Aurora Algae, Inc.

Balance Sheet

December 31,	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,633,483	$ 297,135
Prepaid expenses and other current assets	83,802	145,492
Total current assets	**2,717,285**	**442,627**
Property and Equipment, net	467,576	7,159,548
Other Noncurrent Assets		
Intercompany receivables	53,617,721	59,504,598
Long-term deposits	24,200	99,200
Investment in subsidiary	5,909,308	5,909,308
	$ 62,736,090	**$ 73,115,281**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 181,604	$ 1,274,910
Accounts payable	44,920	300,235
Accrued liabilities	560,547	270,148
Total current liabilities	**787,071**	**1,845,293**
Other Noncurrent Liabilities		124,914
Total liabilities	**787,071**	**1,970,207**
Stockholders' Equity:		
Series A-1 convertible preferred stock, $0.001 par value — 91,000,056 shares authorized; 59,908,811 and 91,000,056 shares issued and outstanding for 2015 and 2014,respectively (aggregate liquidation value, $59,908,811)	59,634,286	90,358,574
Series A-2 convertible preferred stock, $0.001 par value — 50,066,417 shares authorized; 13,508,498 and 50,066,417 shares issued and outstanding for 2015 and 2014, respectively (aggregate liquidation value, $13,508,498)	13,508,498	50,066,417
Series B-1 convertible preferred stock, $0.001 par value — 51,000,000 shares authorized, none issued or outstanding		
Common stock, $0.001 par value — 216,000,000 shares authorized; 6,487,130 and 666,410 shares issued and outstanding for 2015 and 2014, respectively	6,487	666
Additional paid-in capital	6,893,652	1,134,885
Accumulated other comprehensive (loss) income	(237,159)	(237,159)
Accumulated deficit	(17,856,745)	(70,178,309)
Total stockholders' equity	**61,949,019**	**71,145,074**
	$ 62,736,090	**$ 73,115,281**

See accompanying notes to the financial statements

Statement of Operations and Comprehensive Income (Loss)

Years Ended December 31,	**2015**	**2014**
Revenues - Related party in 2014 (Note 2)	$ 6,700	$ 2,175,497
Operating Expenses:		
Research and development	1,889,922	12,224,024
General and administrative	2,126,415	3,003,371
Total operating expenses	**4,016,337**	**15,227,395**
Loss from Operations	**(4,009,637)**	**(13,051,898)**
Other Income (Expense):		
Interest and other income	999,445	1,783
Interest expense	(201,503)	(165,495)
Other expense	(5,896,926)	(183,412)
Total other income (expense)	**(5,098,984)**	**(347,124)**
Net Loss	**(9,108,621)**	**(13,399,022)**
Other Comprehensive Income (Loss):		
Foreign currency translation adjustments	-	-
Other comprehensive income (loss)	-	-
Net Loss	**$ (9,108,621)**	**$ (13,399,022)**

See accompanying notes to the financial statements

Statement of Cash Flows

Years Ended December 31,	**2015**
Cash Flows from Operating Activities:	
Net loss	$ (9,108,621)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:	
Depreciation and amortization	556,633
Stock-based compensation expense	12,568
Loss on disposal of assets	5,785,778
Gain on repurchase of long-term debt	(988,674)
Impairment of fixed assets	
Changes in assets and liabilities:	
Research and development credit receivable	
Prepaid expenses and other current assets	61,689
Accounts payable	(255,316)
Accrued liabilities	290,398
Deferred revenue	
Other noncurrent assets and noncurrent liabilities	(124,914)
Net cash provided (used) by operating activities	**(3,770,459)**
Cash Flows from Investing Activities:	
Property and equipment purchases	(17,235)
Proceed from asset disposal	366,797
Increase in restricted cash	75,000
Net cash provided (used) by investing activities	**424,562**
Cash Flows from Financing Activities:	
Issuance of long-term debt	3,651,592
Repayment of long-terrn debt	(3,756,225)
Repayment of intercompany debt	5,886,877
Proceeds from repurchase of preferred stock and purchase of long-term debt	1
Repurchase of employee preferred stock pursuant to separation agreement	(100,000)
Proceeds from issuance of common stock - net of repurchase	
Proceeds from bridge loan	
Proceeds from exercise of stock options	
Net cash used by financing activities	**5,682,245**
Foreign Currency Effect on Cash and Cash Equivalents	
Net Increase (Decrease) in Cash and Cash Equivalents	2,336,348
Cash and Cash Equivalents, Beginning of year	297,135
Cash and Cash Equivalents, End of year	**$ 2,633,483**
Noncash Investing and Financing Activities:	
Conversion of Series A-1 convertible preferred stock to common	$ 5,752,020
Supplemental Cash Flow Disclosure:	
Cash paid for taxes	$ 800
Cash paid for interest	$ 191,266

