
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: September 30, 2015

Commission File Number 000-54360

WINDSTREAM TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Wyoming

(State or other jurisdiction of
incorporation or organization)

98-0178621

(IRS Employer
Identification No.)

**819 Buckeye Street
North Vernon, Indiana**

(Address of principal
executive office)

47265

(Zip Code)

(812) 953-1481

(Registrant's telephone number,
including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

As of November 12, 2015, there were 2,272,905,112 shares of registrant's common stock outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. – FINANCIAL STATEMENTS

WINDSTREAM TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 177,338	\$ 594,508
Accounts receivable, net	305,566	1,017,522
Inventories	1,901,052	1,184,957
Prepaid expenses	287,112	77,349
Investor notes receivable	1,535,000	2,175,260
TOTAL CURRENT ASSETS	4,206,068	5,049,596
Property and equipment, net	340,945	253,640
OTHER ASSETS		
Deposits	62,762	62,059
TOTAL ASSETS	\$ 4,609,775	\$ 5,365,295
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 1,465,105	\$ 1,154,283
Accrued liabilities	1,702,971	1,052,891
Short term debt - third parties	2,509,084	2,476,605
Current maturities of note payable	107,838	107,838
Convertible notes payable, net of unamortized debt discount of \$0 and \$166,668, respectively	2,180,364	3,041,332
Derivative liabilities	839,644	1,939,292
Short term debt - related parties	221,000	221,000
TOTAL CURRENT LIABILITIES	9,026,006	9,993,241
LONG TERM LIABILITY		
Note payable, non-current	1,172,162	1,217,162
TOTAL LIABILITIES	10,198,168	11,210,403
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock; \$0.001 par value; unlimited shares authorized; 392,921,528 and 88,617,154 shares issued and outstanding, respectively	173,562	87,283
Additional paid in capital	19,225,521	15,881,419
Accumulated deficit	(24,716,976)	(21,750,309)
Deficit attributable to Windstream Technologies, Inc.	(5,317,893)	(5,781,606)
Noncontrolling interest	(270,500)	(63,501)
TOTAL STOCKHOLDERS' DEFICIT	(5,588,393)	(5,845,108)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 4,609,775	\$ 5,365,295

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

WINDSTREAM TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
SALES	\$ 1,732,507	\$ 373,538	\$ 2,821,149	\$ 825,798
COST OF GOODS SOLD	1,564,746	685,528	2,349,329	1,235,126
GROSS (LOSS) PROFIT	167,761	(311,990)	471,820	(409,328)
OPERATING EXPENSES:				
Research and development	1,425	91,666	24,884	128,117
Write down of inventory	-	-		111,000
Stock compensation expense	36,528	39,898	246,399	122,126
General and administrative expenses	1,202,565	827,196	3,583,921	2,178,365
TOTAL OPERATING EXPENSES	1,240,518	958,760	3,855,204	2,539,608
LOSS FROM OPERATIONS	(1,072,757)	(1,270,750)	(3,383,384)	(2,948,936)
OTHER INCOME (EXPENSE)				
Other expense	-	(2,904)	(800)	(2,105)
Interest expense, net	(164,790)	(213,705)	(675,895)	(595,748)
Gain on change in fair value of derivative liabilities	326,258	-	888,011	-
TOTAL OTHER INCOME (EXPENSE)	161,468	(216,609)	211,316	(597,853)
NET LOSS	(911,289)	(1,487,359)	(3,172,068)	(3,546,789)
Non Controlling Interest	(228,780)	-	(206,999)	-
NET LOSS ATTRIBUTABLE TO WINDSTREAM TECHNOLOGIES	\$ (682,509)	\$ (1,487,359)	\$ (2,965,069)	\$ (3,546,789)
Net Loss Per Share - Basic and Diluted	\$ (0.00)	(0.02)	\$ (0.02)	(0.04)
Weighted Average Shares Outstanding - Basic and Diluted	202,234,762	86,741,574	139,103,989	85,200,993

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

WINDSTREAM TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine months Ended September 30, 2015 (Unaudited)	For the Nine months Ended September 30, 2014 (Unaudited)
Cash Flows from Operating Activities		
Net loss	(3,172,068)	(3,546,789)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	103,202	93,325
Interest expense converted into Common Stock	-	7,422
Amortization of debt discount and deferred financing costs	166,669	384,032
Write-down of inventory	-	111,000
Provision for bad debt	10,000	-
Gain from change in fair value of derivative liabilities	(888,011)	-
Stock based compensation	246,399	122,126
Changes in assets and liabilities:		
Accounts receivable	701,956	(82,384)
Inventories	(716,095)	(441,687)
Prepaid expenses	(209,763)	(211,584)
Deposits	(703)	(10,535)
Accounts payable	310,822	89,434
Accrued liabilities	713,089	178,118
Net cash used in operating activities	(2,734,503)	(3,307,522)
Cash Flows from Investing Activities		
Purchase of property and equipment	(190,507)	(6,185)
Net cash used in investing activities	(190,507)	(6,185)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on stock subscription receivable	799,505	-
Borrowings on line of credit, net	7,479	1,349,756
Borrowings on short term debt	755,000	200,000
Principal payments on short term debt	(125,750)	-
Proceeds from short term debt - related parties	-	50,000
Payments on short term debt - related parties	-	(55,000)
Borrowings on long-term debt	100,000	-
Principal payments on long term debt	(45,000)	(60,000)
Proceeds from issuance of convertible debt, net of discounts	627,395	650,000
Net proceeds from issuance of Common Stock and Warrants	-	1,248,856
Payment on investor note receivables	389,211	-
Net cash provided by financing activities	2,507,840	3,383,612
Net increase (decrease) in Cash and Cash Equivalents	(417,170)	69,605
Cash and Cash Equivalents, Beginning of Year	594,508	203,534
Cash and Cash Equivalents, End of Year	<u>\$ 177,338</u>	<u>\$ 273,439</u>
Supplemental Cash Flows Information		
Interest paid	<u>\$ 385,139</u>	<u>\$ 51,468</u>
Income taxes	<u>\$ 800</u>	<u>\$ 0</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Common stock and paid in capital resulting from non-cash conversions of convertible notes including interest expense and accrued interest	-	207,500
Debt discount on warrants issued with convertible debt	-	400,000
Debt discount on warrants issued with convertible debt - Typenex	-	511,460
Contributed capital	-	50,000
Non-cash issuance of common stock	\$ 2,570,719	-

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

WINDSTREAM TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE 1 – BASIS OF PRESENTATION AND NATURE OF ORGANIZATION

WindStream Technologies, Inc. (the “Company”), is engaged in the development and commercialization of wind driven electrical generation. The Company’s facilities are located in North Vernon, Indiana. The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”) and expressed in U.S. dollars. The Company’s fiscal year end is December 31.

On March 24, 2014, Windaus Global Energy, Inc. filed an Articles of Amendment with the Secretary of State of the State of Wyoming effecting a name change of Windaus Global Energy, Inc. to WindStream Technologies, Inc. (the “Name Change”). Windaus Global Energy, Inc. has notified the Financial Industry Regulatory Authority (“FINRA”) of the Name Change and a new trading symbol, “WSTI” was assigned effective March 27, 2014. The new CUSIP number for the Company’s common stock is 97382J102.

India

On October 26, 2013, the Company formed a 99.9% owned subsidiary company in India, Windstream Energy Technologies India Private Limited, (“WET”), located in Hyderabad to perform various commercial activities including reselling, manufacturing, repairing, importing and exporting various types of renewable energy sources including turbines, windmills, solar-wind hybrids and other devices. A Board of Directors was established consisting of the Chief Executive Officer of the Company and an Indian national. At the time of formation, the Parent Company received 10,000 shares of stock in the wholly-owned subsidiary, and WET did not have any significant assets or liabilities.

On December 11, 2013, WET held a board of directors meeting to approve opening a bank account and the investor began funding the working capital line.

India - Noncontrolling interest

In October 2014, the Company entered into an agreement with unrelated third parties, whereby in exchange for \$2 million, these investors would receive 8,184 shares of stock in WET, or a 45% interest of WET. These are in addition to the 10,000 shares owned by the Company, and the Company retained a 55% ownership in WET, making it a majority-owned subsidiary. The Company also has three of the five board seats on the board of directors of WET.

In November and December 2014, WET leased office space, approximately 9,500 square feet, and manufacturing space, approximately 50,000 square feet, in India in connection with expanding its operations. The office space lease is a month-to-month lease with annual rent of approximately \$24,000. The office space was occupied in December 2014. The manufacturing facility lease is a six-year lease with annual rent of approximately \$120,000. The manufacturing space lease commenced on April 1, 2015 when WET occupied the space.

As of September 30, 2015, approximately \$1,259,000 of the \$2 million purchase price of the WET stock had been funded by the third party investors.

Peru

In December 2013, the Company filed documents to incorporate a 100% owned subsidiary in Peru, Windstream Technologies Latin America S.A (the “Peru subsidiary”). The Peru subsidiary has appointed a temporary board of directors as required by local regulation, but the Peru subsidiary has had no operations, has entered into no contracts, opened no bank accounts and has not begun any business activity.

WINDSTREAM TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist the reader in understanding and evaluating the Company's financial statements. The consolidated financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Consolidations

The consolidated financial statements include the accounts of the Company and companies in which the Company has a controlling interest including the accounts of Windstream Technologies, Inc., (fka, Windaus Global Energy, Inc.), Windstream Technologies, Inc. (a California corporation), Windstream Energy Technologies Pvt Ltd. and Windstream Technologies Latin America S. A. For consolidated subsidiaries where the Company's ownership in the subsidiary is less than 100%, the equity interest not held by the Company is shown as non-controlling interest. Management also evaluates whether an investee company is a variable interest entity and whether the Company is the primary beneficiary. Consolidation is required if both of these criteria are met. The Company did not have any variable interest entities requiring consolidation during the nine months ended September 30, 2015 and 2014. All material intercompany balances have been eliminated in consolidation.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current presentation. The reclassifications did not impact prior period results of operations, cash flows, total assets, total liabilities or total equity.

Comprehensive Income

The Company reports comprehensive income in accordance with FASB ASC Topic 220 "Comprehensive Income," which established standards for reporting and displaying comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements.

Total comprehensive income is defined as all changes in stockholders' equity during a period, other than those resulting from investments by and distributions to stockholders (i.e., issuance of equity securities and dividends). Generally, for the Company, total comprehensive income (loss) equals net income (loss) plus or minus adjustments for currency translation. Comprehensive income was *de minimus* for the nine months ended September 30, 2015 and 2014.

Foreign Currency Transactions and Translation

The Company's subsidiary in India conducts business primarily denominated in its local currency, which is its functional currency. Assets and liabilities have been translated to U.S. dollars at the period-end exchange rates. Revenues and expenses have been translated at exchange rates which approximate the average of the rates prevailing during each period. Translation adjustments are *de minimus* for the nine months ended September 30, 2015 and 2014, and are included in the Company's Consolidated Statements of Operations as a component of general and administrative expenses.

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include the allowance for doubtful accounts and sales returns reserves, inventory write-downs, the estimated useful lives of long-lived assets, the impairment of long-lived assets, fair value of derivative liabilities, valuation allowance on deferred income tax assets, accrued warranty expenses, the grant-date fair value of share-based compensation awards and related forfeiture rates, and fair value of financial instruments. Changes in facts and circumstances may result in revised estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

WINDSTREAM TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with obtaining the debt financing. These costs are amortized ratably and charged to interest expense over the term of the related debt.

In connection with one of the five debt issuances as discussed in Note 11, the Company paid finder's fees of approximately \$42,000 as well as 140,000 common stock warrants at \$0.05 per share. The warrants vest immediately and have a three year term. The fair value of the warrants was determined to be approximately \$48,000 using the Black-Scholes option pricing model with the same assumptions as the warrants discussed in Notes 11 and 16, except the exercise price used for the warrants.

The combined value of the warrants, including the finders' fees, is \$90,000, which was capitalized as a financing cost and is being amortized to interest expense over the life of the notes.

As of September 30, 2015 and December 31, 2014, the deferred financing costs had an unamortized balance of \$0. Amortization of deferred financing costs, which has been included in interest expense, was approximately \$0 and \$23,000 for the nine months ended September 30, 2015 and 2014, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

Accounts Receivable

Trade accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Bad debts expense or write offs of receivables are determined on the basis of loss experience, known and inherent risks in the receivable portfolio and current economic conditions. The Company believes its allowance for doubtful accounts as of September 30, 2015 and December 31, 2014 are adequate, but actual write-offs could exceed the recorded allowance. During the nine months ended September 30, 2015, the Company wrote off \$12,402 in accounts receivable against the allowance and increased the allowance by \$10,000 of bad debt expense. There were no such transactions in 2014.

Export Import Bank Credit Insurance

The Company sells its products outside the United States under the terms of a short term multi-buyer export credit insurance policy with the Export Import Bank ("Ex Im Bank") of the United States, an agency of the United States Government. Under the terms of the policy, the Ex Im Bank agrees to pay the Company up to 95% of the outstanding invoice amounts, on qualified sales, due after ninety days or depending on the specific terms with each customer. The limit of the policy was \$2,000,000 and \$4,000,000 at September 30, 2015 and December 31, 2014, respectively, having been reduced on June 26, 2015.

Inventories

Inventories are primarily raw materials. Inventories are valued at the lower of cost, as determined on a first-in-first-out (FIFO) basis, or market. Market value is determined by reference to selling prices after the balance sheet date or to management's estimates based on prevailing market conditions. Management writes down the inventories to market value if it is below cost. Management also regularly evaluates the composition of its inventories to identify slow-moving and obsolete inventories to determine if a valuation allowance is required. Costs of raw material inventories include the purchase prices of the component parts and related costs incurred in bringing the products to their present location and condition.

WINDSTREAM TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

Property and Equipment

Property and equipment consists of manufacturing equipment, factory equipment, furniture and fixtures, leasehold improvements and tooling costs. These assets are recorded at cost and are being depreciated on the straight-line basis over estimated lives of two to seven years. Leasehold improvements are being depreciated over their useful life or the term of the related lease, whichever is shorter. Repair and maintenance expenditures, which do not result in improvements, are charged to expense as incurred.

Long-Lived Assets

The Company's long-lived assets consisted of property and equipment and are reviewed for impairment in accordance with the guidance of FASB ASC Topic, 360, *Property, Plant and Equipment*, and FASB ASC Topic 205, *Presentation of Financial Statements*. The Company tests for impairment losses on long-lived assets used in operations whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the asset exceeds its fair value. Impairment evaluations involve management's estimates on asset useful lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management which could have a material effect on our reporting results and financial positions. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. As of September 30, 2015 and December 31, 2014, the Company had not experienced impairment losses on its long-lived assets. However, there can be no assurances that the demand for the Company's products and services will continue, which could result in an impairment of long-lived assets in the future.

Deferred Revenues

The Company typically receives advance payments on certain individual sales. These advance payments are recorded as deferred revenues within accrued liabilities, on the accompanying Consolidated Balance Sheets and reclassified as revenue in the Consolidated Statements of Operations only after the product has been delivered and the revenue has been earned.

Revenue Recognition

Sales revenue consists of amounts earned from customers through the sale of its primary products, the TurboMill and the SolarMill, power generation devices which use alternative energy sources, primarily wind, to generate electricity. The Company also provides accessory products in support of these devices in the form of mounting equipment, data collection/monitoring equipment, batteries, inverters and various wiring solutions and accessories.

Sales revenue is recognized when persuasive evidence of an arrangement exists, title to and risk of loss for the product has passed, which is generally when the products are shipped to its customers and collection is reasonably assured.

Sales Returns

The Company allows customers to return defective products when they meet certain established criteria as outlined in the Company's sales terms and conditions. It is the Company's practice to regularly review and revise, when deemed necessary, the estimates of sales return which are based primarily on historical rates. The Company records estimated sales returns as reductions in sales and accounts receivable. Returned products, which are recorded as inventory, are valued based upon the amount the Company expects to realize upon any subsequent disposition. As of September 30, 2015 and December 31, 2014, the reserve for sales returns and allowances was \$16,000.

WINDSTREAM TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

Warranty Policy

For the Company's products it sells, the Company warrants to the original purchaser only that the products will be free from defects in workmanship and material for five years after the shipment date with exclusions for improper installation, ordinary wear and tear, improper maintenance or accident or damage. Estimated future warranty obligations related to certain products are provided by charges to operations in the period in which the related revenue is recognized. Estimates are based on, in part, historical experience. At September 30, 2015 and December 31, 2014, the Company had accrued warranty expense liability of \$253,000. For the nine months ended September 30, 2015 and 2014, the Company had warranty expense of \$365 and \$204,141, respectively.

Cost of goods sold

Cost of goods sold consists primarily of raw materials, utility and supply costs consumed in the manufacturing process, manufacturing labor, depreciation expense and direct overhead expenses necessary to manufacture finished goods as well as warehousing and distribution costs such as inbound freight charges, shipping and handling costs, purchasing and receiving costs.

Shipping and Handling Costs

Shipping and handling costs for all sales transactions are billed to the customer and are included in cost of goods sold for all periods presented.

Income Taxes

The Company accounts for income taxes pursuant to the provisions of ASC 740, Income Taxes, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and the future tax benefits derived from operating loss and tax credit carryforwards. The Company provides a valuation allowance on its deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

ASC 740 requires that the Company recognize in the consolidated financial statements the effect of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The first step is to determine whether or not a tax benefit should be recognized. A tax benefit will be recognized if the weight of available evidence indicates that the tax position is more likely than not to be sustained upon examination by the relevant tax authorities. The recognition and measurement of benefits related to the Company's tax positions requires significant judgment as uncertainties often exist with respect to new laws, new interpretations of existing laws, and rulings by taxing authorities. Differences between actual results and the Company's assumptions, or changes in the Company's assumptions in future periods, are recorded in the period they become known. The Company accrues any interest or penalties related to its uncertain tax positions as part of its income tax expense. No reserve for uncertain tax positions was booked by the Company for the nine months ended September 30, 2015 and 2014. No liability for unrecognized tax benefits was recorded as of September 30, 2015 and December 31, 2014.

Profits from non-U.S. activities are subject to local taxes, but not subject to U.S. tax until repatriated to the U.S. It is the Company's intention to permanently reinvest these earnings outside the U.S., subject to our management's continuing assessment as to whether repatriation may, in some cases, still be in the best interests of the Company. The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations.

