step in the path to global dairy commercialization. It has taken Naarmann longer than anticipated to re-tool its filling machine to run The Answer®, but by

December 2016 Naarmann will be able to fulfill sample requests from potential IDC customers in Pakistan, Nigeria, China, Mongolia, Malaysia, Vietnam, Indonesia, France, Mexico, Peru and the USA.

To help with the Naarmann relationship and also with business development throughout Europe, Russia, and Turkey, the Company has engaged the services of an ex-Tetra Pak executive with 25+ years industry experience and a wealth of high-level contacts and credibility.

africa

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

india

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

asia pacific

Two major aseptic players in Malaysia, MDI (Malaysia Dairy Industries) and Yeo Hiap Seng, are awaiting dairy samples. IDC has also reached out to leading aseptic companies in Indonesia and Vietnam, who also are awaiting samples.

usa

IDC has received high levels of interest from four large U.S. co-packers: Döhler Americas, Whitlock, Gregory Packaging, and Smith Foods. All three indicated a willingness to invest in filling equipment, and each has articulated its own distinctive vision as to how it can deploy IDC's technology. Both juice and dairy are under consideration.

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

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

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

overhead & personnel

By making some key personnel decisions, IDC has managed to reduce overhead and enhance its global reach, thus lowering the threshold for profitability. With this increased operational leverage, the Company believes that the addition of just one new customer will result in IDC becoming cash flow positive. One success is likely to trigger many more successes; the interest generated from the Döhler launch is already evidence of this, and is likely to intensify as more customers deploy The Answer®. IDC believes that its fixed expenses will increase only marginally even as the Company's growth spikes and reaches its global promise.

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

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

Prior to joining IDC, Li Xin managed the Cryovac food packaging business for the Asia region and built a large green-field investment in Shanghai before ascending to the Presidency of Sealed Air China. A Chinese national experienced in market entry, strategy, sales/ profit growth, food safety, and sustainability, Mr. Xin is responsible for securing IDC's Döhler relationship, managing PepsiCo China, and developing other accounts within China. He is based in Shanghai.

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

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

The Company has also upgraded its accounting firm to B. F. Borgers CPA. The transition to both a new controller and a new accounting firm has resulted in the delay of this Q3 report, which the Company sees as a one-time event.

the answer & industry trends

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

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

intellectual property & trade secrets

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

Strong as these global patents are, IDC believes that its trade secrets constitute at least as much IP protection. Years of refining its various components and the assembly process, and the stringent sterility tests it has successfully

conducted, have set an extremely very high technical bar that any other competitor must attain in order to lay claim to having an "aseptic tap". There is absolutely no guarantee – in fact, it is highly unlikely – that even a direct knock-off of The Answer® will produce the consistency demanded by the aseptic industry. Any knock-off will be regarded a separate part, and no reputable food & beverage company will risk product recalls on a tap that hasn't been as thoroughly vetted as The Answer®. There are no short-cuts around the years of tooling, re-tooling, inoculated testing, regulatory approvals, and validation that are now in IDC's rear-view mirror. PepsiCo sent three delegations to Hoffer Plastics with the idea of manufacturing in China, only to abandon the notion when they saw the complexity of IDC's assembly process. IDC went through three U.S. silicone manufacturers before Austrian-based Starlim-Sterner designed the definitive seal, one that is proprietary to IDC.

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

public relations

In August 2013, IDC launched a new updated website: www.idcinnovation.com. Designed primarily for business-to-business, it is easy to navigate and very scalable.

results of operations

Nine Months Ended September 30, 2016 compared to Nine Months Ended September 30, 2015

Revenue: For the nine months ended September 30, 2016, the Company produced net revenues of $319,167, a 56% increase over the same period in 2015. This improvement was driven by increased unit sales of The Answer®, primarily to one customer.