See accompanying notes to the financial statements

Statement of Stockholders' Equity

Year Ended December 31, 2015

	Series B-1 Convertible Preferred Stock		Series A-1 Convertible Preferred Stock		Series A-2 Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balances -												
December 31, 2014	-	-	91,000,056	90,358,574	50,066,417	50,066,417	666,410	666	1,134,886	(237,159)	(70,178,309)	71,145,075
Repurchase of Series A-1 and A-2 convertible preferred stock			(25,270,525)	(24,972,268)	(36,557,919)	(36,557,919)					61,530,187	-
Conversion of Series A-1 convertible preferred stock to common			(5,820,720)	(5,752,020)			5,820,720	5,821	5,746,199			-
Stock-based compensation expense:												
Nonemployee stock options									888			888
Employee stock options									11,680			11,680
Employee stock repurchase											(100,000)	(100,000)
Net loss											(9,108,621)	(9,108,621)
Currency translation adjustments	-											
Balances -												
December 31, 2015	-	$ -	59,908,811	$ 59,634,286	13,508,498	$ 13,508,498	6,487,130	$ 6,487	$ 6,893,653	$ (237,159)	$ (17,856,743)	$ 61,949,022

Notes To Financial Statements

Notes 1 - Organization and Description of Business:

Aurora Algae, Inc. (the "Company"), headquartered in Hayward, California, was incorporated on April 5, 2006, in the state of California, and reincorporated on December 16, 2006, in the state of Delaware. The Company formed a subsidiary in Mexico in 2008, and subsequently liquidated this subsidiary in 2010, when the Company formed a subsidiary in Australia to perform research and development activities. In November 2013, the Company decided to close its research activities in Australia. In 2013, the Company began research and development activities in Texas. In 2015 the Company laid-off its entire U.S. workforce, sold a majority of its property and equipment, and has taken preliminary steps to merge the activities of the Company with those of its remaining major stockholder.

The Company has been focusing on the development of high-performance premium algae-based products for the pharmaceutical, nutrition, aquaculture and fuels markets. The Company's activities since inception have consisted principally of acquiring technology rights, raising capital, establishing facilities, and performing research and development. The Company has been devoting substantially all of its efforts to establishing a new business and has not yet commenced its planned principal operations. Successful completion of the Company's development programs and, ultimately, the attainment of profitable operations are dependent on future events, including, among other things, the commercialization of its technology, its ability to access potential markets; secure financing, if needed; develop a customer base; attract, retain, and motivate qualified personnel; and develop strategic alliances. To date, the Company's activities have been funded by private equity and debt financings.

Note 2 - Basis of Presentation:

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Since inception, the Company has incurred cumulative net losses and negative cash flows from operations. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of recorded liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations on a timely basis, to obtain additional financing, and ultimately to attain profitability. Management is currently pursuing a potential merger with its remaining major stockholder.