Stock Based Payments

The Company accounts for stock based awards to employees in accordance with ASC 718 Stock Compensation. Under this guidance, stock compensation expense is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the estimated service period (generally the vesting period) on the straight-line attribute method. Share-based awards to non-employees are accounted for in accordance with ASC 505-50 "Equity", wherein such awards are expensed over the period in which the related services are rendered.

WINDSTREAM TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

General and Administrative Expenses

General and administrative expenses consist of business development, commissions, insurance costs, marketing, salary and benefit expenses, rent, professional fees, travel and entertainment expenses and other general and administrative overhead costs. Expenses are recognized when incurred.

Research and Development

Costs incurred in developing the ability to create and manufacture products for sale are included in research and development in the Company's Consolidated Statements of Operations. Once a product is commercially feasible and starts to sell to third party customers, the classification of such costs as development costs stops and such costs are recorded as costs of production, which is included in cost of goods sold. Research and development costs are expensed when incurred.

For the nine months ended September 30, 2015 and 2014, research and development expenses were approximately \$25,000 and \$128,000, respectively.

Basic and Diluted Net Loss per Share

The Company computes loss per share in accordance with ASC 260, Earnings per Share. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using treasury stock method, and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential common shares if their effect is anti-dilutive. Common stock equivalents pertaining to the convertible debt, options and warrants were not included in the computation of diluted net loss per common share because the effect would have been anti-dilutive due to the net loss for the nine months ended September 30, 2015 and 2014.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and trade receivables. The Company places its cash with high credit quality financial institutions. At times such cash may be in excess of the FDIC limit of \$250,000.

The Company sells primarily to companies and governmental entities across the globe. Receivables arising from those sales domestically are not collateralized; however, credit risk is minimized by continuing to diversify the customer base. International sales typically take place under the auspices of the Export Import Bank, a U.S. government entity, and are guaranteed by that entity under the terms of an insurance policy with a limit of \$2 million. The limit had been \$4 million, but was reduced to \$2 million at June 26, 2015. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of the specific customers, historical trends and other information.

As of September 30, 2015, four customers represented approximately 78% of outstanding accounts receivable. As of December 31, 2014, two customers represented approximately 90% of outstanding accounts receivable balances. For the nine months ended September 30, 2015 and 2014, two customers represented approximately 77% and 85% of revenue, respectively.

For the nine months ended September 30, 2015 and 2014, four vendors represented approximately 47% and 59% of total cost of goods sold, respectively.

WINDSTREAM TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014

Related parties

A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

An officer of the Company is also a relative of the mayor of North Vernon, which has a loan with the Company as described in Notes 12 and 13. The officer has an employment contract with the Company. Management believes compensation is based on market value comparisons and is not impacted by the related party officer's relationship to the mayor of the lender, relationships have been disclosed, and transactions have been entered into on an unrelated, third party basis.

Financial Instruments and Fair Value of Financial Instruments

The Company applies the provisions of accounting guidance, FASB Topic ASC 825, *Financial Instruments*, that requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the Consolidated Balance Sheets, for which it is practicable to estimate the fair value, and 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. At September 30, 2015 and December 31, 2014, the fair value of cash, accounts receivable, inventory, accounts payable, accrued expenses, deferred revenues and short term debt approximate carrying value due to the short maturity of the instruments, quoted market prices or interest rates which fluctuate with market rates.

The Company defines fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company applies the following fair value hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 – Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date.

The Company uses quoted market prices to determine the fair values when available. If quoted market prices are not available, the Company measures fair value using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and currency rates.

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The carrying value of financial assets and liabilities recorded at fair value is measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. The Company had no financial assets or liabilities carried and measured on a nonrecurring basis during the reporting periods. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared.

Accounting for Derivatives Liabilities

The Company evaluates stock options, stock warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under the relevant sections of ASC Topic 815-40, *Derivative Instruments and Hedging: Contracts in Entity's Own Equity*. The result of this accounting treatment could be that the fair value of a financial instrument is classified as a derivative instrument and is marked-to-market at each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the Consolidated Statements of Operations as other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Financial instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815-40 are reclassified to a liability account at the fair value of the instrument on the reclassification date. See Note 11 for disclosure of derivatives and their valuation related to various convertible debt agreements.

Equity Instruments Issued to Non-Employees for Acquiring Goods or Services

Issuances of the Company's common stock or warrants for acquiring goods or services are measured at the fair value of the consideration or the fair value of the equity instruments issued, whichever is more reliably measurable.

The measurement date for the fair value of the equity instruments issued to consultants or vendors is determined at the earlier of (i) the date at which a commitment for performance to earn the equity instruments is reached (a "performance commitment" which would include a penalty considered to be of a magnitude that is sufficiently large disincentive for non-performance) or (ii) the date at which performance is complete. When it is appropriate for the Company to recognize the cost of a transaction during the financial reporting periods prior to the measurement date, for purposes of recognition of costs during those periods, the equity instrument is measured at the then-current fair values at each of those interim financial reporting dates.

Segment Information

The Company operates in two segments in accordance with accounting guidance FASB ASC Topic 280, *Segment Reporting*. The Company's Chief Executive Officer has been identified as the chief operating decision maker as defined by FASB ASC Topic 280. See additional discussion at Note 20.

Recently Issued Accounting Pronouncements, not yet adopted

On May 28, 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. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively. Early adoption is permitted. The Company has not determined the effect of the standard on its ongoing financial reporting.

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In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810) - Amendments to the Consolidation Analysis*, (ASU 2015-02). ASU 2015-02 modifies existing consolidation guidance related to (i) limited partnerships and similar legal entities, (ii) the evaluation of variable interests for fees paid to decision makers or service providers, (iii) the effect of fee arrangements and related parties on the primary beneficiary determination, and (iv) certain investment funds. These changes reduce the number of consolidation models from four to two and place more emphasis on the risk of loss when determining a controlling financial interest. This guidance is effective for public companies for fiscal years beginning after December 15, 2015. The Company is in the process of evaluating the adoption of this ASU, and does not expect this to have a material effect on its consolidated results of operations and financial condition.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period*. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award.

Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial position and results of operations.

NOTE 3 – GOING CONCERN

The accompanying financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business.

The Company had accumulated deficits of approximately \$24,700,000 at September 30, 2015 and \$21,800,000 at December 31, 2014, had net losses of approximately \$2,965,000 and \$3,547,000 for the nine months ended September 30, 2015 and 2014, respectively, as well as working capital deficits of approximately \$4,820,000 at September 30, 2015 and approximately \$4,943,000 at December 31, 2014. These matters, among others, raise substantial doubt about the Company's ability to continue as a going concern.

While the Company is attempting to increase operations and generate additional revenues, the Company's cash position may not be significant enough to support the Company's daily operations. The Company will continue to pursue additional equity and/or debt financing while managing cash flows from operations in an effort to provide funds to meet its obligations on a timely basis and to support future business development. There is no assurance that these efforts will be successful. Management believes that the actions presently being taken to further implement its business plan and generate additional revenues provide the opportunity for the Company to continue as a going concern. While the Company believes in the viability of its strategy to generate additional revenues and in its ability to raise the additional funds, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent upon the Company's ability to further implement its business plans and generate additional revenues. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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NOTE 4 – REVERSE MERGER

Effective May 22, 2013, Windaus Global Energy, Inc. entered into a Share Exchange Agreement with WindStream Technologies, Inc., (a California corporation) pursuant to which, the Company agreed to exchange the outstanding common and preferred stock of WindStream held by the WindStream shareholders for shares of common stock of the Company on a 1:25.808 basis. At the Closing, there were approximately 955,000 shares of WindStream common stock and 581,961 shares of WindStream preferred stock outstanding. Pursuant to the Share Exchange Agreement, the shares of WindStream common stock and preferred stock were exchanged for 39,665,899 (24,646,646 for the Windstream common shares and 15,019,253 for the Windstream preferred shares) new shares of the Company's common stock, par value of \$0.001 per share. At the closing of the agreement, Windaus Global Energy, Inc. had approximately 24,000,000 shares of common stock issued outstanding and no preferred stock. The Company has retroactively restated the common shares outstanding and weighted average shares outstanding for prior years pursuant to the reverse merger share exchange ratio of 1:25.808.

For accounting purposes, this transaction is being accounted for as a reverse merger and has been treated as a recapitalization of Windaus Global Energy, Inc., with WindStream Technologies, Inc. considered the accounting acquirer, and the financial statements of the accounting acquirer became the financial statements of the registrant. The Company did not recognize goodwill or any intangible assets in connection with the transaction. The 39,665,899 shares issued to the shareholder of WindStream Technologies, Inc., and its designees in conjunction with the share exchange transaction have been presented as outstanding for all periods. The historical consolidated financial statements include the operations of the accounting acquirer for all periods presented.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of:

	September 30, 2015	December 31, 2014
Accounts Receivable – EXIM insured	\$ 82,147	\$ 1,013,938
Accounts Receivable – not insured	249,419	31,986
	<u>331,566</u>	<u>1,045,924</u>
Allowances for doubtful accounts and sales returns and allowances	(26,000)	(28,402)
	<u>\$ 305,566</u>	<u>\$ 1,017,522</u>

Under the terms of a revolving line of credit agreement with the Export Import Bank as discussed in Note 10, 95% of customer's outstanding balances under the terms of the Export Import Bank are guaranteed by the Export Import Bank, an agency of the United States government.

NOTE 6 – INVENTORIES

Inventories consist of raw materials (which consists principally of components), work in process and finished goods. Inventory, consisting mostly of raw materials (which principally consist of components) are stated at the lower of cost or market on the first-in, first-out basis, or market. Inventories are classified as current assets.

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Inventories consisted of the following as of:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Raw Materials	\$ 1,403,602	\$ 729,981
Work in process	142,713	384,213
Finished goods	354,737	70,763
	<u>\$ 1,901,052</u>	<u>\$ 1,184,957</u>

During the year ended December 31, 2014, the Company evaluated its inventory and wrote down inventory by approximately \$111,000, which has been included in the accompanying Consolidated Statements of Operations. There was no such write down for the nine months ended September 30, 2015 and 2014.

NOTE 7 – PREPAID EXPENSES

Prepaid expenses consisted of the following as of:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Prepaid expenses, primarily inventory	\$ 287,112	\$ 77,349

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Manufacturing equipment	\$ 155,145	\$ 154,666
Factory equipment	114,561	15,800
Furniture and fixtures	7,888	7,888
Leasehold improvements	64,582	64,582
Tooling	565,160	473,893
Total	907,336	716,829
Less accumulated depreciation	(566,391)	(463,189)
Net property, plant and equipment	<u>\$ 340,945</u>	<u>\$ 253,640</u>

Depreciation expense for the periods ended amounted to:

	<u>Nine months ended September 30, 2015</u>	<u>Nine months ended September 30, 2014</u>
Depreciation Expense	\$ 103,000	\$ 93,000

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NOTE 9 – ACCRUED LIABILITIES

Accrued expenses consisted of the following as of:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Accrued interest	\$ 717,693	\$ 426,938
Accrued liabilities	282,837	25,618
Accrued payroll	432,747	332,909
Accrued warranty liability	253,000	253,000
Accrued property taxes	16,694	14,426
Total	\$ 1,702,971	\$ 1,052,891

NOTE 10 – SHORT TERM DEBT

Short term debt consisted of the following:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Short term debt		
Revolving line of credit	\$ 1,999,084	\$ 1,991,605
2012 and 2013 notes payable to individuals	260,000	285,000
April 2014 note payable to an individual	200,000	200,000
April 2015 note payable to an individual	50,000	-
	<u>\$ 2,509,084</u>	<u>\$ 2,476,605</u>

Interest expense for the short term debt for the nine months ended September 30, 2015 and 2014 is summarized as follows:

	<u>Nine months ended September 30, 2015</u>	<u>Nine months ended September 30, 2014</u>
Interest expense on short term debt		
Revolving line of credit	\$ 66,562	\$ 51,468
2012 and 2013 notes payable to individuals	15,933	16,793
April 2014 note payable to an individual	11,967	-
April 2015 note payable to an individual	2,315	-
	<u>\$ 96,777</u>	<u>\$ 68,261</u>

Revolving Line of Credit

On February 25, 2013, the Company entered into a working capital revolving line of credit with a bank, with a credit limit of \$500,000 which was increased to \$2 million when the line was renewed on June 26, 2014. The line is used in financing overseas sales of the Company's products. The Company's draws under the line are transaction specific and are guaranteed by the Export Import Bank, a U.S. government entity. The line is secured by a perfected first security interest on all of the Company assets.

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Drawdowns on the line are used to meet the working capital needs of the Company to purchase materials and fund the labor and overhead to manufacture specific products for export to specific customers. The current line, which accrues interest at a fixed rate of 6.0%, was set to expire on June 26, 2015, but was extended until October 26, 2015, and has a total credit limit of \$2,000,000. The loan expired on October 26, 2015 and the lender and the Company are in discussions to renew the loan. The lender has not communicated to the Company that the loan is in default or called the loan as of the date of this filing. As the line of credit's maturity date has passed, the debt has been classified as current on the accompanying Consolidated Balance Sheet. The loan is guaranteed by the Company's President.

For the nine months ended September 30, 2015 and 2014, there were total draws on the line of credit of \$1,070,000 and \$2,045,000, respectively, and repayments of approximately \$1,062,000 and \$695,000 respectively.

2012 and 2013 short term notes to individuals

During 2013 and 2012, the Company entered into other various notes with individuals totaling \$300,000, at interest rates ranging from 5% to 18%, which are due on demand. During the nine months ended September 30, 2015 and 2014, the Company repaid \$25,000 and \$0, respectively, on these various notes.

April 2014 short term note payable to an individual

On April 15, 2014, the Company entered into a note payable for \$200,000 with a term of one year and interest accruing at a rate of 8%, which is accruing and due in full at the end of the term of the note. The note was not repaid on April 15, 2015, instead the terms were amended, making this obligation due on demand.

April 2015 short term note payable to an individual

In April 2015, the Company entered into a \$50,000 note payable with an individual at an interest of 10% and due on demand.

NOTE 11 – CONVERTIBLE NOTES PAYABLE

Convertible notes payable consisted of the following as of:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Short term convertible notes		
2013 and 2014 convertible notes payable	\$ 350,000	\$ 550,000
Debt discount	-	(166,668)
2015 convertible notes payable	937,864	-
Typenex note payable	-	342,000
Vista note payable	-	132,000
Redwood note payable	892,500	2,184,000
	<u>\$ 2,180,364</u>	<u>\$ 3,041,332</u>
Derivative and warrant liability		
Typenex	\$ -	\$ 893,347
Vista	-	195,506
2015 convertible notes payable	569,550	-
Redwood	270,094	850,439
	<u>\$ 839,644</u>	<u>\$ 1,939,292</u>

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	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Investor Notes		
Typenex	\$ -	\$ 255,260
Redwood	1,535,000	1,920,000
Total Investor Notes Receivable	<u>\$ 1,535,000</u>	<u>\$ 2,175,260</u>

Interest expense for the short term debt for the nine months ended September 30, 2015 and 2014 is summarized as follows:

	<u>Nine months ended September 30, 2015</u>	<u>Nine Months ended September 30, 2014</u>
Interest expense on short term convertible notes		
2013 and 2014 convertible notes payable	\$ 36,074	\$ 42,551
Debt discount	166,669	353,389
2015 convertible notes payable	41,672	-
Typenex note payable	10,774	1,666
Vista note payable	21,166	14,927
Redwood note payable	135,650	-
	<u>\$ 412,005</u>	<u>\$ 412,533</u>

2013 and 2014 short term convertible notes payable, net of discount

On June 1, 2014, the Company entered into a subscription agreement with one accredited investor for the issuance of a convertible promissory note in the aggregate principal amount of \$400,000, which is convertible into shares of common stock of the Company at \$0.40 per share, and a warrant entitling the holder to purchase up to an aggregate of 50,000 of shares of common stock of the Company at \$0.40 per share. The warrant has a term of three years and vested immediately. The note bears interest at 12% for the first ninety days of the term and then bears interest at 18% for the next nine months. The note was due one year after issuance. In connection with this transaction, a major shareholder and a related party (the "Pledgor") signed a pledge and security agreement, which grants a security interest in one million shares of the Company's common stock owned by the Pledgor.

The Company evaluated the embedded conversion features within the convertible debt under ASC 815 "Derivatives and Hedging" and determined that neither the embedded conversion feature nor the warrants qualified for derivative accounting. Additionally, the instruments were evaluated under ASC 470-20 "Debt with Conversion and Other Options" for consideration of any beneficial conversion features. It was concluded that a beneficial conversion feature existed for the convertible debt due to the relative fair value of the warrants issued with the debt.

The total debt discount recorded on the note with the June 1, 2014 date of issuance was \$400,000 (warrant relative fair value of approximately \$42,000 and the beneficial conversion feature was approximately \$358,000) which is being amortized to interest expense over the term of the note. The warrant and beneficial conversion feature was recorded as additional paid in capital.

The balance outstanding on the above note was \$0 and \$200,000 at September 30, 2015 and December 31, 2014, respectively.

On June 1, 2015, the Company did not repay the outstanding principal and accrued interest due on June 1, 2015. In exchange for not declaring a default on the note, and after transfer of the one million shares of the Company's common stock owned by a related party to the lender, the Company and the note holder signed Amendment One to the note which reduced the conversion price of \$0.40 per share to a price that was the average of the three (3) lowest closing bid prices per share for the last twenty (20) trading days prior to the date of the Notice of Conversion, discounted by 20%.

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Between July 9 and July 27, 2015, the assignee converted all of the outstanding principal balance and accrued interest into 29,165,277 shares of the Company's common stock at prices ranging from \$0.008 to \$0.015 per share.

On June 1, 2013, the Company entered into subscription agreements with five accredited investors for the issuance of convertible promissory notes in the aggregate principal amount of \$550,000, which are convertible into shares of common stock of the Company at \$0.25 per share, and warrants entitling the holder to purchase up to an aggregate of 1,600,000 of shares of common stock of the Company at \$0.25 per share. The warrants have a term of three years and vested immediately. The notes bear interest at 8% and are due in one year. Four notes, with a value of \$200,000 at December 31, 2013, were converted to stock in 2014 as disclosed in Note 14. One note, for \$350,000 at December 31, 2013, was not repaid timely and went into default in 2014. The interest rate on this note rose to 12% as a consequence.

