

SYLIOS CORP
(Formerly US Natural Gas Corp)
CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u> <u>2017</u>	<u>December</u> <u>31, 2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 26,674	\$ 119,712
Accounts receivable:		
Joint interest billing	-	-
Other	-	-
Marketable equity securities	-	31,181
Prepaid expenses	-	-
Notes receivable, current	-	360,000
Notes receivable, stockholder	194,783	158,669
	<u>221,457</u>	<u>669,562</u>
Total current assets	221,457	669,562
PROPERTY AND EQUIPMENT		
Oil and gas properties and equipment, net	259,284	263,292
OTHER ASSETS		
Notes receivable, net of current portion	104,841	300,000
Licensing Agreement	-	250,000
Miscellaneous	74,375	74,375
Investment	5,378	-
	<u>184,594</u>	<u>624,675</u>
TOTAL ASSETS	\$ 665,335	\$ 1,557,229
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 927,020	\$ 885,931
	-	-
Notes payable, current	1,098,138	1,321,289
Loans payable, other	-	-
Convertible debentures payable	483,850	442,364
	<u>2,509,008</u>	<u>2,649,584</u>
Total current liabilities	2,509,008	2,649,584
LONG-TERM LIABILITIES		
Notes payable, net of current portion	-	-
STOCKHOLDERS' EQUITY		
Preferred stock:		
Series A	1000	1,000
Series B	-	-
Series C	-	-
Common stock	11,752,691	7,831,939
	<u>11,753,691</u>	<u>7,832,939</u>
Additional paid in capital	(2,812,061)	938,150
Retained Deficit	(10,783,671)	(9,861,812)
Treasury stock, at cost	(1,632)	(1,632)
	<u>(13,417,364)</u>	<u>(8,925,294)</u>
Total stockholders' equity (deficit)	(1,843,673)	(1,092,355)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 665,335	\$ 1,557,229

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue earned		
Oil and gas production sales	\$ -	\$ -
Royalty Income	-	22,074
Other	-	-
Total revenue earned	-	22,074
Cost of operations	-	-
Gross profit	-	22,074
Operating Expenses		
Selling, general and administrative	195,324	61,693
Stock issued for legal services	-	-
Stock issued for consulting and other services	-	2,000
Depreciation, depletion and amortization	4,010	2,316
Total operating expenses	199,334	66,009
Loss from operations	(199,334)	(43,935)
Other Income (expenses)		
Write-off of Notes and other Investments	(685,003)	-
Net gain from sale of marketable equity securities and investments	-	-
Net income on sale of oil and gas properties and equipment	-	23,800
Interest income	-	-
Interest expense	(37,522)	(7,324)
Loss before provision for income taxes	(921,859)	(27,459)
Provision for income taxes	-	-
Net loss	\$ (921,859)	\$ (27,459)
Basic loss per common share	\$ (0.00)	\$ (0.00)
Diluted loss per common share	\$ (0.00)	\$ (0.00)
Weighted average common shares outstanding - basic	8,683,375,685	7,533,757,083
Weighted average common shares outstanding - diluted (see Note A)	-	-

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES:		
Net loss	\$ (921,859)	\$ (27,459)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	4,010	2,316
Issuance of stock for consulting and other services	-	2,000
Issuance of stock for debt and note conversions	-	-
Issuance of stock for accounts payable and accrued expenses	19,532	7,324
Issuance of stock for Interest	36,620	-
Changes in operating assets and liabilities:		
Accounts receivable, joint interest billing	-	-
Accounts receivable, other	-	-
Marketable Equity Securities	31,181	-
Prepaid expenses	-	-
Other assets	-	-
Accounts payable and accrued expenses	34,089	55,443
Accounts payable, revenue distribution	-	-
Net cash flows from operating activities	<u>(111,424)</u>	<u>39,624</u>
INVESTING ACTIVITIES:		
Purchase of Royalty Interests	-	(39,375)
Collections on notes receivable	-	-
Collections on notes receivable, stockholders	-	2,058
Lending on notes receivable, stockholder	(36,114)	-
Purchase of oil and gas properties and equipment	-	-
Proceeds from sale of oil and gas properties and equipment	-	-
Net cash flows from investing activities	<u>(36,114)</u>	<u>(37,317)</u>
FINANCING ACTIVITIES:		
Borrowings from Notes Payable	54,500	45,500
Payments on Notes Payable	-	(2,033)
Borrowings from loans payable - other, net	-	-
Payments on convertible debentures	-	-
Borrowings from convertible debentures	-	-
Net cash flows from financing activities	<u>54,500</u>	<u>43,467</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(93,038)</u>	<u>45,774</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	119,712	20,073
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 26,674</u>	<u>\$ 65,847</u>

SYLIOS CORP
(Formerly US Natural Gas Corp)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Supplemental Disclosures of Cash Flow Information:		
Taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -
Issuance of common stock for reduction of convertible debenture	\$ 27,414	\$ 27,176
Issuance of common stock in A/R other	\$ -	\$ -
Issuance of common stock for reduction of accounts payable and accrued expenses	\$ 19,532	\$ -
Issuance of common stock for reduction of notes payable	\$ 38,516	\$ -
Issuance of common stock for interest	36,620	7,324
Issuance of common stock for Investment	5,378	-

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

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

Nature of Operations

Sylios Corp (f/k/a US Natural Gas Corp) (“Sylios”, the “Company”, “we”, “us”, or “our”) was organized as a Florida Corporation on March 28, 2008 under the name of Adventure Energy, Inc.

