

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2018**

OR

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

For the transition period from _____ to _____

Commission File Number: **000-33155**



COATES INTERNATIONAL, LTD.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

22-2925432

(I.R.S. Employer
Identification No.)

2100 Highway 34, Wall Township, New Jersey 07719

(Address of principal executive offices) (Zip Code)

(732) 449-7717

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 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

Non-accelerated filer

(Do not check if a smaller reporting company)

Non-accelerated filer

Smaller reporting company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes No

As of November 8, 2018, the Registrant had 915,268,263 shares of its common stock, par value \$0.0001 per share issued and outstanding.

**COATES INTERNATIONAL, LTD.
QUARTERLY REPORT ON FORM 10-Q**

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SEPTEMBER 30, 2018

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**Coates International, Ltd.
Balance Sheets**

	September 30, 2018	December 31, 2017
	(Unaudited)	
Assets		
Current Assets		
Cash	\$ 17,726	\$ 6,807
Inventory	102,164	103,610
Other current assets	50,799	608
Total Current Assets	<u>170,689</u>	<u>111,025</u>
Property, plant and equipment, net	2,004,553	2,031,684
Deferred licensing costs, net	30,669	33,882
Total Assets	<u>\$ 2,205,911</u>	<u>\$ 2,176,591</u>
Liabilities and Stockholders' Deficiency		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,806,192	\$ 2,544,002
Deferred compensation payable	1,892,211	1,621,322
Promissory notes to related parties	1,437,445	1,472,409
Derivative liability related to convertible promissory notes	311,047	358,996
Deposit on sale of property	200,000	-
Convertible promissory notes, net of unamortized discount	159,172	96,816
Unearned revenues	150,595	150,595
Current portion of mortgage loan payable	60,000	1,273,158
Sublicense deposits	19,200	60,725
Total Current Liabilities	<u>7,035,862</u>	<u>7,578,024</u>
Non-current portion of mortgage loan payable	1,180,490	-
Non-current portion of sublicense deposits	635,100	607,975
Total Liabilities	<u>8,851,452</u>	<u>8,185,999</u>
Commitments and Contingencies	-	-
Stockholders' Deficiency		
Preferred stock, \$0.001 par value, 100,000,000 and 350,000, shares authorized at September 30, 2018 and December 31, 2017, respectively:		
Series A Preferred Stock, 1,000,000 and 5,000 shares designated, 15,620 and 3,601 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	16	4
Series B Convertible Preferred Stock, 10,000,000 and 345,000 shares designated, 3,261,396 and 228,471 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	3,261	228
Common Stock, \$0.0001 par value, 2,400,000,000 and 120,000,000 shares authorized, 577,968,318 and 36,943,242 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	57,797	3,694
Additional paid-in capital	71,341,235	67,699,876
Accumulated deficit	(78,047,850)	(73,713,210)
Total Stockholders' Deficiency	<u>(6,645,541)</u>	<u>(6,009,408)</u>
Total Liabilities and Stockholders' Deficiency	<u>\$ 2,205,911</u>	<u>\$ 2,176,591</u>

