

GeoOrbital, Inc.
A Delaware Corporation

Financial Statements (Unaudited) and Independent Accountant's Review Report
December 31, 2017 and 2016

GeoOrbital, Inc.

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To the Stockholders of
GeoOrbital, Inc.
Cambridge, Massachusetts

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying financial statements of GeoOrbital, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Going Concern

As discussed in Note 3, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

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GEOORBITAL, INC.
BALANCE SHEETS (UNAUDITED)
As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 103,311	\$ 407,725
Escrow receivable and holdbacks	170,922	-
Inventory	379,558	836,287
Total Current Assets	<u>653,791</u>	<u>1,244,012</u>
Non-Current Assets:		
Deposits	5,500	-
Total Non-Current Assets	<u>5,500</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 659,291</u>	<u>\$ 1,244,012</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 130,943	\$ 35,055
Accrued expenses	69,933	-
Deferred revenue	-	1,381,540
Royalty liability	-	5,000
Inventory loan	229,000	-
Convertible notes payable, current portion	715,000	150,000
Accrued interest on convertible notes payable	62,606	9,315
Total Current Liabilities	<u>1,207,482</u>	<u>1,580,910</u>
Long-Term Liabilities:		
Convertible notes payable, net of current portion	805,838	170,000
Total Long-Term Liabilities	<u>805,838</u>	<u>170,000</u>
Total Liabilities	<u>2,013,320</u>	<u>1,750,910</u>
Stockholders' Equity (Deficit):		
Common stock, \$0.0001 par, 1,350,000 shares authorized, 928,725 and 928,725 shares issued and outstanding, 908,325 and 831,202 shares vested, as of December 31, 2017 and 2016, all respectively	93	93
Additional paid-in capital	44,890	26,861
Accumulated deficit	<u>(1,399,012)</u>	<u>(533,852)</u>
Total Stockholders' Equity (Deficit)	<u>(1,354,029)</u>	<u>(506,898)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 659,291</u>	<u>\$ 1,244,012</u>

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

GEOORBITAL, INC.
STATEMENTS OF OPERATIONS (UNAUDITED)
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net revenues	\$ 2,078,928	\$ 36,764
Cost of net revenues	<u>(2,050,681)</u>	<u>(27,902)</u>
Gross profit	<u>28,247</u>	<u>8,862</u>
Operating Expenses:		
Sales and marketing	317,495	194,333
General and administrative	381,533	196,189
Research and development	<u>106,738</u>	<u>60,581</u>
Total Operating Expenses	<u>805,766</u>	<u>451,103</u>
Loss from operations	(777,519)	(442,241)
Other Income/(Expenses):		
Interest income	17	-
Interest expense	<u>(87,658)</u>	<u>(11,415)</u>
Total Other Income/(Expenses)	<u>(87,641)</u>	<u>(11,415)</u>
Net Loss	<u>\$ (865,160)</u>	<u>\$ (453,656)</u>

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

GEOORBITAL, INC.**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)**

For the years ended December 31, 2017 and 2016

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Number of Shares</u>	<u>Amount</u>			
Balance at December 31, 2015	901,075	\$ 90	\$ 8,862	\$ (80,196)	\$ (71,244)
Issuance to common stock	27,650	3	-	-	3
Stock based compensation	-	-	17,999	-	17,999
Net loss	-	-	-	(453,656)	(453,656)
Balance at December 31, 2016	928,725	93	26,861	(533,852)	(506,898)
Stock based compensation	-	-	18,029	-	18,029
Net loss	-	-	-	(865,160)	(865,160)
Balance at December 31, 2017	928,725	\$ 93	\$ 44,890	\$ (1,399,012)	\$ (1,354,029)

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

GEOORBITAL, INC.
STATEMENTS OF CASH FLOWS (UNAUDITED)
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Net Loss	\$ (865,160)	\$ (453,656)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock compensation expense	18,029	17,999
Loan fee discount amortization	14,165	-
Changes in operating assets and liabilities:		
Change in inventory	456,729	(836,287)
Change in deposits	(5,500)	-
Change in accounts payables	95,888	5,055
Change in accrued expenses	69,933	-
Change in deferred revenue	(1,381,540)	1,363,238
Change in accrued interest payable	53,291	9,315
Net Cash Provided By/(Used In) Operating Activities	<u>(1,544,165)</u>	<u>105,664</u>
Cash Flows from Financing Activities		
Proceeds from issuance of inventory loan	229,000	-
Proceeds from issuance of convertible notes payable	1,015,751	320,000
Repayments on convertible notes payable	-	(20,000)
Repayment of royalty liability	(5,000)	-
Proceeds from issuance of common stock	-	3
Net Cash Provided By Financing Activities	<u>1,239,751</u>	<u>300,003</u>
Net Change In Cash	(304,414)	405,667
Cash at Beginning of Period	407,725	2,058
Cash at End of Period	<u>\$ 103,311</u>	<u>\$ 407,725</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 20,202	\$ 2,100
Cash paid for income taxes	\$ -	\$ -
Supplemental Disclosure of Non-Cash Financing:		
Loan bonuses to investors	\$ 54,250	\$ -