Sylios Corp is a holding corporation, which through its subsidiaries, has operations engaged in the exploration and development oil and natural gas properties, investments in equities and corporate debt and the development of products utilized for the medical and recreational marijuana industry.

Our operations are currently divided amongst four wholly owned subsidiaries, US Natural Gas Corp KY (“KY”), US Natural Gas Corp WV (“WV”) (formerly Wilon Resources, Inc.), E 2 Investments, LLC (“E2”) and Bud Bank, LLC (“BB”). On, March 10, 2017, the Company's former wholly owned subsidiary, The Greater Cannabis Company, Inc. (formerly The Greater Cannabis Company, LLC), was spun-out to shareholders of the Company. As such, The Greater Cannabis Company, Inc. will no longer be treated as a wholly owned subsidiary of the Company. Please *see* **NOTE T- SPIN-OFF** for further information.

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

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

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

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

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

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

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

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

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

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

On April 16, 2012, the Company filed a Form 15 with the Securities and Exchange Commission to immediately end the Company's requirements as a fully reporting entity. The Company's common stock will continue to be quoted on the OTC Markets ("Pinksheets"). Upon filing the Company's financial information, the Company's status on the OTC Markets will be deemed as "Current Information Tier". In the event the Company fails to file its financial reports with the OTC Markets, it may be deemed as "Limited Information" or a "STOP" will be placed against our Company quotation informing investors of our failure to file the required financial reports.

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

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

On March 13, 2014, the Company formed The Greater Cannabis Company, LLC ("GCC") in the state of Florida. GCC will act as the Company's operating subsidiary for its new operation in the medical and recreational marijuana market. On July 19, 2013, the Company filed an Amendment to its Articles of Incorporation reducing the Authorized number of common shares from 9,000,000,000 to 2,000,000,000 and to effectively reduce the number of common shares outstanding through a 1:300 reverse stock split.

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

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

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

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

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

On July 11, 2014, the Company filed a trademark for the name "Bud Bank" with the United States Office Patent and Trademark Office. The application was denied due to "the applied-for-mark in not in lawful use in commerce. The Company plans on resubmitting a new application at a later date.

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

On July 31, 2014, the Company, through its subsidiary The Greater Cannabis Company, LLC, entered into a Licensing Agreement with Artemis Dispensing Technologies ("Artemis") for the development and resell of its automated dispensing product. Under the collaboration and license agreement, Artemis will be responsible for the development of a high end automated dispensing product. Upon launch and sales of the product, Artemis will be responsible for the installation, training and customer support for the hardware and software. The Company will be responsible for direct sales, addition of key distributors and sub-licensing of specific territories within the U.S. Under the terms of the agreement, the Company will pay to Artemis a one-time licensing fee in the amount of \$500,000.00 broken into tranches and based on development parameters. Artemis will also receive a percentage of transaction fees generated on a monthly basis per unit. The Company will receive revenue generated directly from sales either through its website or sales staff, a royalty from sales generated through third party vendors/distributors or a percentage of any sub-licenses sold. In addition, the Company shall have the first right of refusal to purchase a license for the use of the same technology in other countries. Please *see* **NOTE U- ARTEMIS LICENSING AGREEMENT** for further information.

On August 21, 2014, the Company filed an Amendment to its Articles of Incorporation increasing the Authorized number of common shares from 2,000,000,000 to 5,000,000,000. No changes were made to the Company's Preferred share structure.

On November 24, 2014, the Company filed an Amendment to its Articles of Incorporation increasing the Authorized number of common shares from 5,000,000,000 to 9,000,000,000. No changes were made to the Company's Preferred share structure.

On August 1, 2015, the Company and Artemis Dispensing Technologies ("Artemis") agreed to amend the terms of the licensing agreement entered into by both parties on July 31, 2014. Under the amended terms, the Company's compensation to Artemis has been reduced, the term of the agreement extended through 2018 and the per unit cost to the Company decreased. Further details of the amended terms will be provided upon execution of the definitive documents.

On September 30, 2015, the Company's Board of Directors voted to implement a reverse stock split of the Company's common stock and to reduce the number of Authorized shares of common stock.

On October 29, 2015, the Company's Board of Directors voted to rescind the proposed reverse stock split of the Company's common stock and reduction in the number of Authorized shares of common stock.

On October 30, 2015, the Company filed an Amendment to its Articles of Incorporation, to become effective on October 30, 2015, to effectively rescind the previously filed Amendment dated October 1, 2015 whereby the Company's common stock was reversed on a 1:500 ratio and the number of shares of Authorized common stock was reduced from 9 Billion to 4 Billion. Upon the effectiveness of the October 30, 2015 Amendment, shareholders will hold the same number of shares as prior to the filing of the October 1, 2015 Amendment, effectively no reverse split. The number of shares of Authorized common stock shall remain at 9 Billion.

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

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

On October 30, 2015, the Company notified the Financial Industry Regulatory Authority ("FINRA") of its decision to rescind the proposed reverse stock split of the Company's common stock and reduction in the number of Authorized shares of common stock.

On February 22, 2016, the Company engaged Pacific Stock Transfer to act in the capacity as its Transfer Agent.

In March 2016, the Company opened a new division focusing on the purchase of new and used oilfield equipment. The Company's new division will look to purchase new and used oilfield equipment from those Operators and Supply shops either going out of business or looking to move supply at distressed prices. The Company will focus on the states of Kentucky, Tennessee and West Virginia for the near term. Through an agreement with a financing entity, the Company will be allotted capital to purchase and store or purchase and flip the acquired equipment.