The Company evaluated the embedded conversion features within the convertible debt under ASC 815 "Derivatives and Hedging" and determined that neither the embedded conversion feature nor the warrants qualified for derivative accounting. Additionally, the instruments were evaluated under ASC 470-20 "Debt with Conversion and Other Options" for consideration of any beneficial conversion features. It was concluded that a beneficial conversion feature existed for the convertible debt due to the relative fair value of the warrants issued with the debt.

The total debt discount recorded on the note with the June 1, 2013 date of issuance was \$528,058 (warrant relative fair value of approximately \$253,000 and the beneficial conversion feature was approximately \$275,000) which is being amortized to interest expense over the term of the note.

The unamortized debt discount balance at September 30, 2015 and December 31, 2014 was approximately \$0 and \$167,000, respectively and is being netted against the total convertible promissory notes principal amount of \$350,000 and \$550,000, respectively, for presentation in the accompanying Consolidated Balance Sheets.

For the nine months ended September 30, 2015 and 2014, the Company amortized approximately \$167,000 and \$353,000 (including approximately \$64,000 of debt discount related to notes converted to common stock, see below), respectively, to interest expense.

In connection with one of the five debt issuances in 2013, the Company paid finder's fees of approximately \$42,000 as well as 140,000 common stock warrants at \$0.05 per share. The warrants vest immediately and have a three year term. The fair value of the warrants was determined to be approximately \$48,000 based on the Black Scholes option pricing model, using the same assumptions as those used for the warrants above, except the exercise price was \$0.05 per share. The combined value of the warrants of \$48,000 and cash of \$42,000 amounted to approximately \$90,000 which was capitalized as a deferred financing cost and is being amortized to interest expense over the life of the notes.

Amortization of deferred financing costs, which has been included interest expense, for the nine months ended September 30, 2015 and 2014, was approximately \$0 and \$28,000, respectively.

2015 convertible notes payable

LG Capital Financing – Note 1

On March 5, 2015, the Company entered into a securities purchase agreement with LG Capital Funding, LLC, an accredited investor ("LG") whereby the Company issued and sold to LG an 8% convertible note (the "LG Note") in the principal amount of \$105,000 for \$105,000.

The LG Note is due on the first anniversary of issuance and bears interest at the rate of 8% per annum. The LG Note is convertible, in whole or in part, into shares of Common Stock at the option of LG, at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding, and including, the date of conversion, subject to adjustment and further discount upon certain events, as set forth in the LG Note.

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The Company has the right, at any time prior to the six month anniversary of the issuance date of the LG Note to redeem the outstanding LG Note at a redemption price equal to an amount between 115% and 145% of the amount of principal plus interest being redeemed, depending on the date of prepayment.

The convertibility of the LG Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 9.9% of Common Stock.

The Company reimbursed LG for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$5,000 and paid \$8,000 to Carter Terry & Company for due diligence fees.

See Note 21 for conversions of outstanding debt subsequent to September 30, 2015.

JSJ Investments Financing – Note 1

On March 6, 2015, the Company issued and sold to JSJ Investments Inc. (“JSJ”) a convertible note (the “JSJ Note”) in the principal amount of \$100,000, for \$100,000.

The JSJ Note is due on demand and bears interest at the rate of 12% per annum. The JSJ Note is convertible, in whole or in part, into shares of Common Stock at the option of JSJ, at a conversion price equal to the lesser of (i) 55% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of issuance of the JSJ Note or (ii) 55% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the JSJ Note.

The Company has the right to redeem the outstanding JSJ Note at a redemption price equal to 150% of the amount of principal and interest being redeemed, provided that any repayment, including at maturity, can only be made with the consent of JSJ.

The Company reimbursed JSJ for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$2,000 and paid \$10,000 to Carter Terry & Company in connection with due diligence fees.

Since the inception of Note #1, through September 30, 2015, JSJ converted approximately \$59,515 of the outstanding balance of Note #1 into 27,125,836 shares of common stock at prices based on a formula which resulted in prices from \$0.0013 to \$0.0033.

See Note 21 for conversions of outstanding debt subsequent to September 30, 2015.

JMJ Financial Financing

On March 9, 2015, the Company issued and sold to MJM Financial (“MJM”) a convertible note (the “MJM Note”) in the principal amount of \$100,000 for \$90,000. MJM has the right to invest an additional \$400,000 on the same terms and conditions from time to time at its sole discretion.

Each portion funded of the MJM Note is due on the second anniversary of funding and bears no interest for the first three months and then a one-time interest charge of 12% will be due. The MJM Note is convertible, in whole or in part, into shares of Common Stock at the option of MJM at a conversion price equal to the lesser of (i) \$0.084 or (ii) 60% of the lowest trading price of the Common Stock for the 25 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the MJM Note.

The convertibility of the MJM Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 4.99% of Common Stock.

The Company granted MJM piggyback registration rights on the shares issuable upon conversion of the MJM Note. If the Company fails to include such shares, the Company shall pay MJM liquidated damages of 25% of the outstanding principal amount of the MJM Note, but not less than \$25,000.

Since the inception of the MJM Note through September 30, 2015, MJM converted approximately \$23,040 of the outstanding balance of the MJM Note into approximately 20,000,000 shares of common stock at prices based on a formula which resulted in prices from \$0.0006 to \$0.0036.

See Note 21 for conversions of outstanding debt subsequent to September 30, 2015.

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EMA Financial Financing

On March 10, 2015, the Company entered into a securities purchase agreement with EMA Financial, LLC, an accredited investor (“EMA”) whereby the Company issued and sold to EMA an 8% convertible note (the “EMA Note”) in the principal amount of \$100,000 for \$90,000.

The EMA Note is due on the first anniversary of issuance and bears interest at the rate of 10% per annum. The EMA Note is convertible, in whole or in part, into shares of Common Stock at the option of EMA at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the EMA Note.

The Company has the right, at any time prior to the four month anniversary of the issuance date of the EMA Note, upon at least five trading days prior written notice, to redeem the outstanding EMA Note at a redemption price equal to 135% of the amount of principal and interest being redeemed.

The convertibility of the EMA Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 4.9% of Common Stock.

The Company granted EMA a right of first refusal on all future financings for a year from the date of issuance of the EMA Note.

The Company reimbursed EMA for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$3,500.

Since the inception of the EMA Note through September 30, 2015, EMA converted approximately \$27,932 of the outstanding balance of the EMA Note into 17,529,855 shares of common stock at prices based on a formula which resulted in prices from \$0.00108 to \$0.0027.

See Note 21 for conversions of outstanding debt subsequent to September 30, 2015.

Adar Bays Financing

On March 20, 2015, the Company entered into a securities purchase agreement with Adar Bays, LLC, an accredited investor (“Adar”) whereby the Company issued and sold to Adar an 8% convertible note (the “Adar Note”) in the principal amount of \$50,000 for \$50,000.

The Adar Note is due on the first anniversary of issuance and bears interest at the rate of 8% per annum. The Adar Note is convertible, in whole or in part, into shares of Common Stock at the option of Adar at a conversion price equal to 65% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding and including the date of conversion, subject to adjustment and further discount upon certain events, as set forth in the Adar Note.

The Company has the right, at any time prior to the six month anniversary of the issuance date of the Adar Note to redeem the outstanding Adar Note at a redemption price equal to 150% of the amount of principal being redeemed plus interest.

The convertibility of the Adar Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 9.9% of Common Stock.

The Company reimbursed Adar for all costs and expenses incurred by it in connection with the transaction in an amount equal to \$2,500 and paid \$4,000 to Carter Terry & Company in connection with due diligence fees.

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Union Capital Note

In April 2015, the Company entered into a securities purchase agreement with Union Capital, LLC, an accredited investor ("Union Capital") whereby the Company issued and sold to Union Capital an 8% convertible note (the "Union Capital Note") in the principal amount of \$75,000 for \$75,000.

The Union Capital Note is due on the first anniversary of issuance and bears interest at the rate of 8% per annum. The Union Capital Note is convertible, in whole or in part, into shares of Common Stock at the option of Union Capital, at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding, and including, the date of conversion, subject to adjustment and further discount upon certain events, as set forth in the Union Capital Note.

The Company reimbursed Union Capital for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$3,500 and paid \$6,000 to Carter Terry & Company in connection with due diligence fees.

See Note 21 for conversions of outstanding debt subsequent to September 30, 2015.

JSJ Investments Financing – Note 2

On April 20, 2015, the Company issued and sold to JSJ Investments a convertible note (the "JSJ Note II") in the principal amount of \$112,000, for \$112,000.

The JSJ Note II is due on demand and bears interest at the rate of 12% per annum. The JSJ Note II is convertible, in whole or in part, into shares of Common Stock at the option of JSJ, at a conversion price equal to the lesser of (i) 45% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of issuance of the JSJ Note II or (ii) 45% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the JSJ Note II.

The Company has the right to redeem the outstanding JSJ Note II at a redemption price equal to 135% to 145% of the amount of principal and interest being redeemed, provided that any repayment, including at maturity, can only be made with the consent of JSJ.

The Company reimbursed JSJ for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$2,000 and paid \$8,000 to Carter Terry & Company in connection with due diligence fees.

Black Forest Capital LLC, Financing

On July 16, 2015, the Company issued and sold to Black Forest Capital LLC ("Black Forest") a convertible note (the "Black Forest Note") in the principal amount of \$150,000 for \$140,000.

The Black Forest Note is due on the first anniversary of funding and bears interest at a rate of 8%. The Black Forest Note is convertible, in whole or in part, into shares of Common Stock at the option of Black Forest at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the Black Forest Note.

The Company has the right within 180 days of the date of the note to redeem the outstanding Black Forest Note at a redemption price equal to 130% of the amount of principal and interest being redeemed, provided that any repayment, including at maturity, can only be made with the consent of Black Forest.

The Company reimbursed Black Forest for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$12,000 and paid \$12,000 to Carter Terry & Company in connection with due diligence fees.

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GW Holdings Group LLC

On August 11, 2015, the Company issued and sold to GW Holdings Group, LLC. ("GW") a convertible note (the "GW Note") in the principal amount of \$61,000 for \$50,000.

The GW Note is due on the first anniversary of funding and bears interest at a rate of 8%. The GW Note is convertible, in whole or in part, into shares of Common Stock at the option of GW at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the GW Note.

The Company has the right within 180 days of the date of the note to redeem the outstanding GW Note at a redemption price starting at 135% to 150% of the amount of principal and interest being redeemed, provided that any repayment, including at maturity, can only be made with the consent of GW.

The Company reimbursed GW for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$3,000 and paid \$3,000 in connection with legal fees and an amount equal to \$4,000 and paid \$4,000 to Carter Terry & Company in connection with due diligence fees.

LG Capital Financing – Note 2

On August 14, 2015, the Company entered into a securities purchase agreement with LG whereby the Company issued and sold to LG an 8% convertible note (the "LG Note #2") in the principal amount of \$105,000 for \$90,000.

The LG Note #2 is due on the first anniversary of issuance and bears interest at the rate of 8% per annum. The LG Note #2 is convertible, in whole or in part, into shares of Common Stock at the option of LG, at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding, and including, the date of conversion, subject to adjustment and further discount upon certain events, as set forth in the LG Note #2.

The Company has the right, at any time prior to the six month anniversary of the issuance date of the LG Note #2 to redeem the outstanding LG Note at a redemption price equal to an amount between 115% and 145% of the amount of principal plus interest being redeemed, depending on the date of prepayment.

The convertibility of the LG Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 9.9% of Common Stock.

The Company reimbursed LG for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$5,000 and paid \$5,000 for legal fees and an amount equal to \$10,000 paid \$10,000 to Carter Terry & Company for due diligence fees.

Identification and Valuation of Derivatives in the Above Ten Notes

The Company evaluated the embedded derivative criteria in ASC 815, and concluded that because the above notes could be readily convertible to cash by the Investor, the conversion feature meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The Company has not elected to initially and subsequently measure the note as a hybrid instrument in its entirety at fair value. Therefore, in accordance with ASC 815, the Company is accounting for all the embedded derivatives identified in the note as a single compound embedded derivative.

The fair value of the embedded derivative liability is measured in accordance with ASC 820, using "monte carlo simulation" modeling.

The compound embedded derivative was recorded as a derivative liability on the Consolidated Balance Sheet at its fair value of approximately \$569,550 at September 30, 2015.

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At inception, the carrying value of the above ten notes was as follows:

Face amount of note	\$ 958,000
Derivative and warrant liability	-
	<u>\$ 958,000</u>

At September 30, 2015, the carrying value of the above ten notes was as follows:

Face amount of note	\$ 937,864
Derivative and warrant liability	569,550
	<u>\$ 1,507,414</u>

Convertible Note Payable to Typenex Co-Investment, LLC

On September 26, 2014 (the "Effective Date"), the Company entered into a Securities Purchase Agreement with Typenex Co-Investment, LLC ("Investor" or "Lender") whereby it sold in a private placement a 10% Collateralized Convertible Promissory note with a \$550,000 principal amount, which was issued at a \$50,000 discount from the face amount (the "OID"), and three warrants to purchase the Company's Common Stock at an exercise price of \$.80 per share, exercisable at various dates (the "Investor Warrants"), in exchange for \$250,000 cash and two 8% Investor Notes ("Investor Note #1 and "Investor Note #2") with principal balances of \$125,000 each. The note is collateralized by the Investor Notes.

The note is separated into three Conversion Eligible Tranches (discussed under *Lender Conversion* below) of the following amounts:

Initial Tranche	\$ 275,000
First Subsequent Tranche	137,500
Second Subsequent Tranche	137,500
	<u>\$ 550,000</u>

The note accrues interest at 10%, and is repayable in eight monthly installments beginning March 26, 2015, until the Maturity Date of October 26, 2015 ("Installment Dates"). At each of the Installment Dates, the Company is required to pay to the Lender the applicable "Installment Amount" due on such date. Installment Amount means \$68,750 ($\$550,000 \div 8$), plus the sum of any accrued and unpaid interest that has been added to the lowest-numbered then-current Conversion Eligible Tranche as of the applicable Installment Date and accrued and unpaid late charges that have been added to the lowest-numbered then current Conversion Eligible Tranche, if any, under the note as of the applicable Installment Date, and any other amounts accruing or owing to Lender under the note as of such Installment Date, provided, however, that if the remaining amount owing under all then-existing Conversion Eligible Tranches or otherwise with respect to the note as of the applicable Installment Date is less than the Installment Amount set forth above, then the Installment Amount for such Installment Date (and only such Installment Amount) will be reduced by the amount necessary to cause such Installment Amount to equal such outstanding amount.

Installment Conversions

At the option of the Company or the Lender, payments of each Installment Amount may be made (a) in cash, or (b) by converting such Installment Amount into a number of shares of Common Stock ("Installment Conversion Shares") derived by dividing the portion of the applicable Installment Amount being converted by the Installment Conversion Price) an "Installment Conversion"), or (c) by any combination of the foregoing, so long as the cash is delivered to the Lender on the applicable Installment Date and the Installment Conversion Shares are delivered to the Lender on or before the applicable delivery date.

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The Installment Conversion Price is the lesser of (i) the Lender Conversion Price (defined under *Lender Conversion* below), and (ii) 70% (the "Conversion Factor") of the average of the three (3) lowest Closing Bid Prices in the twenty (20) Trading Days immediately preceding the applicable Conversion (the "Market Price"), provided that if at any time the average of the three (3) lowest Closing Bid Prices in the twenty (20) Trading Days immediately preceding any date of measurement is below \$0.40, then the then-current Conversion Factor will be reduced to 65% for all future conversions (subject to other reductions). Additionally, if at any time after the Effective Date, Borrower is not DWAC Eligible, then the then-current Conversion Factor will automatically be reduced by 5% for all future Conversions. If at any time after the Effective Date, the Conversion Shares are not OTC Eligible, then the then-current Conversion Factor will automatically be reduced by an additional 5% for all future conversions.

On the date that is twenty (20) trading days (a "True-Up Date") from each date Borrower delivers Free Trading (as defined below) Installment Conversion Shares to the Lender, there will be a true-up where the Company will deliver to the Lender additional Installment Conversion Shares ("True-Up Shares") if the Installment Conversion Price as of the True-Up Date is less than the Installment Conversion Price used in the applicable Installment Notice. In such event, the Company must deliver to the Lender within three (3) trading days of the True-Up Date (the "True-Up Share Delivery Date") a number of True-Up Shares equal to the difference between the number of Installment Conversion Shares that would have been delivered to the Lender on the True-Up Date based on the Installment Conversion Price as of the True-Up Date and the number of Installment Conversion Shares originally delivered to the Lender pursuant to the applicable Installment Notice.

The Company evaluated the note under the requirements of ASC 480 *Distinguishing Liabilities From Equity*, and concluded that the note does not fall within the scope of ASC 480. The Company evaluated the Installment Conversion feature under the requirements of ASC 815 *Derivatives and Hedging*. Due to the existence of the antidilution provision which reduces the Lender Conversion Price in the event of subsequent Dilutive Issuances by the Company (see *Lender Conversion* below), the Installment Conversion feature does not meet the definition of "indexed to" the Company's stock, and the scope exception to ASC 815's derivative accounting provisions does not apply.

The Company evaluated the embedded derivative criteria in ASC 815, and concluded that because the Common Stock that would be delivered by the Company if an Installment Conversion is elected (including True-Up Shares) would be readily convertible to cash by the Investor, the Installment Conversion feature meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

During the nine months ended September 30, 2015, the Company converted the required Installment Amounts into shares of the Company's common stock. Using the formula outlined above, the Company made installment payments of approximately \$279,272, by issuing approximately 20,577,648 shares of the Company's common stock to the Lender.

On August 31, 2015, the Lender provided the true up notice, as discussed above, for the June 26, 2015 installment, installment #4 and the July 26, 2015 installment, installment #5. Consequently the Company issued 5,767,145 additional shares of the Company's common stock based on the Lender's calculation of the installment #4 true up and 2,646,216 shares of the Company's common stock based on the Lender's calculation of the installment #5 true up.

See Note 21 for conversions of outstanding debt subsequent to September 30, 2015.

Lender Conversion

The Lender has the right at any time after the Effective Date until the outstanding balance of the note has been paid in full, including without limitation (i) until any Optional Prepayment Date or at any time thereafter with respect to any amount that is not prepaid, and (ii) during or after any Fundamental Default Measuring Period, at its election, to convert (each instance of conversion is referred to as a "Lender Conversion") all or any part of the outstanding balance into shares ("Lender Conversion Shares") of the Company's common stock, of the portion of the outstanding balance being converted (the "Conversion Amount") divided by the "Lender Conversion Price" of \$0.80, subject to potential future adjustments described below.