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

GEOORBITAL, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
As of December 31, 2017 and 2016 and for the years then ended

NOTE 1: NATURE OF OPERATIONS

GeoOrbital, Inc. (the “Company”), is a corporation organized August 7, 2014 under the laws of Delaware. The Company develops, manufactures, markets, and sells self-contained electric bicycle wheels.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP).

The Company adopted the calendar year as its basis of reporting.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

As of December 31, 2017, the Company remains an early stage company requiring substantial growth to generate profitability. The Company is dependent upon additional capital resources to achieve such, and is subject to significant risks and uncertainties; including failing to secure funding to operationalize the Company’s plans or failing to profitably operate the business.

Cash Equivalents and Concentration of Cash Balance

The Company considers all highly liquid securities with an original maturity of less than three months to be cash equivalents. The Company’s cash and cash equivalents in bank deposit accounts, at times, may exceed federally insured limits. As of December 31, 2017 and 2016, the Company’s cash balances exceeded FDIC insured limits by \$0 and \$157,725, respectively. The escrow balances consist of escrowed investments and reserves for holdbacks held by the Company’s escrow agent.

Inventory

Inventory is stated at the lower of cost or market and accounted for using the weighted average cost method. The inventory balances as of December 31, 2017 and 2016 consist of the finished goods.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are carried at their estimated collectible amounts. Accounts receivable are periodically evaluated for collectability based on past credit history with clients and other factors. Provisions for losses on accounts receivable are determined on the basis of loss experience, known and inherent risk in the account balance, and current economic conditions. As of December 31, 2017 and 2016, the Company carried no receivables or associated allowances on such.

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Property and Equipment

Property and equipment are recorded at cost when purchased. Depreciation is recorded for property and equipment using the straight-line method over the estimated useful lives of assets. The Company reviews the recoverability of all long-lived assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. As of December 31, 2017 and 2016, the Company carried no property and equipment.

Fair Value of Financial Instruments

Financial Accounting Standards Board (“FASB”) guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (e.g., quoted prices of similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active).

Level 3 - Unobservable inputs for the asset or liability. Financial instruments are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable.

The carrying amounts reported in the balance sheets approximate their fair value.

Revenue Recognition

The Company recognizes revenue when: (1) persuasive evidence exists of an arrangement with the customer reflecting the terms and conditions under which products or services will be provided; (2) delivery has occurred or services have been provided; (3) the fee is fixed or determinable; and (4) collection is reasonably assured. The Company typically collects revenue upon sale and recognizes the revenue when the item has shipped.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation*. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period, which is generally the option vesting

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period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options.

Research and Development

Research and development costs are expensed as incurred, with such expenses totaling \$106,738 and \$60,851 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal income taxes on the Company's taxable income.

In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements.

NOTE 3: GOING CONCERN

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. The Company is a business that has not yet generated profits, has sustained net losses of \$865,160 and \$453,656 during the years ended December 31, 2017 and 2016, respectively, and current liabilities exceed current assets by \$553,691 as of December 31, 2017.

The Company's ability to continue as a going concern in the next twelve months following the date the financial statements were available to be issued is dependent upon its ability to produce revenues and/or obtain financing sufficient to meet current and future obligations and deploy such to produce profitable operating results. Management has evaluated these conditions and plans to generate revenues and raise capital as needed to satisfy its capital needs. No assurance can be given that the Company will be successful in these efforts.

These factors, among others, raise substantial doubt about the ability of the Company to continue as a going concern for a reasonable period of time. The 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.

NOTE 4: DEFERRED REVENUE

In 2016, the Company ran a pre-sales campaign on Kickstarter, which raised \$1,261,221 in gross pledges. The remaining Kickstarter balance after standard Kickstarter fees, dropped pledges, refunds, and \$36,764 of revenue recognition was \$1,054,129 as of December 31, 2016. The

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Company accepted additional pre-orders, outside of Kickstarter, during 2015 and 2016 and began shipping units and recognizing revenue on such in December 2016. With both Kickstarter and other pre-order sales, the deferred revenue balances was \$1,381,540 as of December 31, 2016. All pre-sales were fulfilled in 2017 and recognized to revenues.