During December 2016, the Company began the process of effecting a corporate action to spin-off a majority of its wholly owned subsidiary, The Greater Cannabis Company, LLC ("GCC"). The Board elected to spin-off 80.01% of GCC to Sylios shareholders while retaining 19.99%. Shareholders of Sylios Corp as of the Record Date, February 3, 2017, would receive 1 share of GCC common stock for each 500 shares of Sylios common stock owned.

On December 16, 2016, the Company's Board of Directors voted to file a Notice of Conversion for its wholly owned subsidiary, The Greater Cannabis Company, LLC. The Notice was filed with the State of Florida Division of Corporations on January 13, 2017 to convert The Greater Cannabis Company, LLC from a limited liability company to a Florida for-profit corporation. The company name, The Greater Cannabis Company, LLC, was changed to The Greater Cannabis Company, Inc. Included within the filing, The Greater Cannabis Company, Inc. filed its Articles of Incorporation and authorized 500 million shares of Common stock and 10 million shares of Preferred stock.

On January 5, 2017, the Company filed an Amendment to its Articles of Incorporation increasing the Authorized number of common shares from 9,000,000,000 to 11,000,000,000. No changes were made to the Company's Preferred share structure.

On January 3, 2017, the Company filed a Reinstatement with the State of Florida and a change of Registered Agent.

On January 12, 2017, the Company filed a Reinstatement with the State of Florida for its subsidiary, The Greater Cannabis Company, LLC, to bring the Company current with the State of Florida.

On January 18, 2017, the Company filed a corporate action with the Financial Industry Regulatory Authority ("FINRA") to effect a partial spin-off of its wholly owned subsidiary, The Greater Cannabis Company, Inc., through a stock dividend.

On February 22, 2017, the Company entered into an Anti-Dilution Agreement with The Greater Cannabis Company, Inc., whereby the Company has the right to participate in future financing transactions with The Greater Cannabis Company, Inc. to avoid dilution of its ownership. The Company is not required to participate and if it elects not to, its ownership stake will be reduced.

On March 7, 2017, the Company received notification from FINRA that they had received the necessary documentation to process the corporate action requested by the Company and its transfer agent, Pacific Stock Transfer. The Payment Date was revised to March 10, 2017. Therefore effective as of March, 10, 2017, The Greater Cannabis Company, Inc. was no longer a wholly owned subsidiary of the Company. The Company was issued 5,378,476 shares of common stock of The Greater Cannabis Company, Inc., which equates to a 19.99% ownership stake.

On March 22, 2017, the Company entered into a Collateral Agreement with SLMI Energy Holdings, LLC ("SLMI"), the Company's senior secured debt holder, which released The Greater Cannabis Company, Inc. from any guarantee of the liabilities due to SLMI.

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

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

Principles of Consolidation

The consolidated financial statements include the accounts of Sylios Corp, and all of its wholly owned subsidiaries, US Natural Gas Corp WV, US Natural Gas Corp KY, SLMI Options, LLC, E2 Investments, LLC, E 3 Petroleum Corp and Bud Bank, LLC. On March 10, 2017, the Company's former wholly owned subsidiary, The Greater Cannabis Company, Inc. (f/k/a The Greater Cannabis Company, LLC), was spun-off to the Company's shareholders. The Greater Cannabis Company, Inc. will no longer be treated as a wholly owned subsidiary of the Company (Please *see* **NOTE T- SPIN-OFF** for further information). All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying interim unaudited financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial statements and in the opinion of management contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, the Company's consolidated financial position as of December 31, 2016, and the results of its operations for the three months ended March 31, 2017 and 2016 and cash flows for the three months ended March 31, 2017 and 2016. These results have been determined on the basis of accounting principles generally accepted in the United States of America and have been applied consistently as those used in the preparation of the Company's 2016 Unaudited Annual Report filed with OTC Markets.

Cash and Cash Equivalents

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

Marketable Equity Securities

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

Recently Enacted Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles when it becomes effective. The new standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The new standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

In April 2014, the FASB issued ASU 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement user with more information about the assets, liabilities, income, and expenses of

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

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

discontinued operations. This guidance is effective in the first quarter of 2015 for public companies with calendar year ends. The Company does not expect this to impact its operating results, financial position, or cash flows.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. (Please see **NOTE B - ACQUISITION OF WILON RESOURCES, INC.** for further information)

Concentration of Credit Risk

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

Risk Factors

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

Fair Value of Financial Instruments

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

The Company has adopted the successful efforts method of accounting for gas producing activities. Under the successful efforts method, costs to acquire mineral interests in gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip developmental wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, costs of developmental wells on properties the Company has no further interest in,

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

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

geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed. Unproved gas properties that are significant are periodically assessed for impairment of value, if any, and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproven properties are expensed when surrendered or expired.

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

Oil and Gas Properties

On sale or abandonment of an entire interest in an unproved property, gain or loss is recognized, taking into consideration the amount of any recorded impairment. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained. (Please *see* **NOTE S- DISPOSITION OF OIL AND GAS PROPERTIES**).

Revenue Recognition

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

Stock-Based Compensation

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

Income Taxes

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

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

Net Income (Loss) per Common Share

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

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE B - ACQUISITION OF WILON RESOURCES, INC.

At March 31, 2017, diluted weighted average common shares outstanding exclude 100,000,000 shares issuable on exercise of the 100,000,000 warrants outstanding at March 31, 2017.