Note 3 - Summary of Significant Accounting Policies:

a. Use of Estimates

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

b. Foreign Currency Translation

The functional currency of the Company's subsidiaries is the local currency. Accordingly, all assets and liabilities of the foreign operations are translated to U.S. dollars at current period-end exchange rates, and expenses are translated to U.S. dollars using average exchange rates in effect during the period.

c. Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. As of December 31, 2015 and 2014, cash and cash equivalents consist of cash deposits with high credit-quality financial institutions.

d. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company's cash equivalents consist of cash deposits. The Company has not

Notes To Financial Statements

experienced any losses in such accounts. The Company believes it is not exposed to significant credit risk related to cash and cash equivalents.

e. Property and Equipment, Net

Property and equipment are stated at cost or fair value as of the acquisition date, less accumulated depreciation. Depreciation is computed over the estimated useful lives of the respective assets, which range from three to 15 years, using the straight-line method. Repairs and maintenance costs are expensed as incurred. Upon disposition, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is reflected in the statements of operations. During 2015, the Company recorded a loss aggregating $5.8 million upon the sale of a significant portion of its property and equipment.

The Company periodically performs assessments of the useful lives of assets. In evaluating useful lives, the Company considers how long assets will be used, given levels of technology, competitive factors, and the economic environment. If the assessment indicates that the assets will be used for a shorter period than previously anticipated, the useful life of the assets is revised, resulting in a change in estimate. Changes in estimates are accounted for on a prospective basis by depreciating the assets' current carrying values over their revised remaining useful lives.

f. Long-Lived Assets

The Company reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Revenues - Related Party

The Company entered into an agreement with one of its investors in November 2012 to provide certain research and development activities to develop technology for algae-based biofuel. The agreement is for reimbursement of biofuel-related research and development costs and terminated in November 2014. The Company has recognized $2.2 million as revenues in the statement of operations and comprehensive income (loss) during 2014. No related party revenues were recognized during 2015.

g. Research and Development Costs

Research and development expenses consist of personnel costs, depreciation, including salaries, benefits and stock-based compensation, materials and supplies, licenses, and fees. The Company charges research and development costs to expense when incurred.

h. Income Taxes

The Company accounts for income taxes using the liability method whereby deferred tax asset and liability account balances 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. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

i. Stock-Based Compensation

Compensation costs related to all equity instruments granted are recognized at the grant-date fair value of the awards. Additionally, the Company is required to include an estimate of the number of awards that will be forfeited in calculating compensation costs, which are recognized over the requisite service period of the awards based on months vested. The Company estimates the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's statements of operations.

The Company uses the Black-Scholes option-pricing model as the method for determining the estimated fair value of stock options. The Black-Scholes model requires the use of highly subjective and complex assumptions that determine the fair value of share-based awards, including the option's expected term and the price and volatility of the underlying stock.

Notes To Financial Statements

Expected Term — The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding. As the Company does not have sufficient historical experience for determining the expected term of the stock option awards granted, the expected term has been estimated using the simplified method.

Expected Volatility — As the Company is privately held, there is no observable market for the Company's common stock. Accordingly, expected volatility is estimated using comparable public company volatility for similar terms.

Expected Dividend — The Black-Scholes valuation model calls for a single expected dividend yield as an input, and the Company has never paid dividends and has no plans to pay dividends.

Risk-Free Interest Rate — The risk-free interest rate used in the Black-Scholes valuation method is based on the average of the five-year and seven-year United States (U.S.) Treasury zero coupon issues in effect at the time of grant.

Estimated Forfeitures — The estimated forfeiture rate is determined based on the Company's historical forfeiture rates to date combined with management's anticipated future forfeited rates. The Company will monitor actual forfeitures and periodically update the estimate.

Equity instruments issued to non-employees are recorded at their fair value and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period.

j. Subsequent Events

The Company has evaluated subsequent events from December 31, 2015 through the date the financial statements were available to be issued. Except for the matters discussed in Notes 1 and 2, there were no other material subsequent events that required recognition or additional disclosure in these financial statements.