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The conversion by the Lender of any portion of the outstanding balance is only exercisable in three (3) tranches (each, a “Tranche”), consisting of (i) an initial Tranche in an amount equal to \$275,000 and any interest, costs, fees or charges accrued thereon or added thereto under the terms of the note and the other Transaction Documents (as defined in the Securities Purchase Agreement) (the “Initial Tranche”), and (ii) two (2) additional Tranches, each in the amount of \$137,500, plus any interest, costs, fees or charges accrued thereon or added thereto under the terms of the note and the other Transaction Documents (each, a “Subsequent Tranche”).

The Initial Tranche corresponds to the initial cash proceeds of \$250,000 plus \$25,000 of the OID, and may be converted any time subsequent to the Effective Date. The first Subsequent Tranche corresponds to Investor Note #1 plus \$12,500 of the OID, and the second Subsequent Tranche corresponds to Investor Note #2 plus \$12,500 of the OID. The Lender’s right to convert any portion of any of the Subsequent Tranches is conditioned upon the Lender’s payment in full of the Investor Note corresponding to such Subsequent Tranche (upon the satisfaction of such condition, such Subsequent Tranche becomes a “Conversion Eligible Tranche”). The Initial Tranche was immediately a Conversion Eligible Tranche at the Effective Date.

The Company evaluated the note under the requirements of ASC 815, *Derivatives and Hedging*. Due to the existence of the anti-dilution provision which reduces the Lender Conversion Price in the event of subsequent dilutive issuances by the Company described above, the Lender Conversion feature does not meet the definition of “indexed to” the Company’s stock, and the scope exception to ASC 815’s derivative accounting provisions does not apply.

The Company also evaluated the embedded derivative criteria in ASC 815, and concluded that the default and remedy provisions of the note (see *Default Provisions* below) cause the Lender Conversion feature to meet the net settlement criterion in ASC 815. Based on the Lender Conversion feature meeting all the embedded derivative criteria in ASC 815, the Lender Conversion feature meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The Company evaluated the Company’s option to settle the Lender Conversion in cash in the event the Lender elects to convert subsequent to the occurrence of an Event of Default under the requirements of ASC 815, and included that it meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The Company evaluated the Lender Conversion Delay provision under the requirements of ASC 815 and concluded it meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The Company evaluated the embedded derivative criteria in ASC 815, and concluded that because certain of the Events of Default under the note are factors that are unrelated to a deterioration of the creditworthiness of the Company, the Events of Default and Default Interest provisions of the note are not considered clearly and closely related to the characteristics of debt. Based on meeting all the criteria in the definition, the Company concluded that the Events of Default and Default Interest provisions each meet the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

Company Prepayment Option

So long as no Event of Default has occurred subsequent to the effective date, the Company may at any time up to the maturity date optionally prepay, in full, the outstanding balance of the note at a price of 125% of the aggregate principal amount of the note, plus accrued and unpaid interest, if any, at the date of prepayment (“Optional Prepayment Amount”).

The Company evaluated the embedded derivative criteria in ASC 815, and concluded that the Company’s prepayment option is not the type of call option that meets the definition of an embedded derivative. However, the Optional Prepayment Liquidated Damages clause does meet the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

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Investor Warrants

The Investor Warrants allow the Investor to purchase the number of shares of common stock (“Warrant Shares”) equal to the purchase price allocated to each Investor Warrant divided by the market price of the Company’s common stock immediately preceding the date each Investor Warrant first becomes exercisable, as such the number may be adjusted from time to time pursuant to the antidilution provisions of the Investor Warrant.

The Purchase Price allocated to each Investor Warrant at inception was:

Investor Warrant #1:	\$ 275,000
Investor Warrant #2:	137,500
Investor Warrant #3:	137,500
	<u>\$ 550,000</u>

The Market Price applicable to Investor Warrant #1, determined as of the effective date, was \$.65 per share. Accordingly as of September 30, 2014, the maximum number of shares of the Company’s common stock Investor Warrant # 1 is exercisable into is 423,076 shares. The market price applicable to Investor Warrants #2 and #3 will be determined as of the related Investor Warrant’s “Exercisable Date” (defined below), so the number of shares into which Investor Warrants #2 and #3 are exercisable is not determinable as of December 31, 2014. Had all of the Investor Warrants been exercisable as of December 31, 2014, the maximum number of shares of the Company’s common stock the Investor Warrants could be exercised into, based on the \$.65 per share market price on that date, would be 846,153, which may ultimately be higher or lower.

The term of each Investor Warrant began on September 27, 2014 and expires on the fifth anniversary from each Investor Warrant becomes exercisable (the “Exercisable Date”). Investor Warrant #1 is exercisable at any time from September 27, 2014, and it expires September 27, 2019. The Exercisable Dates for Investor Warrant #2 and Investor Warrant #3 occur once the full outstanding balance of Investor Note #1 and Investor Note #2, respectively, has been paid to Company, and they expire on the fifth anniversary of their respective Exercisable Date.

The exercise price of the Investor Warrants is \$.80 per share of the Company’s common stock, as may be adjusted from time to time pursuant to the antidilution provisions of the Warrants.

The Investor Warrants are exercisable by the Investor in whole or in part, as either a cash exercise or as a “cashless” exercise.

On September 18, 2015, the Lender notified the Company of their intention to exercise their warrant exercisable into 71,342 shares of common stock at a price determined by a formula which resulted in the Company issuing 20,800,157 shares of the Company’s common stock to the Lender.

The Company evaluated the warrants under ASC 480 *Distinguishing Liabilities From Equity* and ASC 815 *Derivatives and Hedging*. Due to the existence of the antidilution provision, which reduces the Exercise Price and Conversion Price in the event of subsequent Dilutive Issuances, the Investor Warrants are not indexed to the Company’s common stock, and the Company determined that the Warrants meet the definition of a derivative under ASC 815.

Accordingly, the warrants were recorded as derivative liabilities in the Consolidated Balance Sheets at their fair value of approximately \$183,000 at the date of issuance. The fair value of the warrants is measured in accordance with ASC 820 *Fair Value Measurement*, using “monte carlo simulation” modeling.

The fair value of the warrants as of September 30, 2015 and December 31, 2014 was \$0. At each subsequent reporting date, when the fair value of the warrants is remeasured, the changes in the fair value will be reported in the Consolidated Statements of Operations.

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The Company has not elected to initially and subsequently measure the note as a hybrid instrument in its entirety at fair value. Therefore, in accordance with ASC 815, the Company is accounting for all the embedded derivatives identified in the note as a single compound embedded derivative. The compound embedded derivative was recorded as a derivative liability on the Consolidated Balance Sheet at its fair value of approximately \$279,000 at the date of issuance of the note. The fair value of the embedded derivative liability is measured in accordance with ASC 820, using “monte carlo simulation” modeling.

The fair value of the compound embedded derivative liability as of September 30, 2015 and December 31, 2014 was \$0 and \$893,347, respectively. At each subsequent reporting date, when the fair value of the embedded derivative liability is remeasured, the changes in the fair value will be recorded in the Consolidated Statements of Operations.

Both the warrant derivative and embedded derivative liabilities are classified as current liabilities in the Consolidated Balance Sheets, and changes in their fair value are reported as a separate line item in the Consolidated Statements of Operations. The change in fair value of the warrant and embedded derivative liabilities for the nine months ended September 30, 2015 and 2014 was \$893,347 and \$0, respectively, which was recorded as a separate line item, change in fair value of derivative liabilities, on the Consolidated Statements of Operations.

At inception, the total proceeds of \$500,000 received by the Company for the note and Investor warrants, was allocated first to the Investor Warrant and embedded derivative liabilities at their initial fair values determined at the issuance date. The residual proceeds after that allocation were then applied to the note.

Accordingly, the initial carrying amount of the note is approximately \$39,000, derived as follows:

Face amount of note	\$ 550,000
Original issuance discount	(50,000)
Allocation to Investor Warrants	(182,000)
Allocated to embedded derivatives	(279,000)
	<u>\$ 39,000</u>

At September 30, 2015, the carrying value of the note was as follows:

Face amount of note	\$ -
Derivative and warrant liability	-
	<u>\$ -</u>

At December 31, 2014, the carrying value of the note was as follows:

Face amount of note	\$ 342,000
Derivative and warrant liability	893,347
	<u>\$ 1,235,347</u>

Investor Notes

The Company issued two Investor Notes on September 26, 2014. The principal of each Investor Note is \$125,000. Interest accrues on the unpaid principal balance under the Investor Notes at a rate of eight percent (8%) per annum until the full amount of the principal and fees has been paid. The entire unpaid principal balance and all accrued and unpaid interest under each Investor Note is due and payable thirteen (13) months from the date the Investor Note was entered into, which is October 26, 2015. However, the Investor may elect, in its sole discretion, to extend the maturity dates for up to thirty (30) days by delivering written notice of such election to the Company at any time prior to the maturity date. The Investor may, with Company’s consent, prepay, without penalty, all or any portion of the outstanding balance of each Investor Note along with any accrued but unpaid interest at any time prior to the maturity date.

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The Investor Notes contain certain default provisions such as the Investor's failure to make any payment when due and payable, its failure to observe or perform any other covenant, obligation, condition or agreement contained in the Investor Note; or upon involuntary bankruptcy by the Investor, and such petition is not dismissed within sixty (60) days, or a receiver, trustee, liquidator, assignee, custodian, sequestrator or other similar official is appointed to take possession of any of the assets or properties of Investor.

The Investor Notes are recorded as a current asset at cost, together with accrued interest thereon, in the Consolidated Balance Sheets. Interest income on the Investor Notes reported in the Consolidated Statements of Operations for the nine months ended September 30, 2015 and 2014 was approximately \$4,600 and \$0, respectively.

During the nine months ended September 30, 2015, the investor indicated that they did not plan on putting any additional funds into the Company. The Company wrote off the remaining balance of the investor note from Typenex of \$265,179 and recorded the write-off in the line item, change in fair value of derivative liabilities, on the Consolidated Statements of Operations.

Convertible Note Payable to Vista Capital Investments, LLC

On October 9, 2014, the Company entered into a Securities Purchase Agreement with Vista Capital Investments, LLC, ("Investor", "Holder" or "Lender") an accredited investor for the issuance of a convertible note in the aggregate principal amount of \$200,000, in exchange for \$100,000 in cash at closing, additional amounts due to the Company at the investor's discretion and \$20,000 of original issue discount interest.

The note is separated into three Conversion Eligible Tranches (discussed under *Lender Conversion* below) of the following amounts:

Initial Consideration	\$ 100,000
Subsequent Consideration	100,000
	<u>\$ 200,000</u>

The note bears interest at 10% per annum and the unpaid principal and interest is on the initial consideration is due in full in one year from October 9, 2014 and the unpaid principal and interest on the subsequent consideration is due in full one year from the date the subsequent consideration is paid to the Company.

Lender Conversion

At the option of the Holder, at any time or times on or after the Issuance Date payments, the lender shall be entitled to convert any portion of the outstanding and unpaid Conversion Amount into fully paid and non-assessable shares of the common stock of the Company at the Conversion Price. The Conversion amount means the original principal amount and unpaid interest to be converted at the date of conversion.

The Conversion Price is the lesser of (i) \$.80 or (ii) 70% (the "Conversion Factor") of the average of the three (3) lowest Closing Bid Prices in the twenty (20) consecutive Trading Days immediately preceding the applicable Conversion Date on which the Holder elects to convert all or part of this Note. If the average of the three (3) lowest Closing Bid Prices in the twenty (20) Trading Days immediately preceding the applicable Conversion Date on which the Holder elects to is less than \$0.40, the Conversion price shall be the lesser of (a) \$0.80 or (b) 65% of the average of the 3 lowest closing bid prices for the twenty (20) consecutive Trading days immediately preceding the applicable Conversion Date on which the Holder elects to convert all or part of this Note.

The Company evaluated the note under the requirements of ASC 815 *Derivatives and Hedging*. Due to the existence of the antidilution provision which reduces the Lender Conversion Price in the event of subsequent Dilutive Issuances by the Company described above, the Lender Conversion feature does not meet the definition of "indexed to" the Company's stock, and the scope exception to ASC 815's derivative accounting provisions does not apply.

The Company also evaluated the embedded derivative criteria in ASC 815, and concluded that the default and remedy provisions of the note (see *Default Provisions* below) cause the Lender Conversion feature to meet the net settlement criterion in ASC 815. Based on the Lender Conversion feature meeting all the embedded derivative criteria in ASC 815, the Lender Conversion feature should be separated from the note and accounted for as a derivative liability.

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The Company evaluated the Company's option to settle the Lender Conversion in cash in the event the Lender elects to convert subsequent to the occurrence of an Event of Default under the requirements of ASC 815, and concluded that it meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The Company evaluated the Lender Conversion Delay provision under the requirements of ASC 815 and concluded it meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The Company evaluated the embedded derivative criteria in ASC 815, and concluded that because certain of the Events of Default under the note are factors that are unrelated to a deterioration of the creditworthiness of the Company, the Events of Default and Default Interest provisions of the note are not considered clearly and closely related to the characteristics of debt. Based on meeting all the criteria in the definition, the Company concluded that the Events of Default and Default Interest provisions each meet the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

Company Prepayment Option

At any time within the 180 day period immediately following the Issuance Date, the Company shall have the option, upon 10 business days' notice to the Holder, to prepay the entire remaining outstanding principal amount of this Note in cash, provided, that (i) the Company shall pay Holder 125% of the Outstanding Balance, (ii) such amount must be paid in cash on the next business day following such 10 business day notice period, and (iii) the Holder may still convert this Note pursuant to the terms hereof at all times until such prepayment amount has been received in full.

The Company evaluated the embedded derivative criteria in ASC 815, and concluded that the Company's prepayment option is not the type of call option that meets the definition of an embedded derivative. However, the Optional Prepayment Liquidated Damages clause does meet the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

Investor Warrants

In addition, warrants entitling the investor to purchase 199,396 shares of the Company's common stock at a price driven by the market price of the Company's stock at the date of conversion. The warrants have a term of five years and vest immediately.

The exercise price of the Investor Warrants is \$.80 per share of the Company's common stock, as may be adjusted from time to time pursuant to the antidilution provisions of the warrants.

The Investor Warrants are exercisable by the Investor in whole or in part, as either a cash exercise or as a "cashless" exercise.

The Company evaluated the warrants under ASC 480 *Distinguishing Liabilities from Equity* and ASC 815 *Derivatives and Hedging*. Due to the existence of the antidilution provision, which reduces the Exercise Price and Conversion Price in the event of subsequent Dilutive Issuances, the Investor Warrants are not indexed to the Company's common stock, and the Company determined that the warrants meet the definition of a derivative under ASC 815. Accordingly, the warrants were recorded as derivative liabilities in the Consolidated Balance Sheets at their fair value of approximately \$183,000 at the date of issuance. The fair value of the warrants is measured in accordance with ASC 820 *Fair Value Measurement*, using "monte carlo simulation" modeling.

The fair value of the warrants as of September 30, 2015 and December 31, 2014 was \$0. At each subsequent reporting date, if the fair value of the warrants is remeasured, the changes in the fair value will be reported in the Consolidated Statements of Operations. See Note 21 regarding exercise of warrants for the Company's common stock.

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The Company has not elected to initially and subsequently measure the note as a hybrid instrument in its entirety at fair value. Therefore, in accordance with ASC 815, the Company is accounting for all the embedded derivatives identified in the note as a single compound embedded derivative.

The total proceeds of \$100,000 received by the Company for the note and Investor Warrants, was allocated first to the Investor Warrant and embedded derivative liabilities at their initial fair values determined at the issuance date. The residual proceeds after that allocation was then applied to the note.

Accordingly, the carrying amount of the note at inception is approximately \$100,000, derived as follows:

Face amount of note	\$ 100,000
Allocated to embedded derivatives	-
	<u>\$ 100,000</u>

Repayment of Note

In April 2015, the Company received notice from the Holder of their intent to convert a portion of their outstanding convertible debt, approximately \$117,000, into shares of the Company's common stock. Using the formula provided for in the related convertible debt agreement, this lender received approximately 4,656,000 shares of the Company's common stock. In addition, in April 2015, this convertible debt holder notified the Company of their intention to exercise their warrant exercisable into 199,396 at a price determined by a formula which resulted in the Company issuing 3,647,023 shares of the Company's common stock to the convertible debt holder.

The fair value of the compound embedded derivative liability as of September 30, 2015 and December 31, 2014 was \$0.

Both the warrant derivative and embedded derivative liabilities are classified as current liabilities in the Consolidated Balance Sheets, and changes in their fair value are reported in general and administrative expense in the Consolidated Statements of Operations.

The change in fair value of the warrant and embedded derivative liabilities for the nine months ended September 30, 2015 and 2014 was \$0, respectively, which was recorded as a separate line item, change in fair value of derivative liability, on the Consolidated Statements of Operations.

At September 30, 2015, the carrying value of the note was as follows:

Face amount of note	\$ -
Derivative and warrant liability	-
	<u>\$ -</u>

At December 31, 2014, the carrying value of the note was as follows:

Face amount of note	\$ 132,000
Derivative and warrant liability	195,506
	<u>\$ 327,506</u>

Convertible Note Payable to the Redwood Group of Investors

On October 17, 2014, the Company entered into a Securities Purchase Agreement with Redwood Management LLC, Redwood Fund II LLC and Redwood Fund III, LLC, ("Redwood Group of Investors"), all accredited investors, for the issuance of original issue discount senior secured convertible debentures in the aggregate principal amount of \$3,520,000, in exchange for \$3,520,000 in secured investor notes payable to the Company, less the initial subscription amount of \$712,500 which resulted in initial cash at closing of \$622,500 to the Company. The debentures include a 5% original issue discount and bear interest at 12% per annum. The secured investor notes payable to the Company are secured by equity interests in one of the Redwood Group of Investors held by members thereof pursuant to a security agreement.

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The Company will pay aggregate commissions to an investment advisor under the terms of an agreement disclosed in note 18 in connection with the placement described herein in the amount of \$253,000 payable as funds are received by the Company under the terms of the agreement.

Principal Payments

Principal payments (“Amortization Amount”) on the notes are due starting approximately nine months from the date of the note, on April 15, 2015, in various amounts as contained in the notes and can be paid in cash, with a 30% premium over payments made in shares of the Company’s common stock, or in issuances of the Company common stock. The final payment was due on October 17, 2015. The note payable maturity date has passed. The debt has been classified as current on the accompanying Consolidated Balance Sheet.

