AURORA ALGAE, INC.

Financial Statements

For the year ended 31 December 2016

Independent Auditors' Report

THE BOARD OF DIRECTORS
AURORA ALGAE, INC.
Hayward, California

Report on the Financial Statements

We have audited the accompanying financial statements of **AURORA ALGAE, INC. (the Company),** which comprise the balance sheet as of December 31, 2016, and the related statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's operating losses raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Parent-Only Financial Statements

As discussed in Note 2 to the financial statements, the accompanying financial statements are those of Aurora Algae, Inc. (parent company) only and are not those of the primary reporting entity. The consolidated financial statements of Aurora Algae, Inc. (parent company) and Subsidiaries have been issued to the board of directors as the general purpose financial statements of the reporting entity and should be read in conjunction with the parent-only financial statements. Our opinion is not modified with respect to this matter.

Hood & Strong LLP

San Francisco, California

March 24, 2017

Balance Sheet (Parent-Only)

December 31,	*In USD* 2016
Assets	
Current Assets:	
Cash and cash equivalents	1,401,419
Receivable from subsidiary	52,506,463
Receivable from affiliate	1,500,000
Prepaid expenses and other current assets	36,878
Total current assets	55,444,760
Investment in Subsidiary	5,909,308
Property and Equipment, net	191,454
Other Noncurrent Assets	24,200
	61,569,722
Liabilities and Shareholders' Equity	
Current Liabilities:	
Accounts payable	8,349
Accrued liabilities	832,540
Total current liabilities	840,889
Other Noncurrent Liabilities	
Total liabilities	840,889
Stockholders' Equity:	
Series A-1 convertible preferred stock, $0.001 par value — 59,202,967 shares authorized, issued and outstanding (aggregate liquidation value, $59,202,967)	58,928,442
Series A-2 convertible preferred stock, $0.001 par value — 10,722,043 shares authorized, issued and outstanding (aggregate liquidation value, $10,722,043)	10,722,043
Common stock, $0.001 par value — 75,763,427 shares authorized; 5,838,417 shares issued and outstanding	5,838
Additional paid-in capital	10,386,600
Accumulated other comprehensive (loss) income	(237,159)
Accumulated deficit	(19,076,931)
Total stockholders' equity	60,728,833
	61,569,722

See accompanying notes to the financial statements.

Statement of Operations and Comprehensive Income (Loss) (Parent-Only)

Year Ended December 31,	*In USD* 2016
Revenues	**-**
Operating Expenses:	
Research and development	285,750
General and administrative	836,984
Total operating expenses	1,122,734
Loss from Operations	(1,122,734)
Other Income (Expense):	
Interest and other income	20,250
Interest expense	-
Other expense	(117,702)
Total other income (expense)	(97,452)
Net Loss	(1,220,186)
Other Comprehensive Income (Loss):	
Foreign currency translation adjustments	-
Other comprehensive income (loss)	-
Net Loss	(1,220,186)

See accompanying notes to the financial statements.

Statement of Stockholders' Equity (Parent-Only)

Year Ended December 31, 2016

	Series A-1 Convertible Preferred Stock		Series A-2 Convertible Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
Balances - December 31, 2015	59,908,811	$ 59,634,286	13,508,498	$ 13,508,498	6,487,130	$ 6,487	$ 6,893,652	$ (237,159)	$ (17,856,745)	$ 61,949,019
Repurchase of Series A-1 and A-2										
convertible preferred stock	(11,764)	(11,764)	(49,999)	(49,999)			61,763			
Cancellation of Series A-1 and A-2										
convertible preferred stock	(694,080)	(694,080)	(2,736,456)	(2,736,456)			3,430,536			
Cancellation of Common Stock					(648,713)	(649)	649			
Net loss									(1,220,186)	(1,220,186)
Currency translation adjustments										
Balances - December 31, 2016	59,202,967	$ 58,928,442	10,722,043	$ 10,722,043	5,838,417	$ 5,838	$ 10,386,600	$ (237,159)	$ (19,076,931)	$ 60,728,833

See accompanying notes to the financial statements.