Notes To Financial Statements

Note 4 - Property and Equipment:

At December 31, 2015, property and equipment consist of the following:

	Depreciable Lives (in Years)		2015
Computers and software	3	$	7,056
Machinery and equipment	5 – 15		-
Motor vehicles	8		-
Furniture and fixtures	7		-
Leasehold and improvement	6		1,100,829
Land			149,034
Construction in process			
Accumulated depreciation			(789,343)
Property and equipment - net		**$**	**467,576**

At December 31, 2014, property and equipment consist of the following:

	Depreciable Lives (in Years)		2014
Computers and software	3	$	435,653
Machinery and equipment	5 – 15		4,865,235
Motor vehicles	8		50,563
Furniture and fixtures	7		180,783
Leasehold and improvement	6		1,099,339
Land			149,034
Construction in process			3,854,117
Accumulated depreciation			(3,475,175)
Property and equipment - net		**$**	**7,159,549**

Depreciation expense for the years ended December 31, 2015 and 2014, was $556,633 and $964,831, respectively.

Note 5 - Intangible Asset:

Intangible asset represents the land leases and related licenses acquired in 2010 and is amortized on a straight-line basis over its contractual lease term of 4.7 years. In March 2014, the land lease was sold. Through December 31, 2014, the intangible asset was sold/ fully amortized.

Notes To Financial Statements

Note 6 - Accrued Liabilities

At December 31, 2015 and 2014, accrued liabilities consist of the following:

		2015		2014
Deferred rent	$	337,209	$	81,626
Accrued compensation				122,693
Unvouchered goods and services		218,799		51,528
Other accrued expense		4,539		14,301
Accrued expenses	**$**	**560,547**	**$**	**270,148**

Note 7 - Commitments and Contingencies:

a. Leases

The Company leases office space, living accommodations, and equipment. Rent expense for the years ended December 31, 2015 and 2014, was $431,635 and $609,309, respectively.

As of December 31, 2015, the future minimum lease payments associated with the leases are as follows:

Year Ending December 31,		
2016	$	567,357
2017		139,352
Total minimum lease payments	**$**	**706,709**

Note 8 - Convertible Promissory Notes:

In June 2006, the Company issued convertible promissory notes to a group of individuals ("Holders") with an aggregate principal amount of $110,000 ("Notes"). The principal Notes and accrued interest (at a rate of 5% per annum) was converted into Series A shares at the purchase price of $0.22 per share in January 2007. In addition, the Holders were entitled to purchase one share of common stock for every $3.00 of principal loaned to the Company at a purchase price of $0.001 per share. The Holders of the notes did not exercise any terms of the conversion feature.

In July 2011, the Company issued a convertible promissory note to one of its investors with a principal amount of $2,999,304, with a stated interest rate of 5%. Also in July 2011, the promissory note was converted to 2,999,304 shares of Series A-1 preferred stock at conversion rate of $1.00 per share.

Note 9 - Long-Term Debt:

In October 2011, the Company entered into a $5 million loan agreement with a scheduled maturity date in May 2015 with a stated interest rate of 10.5%. Interest-only payments are due monthly beginning in November 2011 and principal payments are due monthly starting in May 2012. If a "Liquidation Event" (as defined in the Company's Certificate of Incorporation) occurs, the Company will owe a "success fee" to the debt holders. The amount of the success fee will vary based on the value of the Company in the Liquidation Event. Additionally, the lenders have the right to purchase up to an aggregate of 300,000 shares of the Company in the next equity financing on the same terms, conditions and pricing offered therein with certain exceptions. The loan is collateralized by substantially all of the assets of the Company (as defined in the agreement). The loan was paid in full during 2015.

During December 2014 the Company entered into unsecured note payable arrangements with two major stockholders. Each of the notes bear interest at 5% per annum, and had a scheduled maturity date of December 31, 2015. During 2015 the Company paid in full one of the notes to one of its major stockholders and purchased one of the notes, aggregating $988,673, from the other for $1.