Amortization Payment Conversions

Each Amortization Payment shall be made at the option of the Company and be made in cash or in the common stock of the Company pursuant to the Amortization Conversion Rate.

The Amortization Conversion Rate means the lower of the Conversion Price, \$0.4634, or 65% of the lowest VWAP (“Volume Weight Average Price”) for the 20 consecutive Trading Days ending on the Trading Day that is immediately prior to the applicable Amortization Payment Date.

The Company evaluated the note under the requirements of ASC 480 *Distinguishing Liabilities from Equity* and concluded that the note does not fall within the scope of ASC 480. The Company evaluated the Installment Conversion feature under the requirements of ASC 815 *Derivatives and Hedging*. Due to the existence of the antidilution provision which reduces the Lender Conversion Price in the event of subsequent Dilutive Issuances by the Company (see *Lender Conversion* below), the Installment Conversion feature does not meet the definition of “indexed to” the Company’s stock, and the scope exception to ASC 815’s derivative accounting provisions does not apply. The Company evaluated the embedded derivative criteria in ASC 815, and concluded that because the Common Stock that would be delivered by the Company if an Installment Conversion is elected (including True-Up Shares) would be readily convertible to cash by the Investor, the Installment Conversion feature meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

Lender Conversion

The Redwood Group of Investors has the right at any time after the Issue Date until the outstanding balance of the note has been paid in full, at its election, to convert (each instance of conversion is referred to as a “Lender Conversion”) all or any part of the outstanding balance into shares (“Conversion Shares”) of the Company’s common stock of the portion of the outstanding balance being converted (the “Conversion Amount”) divided by the “Lender Conversion Price” of \$0.4634, subject to potential future adjustments described below.

The Company evaluated the note under the requirements of ASC 815 *Derivatives and Hedging*. Due to the existence of the antidilution provision which reduces the Lender Conversion Price in the event of subsequent Dilutive Issuances by the Company described above, the Lender Conversion feature does not meet the definition of “indexed to” the Company’s stock, and the scope exception to ASC 815’s derivative accounting provisions does not apply. The Company also evaluated the embedded derivative criteria in ASC 815, and concluded that the default and remedy provisions of the note (see *Default Provisions* below) cause the Lender Conversion feature to meet the net settlement criterion in ASC 815. Based on the Lender Conversion feature meeting all the embedded derivative criteria in ASC 815, the Lender Conversion feature meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The Company evaluated the Lender Conversion Delay provision under the requirements of ASC 815 and concluded it meets the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

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The Company evaluated the embedded derivative criteria in ASC 815, and concluded that because certain of the Events of Default under the note are factors that are unrelated to a deterioration of the creditworthiness of the Company, the Events of Default and Default Interest provisions of the note are not considered clearly and closely related to the characteristics of debt. Based on meeting all the criteria in the definition, the Company concluded that the Events of Default and Default Interest provisions each meet the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

During the nine months ended September 30, 2015, the Company received notices from the Redwood Group of Investors of their intent to convert a portion of their outstanding convertible debt, approximately \$1,411,679, into shares of the Company's common stock. Using the formula provided for in the related convertible debt agreement, this lender received approximately 140,351,127 shares of the Company's common stock.

See Note 21 for conversions of outstanding debt subsequent to September 30, 2015.

Company Prepayment Option

At any time upon ten (10) days written notice to the Redwood Group of Investors, the Company may prepay any portion of the principal amount of this Debenture, including any accrued or unpaid interest. If the Company exercises its right to prepay the Debenture, the Company shall make payments to the Redwood Group of Investors of an amount in cash equal to the sum of the then outstanding principal amount of this Debenture and accrued interest multiplied by 130%. The Redwood Group of Investors may continue to convert the Debenture from the date the notice of the prepayment is given until the date of the prepayment.

The Company evaluated the embedded derivative criteria in ASC 815, and concluded that the Company's prepayment option is not the type of call option that meets the definition of an embedded derivative. However, the Optional Prepayment Liquidated Damages clause does meet the definition of an embedded derivative that should be separated from the note and accounted for as a derivative liability.

The embedded derivative liability is classified as current liabilities in the Consolidated Balance Sheets, and changes in their fair value are reported as a separate line item in the Consolidated Statements of Operations. The change in fair value of the embedded derivative liability related to this note for the nine months ended September 30, 2015 and 2014 was \$580,345 and \$0, respectively, which was recorded as a separate line item, change in fair value of derivative liabilities, on the Consolidated Statements of Operations.

At September 30, 2015, the carrying value of the note was as follows:

Face amount of note	\$ 892,500
Derivative and warrant liability	270,094
	<u>\$ 1,162,594</u>

At December 31, 2014, the carrying value of the note was as follows:

Face amount of note	\$ 2,184,000
Derivative and warrant liability	850,439
	<u>\$ 3,034,439</u>

At each subsequent reporting date, when the fair value of the embedded derivative liability is remeasured and changes in the fair value will be recorded in the Consolidated Statements of Operations.

The embedded derivative liability is classified as current liability in the Consolidated Balance Sheets, and changes in their fair value are reported in the Consolidated Statements of Operations.

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Purchaser Notes

The Company issued three Purchaser Notes on October 17, 2014. The total principal of the Purchaser Notes is \$2,631,503. The note will not bear interest for the benefit of the Company. The entire unpaid principal balance under each Purchaser Note is due and payable thirteen (11) months from the date the Purchaser Note was entered into, which is September 17, 2015. However, the Redwood Group of Investors may elect, in their sole discretion, to extend the maturity dates for up to thirty (30) days by delivering written notice of such election to Company at any time prior to the maturity date. The Redwood Group of Investors may, with Company's consent, prepay without penalty all or any portion of the outstanding balance of each Purchaser Note at any time prior to the maturity date.

The Purchaser Notes contain certain default provisions such as the Redwood Group of Investors failure to make any payment when due and payable, its failure to observe or perform any other covenant, obligation, condition or agreement contained in the Purchaser Note, or upon involuntary bankruptcy by the Investor and such petition is not dismissed within sixty (60) days, or a receiver, trustee, liquidator, assignee, custodian, sequestrator or other similar official is appointed to take possession of any of the assets or properties of Investor.

The Purchaser shall be entitled to deduct and offset any amount owing by the Company under the Debenture from any amount owed by the Redwood Group of Investors under the Purchaser notes.

The Purchaser Notes are recorded as current investments, under Investor Notes Receivable at cost in the Consolidated Balance Sheets. As stated above, there is no interest income on the Purchaser Notes for the nine months ended September 30, 2015 and 2014.

Fair Value Measurement

As discussed above, the convertible notes contain conversion features, warrants and default provisions that result in embedded derivatives. The Company has recorded the fair value of each derivative as described above and is included in the derivative liabilities included in the current liabilities in the Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014.

In arriving at fair-value estimates, the Company utilizes the most observable inputs available for the valuation technique employed. If a fair-value measurement reflects inputs at multiple levels within the fair value hierarchy, the fair-value measurement is characterized based upon the lowest level input. For the Company, recurring fair-value measurements are performed for the derivative liability.

The derivative liability is recognized in the balance sheet at fair value. Changes in the fair value of the derivative liability are reported in the Consolidated Statements of Operations. The Company does not have any liabilities that reduce risk associated with hedging exposure and has not designated the derivative liability as a hedge instrument.

The Company did not have any derivatives valued using Level 1 and Level 2 inputs as of September 30, 2015 and December 31, 2014. The fair values and corresponding classifications under the appropriate levels of the fair value hierarchy of the outstanding derivative liability recorded as recurring liabilities in the Consolidated Balance Sheets consisted of the following:

	<u>Level</u>		<u>September 30, 2015</u>		<u>December 31, 2014</u>
Included in current liabilities: Derivative Liability	3	\$	839,644	\$	1,939,292

	<u>Valuation Technique</u>	<u>Unobservable Input</u>
Included in current liabilities: Derivative Liability	Monte Carlo Pricing Model	Prevailing interest rates Company's stock volatility Expected term

There have been no transfers between Level 1, Level 2, or Level 3 categories.

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NOTE 12 – NOTE PAYABLE

In July 2011, the Company entered into a \$1,400,000 note agreement with the City of North Vernon, Indiana. Interest accrues at 5.5% and the note matures on August 1, 2016. As of September 30, 2015 and December 31, 2014, the note had an outstanding balance of \$1,280,000 and \$1,325,000, respectively.

The Company was unable to pay the interest and principal payments due on August 1, 2012 and was in default of such payment. The Company was able to negotiate payment terms with the City of North Vernon, Indiana, which allowed the Company to delay scheduled repayments of the loan.

During the nine months ended September 30, 2015 and 2014, the Company made \$45,000 and \$60,000, respectively, in payments to the City of North Vernon for principal.

Principal and interest payments are expected to be paid in each fiscal year as follows:

	Principal	Interest	Total
2015	\$ 62,838	\$ 177,259	\$ 240,097
2016	1,217,162	114,276	1,331,438
	<u>\$ 1,280,000</u>	<u>\$ 291,535</u>	<u>\$ 1,571,535</u>

Interest expense incurred and accrued on the note payable was approximately \$53,000 and \$68,000 for the nine months ended September 30, 2015 and 2014, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

Short Term Debt - Related Parties

During the nine months ended September 30, 2015 and 2014, the Company's President advanced \$0 and \$50,000, respectively, to the Company and the Company repaid \$0 and \$55,000, respectively.

As of September 30, 2015 and December 31, 2014, the outstanding balance of short term debt – related parties was \$221,000.

The amounts accrue interest at 10% and are due on demand.

Interest expense incurred and accrued on Short Term Debt – Related Parties was approximately \$16,000 and \$7,800 for the nine months ended September 30, 2015 and 2014, respectively.

Chief Operating Officer and the City of North Vernon

The Company's Chief Operating Officer is a relative of the mayor of North Vernon. The City of North Vernon loaned the Company \$1,400,000 as described in Note 12. The terms of the loan were presented to and approved by the city council. The related party officer is an employee under the terms of an employment contract and his continued employment is based solely on performance. Management believes all compensation paid to the Chief Operating Officer is based on market value comparisons and is not impacted at all by the related party officer's relationship with the mayor of the lender.

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NOTE 14 - COMMON STOCK

Common and Preferred Stock

As described in Note 4, the Company entered into a Share Exchange Agreement with WindStream Technologies, Inc., a California corporation, pursuant to which the Company agreed to exchange the outstanding common and preferred stock of WindStream held by the WindStream shareholders for shares of common stock of the Company on a 1:25.808 basis.

At the Closing, there were approximately 955,000 shares of WindStream common stock and 581,961 shares of WindStream preferred stock outstanding.

Pursuant to the Share Exchange Agreement, the shares of WindStream common stock and preferred stock were exchanged for 39,665,899 (24,646,646 for the Windstream common shares and 15,019,253 for the Windstream preferred shares) new shares of the Company's common stock, par value of \$0.001 per share.

At the closing of the agreement, Windaus Global Energy, Inc. had approximately 24,000,000 shares of common stock issued outstanding and no preferred stock.

The Company's Articles of Incorporation and Bylaws permit the Company to issue, without any further vote or action by the stockholders, shares of preferred stock in one or more series, and with respect to each series, to fix the number of shares constituting the series and the designation of the series the voting powers (if any) of the shares of the series, and the preferences and relative, participating, optional, and other special rights, if any, and any qualifications, limitations, or restrictions of the shares of the series. The Company's Articles of Incorporation and Wyoming law allow the Company to issue an unlimited number of shares of equity stock, both common and preferred. During the nine months ended September 30, 2015 and 2014, after the date of the share Agreement, May 13, 2013, the Company has issued no preferred shares and has not sought the approval of the Board of Directors to issue any preferred shares.

See Notes 11 and 21 for a description of the conversion by certain lenders of their outstanding convertible debt into shares of the Company's common stock in 2015.

As discussed in Note 18, the Company has an agreement with Carter Terry to provide various investment banking services. Under the terms of the agreement, Carter Terry was to receive warrants in connection with various fundings. On April 10, 2015, the Company and Carter Terry agreed to issue 300,000 shares of the Company's stock to Carter Terry to eliminate the issuance of warrants to Carter Terry.

The Company had entered into an agreement with an individual for consulting services in connection with fund raising with potential investors. On April 22, 2015, the Company and the individual entered into an agreement whereby the Company would issue 125,000 shares of the Company's common stock to the individual for payment of these services rendered.

On April 24, 2015, a convertible debt holder exercised their warrant exercisable into 199,396 at a price determined by a formula which resulted in the Company issuing 3,647,023 shares of the Company's common stock to the convertible debt holder.

On June 17, 2015, the Company issued an aggregate of 11,344,886 shares of common stock to certain investors who participated in the Company's private placements of securities on August 29, 2014, September 22, 2014 and October 3, 2014 in connection with a settlement agreement and general release with these investors.

As discussed in Note 11 on September 18, 2015, a convertible debt holder notified the Company of their intention to exercise their warrant for 31,719 exercise shares as defined in the warrant at a price determined by a formula defined in the warrant which resulted in the Company issuing 36,150,462 shares of the Company's common stock to the Lender.

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NOTE 15 – STOCK OPTIONS

Stock based compensation

Stock option activity is presented in the table below:

	Number of Shares	Weighted average Exercise Price	Weight average Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	10,110,640	\$ 0.08	2.75	-
Granted	16,100,000	0.15	10.00	-
Exercised	(448,993)	(0.05)	(3.00)	-
Outstanding at December 31, 2014	25,761,647	0.09	6.20	-
Granted	250,000	.15	3.0	-
Exercised	-	-	-	-
Outstanding at September 30, 2015	<u>26,011,647</u>	<u>\$ 0.09</u>	<u>6.19</u>	<u>-</u>

The Company recognized stock compensation expense as follows:

Nine months ended September 30, 2015	Nine months ended September 30, 2014
<u>\$ 246,399</u>	<u>\$ 122,126</u>

The total remainder of stock compensation expense to be recognized through the vesting period of the above options, at September 30, 2015, was approximately \$169,000.

The total number of options vested as of September 30, 2015 was 26,011,647 and the total options expected to vest, as of September 30, 2015, was 26,011,647.

Stock Incentive Plan

On November 11, 2014, the Company adopted the 2014 Stock Incentive Plan. The plan provides for Options, Stock Appreciation Rights, Dividend Equivalent Rights Restricted Stock, Restricted Stock Units or other rights or benefits under the Plan. The maximum aggregate number of shares which may be issued pursuant to all awards (including Incentive Stock Options) is five million (5,000,000) shares. The shares may be authorized, but unissued, or reacquired common stock. In addition, Dividend Equivalent Rights shall be payable solely in cash and therefore the issuance of Dividend Equivalent Rights shall not be deemed to reduce the maximum aggregate number of shares which may be issued under the plan. The plan has a term of ten years.

Under the terms of this plan, shares vest as follows: 25% of the shares subject to the option shall vest twelve (12) months after the Vesting Commencement Date, and 1/48 of the shares subject to the option shall vest on each monthly anniversary of the Vesting Commencement Date, thereafter.

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Stock option activity under the Incentive Stock Option Plan is presented in the table below:

	<u>Number of Shares</u>	<u>Weighted average Exercise Price</u>	<u>Weight average Contractual Term (years)</u>
Outstanding at December 31, 2013	-	\$ -	-
Granted	700,000	0.15	3.00
Outstanding at December 31, 2014	700,000	\$ 0.15	3.00
Forfeited	(106,250)	-	-
Outstanding at September 30, 2015	<u>593,750</u>	<u>\$ 0.15</u>	<u>2.14</u>

During the nine months ended September 30, 2015 options for approximately 106,250 common shares were forfeited by participants who left the Company.

NOTE 16 – WARRANTS

Fair value of warrants is generally based on independent sources such as quoted market prices or dealer price quotations. To the extent certain financial instruments trade infrequently or are non-marketable securities, they may not have readily determinable fair values. The Company estimated the fair value of the warrants using a Black-Scholes option pricing model and available information that management deems most relevant. The stock price is the closing price of the Company's stock on the valuation date; the risk free interest rate is based on the U.S. Government Securities average rate for 1 and 2 year maturities on the date of issuance; the volatility is a statistical measure (standard deviation) of the tendency of the Company's stock price to change over time; the exercise price is the price at which the warrants can be purchased by exercising prior to its expiration; the dividend yield is not applicable due to the Company not intending to declare dividends; the contractual life is based on the average exercise period of the warrants; and the fair market value is value of the warrants based on the Black-Scholes model on the valuation date.

In April 2015, a convertible debt holder notified the Company of their intention to exercise their warrant exercisable into 199,396 at a price determined by a formula which resulted in the Company issuing 3,647,023 shares of the Company's common stock to the convertible debt holder.

On September 18, 2015, a convertible debt holder notified the Company of their intention to exercise their warrant for 71,342 exercise shares as defined in the warrant at a price determined by a formula defined in the warrant which resulted in the Company issuing 20,800,157 shares of the Company's common stock to the Lender.

In connection with the various agreements with an investment advisor (See Note 18) and in settlement of various disputes between the Company and the investment advisor, between May 1, and May 12, 2015, the Company issued warrants to purchase 522,983 shares of the Company's common stock at a price of \$0.40 per share with a term of five years from the date of the original investments by investors which came to the Company through this investment advisor in August through October 2014. The warrants were made effective as of those dates of investments. None of the warrants have been exercised at September 30, 2015.

The following represents a summary of the warrants outstanding at September 30, 2015 and December 31, 2014 and changes during the periods then ended:

	<u>Warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding, December 31, 2013	9,106,000	\$ 0.42
Granted	722,472	0.65
Warrants exchanged for common stock	(135,932)	(0.05)
Outstanding, December 31, 2014	9,692,540	\$ 0.44
Granted	522,983	0.04
Warrants exchanged for common stock	(199,396)	(0.40)
Outstanding, June 30, 2015	10,016,127	\$ 0.45
Warrants exchanged for common stock	(71,342)	(0.40)
Outstanding, September 30, 2015	<u>9,944,785</u>	<u>\$ 0.45</u>

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NOTE 17 - EARNINGS PER SHARE

FASB ASC Topic 260, *Earnings Per Share*, requires a reconciliation of the numerator denominator of the basic and diluted earnings (loss) per share (EPS) computations.

Basic earnings (loss) per share are computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares are dilutive.

As the Company has net losses, the Company had no potential dilutive securities for the nine months ended September 30, 2015 and 2014 as they would be anti-dilutive. Therefore, there is no difference in the basic and dilutive loss per share.