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

Coates International, Ltd.
Statements of Operations
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Sublicensing fee revenue	\$ 4,800	\$ 4,800	\$ 14,400	\$ 14,400
Total Revenues	<u>4,800</u>	<u>4,800</u>	<u>14,400</u>	<u>14,400</u>
Expenses:				
Research and development costs	99,435	-	194,680	196,598
Stock-based compensation expense	819,483	1,715,597	2,702,916	4,927,152
Compensation and benefits	45,492	156,171	226,328	382,098
General and administrative expenses	147,283	101,977	433,764	245,087
Depreciation and amortization	11,342	12,249	32,351	36,746
Total Operating Expenses	<u>1,123,035</u>	<u>1,985,994</u>	<u>3,590,039</u>	<u>5,787,681</u>
Loss from Operations	<u>(1,118,235)</u>	<u>(1,981,194)</u>	<u>(3,575,639)</u>	<u>(5,773,281)</u>
Other Expenses:				
Decrease (increase) in estimated fair value of embedded derivative liabilities	44,491	(118,570)	49,406	(281,957)
Loss on conversion of convertible notes	(40,492)	(84,625)	(69,078)	(245,372)
Interest expense, net	(211,882)	(266,064)	(739,329)	(969,447)
Total other expenses	<u>(207,883)</u>	<u>(469,259)</u>	<u>(759,001)</u>	<u>(1,496,776)</u>
Loss Before Income Taxes	(1,326,118)	(2,450,453)	(4,334,640)	(7,270,057)
Provision for income taxes	-	-	-	-
Net Loss	<u>\$ (1,326,118)</u>	<u>\$ (2,450,453)</u>	<u>\$ (4,334,640)</u>	<u>\$ (7,270,057)</u>
Basic net loss per share	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>	<u>\$ (0.04)</u>	<u>\$ (0.35)</u>
Basic weighted average shares outstanding	<u>245,993,739</u>	<u>26,990,814</u>	<u>116,958,625</u>	<u>20,816,989</u>
Diluted net loss per share	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>	<u>\$ (0.04)</u>	<u>\$ (0.35)</u>
Diluted weighted average shares outstanding	<u>245,993,739</u>	<u>26,990,814</u>	<u>116,958,625</u>	<u>20,816,989</u>

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

Coates International Ltd.
Condensed Statements of Cash Flows
(Unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
Net Cash Used in Operating Activities	\$ (483,317)	\$ (663,268)
Net Cash Used in Investing Activities	-	-
Cash Flows Provided by Financing Activities:		
Issuance of convertible promissory notes	374,200	723,300
Deposit received on sale of property	200,000	-
Issuance of promissory notes to related parties	68,230	60,340
Issuance of common stock under equity purchase agreements	-	42,944
Issuance of promissory note	-	30,000
Repayment of promissory notes and accrued interest to related parties	(103,194)	(122,000)
Repayment of mortgage loan	(45,000)	(45,000)
Repayment of promissory notes	-	(30,000)
Net Cash Provided by Financing Activities	494,236	659,584
Net Increase (Decrease) in Cash	10,919	(3,684)
Cash, beginning of period	6,807	9,163
Cash, end of period	<u>\$ 17,726</u>	<u>\$ 5,479</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	<u>\$ 81,084</u>	<u>\$ 135,960</u>
Supplemental Disclosure of Non-cash Financing Activities:		
Conversion of convertible promissory notes	<u>\$ 420,503</u>	<u>\$ 449,614</u>

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

Coates International, Ltd.
Notes to Financial Statements
September 30, 2018
(All amounts rounded to thousands of dollars)
(Unaudited)

1. THE COMPANY AND BASIS OF PRESENTATION

Nature of Organization

Coates International, Ltd. (the “Company” or “CIL”) has acquired the exclusive licensing rights to the patented Coates spherical rotary valve (“CSRV[®]”) system technology in North America, Central America and South America (the “CSRV[®] License”). The CSRV[®] system technology has been developed over a period of more than 20 years by the Company’s founder George J. Coates, President and Chief Executive Officer, and his son Gregory G. Coates. The CSRV[®] system technology is adaptable for use in piston-driven internal combustion engines of many types and has been patented in the United States and numerous countries throughout the world. The Company is endeavoring to raise working capital to commence production of hydrogen gas and natural gas powered CSRV[®] industrial electric power generator sets (“Gen Sets”) and is also seeking to enter into sublicense agreements with third party, original equipment manufacturers (“OEM’s”) which provide for licensing fees. George J. Coates is also continuing with research and development of a hydrogen reactor to harvest Hydrogen Gas from water with the intent to power the Company’s products, including large industrial Gen Sets. George J. Coates, owner of the hydrogen reactor technology, has committed to license this technology to the Company to manufacture Hydrogen Gas powered products, once the related patent protection is in place.