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

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

NOTE C- GOING CONCERN

The Company is a development stage enterprise and although it has commenced planned principal business operations, there are insignificant revenues there from. The Company has incurred losses of \$10,783,671 for the period March 28, 2008 (inception) through March 31, 2017 and has negative working capital balance aggregating \$2,287,551. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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

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

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE C- GOING CONCERN (continued)

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

NOTE D - MARKETABLE EQUITY SECURITIES

At March 31, 2017 and December 31, 2016, marketable equity securities consisted of equity securities held with a cost and fair market value of \$- and \$31,181, respectively.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at:

	<u>03/31/2017</u>	<u>12/31/2016</u>
Land and mineral rights	\$ -	\$ -
Computer Software	20,000	20,000
Field Equipment	10,880	10,880
Transportation Equipment	8,200	8,200
Oil and Gas Properties	312,360	312,360
Accumulated depreciation and depletion	(92,156)	(77,090)
Net property and equipment	<u>\$ 259,284</u>	<u>\$ 274,350</u>

The Company uses the straight-line method of depreciation for computer software and field and transportation equipment with an estimated useful life ranging from three to twenty years. The Company uses the straight-line method of depletion for oil and gas properties with an estimated useful life ranging from seven to twenty-five years. Included in the March 31, 2017 balances are the estimated fair market values of property and equipment acquired from Wilon Resources during 2010. These estimates could change significantly pending a valuation by third parties. (Please see **NOTE B - ACQUISITION OF WILON RESOURCES, INC.** for further information) (Please see **NOTE S- DISPOSITION OF OIL AND GAS PROPERTIES** for further information).

NOTE F - NOTES RECEIVABLE

Notes receivable consist of the following at:

	<u>03/31/2017</u>	<u>12/31/2016</u>
Note receivable, interest at 4%, total due by 7/31/15, monthly installments	-	60,000
Note receivable, interest at 4%, due 7/31/15, convertible note	-	50,000
Note receivable, interest at 4%, due 7/31/15, convertible note	-	250,000
Note receivable due to E 2 Investments, LLC	-	300,000
Note receivable from Consulting Services	-	-
Less current portion	-	(360,000)
Notes receivable long-term	<u>\$ -</u>	<u>\$ 300,000</u>

The Notes dated 7/31/2015, issued to the Company under the terms of the Asset Purchase Agreement entered into between the Company and Bayport International Holdings, Inc. dated July 9, 2014, were written off due to the Company's inability to collect the principal remaining. The Note due to E 2 Investments was issued as per the terms of the issuance of the Company's Series B Preferred stock. The shares of Series B Preferred stock are no longer outstanding and thus the Note was written off.

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE G - MISCELLANEOUS

Miscellaneous assets consist of the following at:

	<u>03/31/2017</u>	<u>12/31/2016</u>
Operating bonds	25,000	25,000
Royalty Interest	49,375	49,375
Total Other Assets	\$ 74,375	74,375

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

NOTE H – LOANS PAYABLE-OTHER

Loans payable with no interest to potential investors aggregated \$- and \$- at March 31, 2017 and December 31, 2016, respectively.

NOTE I - CONVERTIBLE DEBENTURE PAYABLE

Convertible debentures payable total \$483,850 and \$442,364 at March 31, 2017 and December 31, 2016, respectively.

Convertible debentures payable, consist of the following:

On March 7, 2017, the Company entered into a Promissory Note (“Promissory Note”) with Darling Investments, LLC in the amount of Ten Thousand Dollars (\$10,000). The Promissory Note was fully funded on March 7, 2017. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 50% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 25 (twenty-five) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to twelve percent (12%) per year. The balance owed at March 31, 2017 is \$10,000.

On February 13, 2017, the Company entered into a Promissory Note (“Promissory Note”) with Darling Capital, LLC in the amount of Ten Thousand Dollars (\$10,000). The Promissory Note was fully funded on February 13, 2017. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 50% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 25 (twenty-five) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of nine (9) months and accrues interest at a rate equal to twelve percent (12%) per year. The balance owed at March 31, 2017 is \$10,000.

On January 27, 2017, the Company entered into a Promissory Note (“Promissory Note”) with Darling Capital, LLC in the amount of Seven Thousand Five Hundred Dollars (\$7,500). The Promissory Note was fully funded on January 28, 2017. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 50% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 25 (twenty-five) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of nine (9) months and accrues interest at a rate equal to twelve percent (12%) per year. The balance owed at March 31, 2017 is \$7,500.

On January 27, 2017, the Company entered into a Promissory Note (“Promissory Note”) with Tangiers Investment Group, LLC, (“Tangiers”) in the amount of Fifty-Five Thousand Dollars (\$55,000). The Promissory Note was partially funded in the amount of Seventeen Thousand Two Hundred Fifty Dollars (\$17,250) on January 27, 2017, partially funded in the amount of Seventeen Thousand Two Hundred Fifty Dollars (\$17,250) on February 23, 2017,

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE I - CONVERTIBLE DEBENTURE PAYABLE (continued)

and partially funded in the amount of Six Thousand Nine Hundred Dollars (\$6,900) on March 8, 2017. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at March 31, 2017 is \$41,400.

On October 19, 2016, the Company entered into a Promissory Note (“Promissory Note”) with Beaufort Capital, LLC, (“Beaufort”) in the amount of Twenty-Seven Thousand Five Hundred Dollars (\$27,500). The Promissory Note was fully funded on October 19, 2016. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year. The balance owed at March 31, 2017 is \$27,500.