The following table sets for the computation of basic and diluted net loss per share:

	For the Nine months Ended September 30, 2015	For the Nine months Ended September 30, 2014
Net loss attributable to common stockholders	\$ (2,965,069)	\$ (3,546,789)
Basic weighted average outstanding shares of common stock	139,103,989	85,200,993
Dilutive effect of common stock equivalents	—	—
Dilutive weighted average common stock equivalents	139,103,989	85,200,993
Net loss per share of voting and nonvoting common stock Basic and Diluted	\$ (0.02)	\$ (0.04)

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Legal

From time to time, the Company may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm the Company's business. Except as disclosed below, the Company is currently not aware of any such legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's business, financial conditions or operating results.

On May 28, 2015, a former employee filed a complaint in U.S. District Court against the Company to recover unpaid wages, unreimbursed expenses, liquidated damages, attorney's fees and costs under the provisions of the Fair Labor Standards Act of 1938. The Company filed an answer to the complaint on July 27, 2015. The wages and unreimbursed business expenses have always been accrued in the Company's financial statements since those obligations arose in accordance with generally accepted accounting principles. The two parties do not appear to disagree on the unpaid wages and unreimbursed expenses due the former employee. Counsels for the parties continue to be in discussion to attempt to work out a settlement in order to avoid the costs of pursuing and defending this matter in court. The next step for this action is a settlement conference with the magistrate and the various parties tentatively scheduled for early December 2015. Depositions may start just before or just after that conference, if not resolution is reached. The Company believes that this case is too early in its development for the Company to recognize any additional liabilities except those the Company has already recognized.

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While incapable of estimation, in the opinion of management, the individual regulatory and legal matters in which it might involve in the future are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Leases

The Company leased various facilities under a non-cancelable operating lease which expired on September 30, 2013. That lease required minimum monthly rental payments of \$4,750 plus various expenses incidental to use of the property. The Company had an option to extend the lease for one twelve month period.

Effective October 1, 2014, the Company entered into a new lease agreement for this facility with a term of twenty-four months with an option for another twelve months. Rent in the first twenty-four months is \$7,800 per month plus various expenses incidental to use of the property. If the Company exercises its option for another twelve months, the rent during that period will be \$8,500 per month plus various expenses incidental to use of the property.

In 2014, WET leased office, approximately 9,500 square feet, and manufacturing space, approximately 50,000 square feet, in India in connection with expanding its operations. The office space lease is a month to month lease with annual rent of approximately \$24,000 and was occupied in December 2014. The manufacturing facility lease is a six year lease with annual rent of approximately \$120,000. The manufacturing space lease commenced on April 1, 2015 when WET occupied the space.

Rent expense for the nine months ended September 30, 2015 and 2014 was \$188,534 and \$55,915, respectively.

Sales and Distribution Agreements

In the ordinary course of business, the Company enters into sales and distribution agreements with various parties in defined geographic areas around the world. The agreements are usually non-exclusive and contain general commercial terms, but no specific financial terms. It is the Company's practice that such agreements do not contain performance related terms or favorable payment terms. These agreements are usually cancellable with written notice by either party and do not have terms greater than one year.

Investment Advisory Services

WestPark Capital Inc.

During 2014, the Company entered into multiple agreements with the same investment banking firm, as follows:

- Side letter agreement, dated May 1, 2014, which among other terms, for the first \$2 million raised required fees of 1.25% of fully diluted equity of the Company and for each \$1.5 million raised thereafter, 500,000 shares of the Company's common stock. No funds were raised under this side letter agreement;

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- Institutional Financing Engagement agreement, dated July 30, 2014, which among other terms, had a term of nine months, required the completion of an institutional financing offering, and if successful, the Company was to pay a fee in cash of 10% of the qualifying investments at closing as well as issue warrants to the investment banking firm with a five year term equal to 10% amount raised in the institutional offering. No funds have been raised under the terms of this agreement and this agreement has expired and was not renewed; and
- Investment Banking Engagement agreement, dated September 11, 2014, which among other terms, had a term of one year, with an option to terminate the agreement after nine months, the investment banking firm will provide advisory services in the area of corporate development, corporate finance and/or capital placement transactions. The Agreement specifies that all fees be on a “success” basis. If no debt or equity transaction is completed, the Company has no obligation under the terms of this agreement other than a monthly fee of \$10,000 per month. The value of the services, and the amount due to the investment banker under this agreement, have not been agreed to by the two parties.

In connection with the various agreements with WestPark and in settlement of various disputes between the Company and WestPark, between May 1, and May 12, 2015, the Company issued warrants to purchase 522,983 shares of the Company’s common stock at a price of \$0.40 per share with a term of five years from the date of the original investments by investors which came to the Company through WestPark in August through October 2014. The warrants were made effective as of those dates of investments. None of the warrants have been exercised at September 30, 2015.

Carter Terry

On August 18, 2014, the Company entered into a private placement offering agreement with an investment banking firm for advisory services in the areas of corporate development, corporate finance and/or capital placement transactions. The agreement was on an exclusive basis for sixty days from the date of the agreement and then reverted to a non-exclusive basis, expiring one year from the date the agreement was signed, with an option to extend the agreement after nine months, or either party can terminate in writing to the other party. The agreement specifies that all fees be on a “success” basis. If no debt or equity transaction is completed, the Company has no obligation under the terms of this agreement.

In the event of a successful transaction, the investment banking firm will earn fees, 8% of the amount of any equity or hybrid equity raised up to \$5 million, and 6% over \$5 million, payable when the Company receives proceeds from the transaction.

In addition, the Company agreed to grant the investment banking firm warrants to purchase that number of shares of the Company’s common stock equal to 6% of the value of successful common stock equity raised at 100% of the price at closing of a transaction for a period of two years and/or grant investment banking firm warrants to purchase that number of shares of the Company’s common stock equal to 6% of the value of a successful preferred stock, debt, hybrid debt of any kind (convertibles, warrants, etc.) or debt and equity combination common stock equity raised at 100% of the price at closing of a transaction for a period of two years. These shares shall be delivered in a cashless exercise and issuable from the investment closing date up to no more than five years from the date and upon exercise shall be fully paid and non-assessable. The Company’s common stock obtainable upon exercise of such warrants shall carry unlimited “piggyback” registration rights of the Company.

The investment firm was successful in completing a debt transaction with the Company and will be paid a combination of cash and receive warrants as the proceeds from the debt transaction are received by the Company. In connection with their successful completion of a number of investment transactions, the investment banker was paid \$136,000 during the nine months ended September 30, 2015 and \$15,000 during the nine months ended September 30, 2014. Under the terms of the agreement, Carter Terry was to receive warrants in connection with various fundings. As discussed in Note 14, on April 10, 2015, the Company and Carter Terry agreed to issue 300,000 shares of the Company’s stock to Carter Terry to eliminate the issuance of warrants to Carter Terry.

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Employment Contracts

During 2014, the Company entered into employment contracts with three key executives with initial terms of between two and five years and automatic renewals for successive one year terms. The contracts cover such items as compensation, salary deferrals, termination for cause and change in control features. In addition, these contracts included the granting of 13,500,000 in options for three individuals to acquire the Company's common stock which vested immediately upon the signing of the employment contracts. See Note 15 for related options.

On January 1, 2015, the Company entered into an employment contract with a key executive with an initial term of three years and automatic renewals for successive one year terms. The contract covers such items as compensation, salary deferrals, termination for cause and change in control features. In addition, this contract included the granting of 250,000 in options for the individual to acquire the Company's common stock, which vested immediately upon the signing of the employment contract.

NOTE 19 – INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the 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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company must assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that it is more likely than not that such deferred tax assets will not be realized, the Company must establish a valuation allowance.

During the nine months ended September 30, 2015 and 2014, the Company incurred net losses, and therefore, had no tax liability. The net deferred asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately \$16,400,000 and \$14,791,000, respectively as of September 30, 2015 and December 31, 2014 and will expire in years 2020 through 2034.

Deferred tax assets consist of the tax effect of NOL carry-forwards. The Company has provided a full valuation allowance on the deferred tax assets because of the uncertainty regarding its realizability.

Deferred tax assets consisted of the following as of:

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Net operating loss carry forwards	\$ 6,210,000	\$ 2,459,000
Valuation allowance	(6,210,000)	(2,459,000)
	<u>\$ -</u>	<u>\$ -</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carry back and carry forward periods), projected future taxable income, and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

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The reconciliation of the results of applying the Company's effective statutory federal tax rate of 35% for the nine months ended September 30, 2015 and 2014 to the Company's provision for income taxes follows:

	For the Nine months ended September 30, 2015	For the Nine months ended September 30, 2014
Federal income tax rate	32%	32%
State income tax	6%	8%
Charge for deferred tax asset	(38)%	(40)%
	-%	-%

The Company's income tax filings are subject to audit by various taxing authorities. For state tax purposes, the Company's 2012 through 2014 tax years remain open for examination by the tax authorities under the normal three year statute of limitations. On February 27, 2015, the Company received a notice from the Internal Revenue Service ("IRS") that the IRS intended to audit the Company's federal income tax returns for tax years 2011, 2012 and 2013. The Company believes that the tax returns for the periods under examination were prepared appropriately and were filed correctly with the IRS. Any adjustments resulting from these audits will not result in additional cash payments by the Company, but merely decrease the Company's net operating loss carry forwards. The Company's federal 2014 tax year remains open for examination by the IRS.

NOTE 20 – SEGMENT INFORMATION

The Company's operations are classified into the sales of products within the United States and outside the United States. The Company determined its operating segments in accordance with FASB Topic 280, *Segment Reporting*.

Results of the operating segments are as follows:

For the Nine months ended September 30, 2015:

	Domestic	International	Total
Sales	\$ 56,758	\$ 2,764,391	\$ 2,821,149
Cost of goods sold	47,265	2,302,063	2,349,329
Gross profit	\$ 9,492	\$ 462,328	\$ 471,820

For the Nine months ended September 30, 2014:

	Domestic	International	Total
Sales	\$ 14,763	\$ 811,035	\$ 825,798
Cost of goods sold	8,862	1,213,045	1,235,126
Gross profit	\$ 2,092	\$ (402,010)	\$ (409,328)

The Company presents its financial statements in two segments, as shown above. Except for the accounts receivable, which relate to the international business, all assets and liabilities are domiciled in the United States and are therefore associated with the domestic business. While the gross margin information is allocated between the domestic and international business based on sales, the majority of the expenses are paid in the United States, the domestic segment.

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NOTE 21 – SUBSEQUENT EVENTS

October 2015 Installment Loan Agreement

On October 1, 2015, the Company obtained cash under an installment loan agreement (the “Agreement”) with PowerUp Lending Limited, (“PowerUp”) in the principal amount of \$195,000 for \$150,000.

Under the terms of the Agreement, the Company will pay, via ACH Debit, a daily charge of \$1,326.53 per day until the note for \$195,000 is repaid. The Agreement states that there is no interest payable under the terms of the Agreement but the difference between the amount received, \$150,000, and the principal amount of \$195,000, will be recognized as interest expense over the life of the Agreement. The Agreement is unsecured and is based on future sales and collections on those sales.

The Company reimbursed Power Up for all costs and expenses incurred by it in connection with the transaction and paid \$2,995 as an origination fee and paid \$11,600 to Carter Terry & Company for due diligence fees.

Typenex Co-Investment, LLC Note

Subsequent to September 30, 2015, the convertible debt holder exercised a portion of their warrant for 54,769 exercise shares as defined in the warrant at a price determined by a formula defined in the warrant, which resulted in the Company issuing 224,561,651 shares of the Company’s common stock to the Lender.

JSJ Investments Financing – Note 1

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$36,765, into shares of the Company’s common stock at prices ranging from \$0.000055 to \$0.00055. Using the formula provided for in the related convertible debt agreement, this Lender received 220,177,408, shares of the Company’s common stock.

EMA Financial Financing

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$18,095, into shares of the Company’s common stock at prices ranging from \$0.000090 to \$0.000495. Using the formula provided for in the related convertible debt agreement, this Lender received 134,529,956, shares of the Company’s common stock.

JMJ Financial Financing

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$25,488, into shares of the Company’s common stock at prices ranging from \$0.00006 to \$0.00060. Using the formula provided for in the related convertible debt agreement, this Lender received 141,800,000, shares of the Company’s common stock.

Union Capital Note

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$58,927, into shares of the Company’s common stock at prices ranging from \$0.00060 to \$0.00006. Using the formula provided for in the related convertible debt agreement, this Lender received 583,354,617, shares of the Company’s common stock.

LG Capital Note

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$7,873, into shares of the Company’s common stock at prices ranging from \$0.0001 to \$0.0002. Using the formula provided for in the related convertible debt agreement, this Lender received 72,926,888, shares of the Company’s common stock.

Redwood Investors Convertible Note

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$49,434, into shares of the Company’s common stock at prices ranging from \$0.0000520 to \$0.000572. Using the formula provided for in the related convertible debt agreement, this Lender received 273,900,000 shares of the Company’s common stock.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This quarterly report on Form 10-Q and other reports filed by WindStream Technologies, Inc. (the “Company”) from time to time with the SEC (collectively, the “Filings”) contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company’s management as well as estimates and assumptions made by Company’s management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the Filings, the words “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” or the negative of these terms and similar expressions as they relate to the Company or the Company’s management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors, including the risks relating to the Company’s business, industry, and the Company’s operations and results of operations. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result. The following discussion should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this report.

Overview

We are developing low-cost, high efficient products that harness renewable energy resources in urban and rural environments as well as both on- and off-grid. As the cost of energy rises, both in monetary and environmental terms, we believe consumers and governments will increasingly seek inexpensive and renewable alternatives to fossil fuels. We believe billions of people around the world could see direct benefit from the clean, renewable, distributed energy solutions that our products provide.

We have already begun to capitalize on these enormous market opportunities by creating products designed to meet the demands of any customer, whether on- or off-grid. We currently are shipping or have shipped products to 35 countries around the world. These products can be scaled up to expand the generation needs of the individual consumer, business or industry.

Our Products

Although we started with the wind-only TurboMill® product, which forms the basic building block of all of our energy solutions, we have evolved the product into a hybrid SolarMill® solution, which combines wind with solar power. We also have two additional products in various stages of development, the MobileMill™ and the TowerMill®.

SolarMill®

Our concept is that this product will be simple to operate, elegant and appealing to place in any setting, yet durable, reliable, efficient, affordable and safe. We believe that the renewable resources available in 90% of the world can justify a hybrid energy system, not just to balance annual energy output, but also to capture the available resources at the lowest cost per watt in the market for a renewable energy platform. Our engineers have developed a product that overcomes the “inconsistent” nature of renewable energy resources. By integrating wind and solar technologies in a single unit, the SolarMill is a reliable renewable energy generation device that a customer can depend on year round.

The SolarMill® is a modular, scalable, distributed renewable energy system designed and optimized for on- and off-grid installations. It utilizes three low-profile vertical axis wind turbines mounted on a single base with integrated photovoltaic (PV) panels. By incorporating wind and PV technology within a compact footprint, we believe that it can be an effective solution in markets where the natural resources available for wind energy alone cannot justify any small wind product.

Each SolarMill® is constructed as a stand-alone, small power generator and is equipped with all necessary circuitry, electronics and sensors. At the same time, multiple SolarMills can be interconnected to maximize wind energy production in low and turbulent wind environments, commonly found in urban settings. Additional modules can be attached at a later date, if the customer desires greater power generation capability.

Proprietary generators are coreless, permanent magnet machines which offer increased energy generation capabilities while operating at lower speeds, eliminating gearboxes that are more prone to failure. Each unit has a solid-state independent control circuit that extracts power from the wind, which power is then sent to an industry standard grid-tie inverter for transfer to a building’s electrical system or a battery bank for off-grid applications.

When grid-connected, the electrical energy created is directly fed into the building’s electrical service panel, offsetting portions of the building’s overall draw. In off-grid or direct-to-storage applications, the products utilize the on-board charge controller to regulate a 48V direct current battery system and then output via a DC/AC or DC/DC converter, based on the type of loads that need to be served. Onboard each SolarMill® is our proprietary Maximum Power Point Tracking (MPPT) electronics and solar charge controller which is designed to maximize the power handling and generation capabilities of both the wind turbines and solar panels. This system maintains all power generation at maximum efficiency without the need for additional hardware or software.

SolarMills are designed to be aesthetically pleasing and are manufactured in a variety of colors to match the needs and aesthetic choices of specific customers and installation requirements. All aspects of the product, including bases, turbine blades and mounting assemblies, are designed to be lightweight but durable enough to withstand the elements. Designed for longevity, the products incorporate fault and failure protection and come with a 5-year warranty on all parts and labor. The bases and turbine blades are interchangeable and easily configured.

MobileMill™

In October 2014, we launched a unique mobile product, the MobileMill™. The MobileMill™ is designed to meet the needs of “first responders” around the world. By providing a self-contained solution for the rapid deployment of renewable energy generation and “command and control” operations, the MobileMill™ speeds up the deployment of operations for those who serve on the front line of disaster relief and assists in saving the lives of those who have been affected by these tragedies.

Originally designed and developed for the Indiana Department of Homeland Security (IDHS), the MobileMill™ is a renewable energy platform that features rapid deployment and operation, extreme energy efficiency and redundant power generation. From a customized vehicle, solar panels and wind turbines deploy in under 60 seconds powering computers and communication equipment while storing energy on-site for an uninterrupted 24-hour power supply.

The batteries may be charged in transit allowing the MobileMill™ to be fully functional upon arrival at a disaster zone. To meet customer needs, the MobileMill™ will be available in a variety of configurations, with generation capability between 3 kW and 8 kW, a scalable battery array for energy storage, and required peripherals, such as laptops, communication devices, task lighting, and device charging. This first-of-its-kind mobile technology will replace or supplement the traditional diesel generators required to operate the primary systems IDHS uses to provide location-based emergency support. Drawing energy from wind and solar resources, the MobileMill™ ensures that the stored system will stay charged by offering a generator and grid-tied energy as a backup.

Our representatives have presented the MobileMill™ to decision makers in the Philippines, India, Malaysia and Japan, all of whom have shown excitement about the technology. The MobileMill™ was featured at the Ninety Ninth Annual League of Municipalities in Atlantic City, New Jersey, and drew wide interest from city representatives and the emergency responders’ community. The MobileMill™ will be a separate manufacturing line within WindStream’s growing suite of products. We expect MobileMill™ production to commence in 2016 as demand and sales of product requires.