Gross Profit: Gross profits increased 101% to $68,517 from $34,131 over the same period in 2015 driven by increased unit sales. The Company's unit sales are growing faster than the market for aseptic packaging, which an industry research firm estimates is growing at 8% per year, because the Company is beginning from a low base and The Answer® is still gaining penetration with aseptic packaging customers. Gross profit margins improved to 21% from 17% in the prior nine months, which is well within the 20% historical variance for the Company's margins. The Company anticipates margins to vary as it grows rapidly from a low base and begins to achieve economies of scale.

Operating Expenses: Operating expenses declined 8% to $973,242 from $1,055,422 compared to the same period in 2015, mostly due to a reduction in expenses due to stock options and warrants in lieu of compensation.

Loss from Operations: The Company had a loss from operations of $(904,724) for the nine months ended September 30, 2016, an improvement of 11% from a loss of $(1,021,091) in the same

period in 2015. This Improvement stems mostly from a 42% reduction of options and warrant expensing in lieu of cash compensation and to a lesser extent due to lower travel-related expenses compared to the more extensive sales and marketing program the Company employed in 2015.

Interest Expense: Interest expense for the nine months ended September 30, 2016 declined 47% to $(64,332) from $(121,979) compared to the same period in 2015 due to the retirement of outstanding loans.

Other Income/Expense: For the nine months ended September 30, 2016 there was a non-cash extraordinary contribution to "Other Income" of $343,758 to reflect the fluctuations in Fair Value of certain warrants.

Net Loss: The net loss of ($625,298) for the nine months ended September 30, 2016, improved by 45% against a net loss of $(1,138,196) in the same period in 2015, due in part to reduced operating expenses, but mostly due to the non-cash positive contribution of the calculation of the Fair Value of certain warrants.

financial condition & liquidity

As reflected in the Company's financial statements, the Company has experienced continuing net losses and negative cash flows from operations through September 30, 2016. The Company's continuing existence is dependent upon its ability to obtain additional financing, generate sufficient cash flows to meet its obligations on a timely basis and achieve and maintain profitable operations. The Company is attempting to obtain additional contracts to bolster sales of The Answer®. The Company is also seeking equity and/or debt financing. However, there can be no assurance that the Company will be successful in this regard.

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

During the third quarter of 2015 the Company entered into agreements for bank lines of credit totaling $600,000. A line of credit in the amount of $350,000 is due on demand with an interest rate of prime plus 1%. The remaining $250,000 line of credit was issued at an interest rate of prime plus .75% with a term of 36 – 84 months. The outstanding loans under the lines of credit as of September 30, 2016, was $0.

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

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

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

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

The Company believes that it has sufficient capital and access to funding to continue operations through September 30, 2017. However, there is no assurance that the Company will raise sufficient capital or otherwise generate sufficient cash flows to enable the Company to continue as a going concern beyond such time. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

International Dispensing Corporation

Balance Sheets

September 30, 2016 (Unaudited) and December 31, 2015

ASSETS		*September 30 2016*		*December 31 2015 (as restated)*
CURRENT ASSETS:				
Cash on hand	$	54,263	$	485,432
Accounts Receivable, net		75,403		102,345
Prepaid Expenses		8,540		53,161
Total Current Assets		138,206		640,938
PROPERTY AND EQUIPMENT:				
Office Equipment		95,351		95,351
Production Equipment		3,336,268		3,336,268
		3,431,619		3,431,619
Accumulated Depreciation		(3,201,794)		(3,110,441)
Total Property and Equipment		229,825		321,178
Restricted cash		600,000		600,000
TOTAL ASSETS	$	*968,032*	$	*1,562,116*
LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES:				
Accounts payable	$	71,509	$	102,503
Accrued expenses		77,399		170,633
Note payable to stockholders		688,269		963,269
Line of credit		-		587,721
Dividend Payable		70,192		25,192
Warrant Liability		697,870		1,040,982
Total current liabilities		1,605,240		2,890,300
MEZANNINE EQUITY				
Convertible, redeemable Preferred stocks, $.001 par value; 1700000 shares authorized; 1,500,000 shares issued and outstanding as of September 30, 2016 and December 31, 2015		1,500,000		654,198
STOCKHOLDERS' DEFICIT:				
Common stock, $.001 par value; 125,000,000 shares authorized; 85,192,347 shares issued and outstanding as of September 30, 2016 and 82,001,793 as of December 31, 2015.		85,192		82,001
Additional Paid-in Capital		39,391,491		38,033,406
Accumulated Deficit		(41,613,891)		(40,097,789)
Total Stockholders' Deficit		(2,137,208)		(1,982,382)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	968,032	$	1,562,116