NOTE 5: ROYALTY, NOTE, AND WARRANT AGREEMENT

On November 24, 2014, the Company entered into a royalty and warrant agreement with a third party, in which the Company received a \$5,000 loan, and in return the Company is to pay a \$50 royalty for each GeoOrbital wheel sold, beginning with the 51st wheel sold, plus 10% of the Company's gross license revenues from whatever source derived. The term of the loan shall be terminated upon payment of at least \$20,000 in royalty payments. No royalty expenses was incurred through December 31, 2016, while the full \$20,000 of royalty repayments were triggered and paid in 2017, relieving this liability and all future obligations under this agreement. The associated warrant is discussed in Note 8.

NOTE 6: NOTES PAYABLE

Manufacturing Credit

In January 2017, the Company entered into a manufacturing agreement with a contract manufacturer. As part of the terms of this contract, the Company was extended payment terms which provide for deferred payment on 75% of the total manufacturing charges, up to \$1,875,000, which can be deferred for 120 days after completion and shipment of the products without penalty. The agreement is effective through December 31, 2018, unless terminated earlier by either party under the agreement terms. The amount due under this arrangement was \$229,000 as of December 31, 2017.

Convertible Notes

In 2014 and 2015, the Company issued convertible notes payable for total principal of \$20,000. The notes were outstanding in their full principal amount of \$20,000 as of December 31, 2015 and were repaid in full in 2016 via cash payment.

During 2016, the Company issued twenty-six convertible notes for total principal of \$320,000. Twenty of the notes (the "2016 Round 1 Notes"), totaling \$150,000 principal, mature after twenty months on September 28, 2017, and bear interest at 7%. Six of the notes (the "2016 Round 2 Notes"), totaling \$170,000 principal, mature after twenty-four months on December 14, 2018 and bear interest at 5%. No payments are required until maturity. The convertible notes payable are subject to automatic conversion upon the next qualified equity financing (as defined in the note agreements) of at least \$1,000,000 for the 2016 Round 1 Notes or \$2,500,000 for the 2016 Round 2 Notes, at a price per share equal to the lesser of 80% of the per share price paid by the investors in the triggering financing or the price per share implied by a pre-money valuation (\$2,000,000 for the 2016 Round 1 Notes, \$4,850,000 for the 2016 Round 2 Notes) on the Company's fully diluted capitalization. If there is no qualified equity financing prior to maturity, at the noteholders' election, the outstanding principal balance and any unpaid accrued interest on the notes may be converted into shares of common stock at a conversion price implied by a pre-money valuation (\$2,000,000 for

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the 2016 Round 1 Notes, \$4,850,000 for the 2016 Round 2 Notes) on the Company's fully diluted capitalization.

During 2017, the Company has issued \$395,000 of convertible promissory notes. The convertible notes bear interest at 5%, mature in December 2018, and are convertible upon the next qualified equity financing of at least \$2,500,000 at a price per share equal to the lesser of 80% of the per share price paid by the investors in the triggering financing or the price per share implied by a \$4,850,000 valuation on the Company's fully diluted capitalization. If there is no qualified equity financing prior to maturity, at the noteholders' election, the outstanding principal balance and any unpaid accrued interest on the notes may be converted into shares of common stock at a conversion price implied by a \$4,850,000 valuation on the Company's fully diluted capitalization.

As of December 31, 2017, all 2016 and 2017 convertible notes have not yet been converted and remained outstanding in the full principal amounts. \$150,000 of the 2016 convertible note issuances matured on September 28, 2017 and were not repaid or converted, and are therefore in default as of December 31, 2017. As of December 31, 2017 and 2016, the outstanding principal balance on convertible notes totaled \$715,000 and \$320,000, respectively. All outstanding convertible notes are either past maturity or due in 2018.

Interest expense of \$37,928 and \$9,315 was recognized on the convertible notes for the years ended December 31, 2017 and 2016, respectively, which is all unpaid and included in accrued interest payable as of December 31, 2017 and 2016 in the amounts of \$47,243 and \$9,315, respectively.

The Company analyzed the notes for beneficial conversion features, and concluded the conversion terms did not constitute beneficial conversion features.