On July 11, 2016, the Company entered into a Promissory Note (“Promissory Note”) with Mountain Properties, Inc., (“Beaufort”) in the amount of Four Thousand Dollars (\$4,000). The Promissory Note was fully funded on July 11, 2016. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 50% of the 5-day moving bid average. The Convertible Note has a term of six (6) months and accrues interest at a rate equal to fifteen percent (15%) per year. The balance owed at March 31, 2017 is \$4,000.

On May 27, 2016, the Company entered into a Promissory Note (“Promissory Note”) with Mountain Properties, Inc., (“Beaufort”) in the amount of Four Thousand Dollars (\$4,000). The Promissory Note was fully funded on May 31, 2016. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 50% of the 5-day moving bid average. The Convertible Note has a term of six (6) months and accrues interest at a rate equal to fifteen percent (15%) per year. The balance owed at March 31, 2017 is \$4,000.

On September 28, 2015, the Company entered into a Promissory Note (“Promissory Note”) with Beaufort Capital, LLC, (“Beaufort”) in the amount of Fifteen Thousand Dollars (\$15,000). The Promissory Note was fully funded on September 28, 2015. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year. The balance owed at March 31, 2017 is \$15,000.

On August 21, 2014, the Company entered into a Promissory Note (“Promissory Note”) with Tangiers Investment Group, LLC, (“Tangiers”) in the amount of One Hundred Twelve Thousand Five Hundred Dollars (\$112,500). The Promissory Note was fully funded on July 7, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at March 31, 2017 is \$112,500.

On July 25, 2014, the Company entered into a Promissory Note (“Promissory Note”) with WHC Capital, LLC, (“WHC”) in the amount of Thirty-Three Thousand Dollars (\$33,000). The Promissory Note was fully funded on July 28, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 15 (fifteen) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE I - CONVERTIBLE DEBENTURE PAYABLE (continued)

of one (1) year and accrues interest at a rate equal to eight percent (12%) per year. The balance owed at March 31, 2017 is \$33,000.

On July 3, 2014, the Company entered into a Promissory Note (“Promissory Note”) with Tangiers Investment Group, LLC, (“Tangiers”) in the amount of Fifty Thousand Dollars (\$50,000). The Promissory Note was fully funded on July 7, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at March 31, 2017 is \$50,000.

On July 3, 2014, the Company entered into a Promissory Note (“Promissory Note”) with Beaufort Capital, LLC, (“Beaufort”) in the amount of Twenty-Five Thousand Dollars (\$25,000). The Promissory Note was fully funded on

July 4, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year. The Note was fully converted during the first quarter of 2017. The balance owed at March 31, 2017 is \$0.

On June 3, 2014, the Company entered into a Promissory Note (“Promissory Note”) with Tangiers Investment Group, LLC, (“Tangiers”) in the amount of Twenty-Eight Thousand Five Hundred Dollars (\$28,500). The Promissory Note was fully funded on June 3, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at March 31, 2017 is \$26,086.24.

On May 8, 2014, the Company entered into a Promissory Note (“Promissory Note”) with Beaufort Capital, LLC, (“Beaufort”) in the amount of Twenty Thousand Dollars (\$20,000). The Promissory Note was fully funded on May 8, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to eight percent (8%) per year. The balance owed at March 31, 2017 is \$20,000.

On April 25, 2014, the Company entered into a Promissory Note (“Promissory Note”) with Tangiers Investment Group, LLC, (“Tangiers”) in the amount of Twenty-Eight Thousand Five Hundred Dollars (\$28,500). The Promissory Note was fully funded on April 25, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 60% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. The balance owed at March 31, 2017 is \$1,325.

On April 11, 2014, the Company entered into a Promissory Note (“Promissory Note”) with Beaufort Capital, LLC, (“Beaufort”) in the amount of Fifteen Thousand Dollars (\$15,000). The Promissory Note was fully funded on April 11, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE I - CONVERTIBLE DEBENTURE PAYABLE (continued)

Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to eight percent (8%) per year. The balance owed at March 31, 2017 is \$15,000.

On April 2, 2014, the Company entered into a Promissory Note (“Promissory Note”) with Beaufort Capital, LLC, (“Beaufort”) in the amount of Fifteen Thousand Dollars (\$15,000). The Promissory Note was fully funded on April 2, 2014. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 58% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 20 (twenty) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to eight percent (8%) per year. The balance owed at March 31, 2017 is \$4,350.

On September 16, 2013, the Company entered into a Convertible Promissory Note (“Promissory Note”) with Tangiers Investment Group, LLC, (“Tangiers”) in the amount of Twenty Thousand Dollars (\$20,000). The Convertible Note was fully funded on September 18, 2013. The Convertible Note is convertible, in whole or in part, at any time and from time to time before maturity at the option of the holder at the Variable Conversion Price, which shall mean 50% of the Market Price. The Market Price is defined as the lowest Trading Price for the common stock during the 10 (ten) Trading Day period ending one Trading Day prior to the date the Conversion Notice is sent. The Convertible Note has a term of one (1) year and accrues interest at a rate equal to ten percent (10%) per year. During the third quarter of 2014, the principal on the convertible debenture was reduced through the issuance of common stock of the Company. The balance owed at March 31, 2017 is \$2,134.