see accompanying notes.

International Dispensing Corporation

Statements of Operations (unaudited)

For the three and nine months ended September 30, 2016 and 2015

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2016	*2015*	*2016*	*2015*
NET REVENUES:	$ 62,127	$ 27,612	$ 319,167	$ 205,241
COST OF GOODS SOLD:	41,084	20,825	250,650	171,110
GROSS PROFIT:	21,043	6,787	68,517	34, 131
OPERATING EXPENSES:				
Engineering expenses	15,476	3,849	43,844	32,495
General & administrative expenses	15,963	12,187	32,151	21,298
Operating expenses	203,990	278,979	682,880	757,891
Selling expenses	30,081	77,970	123,014	146,655
Depreciation	30,659	31,382	91,353	97,082
Total operating expenses	296,169	404,367	973,242	1,055,422
LOSS FROM OPERATIONS:	(275,126)	(397,580)	(904,724)	(1,021,291)
INTEREST EXPENSE:	(18,756)	(21,049)	(64,332)	(121,979)
OTHER INCOME (EXPENSE):	580,404	5,074	343,758	5,074
NET INCOME (LOSS):	286,522	(413,555)	(625,298)	(1,138,196)
Preferred stock dividends and discount accretion:	(135,829)	(251,850)	(890,802)	(251,850)
Net loss available to common stock holders:	$ 150,693	$ (665,405)	$ (1,516,100)	$ (1,390,046)
NET LOSS PER COMMON SHARE BASIC & DILUTED:	0.00	(0.02)	(0.02)	(0.02)
BASIC & DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING:	84,237,886	80,813,758	83,597,070	80,813,758
Opening Shares Outstanding:	83,283,425		82,001,793	
Ending Shares Outstanding:	85,192,347		85,192,347	
Average:	84,237,886		83,597,070	

see accompanying notes.

International Dispensing Corporation

Statements of Cash Flows (unaudited)

For the nine months ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (625,298)	$ (1,138,195)
Non-cash items:		
Depreciation	91,353	97,083
Stock-based compensation	149,528	258,641
Stock issued for interest expenses	76,747	
Amortization of Beneficial conversion feature warrant	-	-
Amortization of warrant discount	-	58,199
Change in fair value of warrant liability	(343,112)	(5,074)
Net changes in:		
Accounts receivable	26,942	66,892
Prepaid expenses	44,621	27,606
Accounts payable	(30,995)	127,521
Accrued expenses	(93,234)	43,144
Net cash (used in) operating activities	$ (703,448)	$ (464,183)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	$ -	$ (12,500)
Net cash used in investing activities	$ -	$ (12,500)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from preferred stock issue	-	1,500,000
Proceeds from stock issuance	1,135,000	-
Repayment of bank term loan		(27,778)
(Repayment) Proceeds from Bank line of credit	(587,721)	206,187
(Repayment) of notes from stockholders, net	(275,000)	(100,000)
Accrued dividends	-	-
Accrued Interest	-	-
Net cash provided by financing activities	272,279	1,578,409
NET INCREASE IN CASH	(431,169)	1,101,726
CASH AT BEGINNING OF PERIOD	485,432	15,434
CASH AT END OF PERIOD	$ 54,263	$ 1,117,160
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$ 633

see accompanying notes.