As of December 31, 2015, there is no outstanding long-term debt.

Notes To Financial Statements

Note 10 - Convertible Preferred Stock:

In 2013, the Company amended and restated its certificate of incorporation to increase the total number of shares the Company is authorized to issue to 408,066,473, consisting of 216,000,000 shares of common stock, and 192,066,473 shares of preferred stock. The three series of preferred stock are: (1) Series A-1 preferred stock (91,000,056 shares); (2) Series A-2 preferred stock (50,066,417 shares); and (3) Series B-1 preferred stock (51,000,000 shares).

The Company issued 20 million, 16 million and 18 million Series A-1 preferred shares at $1.00 per share to existing investors in September 2012 and February 2013 and December 2013, respectively, under the series A-1 preferred stock agreement resulting in proceeds of $20 million, $16 million and $18 million (excluding related issuance costs), respectively. In April and July 2011, 8,943,090 shares of the Company's Series A-1 preferred stock were issued in two tranches at a purchase price of $1.00 per share. The Company subsequently issued 28,056,966 Series A-1 preferred stock at a purchase price of $1.00 per share to a new investor and currently existing investors in August and December 2011.

During 2011, eligible investors exchanged 22,727,267 shares of Series A preferred stock (on a 4.546 for one basis) and 106,810,844 shares of Series B preferred stock (on a 2.36 for one basis) for shares of the Company's Series A-2 preferred stock. All 581,212 outstanding shares of Series A and Series B preferred stock that were not exchanged for Series A-2 preferred stock automatically converted to 29,050 shares of common stock (reflecting the 1-for-20 reverse stock split). As these transactions were contemplated and executed together, the Company has accounted for them as a single transaction. In accordance with ASC 260-10-S99-2, the Company recorded the $72,484 difference between the fair value of the newly issued Series A-1 preferred stock and the carrying value of the Series A and Series B preferred stock immediately prior to the recapitalization as a decrease to additional paid in capital.

Significant terms of the preferred stock at December 31, 2015, were as follows:

Voting — Each holder of shares of the preferred stock shall be entitled to the number of votes equal to the number of shares of common stock into which such shares of preferred stock could be converted and have equal voting rights and powers of the common stock.

Dividend Rights — In any calendar year, the holders of outstanding shares of Series B-1 preferred stock shall be entitled to receive dividends, when, as and if declared by the Board of Directors, out of any assets at the time legally available therefor, cash dividends at the dividend rate specified for such shares payable in preference and priority to any declaration or distribution on Series A-1 preferred stock, Series A-2 preferred stock or common stock. Such dividends shall be noncumulative. No such dividends have been declared or paid since inception.

In any calendar year, the holders of outstanding shares of Series A-1 and Series A-2 preferred stock shall be entitled to receive cash dividends, when, as and if declared by the Board of Directors, out of any assets at the time legally available therefor, at the dividend rate specified for such shares of Series A-1 and A-2 preferred stock payable in preference and priority to any declaration or distribution on common stock of the Company. Such dividends shall be noncumulative. No such dividends have been declared or paid since inception.

Conversion — Holders of shares of preferred stock are entitled, at any time, to cause their shares to be converted into fully paid and non-assessable shares of common stock. At December 31, 2015, each share of Series A-1 and A-2 preferred stock was convertible into one share of common stock. Additionally, the preferred stock will automatically convert into shares of common stock (i) immediately prior to the closing of a firm commitment underwritten initial public offering, with aggregate gross proceeds to the Company of at least $50,000,000 and a per share price of at least $3.00, pursuant to an effective registration statement filed under the Securities Act of 1933, or (ii) upon the receipt by the corporation of a written request for such conversion from the holders of at least 60% of the preferred stock then outstanding in the event that any shares of Series B-1 preferred stock are already issued.