NOTE J - NOTES PAYABLE

Notes payable consist of the following at:

	<u>03/31/2017</u>	<u>12/31/2016</u>
Note payable, interest at 1% per annum, due in 2011	\$ 100,000	\$ 100,000
Note payable, interest at 3% per annum, due in annual installments of \$250,000 through March 2013	780,000	780,000
Notes payable, non-interest bearing, due in January 2011	-	-
Notes payable, interest at 100% through maturity date, interest at maximum rate allowable by law thereafter, due July 2010	100,000	122,525
Note payable, interest at 3%, due on demand	41,138	91,764
Notes payable for consulting services, varying interest rates, due on demand	77,000	77,000
Note payable for Licensing Agreement	-	150,000
Less current portion	(1,098,138)	(1,321,289)
Notes payable long term	<u>\$ -</u>	<u>\$ -</u>

NOTE K - INCOME TAXES

The Company accounts for income taxes using the asset and liability method described in SFAS No. 109, “Accounting For Income Taxes”, the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting and the tax basis of the Company’s assets and liabilities at the enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE K - INCOME TAXES (Continued)

to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In recognition of the uncertainty regarding the ultimate amount of income tax benefits to be derived, the Company has recorded a full valuation allowance at March 31, 2017 and December 31, 2016.

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

The provision (benefit) for income taxes consists of the following at:

	<u>03/31/2017</u>	<u>12/31/2016</u>
Federal income taxes:		
Current	\$ (41,858)	\$ (20,796)
Deferred	41,858	20,796
State income taxes:		
Current	\$ (5,980)	\$ (3,565)
Deferred	5,980	3,565
	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

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

	<u>03/31/2017</u>	<u>12/31/2016</u>
Noncurrent deferred tax assets (liabilities):		
Accrued wages deducted for financial purposes not deducted for tax purposes	\$ 176,414	\$ 277,069
Other non-cash wages not deducted for tax purposes	-	-
Capital losses deducted for financial purposes carried over to future years for tax purposes (expiring in years through 2014)	-	-
Excess loss on sale of investments taken for tax purposes over financial purposes over financial purposes	-	-
NOL from the acquisition of Wilon Resources (subject to potential I.R.C. Section 382 limitations)	601,000	601,000
NOL remaining not attributable to timing differences (expiring in years through 2020)	1,882,251	1,840,392
Deferred noncurrent tax asset, net	2,659,665	2,718,461
Valuation allowance	(2,659,665)	(2,718,461)
	<u>\$ -</u>	<u>\$ -</u>

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE L - COMMON STOCK ISSUANCES/WARRANTS

For the three months ended March 31, 2017, the Company had the following unregistered sale/issuance of its securities:

In January 2017, the Company issued 87,500,000 shares of common stock to its Officer for accrued wages.

In January 2017, the Company issued 300,000,000 shares of common stock at \$.0001 per share to a Consultant as compensation for prior consulting services.

In January 2017, the Company issued 166,666,667 shares of common stock to an accredited investor as payment towards a convertible debenture.

In January 2017, the Company issued 695,749,184 shares of common stock to an accredited investor as payment towards a convertible debenture.

In January 2017, the Company issued 452,880,500 shares of common stock to an accredited investor as payment towards a convertible debenture.

In January 2017, the Company issued 208,750,000 shares of common stock to an accredited investor as payment towards a convertible debenture.

In January 2017, the Company issued 458,333,333 shares of common stock to an accredited investor as payment towards a convertible debenture.

In January 2017, the Company issued 561,750,000 shares of common stock to an accredited investor as payment towards a convertible debenture.

In February 2017, the Company issued 283,250,000 shares of common stock to an accredited investor as payment towards a convertible debenture.

For all common stock issuances and warrants issued from inception through March 31, 2017, please review the Company's 2016 and 2015 Unaudited Annual Reports filed with OTC Markets (www.otcmarkets.com).

Warrants outstanding at March 31, 2017 and December 31, 2016 are 100,000,000 and 131,382,045, respectively. Each warrant enables the holder to acquire one share of the Company's common stock at a specified exercise price for a term of three to five years. Warrants outstanding at March 31, 2017 have vesting dates of April 2015 with expiration dates through April 2020.

There were no warrants issued during the three months ending March 31, 2017. There were no warrants exercised or canceled for the three months ending March 31, 2017.

On May 21, 2015, the Board of Directors of the Company voted, at the request of Management, and approved an increase and extension to the January 1, 2011 Stock Repurchase Plan. The Company was previously authorized to repurchase up to Two Hundred Fifty Thousand No/100 Dollars (\$250,000) of its common stock in the open market or in privately negotiated transactions. The Company is now authorized to repurchase up to Five Hundred Thousand and NO/100 Dollars (\$500,000) for a period of two years from the date of the May 21, 2015 resolution. The repurchase program will be funded by the Company's available cash and may be commenced or suspended at any time or from time to time. The plan will continue as long as periodic management reviews determine it to be fiscally feasible and may be discontinued at any time.

During the quarter ended March 31, 2017, the Company reacquired 0 shares of its issued and outstanding common stock. (Please see **NOTE O - COMMITMENTS AND CONTINGENCIES** for further information.)

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE M – STOCKHOLDERS' EQUITY

On April 14, 2011, the Board of Directors unanimously approved the designation of a series of preferred stock to be known as "Series C Preferred Stock". The designations, powers, preferences and rights, and the qualifications, limitations or restrictions hereof, in respect of the Series C Preferred Stock shall be as hereinafter described. The holders of Series C Preferred Stock shall not be entitled to receive dividends nor shall dividends be paid on common stock or any other Series Preferred Stock while Series C Preferred shares are outstanding. The holders of Series C Preferred Stock shall be entitled to vote on all matters submitted to a vote of the Shareholders of the Company and shall have such number of votes equal to the number of shares of Series C Preferred Stock held on a forty votes per one share basis. Upon the availability of a sufficient number of authorized but unissued and unreserved shares of common stock, the holders of Series C Preferred Stock may at their election convert such shares in to fully paid and non-assessable shares of common stock at the rate of forty shares of common stock for each share of series C Preferred Stock. The Board of directors of the Company, pursuant to authority granted in the Articles of Incorporation, created a series of preferred stock designated as Series C Preferred Stock (the "Series C Preferred Stock") with a stated value of \$0.001 per share. The number of authorized shares constituting the Series C Preferred Stock was One Million (1,000,000) shares. At March 31, 2017 and December 31, 2016, there are 0 and 0 shares issued and outstanding, respectively.