International Dispensing Corporation

Statements of Changes in Stockholders' Deficit

For the nine months ended September 30, 2016 (unaudited)
and the year ended December 31, 2015

	Common Shares	*Common Stock Amount*	*Paid-In Capital*	*Accumulated Deficit*	*Total Stockholders' Deficit*
BALANCE AT DECEMBER 31, 2015	82,001,793	$ 82,001	$ 38,033,406	$ (40,097,789)	$(1,982,382)
Additional shares issued	2,711,905	2,712	1,132,288	-	1,135,000
Stock-based compensation expense	295,918	296	149,231	-	149,527
Stock issued for interest	182,731	183	76,564	-	76,747
Discount accretion on warrants				(845,802)	(845,802)
Preferred stock dividend				(45,000)	(45,000)
Net loss	-	-	-	(625,298)	(625,298)
BALANCE AT SEPTEMBER 30, 2015	85,192,347	$ 85,192	$ 39,391,490	$ (41,613,889)	$ (2,137,208)

see accompanying notes.

International Dispensing Corporation

Notes to the Financial Statements (unaudited)
For the nine months ended September 30, 2016 and 2015

1. the company & organization

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

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

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

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

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

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

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

The Company continued to be subject to a number of on-going risks through September 30, 2016, with continued risks. For example, the Company is subject to risks related to the availability of sufficient financing to meet its future cash requirements and the uncertainty

of future product development, regulatory approval, and market acceptance of existing and proposed products. Additionally, other significant risk factors such as loss of key personnel, lack of manufacturing capabilities, difficulty in establishing new intellectual property rights and preserving and enforcing existing intellectual property rights, as well as product obsolescence due to the development of competing technologies could impact the future results of the Company.

The interim financial statements for the nine months ended September 30, 2016 and 2015 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of financial position and results of operations for those periods. The results of operations for the nine months ended September 30, 2016 are not necessarily indicative of the results that will be achieved for the entire year or any future interim period.

2. going concern

The Company's financial statements have been presented on the basis that it will continue as a going concern. The Company's activities have resulted in an accumulated deficit from inception to September 30, 2016, of over $41 million. Losses are continuing as efforts to market the Company's products continue to develop. The Company's primary source of funds since inception has been from the sales of its common and preferred stock and to a lesser extent from the issuance of debt. As discussed under Financial Condition and Liquidity, several loans are now past due and are being renegotiated by the Company.

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

As of September 30, 2016, the Company had a negative net working capital of $1,447,264. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. significant accounting policies

Cash

Cash consists of cash in banks. In addition, the Company has bank Lines of Credit totaling $600,000. A line of credit in the amount of $350,000 is due on demand with an interest rate of prime plus 1%. The remaining $250,000 line of credit was issued at an interest rate of prime plus .75% with a term of 36 – 84 months. The collateral for these Lines of Credit is cash held in segregated accounts and appears on the balance sheet as an asset under "Restricted Cash". Borrowings against the lines of credit appear as a liability on the balance sheet and interest payments are expensed through the Profit and Loss Statement while the total asset of $600,000 remains unchanged. Also included under cash are the Company's interest bearing accounts at its banks, which are only funded if interest rates are favorable.

Accounts Receivable

The Company's accounts receivable consist of amounts due from customers operating in the food and beverage industry throughout the United States. Collateral is generally not required. Generally, the Company requests payment within 30 days. The Company does not have a history of significant uncollectible accounts. For the periods reported, the Company has performed a detailed review of the current status of the existing receivables and determined that an allowance for doubtful accounts is not necessary.