TowerMill®

We are developing what we believe is a unique technology, a derivative of our SolarMill® products, which harnesses the available renewable resources to power communication towers. By taking the efficient and affordable design of the SolarMill® technology and installing the turbine and solar components of the product along the side of a communications tower, the electronic components can then be powered from clean renewable energy with a fail-safe generator used only at times when natural resources alone cannot provide the needed energy. This new product line, the TowerMill®, is now being piloted in the Bahamas as a means of providing clean and consistent energy to a telecom tower insuring 100% uptime for the telecommunications company. We believe that these early-phase trials will prove the efficiency of the product and the ultimate cost savings to the owner and/or operator of the tower and its supporting electronics.

PowerMill™

The PowerMill™ is the latest product iteration from the Company based on the core SolarMill® technology. Each section of the PowerMill™ is comprised of 12 Mills and 54 solar panels. The PowerMill™ was designed to solve the issue of deploying utility scale wind power devices where conventional Horizontal Axis Wind Turbines (HAWT) do not meet the geographical or resource needs of the area. Built to harness lower wind speeds than are required by large HAWT, the PowerMill™ utilizes WindStream's proprietary Vertical Axis Wind Turbine (VAWT) technology with a system of solar panels making up a true hybrid renewable energy solution. Packaged into a convenient turnkey solution, the PowerMill™ is uniquely designed to be installed where traditional utility scale devices cannot provide a compelling return on investment for the owner/operator.

Plan of Operations

WindStream has identified two significant markets for the sale of its products in the near term:

1. Areas of the world where energy is inconsistent or non-existent (e.g., India, Africa, South Asia, Latin America and Asia)
2. Areas of the world where energy costs are high, which includes Jamaica and throughout the Caribbean, South Asia and Europe. In many cases, available energy in a given region may be generated by running diesel generators in which case the displaced cost of energy include the upfront cost of the equipment as the ongoing operating cost of the generator and fuel.

These two drivers present a large percentage of the world's population and as such, we are finding great success in penetrating these markets with our highly efficient, low cost devices. We have entered into various distribution partnerships with key companies and individuals in these markets in order to more quickly establish a presence and generate revenue from these territories and the Company will continue to use these types of arrangements to expand.

Recent Developments

- As of June 2015, the SolarMill ® product was available to US consumers through our website with marketing and promotion relying heavily on social media.
- Our SolarMill® product was featured on NBC's "Today Show" in their "Smart Yards" segment July 9, 2015.
- We signed a distribution agreement with Surland in Argentina for the purchase and distribution of an initial two megawatts of SolarMills products in Argentina. The products began shipping in August 2015 and we have delivered and installed 1.3 MW as of November 6, 2015.
- The first container of SolarMill ® product under contract to a distributor in New Zealand shipped in August 2015.

Results of Operations for the three months ended September 30, 2015 and 2014, in Aggregate:

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Sales	\$ 1,732,507	\$ 373,538
Cost of Sales	1,564,746	685,528
Gross Profit (Loss)	167,761	(311,990)
Research and Development Expenses	1,425	91,666
Stock compensation	36,528	39,898
General and Administrative Expenses	1,202,565	827,196
Operating Expenses	1,240,518	958,760
Other Income (Expense)	161,468	(216,609)
Net Loss	(911,289)	(1,487,359)
Non Controlling Interest	(228,780)	-
Net Loss attributable to Windstream Technologies, Inc.	\$ (682,509)	\$ (1,487,359)

For the three months ended September 30, 2015 and 2014, we reported net losses of \$682,509 and \$1,487,359, respectively. The decrease in net loss in the three months ended September 30, 2015, was primarily attributable to the increase in sales and related gross margin. The increase in general and administrative expenses of approximately \$375,000, consisted primarily of an increase in compensation related expenses of approximately \$233,000 for production and engineering labor, an increase in general and administrative expenses in the India location of \$215,000, which did not occur in 2014, an increase in postage and delivery of approximately \$26,000 related to an increased shipments overseas, an increase travel and entertainment expense of \$19,000, offset by a decrease in professional fees of approximately \$124,000, due to reduced consulting and legal fees, a decrease in marketing expenses of \$31,000, a decrease in business development expenses of \$40,000 and a net increase in other expense categories of \$77,000. There was a \$3,370 decrease in stock compensation. These increases in expenses were partially offset by the gain on the change in the fair value of derivative liabilities of approximately \$326,258. There were no such gains or losses on the fair value of derivatives in 2014.

Sales - Net sales for the three months ended September 30, 2015 were \$1,732,507, compared to \$373,538 for the three months ended September 30, 2014. The increase in sales is due to an increase in orders from a number of our domestic and international customers.

Cost of Sales - During the three months ended September 30, 2015, cost of sales was \$1,564,746 compared to \$685,528 for the three months ended September 30, 2014. The increase in cost of sales relates primarily to the increase in sales in the three months ended September 30, 2015 compared to 2014.

Gross Profit (Loss) - We incurred a gross profit of \$167,761 for the three months ended September 30, 2015 compared to a gross loss of \$311,990 for the three months ended September 30, 2014. The increase in gross profit was primarily due to the increase in sales, the related increase in volume of products being produced and the impact of higher volume on the existing cost structure.

During the three months ended September 30, 2015 and 2014, the gross profit percentage was approximately 9.7% and (83.5%), respectively. The increase in gross profit percentage was primarily due to the increase in sales, the related increase in volume of products being produced and the impact of higher volume on the existing cost structure.

Operating Expenses

Total operating expenses for the three months ended September 30, 2015 were \$1,240,519, as compared to \$958,760 for the three months ended September 30, 2014.

Research and Development - Research and development expenses for the three months ended September 30, 2015 were \$1,425, compared to \$91,666 for the three months ended September 30, 2014. The decrease is primarily attributable to reduced development activities as we concentrated on increasing sales of our existing products.

We anticipate that as our operations increase, our research and development expenses may increase because we believe that maintaining state-of-the-art products is key to our continued success, although we expect that such expenses will constitute a lower percentage of our operating budget as much of our initial development efforts have been completed.

Stock Compensation - Stock compensation expense for the three months ended September 30, 2015 was \$36,528, compared to \$39,898 for the three months ended September 30, 2014, a decrease of \$3,370.

General and Administrative Expenses - General and administrative expenses for the three months ended September 30, 2015 were \$1,202,565, compared to \$827,196 for the three months ended September 30, 2014, representing a period to period increase of approximately \$375,000, consisting primarily of an increase in compensation related expenses of approximately \$233,000 for production and engineering labor, an increase in general and administrative expenses in the India location of \$215,000, which did not occur in 2014, an increase in postage and delivery of approximately \$26,000 related to increased shipments overseas, an increase travel and entertainment expense of \$19,000 offset by a decrease in professional fees of approximately \$124,000, due to reduced consulting and legal fees, a decrease in marketing expenses of \$31,000, and a net increase in other expense categories of \$77,000.

We expect to achieve economies of scale in our general and administrative expenses as our operations increase as much our administrative expenses are fixed costs, such as salaries of key personnel and rent. As a result, while we may need to hire additional personnel as operations increase, we believe that the increases in general and administrative expenses will be at a lower rate than the increase in revenues.

Other Income (Expense) - Other income (expense) for the three months ended September 30, 2015 was income of \$161,468, compared to expense of \$216,609 for the three months ended September 30, 2014. The change of \$378,077 is due primarily to a gain on the change in the fair value of derivatives liabilities of approximately \$326,258, which did not occur in the three months ended September 30, 2014 and lower interest expense of \$48,915 during the three months ended September 30, 2015. Interest expense decreased in the three months ended September 30, 2015 versus the three months ended September 30, 2014 due the decrease in amortization of debt discounts, which were included in interest expense, as the debt discounts were fully written off in the period, offset by a higher level of debt and increased interest costs.

Results of Operations for the nine months ended September 30, 2015 and 2014, in Aggregate:

	September 30, 2015	September 30, 2014
Sales	\$ 2,821,149	\$ 825,798
Cost of Sales	2,349,329	1,235,126
Gross Profit (Loss)	471,820	(409,328)
Research and Development Expenses	24,884	128,117
Inventory write down	-	111,000
Stock compensation	246,399	122,126
General and Administrative Expenses	3,583,921	2,178,365
Operating Expenses	3,855,204	2,539,608
Other Income (Expense)	211,316	(597,853)
Net Loss	(3,172,068)	(3,546,789)
Non Controlling Interest	(206,999)	-
Net Loss attributable to Windstream Technologies, Inc.	\$ (2,965,069)	\$ (3,546,789)

For the nine months ended September 30, 2015 and 2014, we reported net losses of \$2,965,096 and \$3,546,789, respectively. The decrease in net loss in the nine months ended September 30, 2015, was primarily attributable to the increased sales and related cost of sales resulting in an increase in gross profit of \$881,148 offset by an increase in general and administrative expenses of \$1,405,000, consisting primarily of an increase in compensation related expense related to production and engineering salaries and wages of approximately \$954,000, an increase in general and administrative expenses in the India location of \$425,000, which did not occur in 2014, an increase in postage and delivery of approximately \$66,000 related to increased shipments overseas, an increase in professional fees of approximately \$80,000 related to audit fees, an increase of business development expense of \$31,000 a decrease in marketing expenses of \$58,000, a reduction in travel and entertainment expense of \$30,000 and a net reduction in other various other expenses of \$45,000. There was no write down of inventory in 2015 compared to the write off of \$111,000 in 2014. There was a \$124,000 increase in stock compensation. These increases in expenses were partially offset by the gain on the change in the fair value of derivative liabilities of approximately \$888,011. There were no such gains or losses on the fair value of derivatives in 2014.

Sales - Net sales for the nine months ended September 30, 2015 were \$2,821,149, compared to \$825,798 for the nine months ended September 30, 2014. The increase in sales is due to an increase in orders from a number of our domestic and international customers.

Cost of Sales - During the nine months ended September 30, 2015, cost of sales was \$2,349,329 compared to \$1,235,126 for the nine months ended September 30, 2014. The increase in cost of sales relates primarily to the increase in sales in the nine months ended

September 30, 2015 compared to 2014. The increase in cost of sales relates primarily to an increase in sales in the nine months ended September 30, 2015 compared to 2014.

Gross Profit (Loss) - Gross profit was \$471,820 for the nine months ended September 30, 2015 compared to a gross loss of \$409,328 for the nine months ended September 30, 2014. The increase in gross profit was due to the increase in sales 2015 as well as well as the improvements in manufacturing efficiencies due to higher volumes.

During the nine months ended September 30, 2015 and 2014, the gross profit (loss) percentage was approximately 17% and (49%), respectively. The improvement in the gross percentage is due primarily to the increase in sales as well as well as the improvements in manufacturing efficiencies due to higher volumes.

Operating Expenses

Total operating expenses for the nine months ended September 30, 2015 were \$3,855,205, as compared to \$2,539,608 for the nine months ended September 30, 2014.

Research and Development - Research and development expenses for the nine months ended September 30, 2015 were \$24,844, compared to \$128,117 for the nine months ended September 30, 2014. The decrease is primarily attributable to reduced development activities as we concentrated on increasing sales of our existing products.

We anticipate that as our operations increase, our research and development expenses may increase because we believe that maintaining state-of-the-art products is key to our continued success, although we expect that such expenses will constitute a lower percentage of our operating budget as much of our initial development efforts have been completed.

Stock Compensation - Stock compensation expense for the nine months ended September 30, 2015 was \$246,399, compared to \$122,126 for the nine months ended September 30, 2014. The increase is due primarily to the options issued in late 2014 that vested during the nine months ended September 30, 2015, whereas there was no such activity during the nine months ended September 30, 2014.

General and Administrative Expenses – General and administrative expenses for the nine months ended September 30, 2015 were \$3,583,921, compared to \$2,178,365 for the nine months ended September 30, 2014, representing an increase of \$1,405,000 driven primarily by an increase in compensation related expense related to production and engineering salaries and wages of approximately \$954,000, an increase in general and administrative expenses in the India location of \$425,000, which did not occur in 2014, an increase in postage and delivery of approximately \$66,000 related to increased shipments overseas, an increase in professional fees of approximately \$80,000 related to audit fees, an increase of business development expense of \$31,000, a decrease in marketing expenses of \$58,000, a reduction in travel and entertainment expense of \$30,000 and a net reduction in other various other expenses of \$27,000.

We expect to achieve economies of scale in our general and administrative expenses as our operations increase as much our administrative expenses are fixed costs, such as salaries of key personnel and rent. As a result, while we may need to hire additional personnel as operations increase, we believe that the increases in general and administrative expenses will be at a lower rate than the increase in revenues.

Other income (expense) - Other income for the nine months ended September 30, 2015 was \$211,316, compared to other expense of \$597,853 for the nine months ended September 30, 2014. The change of \$809,169 is due primarily to a gain on the change in the fair value of derivatives liabilities of approximately \$888,011 during the nine months ended September 30, 2015, which did not occur in the nine months ended September 30, 2014. Interest expense increased in the nine months ended September 30, 2015 versus the nine months ended September 30, 2014 driven by increases in short term borrowings.

Liquidity and Capital Resources

The following table summarizes total current assets, liabilities and working capital at September 30, 2015 compared to December 31, 2014:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>	<u>Increase/(Decrease)</u>
Current Assets	\$ 4,206,068	\$ 5,049,596	\$ (843,528)
Current Liabilities	\$ 9,026,006	\$ 9,993,241	\$ (967,235)
Working Capital Deficiency	<u>\$ (4,819,938)</u>	<u>\$ (4,943,645)</u>	<u>\$ 123,707</u>

As of September 30, 2015 and December 31, 2014, we had working capital deficiencies of \$4,819,938 and \$4,943,644, respectively. The decrease in the working capital deficiency was due primarily to decreased use of short term financing to fund operations. Current liabilities also decreased due to the conversion of convertible debt into shares of the Company's common stock.

Our working capital revolving line of credit with a bank was extended in June 2015 for four months at substantially the same terms, but with a decrease in the current credit limit. The outstanding borrowings under the line of credit as of September 30, 2015 and December 31, 2014 were \$1,999,084 and \$1,991,605, respectively, which has been included in the short term debt – third parties in the accompanying Consolidated Balance Sheets.

Going Concern

In their report dated April 10, 2015, our independent registered public accounting firm stated that our financial statements for the year ended December 31, 2014 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised due to net losses of approximately \$11,330,000 and \$4,845,000 for the years ended December 31, 2014 and 2013, respectively, and working capital deficits of approximately \$4,944,000 and \$1,396,000 at December 31, 2014 and 2013, respectively. We continued to have a net loss from operations during the nine months ended September 30, 2015. In addition, we have an accumulated deficit of approximately \$24,700,000 as of September 30, 2015 and require additional financing to fund future operations. Our financial statements contain additional note disclosures describing the circumstances that led to this disclosure.

Our operations have not been sufficient to generate cash flow to fund operations and we have financed our activities using equity and debt financings and borrowings from a line of credit. Our ability to achieve and maintain profitability and a positive cash flow is dependent upon our ability to successfully develop and market our products and our ability to generate revenues. Our ability to continue as a going concern is subject to our ability to obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities or obtaining loans from various financial institutions, where possible. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful. While we continually look for additional financing sources, in the current economic environment the procurement of outside funding is difficult and there can be no assurance that such financing will be available on terms acceptable to us, if at all.

The following table provides selected financial data about us as of September 30, 2015 and December 31, 2014. For detailed financial information, see the accompanying financial statements.

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Cash	\$ 177,338	\$ 594,508
Total assets	4,609,775	5,365,295
Total liabilities	\$ 10,198,168	\$ 11,210,403
Stockholder deficit	\$ (5,588,393)	\$ (5,845,108)

Net cash used in operating activities for the nine months ended September 30, 2015 and 2014 was \$2,608,783 and \$3,296,987, respectively. The decrease in cash used in operating activities was primarily related to the increases in sales of products and increases in collection of receivables.

Net cash used in all investing activities for the nine months ended September 30, 2015 was \$190,507 as compared to \$16,720 for the nine months ended September 30, 2014.

Net cash obtained through all financing activities for the nine months ended September 30, 2015, was \$2,382,120, as compared to \$3,383,612 for the nine months ended September 30, 2014. We received payments on stock subscription receivable, borrowings on short term debt, proceeds from long term debt, proceeds from issuance of convertible debt and payments on notes receivable during the nine months September 30, 2015 and borrowings on line of credit, proceeds from short term debt, proceeds from short term debt - related parties, proceeds from issuance of convertible debt, and proceeds from issuance of common stock. The estimated working capital requirement for the next 12 months is \$2,400,000 with an estimated burn rate of approximately \$200,000 per month. As reflected in the accompanying financial statements, we had cash of \$177,338 at September 30, 2015, compared to \$594,508 at December 31, 2014.

Recent Financings

LG Capital Financing

On March 5, 2015, the Company entered into a securities purchase agreement with LG Capital Funding, LLC, an accredited investor ("LG") whereby the Company issued and sold to LG an 8% convertible note (the "LG Note") in the principal amount of \$105,000 for \$105,000.

The LG Note is due on the first anniversary of issuance and bears interest at the rate of 8% per annum. The LG Note is convertible, in whole or in part, into shares of Common Stock at the option of LG, at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding, and including, the date of conversion, subject to adjustment and further discount upon certain events, as set forth in the LG Note.

The Company has the right, at any time prior to the six month anniversary of the issuance date of the LG Note to redeem the outstanding LG Note at a redemption price equal to an amount between 115% and 145% of the amount of principal plus interest being redeemed, depending on the date of prepayment.

The convertibility of the LG Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 9.9% of Common Stock.

The Company reimbursed LG for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$5,000 and paid \$8,000 to Carter Terry & Company for due diligence fees.

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$7,873, into shares of the Company's common stock at prices ranging from \$0.0001 to \$0.0002. Using the formula provided for in the related convertible debt agreement, this Lender received 72,926,888, shares of the Company's common stock.

JSJ Investments Financing – Note 1

On March 6, 2015, the Company issued and sold to JSJ Investments Inc. (“JSJ”) a convertible note (the “JSJ Note”) in the principal amount of \$100,000, for \$100,000.

The JSJ Note is due on demand and bears interest at the rate of 12% per annum. The JSJ Note is convertible, in whole or in part, into shares of Common Stock at the option of JSJ, at a conversion price equal to the lesser of (i) 55% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of issuance of the JSJ Note or (ii) 55% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the JSJ Note.