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

The holders of Series A Preferred Stock shall be entitled to vote on all matters submitted to a vote of the Shareholders of the Company and shall have such number of votes equal to the number of shares of Series A Preferred Stock held on a one per one share basis. Upon the availability of a sufficient number of authorized but unissued and unreserved shares of common stock, the holders of any Series A Preferred Stock shall be entitled to convert such shares in to fully paid and non-assessable shares of common stock at the rate of 7.8 shares of common stock for each share of Series A Preferred Stock only if the Company has failed to satisfy all financial obligations by the designated time inclusive of the cure period. The Board of Directors of the Company, pursuant to authority granted in the Articles of Incorporation, created a series of preferred stock designated as Series A Preferred Stock (the "Series A Preferred Stock") with a stated value of \$0.001 per share. The number of authorized shares constituting the Series A Preferred Stock was Three Million (3,000,000) shares. At March 31, 2017 and December 31, 2016, there are 1,000,000 shares issued and outstanding.

On September 2, 2009, the Board of Directors unanimously approved the designation of a series of preferred stock to be known as "Series B Preferred Stock". The designations, powers, preferences and rights, and the qualifications, limitations or restrictions hereof, in respect of the Series B Preferred Stock shall be as hereinafter described. The holders of Series B Preferred Stock shall not be entitled to receive dividends. The holders of Series B Preferred Stock shall not be entitled to vote on any matters submitted to a vote of the Shareholders of the Company. Upon the availability of a sufficient number of authorized but unissued and unreserved shares of common stock, the holders of Series B Preferred Stock may at their election convert such shares in to fully paid and non-assessable shares of common stock at the rate of ten shares of common stock for each share of series B Preferred Stock. The Board of Directors of the Company, pursuant to authority granted in the Articles of Incorporation, created a series of preferred stock designated as Series B Preferred Stock (the "Series B Preferred Stock") with a stated value of \$0.001 per share. The number of authorized shares constituting the Series B Preferred Stock was Two Million (2,000,000) shares. At March 31, 2017 and December 31, 2016, there are 0 and 0 shares issued and outstanding.

The number of common shares authorized with a stated value of \$0.001 per share at March 31, 2017 and December 31, 2016 is 11,000,000,000 and 11,000,000,000, respectively. At March 31, 2017 and December 31, 2016, there are 10,946,819,212 and 7,831,939,528 shares of common stock issued and outstanding, respectively.

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE N – RELATED PARTY TRANSACTIONS

Notes receivable, stockholders, totals \$194,783 and \$158,669 at March 31, 2017 and December 31, 2016, respectively. Interest receivable on the notes total \$- and \$- at March 31, 2017 and December 31, 2016, respectively.

Included within accounts payable and accrued expenses are wages due officers and shareholders of \$927,020 and \$791,626 as of March 31, 2017 and December 31, 2016, respectively.

NOTE O -COMMITMENTS AND CONTINGENCIES

On February 1, 2017, the Company entered into a second operating lease for its current office space. The lease term is month to month with monthly rent totaling \$428/month. The Company may terminate the lease with 30 days notice.

Future minimum rental obligations at March 31, 2017 are \$3,852 in 2017 and \$5,136 in 2018. The future minimum rental obligations assume the Company will maintain its current office space through the end of calendar 2018.

On April 1, 2015, the Company executed an employment agreement with Wayne Anderson to serve in the role as President, Treasurer, and Secretary of the Company upon the terms and provisions and, subject to the conditions set forth in the Agreement, for a term of three (3) years, commencing on April 1, 2015, and terminating on March 31, 2018, unless earlier terminated as provided in the Agreement. The Agreement included options to Mr. Anderson to purchase 100,000,000 shares of common stock at an average price of \$.0002 per share. Mr. Anderson will receive an annual compensation of \$221,767 for each of the three years of the Agreement.

NOTE P- LENDER ACQUISITION AGREEMENT

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

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

\$500,000 in financing given May 6, 2005 for construction of a natural gas gathering system in Kentucky (the “Gathering System Loan”), \$300,000 mortgage on the Wilon business offices given October 13, 2005 (the “Office Loan”), \$175,000 in financing given on October 24, 2006 to finance 176 acres of land in West Virginia and to finance the placement of a natural gas treatment station (the “WV Loan”); these loans include that certain Amendment to Loan Agreements dated August 2, 2006, that certain Receipt for Shares Pledged as Collateral dated December 8, 2007 and that certain Second Amendment to Loan Agreements dated January 27, 2009 (with 7.8 million Wilon shares attached and pledged as additional collateral). Further, the Borrowers and SLMI have agreed to special terms for assignment of loan rights by SLMI and subsequent holders of the loans pursuant to that Acknowledgment by Borrowers delivered Jan. 5, 2009. At December 31, 2010, the notes receivable balance was eliminated through consolidation.