Property and Equipment

Office equipment and production equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives, generally five years. Depreciation expense for the nine months ended September 30, 2016 and 2015 was $91,353 and $97,083, respectively. As of September 30, 2016 and December 31, 2015, property and equipment consisted of the following:

	September 30 2016	*December 31 2015*
Production equipment	$ 3,336,268	$ 3,336,268
Office equipment	95,351	95,351
	3,431,619	3,431,619
Less accumulated depreciation and amortization	(3,201,794)	(3,110,441)
	$ 229,825	**$ 321,178**

Impairment of Long-Lived Assets

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

Patents

Costs to develop patents are expensed when incurred.

Revenue Recognition

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

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

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

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

Income Taxes

The Company uses the liability method in accounting for income taxes. Under this method,

deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We continue to maintain a full valuation allowance against any deferred tax assets due to the uncertainty of the utilization of any deferred tax asset.

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

authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. Any interest and penalties related to income tax matters is recognized as a component of operating expense.

Net Loss per Share

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

Reclassifications

Certain reclassifications to 2015 financial presentation have been made to conform to the 2016 presentation. These reclassifications did not affect previous reported net loss or total stockholders' deficit.

Stock-Based Compensation

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

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of accounts receivable, accounts payable and accrued expenses, bank term loan, and notes payable to stockholders. In management's opinion, the carrying amounts of these financial instruments approximated their fair value at September 30, 2016 and 2015.

Business Segments

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

Advertising

The Company expenses advertising costs as incurred. Advertising expenses totaled $479 for the period compared to $833 in the first nine months of 2015.

4. private placements of stock

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

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

In addition, the convertible provision was evaluated to determine if it was subject to a beneficial conversion feature ("BCF"). A BCF was concluded since the effective conversion price was below the per share fair value of the underlying stock into which it is convertible at the issue date. As a result, the Company originally recognized a discount from the BCF and a related credit to additional paid-in capital in the amount of $724,973, which will be amortized as a deemed dividend over one year, the redeemable period and is netted against the convertible, redeemable preferred stock in the balance sheet.

In connection with the preferred stock issuance, the Company also issued warrants to purchase an additional 5,000,000 shares of common stock. The warrants are deemed a derivative liability and will be measured at fair value at each reporting period (see Note 10). As a result, the Company recognized a contra convertible redeemable preferred stock discount for the warrants and a related credit to warrant liability in the original amount of $724,973. The discount will be amortized as a deemed dividend over one year, the redeemable period, and is netted against the convertible, mezzanine equity redeemable preferred stock in the balance sheet. The warrants will be measured at fair value at each reporting period with changes in fair value recorded in the income statement. Through September 30, 2016, a loss in the change in fair value of the warrants liability of $(343,112) was recorded as other expense.

During the fourth quarter of 2015 several individuals purchased a total of 733,332 shares of the Company's stock for an aggregate purchase price of $220,000 ($0.30 per share). Additionally, 454,703 shares were issued to convert loans valued at $136,411 ($0.30 per share) to common stock.

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

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

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

5. related party transactions

During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott's cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Partial loan repayments were made to Mr. Abbott in 2013 and 2016, bringing the aggregate principal balance of such loans down to $688,269. These loans are all due on demand. Mr. Abbott was paid $70,000 towards the interest due on these loans during the fourth quarter of 2015.

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

During the third quarter of 2014, a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015. A principal payment of $100,000 was made in September 2015 resulting in a principal balance as of September 30, 2016 of $100,000. The balance of this loan is due on demand.

Included in the accounts payable balance as of September 30, 2016 are payables owed to Mr. Abbott totaling $11,655.

6. income taxes

The Company's federal statutory income tax rate is approximately 35%. The Company is also subject to applicable state income taxes. As a result of operating losses at September 30, 2016 and losses incurred since inception, and due to uncertainties surrounding the ability of the Company to realize the tax benefits associated with these losses, there is no provision or benefit for income taxes in the accompanying financial statements. As of September 30, 2016, the Company had a net operating loss carryforward of approximately $27.2 million, which expire in 2018 through 2034. The Company has established a full valuation allowance against its net deferred tax assets (which consists primarily of net operating losses carryforward) as the Company's ability, to realize such assets, is predicated upon the Company achieving profitability. In addition, the use of net operating loss carryforwards may be limited as a result of ownership changes resulting from stock issuances.