The Company has the right to redeem the outstanding JSJ Note at a redemption price equal to 150% of the amount of principal and interest being redeemed, provided that any repayment, including at maturity, can only be made with the consent of JSJ.

The Company reimbursed JSJ for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$2,000 and paid \$10,000 to Carter Terry & Company in connection with due diligence fees.

Since the inception of Note #1, through September 30, 2015, JSJ converted approximately \$59,515 of the outstanding balance of Note #1 into 27,125,836 shares of common stock at prices based on a formula which resulted in prices from \$0.0013 to \$0.0033.

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$36,765, into shares of the Company’s common stock at prices ranging from \$0.000055 to \$0.00055. Using the formula provided for in the related convertible debt agreement, this Lender received 220,177,408, shares of the Company’s common stock.

JMJ Financial Financing

On March 9, 2015, the Company issued and sold to MJM Financial (“MJM”) a convertible note (the “MJM Note”) in the principal amount of \$100,000 for \$90,000. MJM has the right to invest an additional \$400,000 on the same terms and conditions from time to time at its sole discretion.

Each portion funded of the MJM Note is due on the second anniversary of funding and bears no interest for the first three months and then a one-time interest charge of 12% will be due. The MJM Note is convertible, in whole or in part, into shares of Common Stock at the option of MJM at a conversion price equal to the lesser of (i) \$0.084 or (ii) 60% of the lowest trading price of the Common Stock for the 25 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the MJM Note.

The convertibility of the MJM Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 4.99% of Common Stock.

The Company granted MJM piggyback registration rights on the shares issuable upon conversion of the MJM Note. If the Company fails to include such shares, the Company shall pay MJM liquidated damages of 25% of the outstanding principal amount of the MJM Note, but not less than \$25,000.

Since the inception of the MJM Note through September 30, 2015, MJM converted approximately \$23,040 of the outstanding balance of MJM Note into approximately 20,000,000 shares of the common stock at prices based on a formula which resulted in prices from \$0.0006 to \$0.0036.

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$25,488, into shares of the Company’s common stock at prices ranging from \$0.00006 to \$0.00060. Using the formula provided for in the related convertible debt agreement, this Lender received 141,800,000, shares of the Company’s common stock.

EMA Financial Financing

On March 10, 2015, the Company entered into a securities purchase agreement with EMA Financial, LLC, an accredited investor (“EMA”) whereby the Company issued and sold to EMA an 8% convertible note (the “EMA Note”) in the principal amount of \$100,000 for \$90,000.

The EMA Note is due on the first anniversary of issuance and bears interest at the rate of 10% per annum. The EMA Note is convertible, in whole or in part, into shares of Common Stock at the option of EMA at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the EMA Note.

The Company has the right, at any time prior to the four month anniversary of the issuance date of the EMA Note, upon at least five trading days prior written notice, to redeem the outstanding EMA Note at a redemption price equal to 135% of the amount of principal and interest being redeemed.

The convertibility of the EMA Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 4.9% of Common Stock.

The Company granted EMA a right of first refusal on all future financings for a year from the date of issuance of the EMA Note.

The Company reimbursed EMA for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$3,500.

Since the inception of the EMA Note through September 30, 2015, EMA converted approximately \$27,932 of the outstanding balance of EMA Note into 17,529,855 shares of common stock at prices based on a formula which resulted in prices from \$0.00108 to \$0.0027.

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$18,095, into shares of the Company's common stock at prices ranging from \$0.000090 to \$0.000495. Using the formula provided for in the related convertible debt agreement, this Lender received 134,529,956, shares of the Company's common stock.

Adar Bays Financing

On March 20, 2015, the Company entered into a securities purchase agreement with Adar Bays, LLC, an accredited investor ("Adar") whereby the Company issued and sold to Adar an 8% convertible note (the "Adar Note") in the principal amount of \$50,000 for \$50,000.

The Adar Note is due on the first anniversary of issuance and bears interest at the rate of 8% per annum. The Adar Note is convertible, in whole or in part, into shares of Common Stock at the option of Adar at a conversion price equal to 65% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding and including the date of conversion, subject to adjustment and further discount upon certain events, as set forth in the Adar Note.

The Company has the right, at any time prior to the six month anniversary of the issuance date of the Adar Note to redeem the outstanding Adar Note at a redemption price equal to 150% of the amount of principal being redeemed plus interest.

The convertibility of the Adar Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 9.9% of Common Stock.

The Company reimbursed Adar for all costs and expenses incurred by it in connection with the transaction in an amount equal to \$2,500 and paid \$4,000 to Carter Terry & Company in connection with due diligence fees.

Union Capital, LLC Note

In April 2015, the Company entered into a securities purchase agreement with Union Capital, LLC, an accredited investor ("Union Capital") whereby the Company issued and sold to Union Capital an 8% convertible note (the "Union Capital Note") in the principal amount of \$75,000 for \$75,000.

The Union Capital Note is due on the first anniversary of issuance and bears interest at the rate of 8% per annum. The Union Capital Note is convertible, in whole or in part, into shares of Common Stock at the option of Union Capital, at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding, and including, the date of conversion, subject to adjustment and further discount upon certain events, as set forth in the Union Capital Note.

The Company reimbursed Union Capital for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$3,500 and paid \$6,000 to Carter Terry & Company in connection with due diligence fees.

Subsequent to September 30, 2015, the Lender converted a portion of their outstanding convertible debt, approximately \$58,927, into shares of the Company's common stock at prices ranging from \$0.00060 to \$0.00006. Using the formula provided for in the related convertible debt agreement, this Lender received 583,354,617, shares of the Company's common stock.

JSJ Investments Financing – Note 2

On April 20, 2015, the Company issued and sold to JSJ a convertible note (the "JSJ Note II") in the principal amount of \$112,000, for \$112,000.

The JSJ Note II is due on demand and bears interest at the rate of 12% per annum. The JSJ Note II is convertible, in whole or in part, into shares of Common Stock at the option of JSJ, at a conversion price equal to the lesser of (i) 45% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of issuance of the JSJ Note II or (ii) 45% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the JSJ Note II.

The Company has the right to redeem the outstanding JSJ Note II at a redemption price equal to 135% to 145% of the amount of principal and interest being redeemed, provided that any repayment, including at maturity, can only be made with the consent of JSJ.

The Company reimbursed JSJ for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$2,000 and paid \$8,000 to Carter Terry & Company in connection with due diligence fees.

Black Forest Capital LLC, Financing

On July 16, 2015, the Company issued and sold to Black Forest Capital LLC ("Black Forest") a convertible note (the "Black Forest Note") in the principal amount of \$150,000 for \$140,000.

The Black Forest Note is due on the first anniversary of funding and bears interest at a rate of 8%. The Black Forest Note is convertible, in whole or in part, into shares of Common Stock at the option of Black Forest at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 20 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the Black Forest Note.

The Company has the right within 180 days of the date of the note to redeem the outstanding Black Forest Note at a redemption price equal to 130% of the amount of principal and interest being redeemed, provided that any repayment, including at maturity, can only be made with the consent of Black Forest.

The Company reimbursed Black Forest for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$12,000 and paid \$12,000 to Carter Terry & Company in connection with due diligence fees.

GW Holdings Group LLC

On August 11, 2015, the Company issued and sold to GW Holdings Group, LLC. ("GW") a convertible note (the "GW Note") in the principal amount of \$61,000 for \$50,000.

The GW Note is due on the first anniversary of funding and bears interest at a rate of 8%. The GW Note is convertible, in whole or in part, into shares of Common Stock at the option of GW at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding the date of conversion subject to adjustment and further discount upon certain events, as set forth in the GW Note.

The Company has the right within 180 days of the date of the note to redeem the outstanding GW Note at a redemption price starting at 135% to 150% of the amount of principal and interest being redeemed, provided that any repayment, including at maturity, can only be made with the consent of GW.

The Company reimbursed GW for all costs and expenses incurred by it in connection with tire transactions in an amount equal to \$3,000 and paid \$3,000 in connection with legal fees and an amount equal to \$4,000 and paid \$4,000 to Carter Terry & Company in connection with due diligence fees.

LG Capital Financing – Note 2

On August 14, 2015, the Company entered into a securities purchase agreement with LG Capital Funding, LLC, an accredited investor (“LG”) whereby the Company issued and sold to LG an 8% convertible note (the “LG Note #2”) in the principal amount of \$105,000 for \$90,000.

The LG Note #2 is due on the first anniversary of issuance and bears interest at the rate of 8% per annum. The LG Note #2 is convertible, in whole or in part, into shares of Common Stock at the option of LG, at a conversion price equal to 60% of the lowest trading price of the Common Stock for the 15 trading days immediately preceding, and including, the date of conversion, subject to adjustment and further discount upon certain events, as set forth in the LG Note #2.

The Company has the right, at any time prior to the six month anniversary of the issuance date of the LG Note #2 to redeem the outstanding LG Note at a redemption price equal to an amount between 115% and 145% of the amount of principal plus interest being redeemed, depending on the date of prepayment.

The convertibility of the LG Note may be limited if, upon conversion, the holder thereof or any of its affiliates would beneficially own more than 9.9% of Common Stock.

The Company reimbursed LG for all costs and expenses incurred by it in connection with the transactions in an amount equal to \$5,000 and paid \$5,000 for legal fees and an amount equal to \$10,000 paid \$10,000 to Carter Terry & Company for due diligence fees.

October 2015 Installment Loan Agreement

On October 1, 2015, the Company entered into an installment loan agreement (the “Agreement”) with PowerUp Lending Limited, (“PowerUp”) in the principal amount of \$195,000 for \$150,000.

Under the terms of the Agreement, the Company will pay, via ACH Debit, a daily charge of \$1,326.53 per day until the note for \$195,000 is repaid. The Agreement states that there is no interest payable under the terms of the Agreement but the difference between the amount received, \$150,000 and the principal amount of \$195,000, will be recognized as interest expense over the life of the Agreement. The Agreement is unsecured and is based on future sales and collections on those sales

The Company reimbursed Power Up for all costs and expenses incurred by it in connection with the transactions and paid \$2,995 as an origination fee and paid \$11,600 to Carter Terry & Company for due diligence fees.

Recent Accounting Pronouncements, not yet adopted

On May 28, 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. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for us on January 1, 2017. Early application is not permitted. The 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 August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively. Early adoption is permitted. We have not determined the effect of the standard on our ongoing financial reporting.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810) - Amendments to the Consolidation Analysis*, (ASU 2015-02). ASU 2015-02 modifies existing consolidation guidance related to (i) limited partnerships and similar legal entities, (ii) the evaluation of variable interests for fees paid to decision makers or service providers, (iii) the effect of fee arrangements and related parties on the primary beneficiary determination, and (iv) certain investment funds. These changes reduce the number of consolidation models from four to two and place more emphasis on the risk of loss when determining a controlling financial interest. This guidance is effective for public companies for fiscal years beginning after December 15, 2015. We are in the process of evaluating the adoption of this ASU, and do not expect this to have a material effect on our consolidated results of operations and financial condition.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period*. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial position and results of operations.

Critical Accounting Policies

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates, assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenues and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 2 of our financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

We believe the following critical accounting policies and procedures, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Principles of Consolidation

The consolidated financial statements include the accounts of WindStream Technology, Inc., (fka Windaus Global Energy, Inc.) and its subsidiaries, Windstream Technologies, Inc. (A California Corporation), WindStream Energy Technologies Pvt Ltd. and WindStream Technologies Latin America S.A. All material intercompany balances have been eliminated in consolidation.

Foreign Currency Translation

The accounting records of the Company are maintained in U.S. Dollars. The fair value of investments and other assets and liabilities denominated in non-U.S. currencies are translated into U.S. Dollars using the exchange rate at 4:00 p.m., Eastern Time, at each quarter end. Amounts related to the purchases and sales of investments, investment income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Net unrealized currency gains and losses arising from valuing foreign currency-denominated assets and liabilities at the current exchange rate are reflected as part of unrealized appreciation/depreciation on translation of assets and liabilities denominated in foreign currencies.

Revenue Recognition

Sales revenue consists of amounts earned from customers through the sale of its primary products, the TurboMill and the SolarMill, power generation devices which use alternative energy sources, primarily wind, to generate electricity. We also provide accessory products in support of these devices in the form of mounting equipment, data collection/monitoring equipment, batteries, inverters and various wiring solutions and accessories.

Sales revenue is recognized when persuasive evidence of an arrangement exists, title to and risk of loss for the product has passed, which is generally when the products are shipped to its customers and collection is reasonably assured.

Basic and Diluted Net Loss per Share

We compute loss per share in accordance with ASC 260, *Earnings per Share*. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using treasury stock method, and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants.

Diluted EPS excludes all dilutive potential common shares if their effect is anti-dilutive. Common stock equivalents pertaining to the convertible debt, options, warrants and convertible preferred shares were not included in the computation of diluted net loss per common share because the effect would have been anti-dilutive due to the net loss for the nine months ended September 30, 2015 and 2014, respectively.

Stock Based Payments

We account for share-based awards to employees in accordance with ASC 718 *Stock Compensation*. Under this guidance, stock compensation expense is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the estimated service period (generally the vesting period) on the straight-line attribute method. Share-based awards to non-employees are accounted for in accordance with ASC 505-50 *Equity*, wherein such awards are expensed over the period in which the related services are rendered.

Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include the allowance made for doubtful accounts and sales returns reserves, inventory write-downs, the estimated useful lives of long-lived assets, the impairment of long-lived assets, fair value of derivative liabilities, valuation allowance on deferred income tax assets, accrued warranty expenses, the grant-date fair value of share-based compensation awards and related forfeiture rates, and fair value of financial instruments. Changes in facts and circumstances may result in revised estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Deferred Financing Costs

Costs associated with the issuance of debt is capitalized as deferred financing costs and amortized into interest expense using the effective interest method over the life of the related debt. At September 30, 2015 and December 31, 2014, unamortized deferred financing costs incurred totaled \$0. Amortization of deferred financing costs, which has been included in interest expense, for the nine months ended September 30, 2015 and 2014 was approximately \$0 and \$23,000, respectively.

Accounting for Derivatives Liabilities

We evaluate stock options, stock warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under the relevant sections of ASC Topic 815-40, *Derivative Instruments and Hedging: Contracts in Entity's Own Equity*. The result of this accounting treatment could be that the fair value of a financial instrument is classified as a derivative instrument and is marked-to-market at each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Financial instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815-40 are reclassified to a liability account at the fair value of the instrument on the reclassification date.

Research and Development

Costs incurred in developing the ability to create and manufacture products for sale are included in research and development. Once a product is commercially feasible and starts to sell to third party customers, the classification of such costs as development costs stops and such costs are recorded as costs of production, which is included in cost of goods sold. Research and development costs are expensed when incurred.

Related Parties

A party is considered to be related to us if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with us. Related parties also include our principal owners, our management, members of the immediate families of our principal owners and our management and other parties with which we may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

Contractual Commitments

A summary of contractual debt obligations is as follows:

Contractual Obligations:	Total	Payments due by period:			
		Less than one year	1-3 years	3-5 years	More than 5 years
Short term convertible notes payable with imbedded derivatives	\$ 2,180,364	\$ 2,180,364	-	-	-
Short term debt - related party	\$ 221,000	\$ 221,000	-	-	-
Short term debt - third parties, includes:					
Line of credit with a bank	\$ 1,999,084	\$ 1,999,084	-	-	-
Notes payable to various individuals	\$ 510,000	\$ 510,000	-	-	-
Total short term debt - third parties	\$ 2,509,084	\$ 2,509,084	-	-	-
Notes payable, including interest	\$ 1,571,535	\$ 240,097	\$1,331,483	-	-

Off Balance Sheet Arrangements:

We do not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as "special purpose entities" (SPEs).

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required under Regulation S-K for "smaller reporting companies."

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2015, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

On May 28, 2015, a former employee filed a complaint in U.S. District Court against the Company to recover unpaid wages, unreimbursed expenses, liquidated damages, attorney's fees and costs under the provisions of the Fair Labor Standards Act of 1938. The Company filed an answer to the complaint on July 27, 2015. The wages and unreimbursed business expenses have been accrued in the Company's financial statements since those obligations arose in accordance with generally accepted accounting principles. The two parties do not appear to disagree on the unpaid wages and unreimbursed expenses due the former employee. Counsels for the parties continue to be in discussion to attempt to work out a settlement in order to avoid the costs of pursuing and defending this matter in court. The next step for this action is a settlement conference with the magistrate and the various parties tentatively scheduled for early December 2015. Depositions may start just before or just after that conference, if no resolution is reached. The Company believes that this case is too early in its development for the Company to recognize any additional liabilities except those the Company has already recognized.

Item 1A. Risk Factors.

Not required under Regulation S-K for "smaller reporting companies."

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None, other than those previously disclosed on Current Reports on Form 8-Ks.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.01 Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.02 Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.01 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 INS XBRL Instance Document
- 101 SCH XBRL Taxonomy Extension Schema Document
- 101 CAL XBRL Taxonomy Calculation Linkbase Document
- 101 LAB XBRL Taxonomy Labels Linkbase Document
- 101 PRE XBRL Taxonomy Presentation Linkbase Document
- 101 DEF XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WINDSTREAM TECHNOLOGIES, INC.

Date: November 16, 2015

By: /s/ Daniel Bates

Name: Daniel Bates

Title: Chief Executive Officer (Principal Executive Officer)

Date: November 16, 2015

By: /s/ William Thorpe

Name: William Thorpe

Title: Chief Financial Officer (Principal Financial Officer)
(Principal Accounting Officer)

CERTIFICATION

I, Daniel Bates, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WindStream Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 16, 2015

By: /s/ Daniel Bates

Name: Daniel Bates

Title: Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, William Thorpe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WindStream Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 16, 2015

By: /s/ William Thorpe

Name: William Thorpe

Title: Chief Financial Officer (Principal Financial Officer)
(Principal Accounting Officer)

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel Bates, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of WindStream Technologies, Inc. on Form 10-Q for the fiscal quarter ended September 30, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of WindStream Technologies, Inc.

Date: November 16, 2015

By: /s/ DANIEL BATES

Name: Daniel Bates

Title: *Chief Executive Officer*

I, William Thorpe, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of WindStream Technologies, Inc. on Form 10-Q for the fiscal quarter ended September 30, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of WindStream Technologies, Inc.

Date: November 16, 2015

By: /s/ WILLIAM THORPE

Name: William Thorpe

Title: *Chief Financial Officer*