\$1,000,000 in financing was made payable by secured promissory note. By December 31, 2010, Sylios Corp shall have paid at least \$250,000 in cash toward the Secured Note. By December 31, 2011, Sylios Corp shall have paid at least \$250,000 more. By December 31, 2012, Sylios Corp shall have paid at least \$250,000 more. All unpaid principal and interest shall be due no later than December 31, 2013. To the extent, Sylios Corp tenders proceeds from dispositions of real estate collateral on the SLMI Loans (which dispositions shall require the written consent of Owner), said payments shall be applied toward the Secured Note, but they shall not reduce the minimum installments required for years 2010 through 2012. From January 2010 to December 2013, a minimum monthly cash installment of \$4,000 shall be paid by Sylios Corp on the Secured Note until it is paid in full. Additional Security and Collateral for the Secured Note and the covenants hereunder: At March 31, 2017 and December 31,

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE P- LENDER ACQUISITION AGREEMENT (continued)

2016 the notes payable balances were \$780,000 and \$780,000, respectively. (Please see **NOTE J- NOTES PAYABLE** for further information).

NOTE Q - SUBSEQUENT EVENTS

On April 21, 2017, the Company entered into a definitive Asset Acquisition Agreement (the "Agreement") with The Greater Cannabis Company, Inc. ("GCC"), whereby GCC will acquire the Company's wholly owned subsidiary Bud Bank, LLC ("Bud Bank"). Under the Agreement, GCC is obligated to pay the Company a royalty of 10% of net sales proceeds generated by Bud Bank through its operations up to a total of \$50,000 and thereafter for perpetuity pay a royalty of 3% of net sales proceeds generated by Bud Bank through its operations. The transaction closed on June 21, 2017 concurrent with the Company's filings with the State of Florida. The transaction closed on June 20, 2017.

On June 19, 2017, the Company filed a Reinstatement with the State of Florida for its subsidiary, Bud Bank, LLC to bring the Company current with the State of Florida. In addition, the Company filed a Notice of Conversion and Articles of Incorporation for Bud Bank to effectively convert Bud Bank from a Florida limited liability company to a Florida for-profit corporation. The name of the new entity is Bud Bank, Inc.

On June 25, 2017, the Company's Board of Directors approved the spin-off of the Company's wholly owned subsidiary, E 2 Investments, LLC. The Company will look for a suitable acquisition candidate for E 2 Investments, LLC.

On July 22, 2017, the Company entered into a Stock Purchase Agreement (the "Agreement") with an Officer of Amelot Holdings, Inc. ("Amelot") for the purchase of all issued and outstanding shares of Preferred stock of Amelot. Amelot is a publicly traded entity under the symbol AMHD on the OTC Pinksheets. The transaction is set to close on or before August 25, 2017.

NOTE R- ACCRUED COMPENSATION

Accrued compensation consists of the following at March 31, 2017:

	<u>03/31/2017</u>	<u>12/31/2016</u>
Accrued officer's compensation	\$ 840,068	\$ 791,626
Other accrued compensation	0	0
Accrued payroll taxes	0	0
Total	<u>\$ 840,068</u>	<u>791,626</u>

NOTE S- DISPOSITION OF OIL AND GAS PROPERTIES

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

At Closing, Bayport remitted the required funds as per the Asset Purchase Agreement and issued to the Company three Notes with varying maturity dates. The Notes dated 7/31/2015, issued to the Company under the terms of the Asset Purchase Agreement entered into between the Company and Bayport International Holdings, Inc. dated July 9, 2014, were written off due to the Company's inability to collect the principal remaining. (Please see **NOTE F- NOTES RECEIVABLE** for further information).

SYLIOS CORP
(Formerly US Natural Gas Corp)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
From Inception (March 28, 2008) through March 31, 2017 (Unaudited)

NOTE T- SPIN-OFF

Effective March 10, 2017 (Payment Date), in connection with a partial spin-off of The Greater Cannabis Company, Inc ("GCC"). from the Company, GCC issued a total of 26,905,969 shares of its common stock. 5,378,476 shares were issued to the Company (representing 19.9% of the issued and outstanding shares after the spin-off) and 21,527,493 shares were issued to the stockholders of record of the Company on February 3, 2017 (Record date) on the basis of one share of GCC common stock for each 500 shares of the Company's common stock held (representing 80.1% of the issued and outstanding shares of GCC's common stock after the spin-off).

Effective upon the payment Date, GCC was no longer a wholly owned subsidiary of the Company. Mr. Anderson, the Company's current President and Chairman, will serve as the interim President of GCC until additional key personnel are retained.

In the spin-off transaction, the Company retained a 19.99% ownership of GCC. On the Payment date (March 10, 2017), the Company received 5,378,476 shares of common stock of GCC. The shares of common stock are recorded on the Company's financials on its Balance Sheet as an Investment under Other Assets.

NOTE U- ARTEMIS LICENSING AGREEMENT

Under the terms of the Agreement, the Company was to pay Artemis a licensing fee of \$500,000 payable as follows: (1) \$100,000 upon execution of the Agreement (which was paid to Artemis in August 2014), (2) \$100,000 in 60 days, (3) \$100,000 upon Artemis' delivery of a functioning prototype, and (4) \$200,000 after delivery of the prototype. Due to a lack of funds, the Company failed to pay the \$100,000 due within 60 days of the July 31, 2014 Agreement date. Artemis failed to deliver any prototype of the dispensing product to the Company. The initial term of the Agreement expired December 31, 2016 and in the opinion of management the Agreement is no longer in effect.

On December 31, 2016 (expiration date of the initial term of the Agreement), the Company reduced the carrying value of the Artemis Licensing Agreement capitalized costs from \$100,000 to \$0 and recognized an expense provision for nonrecoverability of Artemis License Agreement costs of \$100,000