Convertible Notes – Reg CF

During 2017, the Company has issued \$822,639 of convertible promissory notes in a Regulation Crowdfunding offering. The convertible notes bear interest at 5%, mature on July 31, 2020, and are convertible upon the next qualified equity financing of at least \$7,000,000 (inclusive of conversion of these and any other convertible debts) at a price per share equal to the lesser of 80% of the per share price paid by the investors in the triggering financing or the price per share implied by a \$10,000,000 valuation on the Company's fully diluted capitalization. If there is no qualified equity financing prior to maturity, at the election of the majority of outstanding noteholders weighted by outstanding principal and interest balances, the outstanding principal balance and any unpaid accrued interest on the notes may be converted into shares of common stock at a conversion price implied by a \$10,000,000 valuation on the Company's fully diluted capitalization. If the Company is sold prior to conversion or maturity, the outstanding principal and interest on these notes is repayable at two times then outstanding principal and interest. No payments of principal nor interest are due on these notes until maturity in 2020. Interest expense incurred for the year ended December 31, 2017 and accrued as of December 31, 2017 was \$15,363.

Fees incurred in conjunction with the issuance of these notes totaled \$30,966. Of such fees, \$5,147 were amortized to interest expense during the year ended December 31, 2017. Additionally, the offering terms called for bonus principal balances to be provided to investors who invested amounts exceeding thresholds of \$1,000-\$50,000, providing bonus principal amounts of \$100-\$7,000

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dependent upon the amount invested. The total bonus principal issued in 2017 was \$54,250. The Company recorded a discount to the note's carrying balances for the amount of this discount, and is amortizing such over the life of the loans. Amortization of the bonus loans totaled \$9,018 for the year ended December 31, 2017. The resulting unamortized loan fees of \$25,819 and unamortized discount on bonus loans of \$45,232 are netted against the outstanding principal balance of \$876,889, for a carrying balance of \$805,838 as of December 31, 2017. The unamortized loan fees will be recognized to interest expense over the life of the loans.

The Company analyzed the notes for beneficial conversion features, and concluded the conversion terms did not constitute beneficial conversion features.

NOTE 7: STOCKHOLDERS' EQUITY (DEFICIT)

The Company has authorized 1,350,000 shares of \$0.0001 par value common stock. As of each December 31, 2017 and 2016, 928,725 shares were issued and outstanding.

For the years ended December 31, 2017 and 2016, 0 and 27,650 shares were issued at \$0.0001 per share, respectively. Certain stock issuances were conducted under the terms of restricted stock purchase agreements and are subject to multiple vesting terms contingent upon continuous service with the Company, which provide the Company the right to repurchase unvested shares at the original purchase price. As of December 31, 2017 and 2016, 908,325 and 831,202 of the shares had vested, respectively.

NOTE 8: SHARE-BASED PAYMENTS

Warrant Issuance

In 2014, in conjunction with the loan and royalty agreement discussed at Note 5, the Company issued a warrant for the purchase of 15,000 shares of the Company's common stock. The initial exercise price for the warrant is \$2.50 per share, which is subject to downward adjustment in the event royalty payments are not made in accordance with payment terms (as defined in the royalty and warrant agreement). The number of shares and warrant price are subject to certain dilution protections, including adjustment for any stock splits or stock dividends. The Company estimated that the fair value of the warrants was trivial based on its estimate of the fair value of the Company's common stock at the issuance date.

Stock Plan

The Company has adopted the 2016 Stock Incentive Plan, as amended and restated (the "Plan"), which provides for the grant of shares of stock options to employees. Under the Plan, the number of shares reserved for grant was 400,000 shares as of December 31, 2017 and 2016. The option exercise price generally may not be less than the underlying stock's fair market value at the date of the grant and generally have a term of ten years. Stock options comprise all of the awards granted since the Plan's inception. Shares available for grant under the Plan amounted to 265,100 and 233,800 as of December 31, 2017 and 2016, respectively.

A summary of information related to stock options for the years ended December 31, 2017 and 2016 is as follows:

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GEOORBITAL, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
As of December 31, 2017 and 2016 and for the years then ended

	December 31, 2017		December 31, 2016	
	Options	Average Exercise Price	Options	Average Exercise Price
Outstanding - beginning of year	166,200	\$ 2.00	-	\$ -
Granted	27,500	\$ 4.85	166,200	\$ 2.00
Exercised	-	\$ -	-	\$ -
Forfeited	(58,800)	\$ 2.71	-	\$ -
Outstanding - end of year	134,900	\$ 2.00	166,200	\$ 2.00
Exercisable at end of year	58,878	\$ 2.07	21,100	\$ 2.00
Weighted average grant date fair value of options granted during year	\$ 2.19		\$ 0.50	
Weighted average duration to expiration of outstanding options at year-end	8.5		9.5	

The Company measures employee stock-based awards at grant-date fair value and recognizes employee compensation expense on a straight-line basis over the vesting period of the award. Determining the appropriate fair value of stock-based awards requires the input of subjective assumptions, including the fair value of the Company's common stock, and for stock options, the expected life of the option, and expected stock price volatility. The Company used the Black-Scholes option pricing model to value its stock option awards. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards.