Statement of Cash Flows (Parent-Only)

Years Ended December 31,	*In USD* 2016
Cash Flows from Operating Activities:	
Net loss	(1,220,186)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization	127,089
Loss on disposal of assets	23,823
Changes in assets and liabilities:	
Receivable from subsidiary	929,655
Receivable from affiliate	(1,500,000)
Prepaid expenses and other current assets	46,925
Accounts payable	(36,573)
Accrued liabilities	271,993
Other noncurrent assets and noncurrent liabilities	-
Net cash used by operating activities	(1,357,274)
Cash Flows from Investing Activities:	
Proceed from asset disposal	125,210
Net cash provided by investing activities	125,210
Net Decrease in Cash and Cash Equivalents	(1,232,064)
Cash and Cash Equivalents, Beginning of year	2,633,483
Cash and Cash Equivalents, End of year	1,401,419
Noncash Investing and Financing Activities:	
Cancellation of Series A-1 convertible preferred stock	(694,080)
Cancellation of Series A-2 convertible preferred stock	(2,736,456)
Supplemental Cash Flow Disclosure:	
Cash paid for taxes	800
Cash paid for interest	-

See accompanying notes to the financial statements.

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. In 2016, the major stockholder of Aurora acquired 100% ownership through a reverse triangular merger. The Company was the surviving corporation after the merger and continues to be a separate entity.

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. Going forward, the Company expects funding for shortfalls, if any, from its parent company.

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 of $19,076,931 and net 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. The Company plans to maintain its limited operations by further reducing its expenses and expects its parent company to fund any shortfalls so that it may continue assessing the financial value of keeping the Company as a going concern.

As required by Indian authorities, the ultimate parent company (Reliance Industries Limited) of Aurora Algae, Inc. is required to file standalone financial statements of its (globally active) subsidiaries. The standalone financial statements of Aurora Algae, Inc. should be read in conjunction with the general purpose financial statements of the consolidated entity.

Note 3 - Summary of Significant Accounting Policies:

a. Use of Estimates

The preparation of 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 is the local currency. Any gains or losses from foreign currency transactions of the subsidiaries' financial statements are recorded directly into a separate component of stockholders' equity under the caption "accumulated other comprehensive income."

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, 2016, 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

Notes To Financial Statements

cash equivalents. The Company's cash equivalents consist of cash deposits. The Company has not 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 consolidated statements of operations.

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. No such impairment occurred in 2016.

g. Receivables - Related Party

In 2016, the Company recognized a receivable of $1.5 million from its major stockholder. As with any receivable, management has reviewed the collectability of this receivable and has determined that as of December 31, 2016, there is no need to provide for an allowance for doubtful accounts as the receivable is expected to be fully recoverable.

h. 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.

i. 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.

j. 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 consolidated 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.

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.

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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 nonemployees 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.

In accordance with the reverse triangular merger mentioned in Note 1, all outstanding and unexercised stock options were terminated without consideration during 2016.

k. Subsequent Events

The Company has evaluated subsequent events from December 31, 2016 through March 24, 2017, the date the financial statements were available to be issued, and has determined that there were no material subsequent events that required recognition or additional disclosure in these financial statements.

Note 4 - Property and Equipment:

At December 31, 2016, property and equipment consist of the following:

	Depreciable Lives (in Years)	*In USD*
Computers and software	3	7,056
Leasehold and improvement	6	1,100,829
Accumulated depreciation		(916,431)
Property and equipment - net		191,454

Depreciation expense for the year ended December 31, 2016 was $127,089.

Note 5 - Accrued Liabilities:

At December 31, 2016 accrued liabilities consist of the following:

	In USD
Deferred rent/rent payable	828,023
Other accrued expense	4,517
Accrued expenses	832,540

Deferred rent and rents payable represent rents that are still due and payable at December 31, 2016. The payable includes other costs such as parking fees and renovation obligations that management expects to negotiate with the landlord.

Note 6 - Commitments and Contingencies:

a. Leases

The Company leases office space, and equipment. Rent expense for the year ended December 31, 2016 was $530,545.