Liquidation — Upon any liquidation, dissolution, or winding-up of the Company, whether voluntary or involuntary ("Liquidation Event"), holders of the Series B-1 preferred stock are entitled to be paid, out of the assets of the Company legally available for distribution, or the consideration received in such transaction, for each share of preferred stock held by them, an amount equal to the original issuance price per share, plus all accrued or declared but unpaid dividends (appropriately adjusted for any stock dividend, stock split, or recapitalization). After payment to the holders of the Series B-1 preferred stock, before any distribution or payment is made to holders of common stock, holders of Series A-1 and A-2 preferred stock are entitled to be paid, out of the assets of the Company legally

Notes To Financial Statements

available for distribution, or the consideration received in such transaction, for each share of preferred stock held by them, an amount equal to the original issuance price per share, plus all accrued or declared but unpaid dividends. In the event that shares of Series B-1 preferred stock are not issued pursuant to the Series B-1 option, the entire remaining assets of the Company shall be distributed amongst the holders of the Series A-1 and A-2 preferred stock and common stock in proportion to the number of common stock held by them. After payment of the full liquidation preference of the preferred stock, the remaining assets of the Company, if any, shall be distributed ratably to the holders of the common stock. Notwithstanding the foregoing, the aggregate distributions made with respect to any share of preferred stock shall not exceed an amount equal to three times the applicable liquidation preference for that share of preferred stock, plus any declared or accrued but unpaid dividends. Holders of the Series A-1 and A-2 preferred stock are entitled to convert their preferred shares into shares of common stock immediately prior to a Liquidation Event if, as a result of such conversion, such holders would receive an aggregate amount greater than the amount that would be received by such holders if they did not convert their shares of preferred stock into shares of common stock.

Redemption — The preferred stock is not redeemable.

Note 11 - Common Stock:

At December 31, 2015, the Company is authorized to issue 216,000,000 shares of common stock. The Company has reserved the following shares of common stock for future issuance:

Conversion of Series A-1 convertible preferred stock	91,000,056
Conversion of Series A-2 convertible preferred stock	50,066,417
Conversion of Series B-1 convertible preferred stock	51,000,000
Common stock options outstanding	1,540,494
Common stock options available for future grant under stock option plans	16,500,925
Total	**210,107,892**

Note 12 - Stock Options:

a. Option Plan

The Company's 2006 Stock Option Plan (the "2006 Plan") was adopted by the board of directors in April 2006. The 2006 Plan permits the granting of incentive and non-statutory stock options and restricted stock purchase rights. In December 2010, the Company instituted an equity investment plan, The Aurora Algae, Inc. 2010 Share Plan (the "2010 Plan"), for the Company's Australia based employees, directors and consultants.

The Company grants options to purchase shares of common stock under the plans at no less than the fair market value of the underlying common stock as of the date of grant.

The plans do not allow the option holders to exercise their options prior to vesting without approval from the 2006 Plan administrator.

Options granted under the plans have a maximum term of 10 years and generally vest over four years at the rate of 25% of total shares. Selected grants vest immediately or over a shorter vesting period.

Notes To Financial Statements

The following table summarizes stock option activity for the Company during 2014 and 2015:

	Shares Available	Outstanding	Weighted-Average Price per Share	Weighted Average Remaining Contractual Life (Years)
Outstanding – December 31, 2013	4,686,568	13,442,998	$ 0.11	6.8
Options granted	(383,878)	383,878	0.10	
Exercised		(88,146)	0.07	
Canceled	8,342,468	(8,342,468)	0.11	
Outstanding – December 31, 2014	12,645,158	5,396,262		7.5
Options granted	-	-		
Exercised	-	-		
Canceled	3,855,768	(3,855,768)	0.11	
Outstanding – December 31, 2015	16,500,926	1,540,494		7.5
Options vested – December 31, 2015		1,540,494		
Options vested and expected to vest – December 31, 2015		1,540,494		

The grant date total fair value of options vested and recognized as stock-based compensation during the years ended December 31, 2015 and 2014 was $12,568 and $106,345, respectively.