The expected life of stock options was estimated using the "simplified method," which is the midpoint between the vesting start date and the end of the contractual term, as the Company has limited historical information to develop reasonable expectations about future exercise patterns and employment duration for its stock options grants. The simplified method is based on the average of the vesting tranches and the contractual life of each grant. For stock price volatility, the Company uses comparable public companies as a basis for its expected volatility to calculate the fair value of options grants. The risk-free interest rate is based on U.S. Treasury notes with a term approximating the expected life of the option. The estimation of the number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts are recognized as an adjustment in the period in which estimates are revised. The assumptions utilized for option grants during the years ended December 31, 2017 and 2016 is as follows:

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	<u>2017</u>	<u>2016</u>
Risk Free Interest Rate	1.90%	1.00%
Dividend Yield	0.00%	0.00%
Estimated Volatility	50.00%	50.00%
Expected Life (years)	5.00	5.00
Fair Value per Stock Option	\$ 2.190	\$ 0.497

Stock-based compensation expense of \$18,029 and \$17,999 was recognized under FASB ASC 718 for the years ended December 31, 2017 and 2016, respectively. Total unrecognized compensation cost related to stock option awards amounted to \$53,041 as of December 31, 2017 and will be recognized over a weighted average period of 34 months.

NOTE 9: LEASE OBLIGATIONS

In November 2017, the Company entered into a sublease agreement for office space. The lease term commenced December 1, 2017 and ends November 30, 2019. Monthly rent is \$5,500 per month for the first 12 months, then \$5,750 per month for months 13-24. The Company paid a \$5,500 deposit on this lease and incurred \$5,500 of rent expense for the year ended December 31, 2017. Future minimum payments under this lease are \$66,250 for 2018 and \$63,250 for 2019.

NOTE 10: CONTINGENCIES

While the Company is not aware of any at this time, the Company may become subject to legal proceedings and regulatory actions in the ordinary course of business.

NOTE 11: RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606). This ASU supersedes the previous revenue recognition requirements in ASC Topic 605—Revenue Recognition and most industry-specific guidance throughout the ASC. The core principle within this ASU is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services.

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers", which deferred the effective date for ASU 2014-09 by one year to fiscal years beginning after December 15, 2017, while providing the option to early adopt for fiscal years beginning after December 15, 2016. Transition methods under ASU 2014-09 must be through either (i) retrospective application to each prior reporting period presented, or (ii) retrospective application with a cumulative effect adjustment at the date of initial application. We are continuing to evaluate the impact of this new standard on our financial reporting and disclosures, including but not limited to a review of accounting policies, internal controls and processes. We expect to complete our evaluation in the second half of 2017 and intend to adopt the new standard effective January 1, 2018.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments when the terms of an award

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provide that a performance target could be achieved after the requisite service period,” (“ASU 2014-12”). Current U.S. GAAP does not contain explicit guidance on whether to treat a performance target that could be achieved after the requisite service period as a performance condition that affects vesting or as a nonvesting condition that affects the grant-date fair value of an award. The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. The updated guidance will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The adoption of this ASU did not have any impact on the Company's consolidated financial position, liquidity, or results of operations.

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. The ASU is effective for annual and interim periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are continuing to evaluate the impact of this new standard on our financial reporting and disclosures.

In July 2014, the FASB issued the ASU No. 2015-11 on “Inventory (Topic 330): Simplifying the Measurement of Inventory”, which proposed that inventory should be measured at the lower of cost and the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. These amendments are based on existing guidance that requires measuring inventory at the lower of cost or market to consider the replacement cost of inventory less an approximately normal profit margin along with net value in determining the market value. It is effective for reporting periods beginning after December 15, 2016. Management is assessing the impact of this pronouncement on our financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows" (Topic 230). This ASU is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017. We do not believe the adoption of ASU 2016-15 will have a material impact on our financial position, results of operations or cash flows.

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No.2015-17, “Balance Sheet Classification of Deferred Taxes”. The new guidance eliminates the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts. The amendments will require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those annual periods. The Company is in the process of evaluating this guidance.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, we will adopt those that are applicable under the circumstances.

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NOTE 12: SUBSEQUENT EVENTS

Management's Evaluation

Management has evaluated subsequent events through May 7, 2018, the date the financial statements were available to be issued. Based on this evaluation, no additional material events were identified which require adjustment or disclosure in these financial statements.