The future minimum lease (and other costs) payments associated with the leases which remain unpaid as of December 31, 2016 are as follows:

Year Ending December 31,	*In USD*
2017	828,023
Total minimum lease payments	828,023

Notes To Financial Statements

Note 7 - 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 8 - 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 was collateralized by substantially all of the assets of the Company (as defined in the agreement). The loan was paid in fully 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, 2016, there is no outstanding long-term debt.

Note 9 - Convertible Preferred Stock:

After completion of a reverse triangular merger in 2016, the Company amended and restated its certificate of incorporation to reduce the total number of shares the Company is authorized to issue to 145,688,437, consisting of 75,763,427 shares of common stock, and 69,925,010 shares of preferred stock. The two series of preferred stock are: (1) Series A-1 convertible preferred stock (59,202,967 shares) and (2) Series A-2 convertible preferred stock (10,722,043 shares).

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, 2016, 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.

Notes To Financial Statements

Dividend Rights — 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, 2016, 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 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 a majority of the preferred stock then outstanding.

Liquidation — Upon any liquidation, dissolution, or winding-up of the Company, whether voluntary or involuntary (“Liquidation Event”), 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 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. If upon the Liquidation Event, the assets of the Company legally available for distribution to the holders of the Series A-1 and Series A-2 preferred stock are insufficient to permit the payment to such holders of the full amounts specified above, then the entire assets of the Company legally available for distribution shall be distributed with equal priority and pro rata among the holders of the Series A-1 and Series A-2 preferred stock in proportion to the full amounts they would otherwise be entitled to receive. 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 Series A-1 and A-2 preferred stock and 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.

Redemption — The preferred stock is not redeemable.

Note 10 - Common Stock:

At December 31, 2016, the Company is authorized to issue 75,763,427 shares of common stock. The Company has reserved the following shares of common stock for future issuance:

	In USD
Conversion of Series A-1 convertible preferred stock	59,202,967
Conversion of Series A-2 convertible preferred stock	10,722,043
Total	69,925,010

Note 11 - 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 2016:

	Shares Available	Outstanding	Weighted-Average Price per Share	Weighted Average Remaining Contractual Life (Years)
Outstanding - December 31, 2015	16,500,925	1,540,494		7.5
Options granted	-	-		
Exercised	-	-		
Terminated	(16,500,925)	(1,540,494)		
Outstanding - December 31, 2016	-	-		
Options vested - December 31, 2016	-	-		
Options vested and expected to vest - December 31, 2016	-	-		

The grant date total fair value of options vested and recognized as stock-based compensation during the year ended December 31, 2016 was $0.

The assumptions used in the Black-Scholes option-pricing model for the years ended December 31, 2016 were as follows:

	2016
Expected volatility	N/A
Dividend yield	-
Risk-free interest rate	N/A
Expected term (years)	N/A

In accordance with the reverse triangular merger mentioned in Note 1, all outstanding and unexercised stock options were terminated without consideration during 2016.

Note 12 - 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 13 - Income Taxes:

Due to the Company’s net losses, no provision or benefit for income taxes has been recorded in 2016.

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 canyforwards.

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

	In USD
Loss — U.S. only	(1,220,186)
Loss before income taxes	(1,220,186)

The significant components of the Company’s deferred tax assets as of December 31, 2016 are as follows:

Deferred tax assets:	
Net operating loss carryforwards	28,770,383
Research credits	2,518,049
Other	234,823
Total deferred tax assets	29,005,206
Valuation allowance	(29,005,206)
Net deferred tax assets	-

Notes To Financial Statements

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 $4,582 during the year ended December 31, 2016.

Net operating losses and tax credit carryforwards as of December 31, 2016, are as follows:

In USD

	Amount	Expire in
Net operating losses - federal	75,774,759	2026-2036
Net operating losses - state	66,283,966	2017-2036
Tax credits - federal	1,544,533	2027-2036
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, 2016, 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, 2016, 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, 2016.

The Company files income tax returns in the United States and California. Tax years 2010 through 2016 remain subject to examination for federal and state purposes.

Note 14 - 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.