7. stock-based compensation

Stock-Based Compensation Expense

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

Total compensation cost charged related to stock based compensation amounted to $149,528 and $258,641 for the nine months ended September 30, 2016 and 2015, respectively. No compensation cost related to share-based payment arrangements was capitalized as part of the cost of any asset at September 30, 2016 and December 31, 2015.

600,000 options were granted during the nine months ended September 30, 2016. The weighted average fair value of all options granted from inception is $0.35 as of September 30, 2016.

Stock Options Granted to Non-Employees

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

Stock Options

The Company has two stock option plans (the "Plans"). The 1998 Stock Option Plan (the "Participant Plan") provides for the granting of stock options to key employees, consultants or other persons ("Participants"). The objective of the Plans includes attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the Company by providing Participants the opportunity to acquire common stock.

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

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

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

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

At September 30th, 2016, warrants to purchase 4,916,962 shares of the Company's stock were outstanding at prices ranging from $0.20 to $0.80 per share. The weighted average warrant price as of September 30, 2016 was $0.61.

As of September 30th, 2016, there was unrecognized compensation expense of $801,248 remaining to be amortized through 2020 relating to all unvested stock awards.

8. concentration of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The deposits at a financial institution are guaranteed by the Federal Deposit Insurance Company (FDIC) up to $250,000. At various times during the year, the Company had deposits in excess of the FDIC limit. The Company had accounts receivable balances of $75,403 and $102,345 as of September 30, 2016 and December 31, 2015, respectively.

Sales for the nine months ended September 30th, 2016 and the year ended December 31st, 2015 include sales to one major customer, who accounts for 90% of the total sales of the Company for each of the respective periods.

9. notes payable

Notes payable consist of the following:

Greg Abbott, Chairman, has continued to invest in the Company. During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott's cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Partial payment of Mr. Abbott's 2012 and 2013 loans was made, bringing the aggregate principal balance of such loans down to $513,269. These loans are all due on demand.

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

During the third quarter of 2014, a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015. A principal payment of $100,000 was paid in September 2015 resulting in a principal balance as of September 30, 2016, of $100,000. The balance of this loan is due on demand

During the third quarter of 2015 the Company entered into agreements for bank lines of credit totaling $600,000. A line of credit in the amount of $350,000 is due on demand with an interest rate of prime plus 1%. The remaining $250,000 line of credit was issued at an interest rate of prime plus .75% with a term of 36 – 84 months. Subject to the lines of credit, the Company has pledged certain cash amounts as collateral with balances totaling $600,000 as of September 30, 2016. The balance of the lines of credit accounts is $600,000 as of September 30, 2016 and $587,721 as of December 31, 2015.

Interest expense on the above notes payable and all other obligations of the Company was $64,332 and $121,979 for the nine months ended September 30, 2016 and 2015, respectively.

10. fair value measurements

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

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

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

In connection with the issuance of convertible, redeemable preferred stock during the third quarter of 2015, the Company issued warrants to purchase an additional 5,000,000 shares of common stock. In accordance with ASC Topic 815, Derivatives and Hedging, the warrants are deemed a derivative liability and are measured at fair value on a recurring basis using the Black Scholes option pricing model, which is considered a Level 2 fair value measurement. This consideration is determined given that inputs used in the calculation, including common stock market value, exercise price, risk free interest rate and volatility are considered observable inputs. The Company has no financial assets and liabilities measured at fair value on a nonrecurring basis.

11. commitments & contingencies

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

12. subsequent events

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the financial statements were available to be issued. No subsequent events requiring disclosure were noted.

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