Management believes the CSRV[®] engines provide the following advantages as compared to conventional internal combustion engines designed with “poppet valves”:

- Improved fuel efficiency
- Lower levels of harmful emissions
- Adaptability to numerous types of engine fuels
- Longer engine life
- Longer intervals between engine servicing

The CSRV[®] system technology is designed to replace the intake and exhaust conventional “poppet valves” currently used in almost all piston-driven, automotive, truck, motorcycle, marine and electric power generator engines, among others. Unlike conventional valves which protrude into the engine combustion chamber, the CSRV[®] system technology utilizes spherical valves that rotate in a cavity formed between a two-piece cylinder head. The CSRV[®] system technology utilizes significantly fewer moving parts than conventional poppet valve assemblies. As a result of these design improvements, management believes that engines incorporating the CSRV[®] system technology (“CSRV[®] Engines”) will last significantly longer and will require less lubrication over the life of the engine, as compared to conventional engines. In addition, CSRV[®] Engines can be designed with larger openings into the engine cylinder than with conventional valves so that more fuel and air can be inducted into, and expelled from the cylinder in a shorter period of time. Larger valve openings permit higher revolutions-per-minute (RPM’s) and permit higher compression ratios with lower combustion chamber temperatures, allowing the Coates Engine[®] to produce more power than equivalent conventional engines. The extent to which CSRV[®] Engines operating with the CSRV[®] system technology achieve (i) higher RPM’s, (ii) greater volumetric efficiency and (iii) higher thermal efficiency than conventional engines, is a function of the engine design and application.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

Basis of Presentation

The accompanying condensed financial statements include the accounts of the Company. In the opinion of the Company's management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Certain prior period amounts in the condensed financial statements have been reclassified to conform to the current period's presentation.

These condensed financial statements and accompanying notes should be read in conjunction with the Company's annual financial statements and the notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2017 and the Company's quarterly financial statements and the notes thereto included in its Quarterly Reports.

Since the Company's inception, the Company has been responsible for the development costs of the CSRV[®] technology in order to optimize the value of the licensing rights and has incurred related operational costs, the bulk of which have been funded primarily through cash generated from licensing fees, sales of stock, short term convertible promissory notes, capital contributions, loans made by George J. Coates, Bernadette Coates, his spouse, Gregory G. Coates and certain directors, fees received from research and development of prototype models and a small number of CSRV[®] engine generator sales. The Company has incurred substantial cumulative losses from operations since its inception. Losses from operations are expected to continue until the CSRV[®] Engines[®] are successfully introduced into the marketplace, enabling the Company to generate substantial sales and/or receive substantial licensing revenues. These losses from operations were primarily related to research and development of the Company's intellectual property rights, patent filing and maintenance costs and general and administrative expenses. The Company has also reported substantial non-cash expenses for stock-based compensation, remeasurement of the estimated fair value of embedded derivative liabilities related to convertible promissory notes issued and interest expense and losses on conversion of convertible promissory notes.

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and, as of September 30, 2018, had a stockholders' deficiency of (\$6,646,000). In addition, the recent trading price range of the Company's common stock at a fraction of a penny has introduced additional difficulty to the Company's challenge to secure needed additional working capital. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management has instituted a cost control program intended to restrict variable costs to only those expenses that are necessary to complete its activities related to entering the production phase of operations, develop additional commercially feasible applications of the CSRV[®] system technology, seek additional sources of working capital and cover general and administrative costs in support of such activities. The Company has been actively undertaking efforts to secure new sources of working capital. This could include the balance due at closing consisting of cash proceeds of \$1,100,000, less closing costs, if the contingent sale of a portion of the land owned by the Company is consummated, as more fully discussed in Note 9. At September 30, 2018, the Company had negative working capital of (\$6,865,000) compared with negative working capital of (\$7,467,000) at the end of 2017.

The Company continues to actively seek out new sources of working capital; however, there can be no assurance that it will be successful in these efforts. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Reverse Stock Split

The Company effected a one-for-200 reverse stock split of all of its outstanding shares of common stock, Series A Preferred Stock, Series B Convertible Preferred Stock, common stock warrants and stock options as of the close of trading on December 1, 2017. All prior year balances of shares of capital stock, warrants and stock options outstanding and all presentations and disclosures of transactions in shares of capital stock, warrants and stock options have been restated on a pro forma basis as if the reverse stock split had occurred prior to January 1, 2017. Such restatements include calculations regarding the Company's weighted average shares outstanding and loss per share.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