The total intrinsic value of options exercised was insignificant in all periods presented. As of December 31, 2015, the aggregate intrinsic value of the stock options outstanding expected to vest over an average period of four years was insignificant.

As of December 31, 2015 and 2014, total compensation cost related to unvested stock options not yet recognized was $0 and $50,640, respectively.

The assumptions used in the Black-Scholes option-pricing model for the years ended December 31, 2015 and December 31, 2014, were as follows:

	2015	**2014**
Expected volatility	61%	61%
Dividend yield	-	-
Risk-free interest rate	6.25%	6.25%
Expected term (years)	5.5-6.25	5.5 – 6.25

Note 13 - Employee Benefit Program:

The Company has established a 401(k) plan (the “401(k) Plan”) that permits participants to make contributions by salary deduction pursuant to Section 401(k) of the Internal Revenue Code (IRC). The Company has made no contributions to the 401(k) Plan since its inception.

Note 14- Income Taxes:

Due to the Company’s net losses, no provision or benefit for income taxes has been recorded in any period presented.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (b) operating losses and tax credit carryforwards.

Notes To Financial Statements

The gain (loss) before income taxes are as follows:

Domestic	$	(9,108,623)

The significant components of the Company's deferred tax assets as of December 31, 2015 are as follows:

Deferred tax assets:		
Net operating loss carryforwards	$	29,934,093
Research credits		2,489,850
Other		103,893
Total deferred tax assets		32,527,836
Valuation allowance		(32,527,836)
Net deferred tax assets	$	-

The tax benefit of net operating losses, temporary differences, and credit carryforwards is recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carry-forward period. Because of the Company's history of operating losses since inception, management believes that the deferred tax assets arising from the above-mentioned future tax benefits are currently not likely to be realized and, accordingly, has provided a full valuation allowance. The net valuation allowance increased by $3,490,244 during the year ended December 31, 2015.

Net operating losses and tax credit carryforwards as of December 31, 2015, are as follows:

		Amount	Expire in
Net operating losses - federal	$	76,596,480	2026-2035
Net operating losses – state		66,695,627	2016-2035
Tax credits – federal		1,516,334	2027-2035
Tax credits - state		1,475,024	No expiration

Utilization of the net operating loss carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code (IRC) of 1986, as amended, and similar state provisions. The Company has not performed an analysis to determine whether an ownership change under Section 382 of the IRC has occurred. The effect of an ownership change would be the imposition of an annual limitation on the use of net operating loss carryforwards attributable to periods before the change.

As of December 31, 2015, the Company has unrecognized tax benefits that do not affect the effective tax rate as the tax benefits create a deferred tax asset, which is currently fully offset with a full valuation allowance. However, due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of uncertain tax positions may result in liabilities which could be materially different from this estimate. In such an event, the Company will record additional tax expense or benefit in the period in which such resolution occurs.

The Company's policy is to recognize any interest and penalties that might be incurred related to tax positions as a component of income tax expense. As of December 31, 2015, the Company did not accrue any potential interest and penalties related to unrecognized tax benefits.

The Company does not believe it is reasonably possible the unrecognized tax benefits will significantly change within the next twelve months for tax positions taken, or to be taken, for periods through December 31, 2015.

The Company files income tax returns in the United States. Tax years 2009 through 2015 remain subject to examination for federal and state purposes.

Notes To Financial Statements

Note 16 - Legal Actions:

The company is involved in other legal actions arising in the ordinary course of business. In the opinion of management, the Company has adequate legal defenses with respect to each of these other actions and does not believe that they will materially affect the Company's results of operations or financial position. Due to the uncertainties in the litigation process, it is at least reasonably possible that the estimated costs of these legal actions will change within the next year.