Inventory

Inventory consists of raw materials. Inventory is stated at the lower of cost or net realizable value. Inventory is accounted for on the first-in, first-out method.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These significant estimates include determining the fair value of convertible promissory notes containing embedded derivatives and variable conversion rates, determining a value for shares of Series A Preferred Stock and Series B Convertible Preferred Stock issued, assigning useful lives to the Company's property, plant and equipment, determining an appropriate amount to reserve for obsolete and slow moving inventory, estimating a valuation allowance for deferred tax assets, assigning expected lives to, and estimating the rate of forfeitures of, stock options granted and selecting a trading price volatility factor for the Company's common stock in order to estimate the fair value of the Company's stock options on the date of grant or other appropriate measurement date. Actual results could differ from those estimates.

2. CONCENTRATIONS OF CREDIT AND BUSINESS RISK

The Company maintains cash balances with one financial institution. Monies on deposit are fully insured by the Federal Deposit Insurance Corporation.

The Company's operations are devoted to the development, application, licensing and marketing of the CSRV[®] system technology which was invented by George J. Coates, the Company's founder, Chairman, Chief Executive Officer, President and controlling stockholder. Development efforts have been conducted continuously during this time. From July 1982 through May 1993, seven U.S. patents as well as a number of foreign patents were issued with respect to the CSRV[®] system technology. Since inception of the Company in 1988, all aspects of the business have been completely dependent upon the activities of George J. Coates. The loss of George J. Coates' availability or service due to death, incapacity or otherwise would have a material adverse effect on the Company's business and operations. The Company does not presently have any key-man life insurance in force for Mr. Coates.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, Other Assets, Accounts Payable and Accrued Liabilities and Other Liabilities

With the exception of convertible promissory notes, the carrying amount of these items approximates their fair value because of the short term maturity of these instruments. The convertible promissory notes are reported at their estimated fair value, determined as described in more detail in Note 14.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

4. LICENSING AGREEMENT AND DEFERRED LICENSING COSTS

The Company holds a manufacturing, use, lease and sale license from George J. Coates and Gregory G. Coates for the CSR[®] system technology in the territory defined as the Western Hemisphere (the "License Agreement"). Under the License Agreement, George J. Coates and Gregory G. Coates granted to the Company an exclusive, perpetual, royalty-free, fully paid-up license to the patented intellectual property that specifically relates to an internal combustion engine that incorporates the CSR[®] system technology (the "CSR[®] Engine") and that is currently owned or controlled by them (the "CSR[®] Intellectual Property"), plus any CSR[®] Intellectual Property that is developed by them during their employment with the Company. In the event of insolvency or bankruptcy of the Company, the licensed rights would terminate and ownership would revert back to George J. Coates and Gregory G. Coates.

Under the License Agreement, George J. Coates and Gregory G. Coates agreed that they will not grant any Western Hemisphere licenses to any other party with respect to the CSR[®] Intellectual Property.

At September 30, 2018 and December 31, 2017, deferred licensing costs, comprised of expenditures for patent costs incurred pursuant to the CSR[®] licensing agreement, net of accumulated amortization, amounted to \$31,000 and \$34,000, respectively. Amortization expense for the three months ended September 30, 2018 and 2017 amounted to \$1,000 and \$1,000, respectively. Amortization expense for the nine months ended September 30, 2018 and 2017 amounted to \$3,000 and \$3,000, respectively.

5. AGREEMENT ASSIGNED TO ALMONT ENERGY, INC.

In 2010, Almont Energy Inc. ("Almont"), a privately held, independent third-party entity based in Alberta, Canada became the assignee of a sublicense which covers the use of the CSR[®] system technology in the territory of Canada in the oil and gas industry (the "Canadian License"). This sublicense is currently inactive because the parties have not fulfilled their obligations thereunder due to the Company's delay in starting up production and delivery of CSR[®] products to Almont. The parties mutually agreed to consider the basis on which the license could be reactivated at such time that the Company is successful in starting up its manufacturing operations.

In prior years, the Company received a non-refundable \$300,000 deposit on the Canadian License. As the Company continues to be desirous of commencing shipments of its CSR[®] products to Almont under the sublicense at such time that it is able to start up production operations, it has continued to amortize this deposit into income over the period until expiration of the last CSR[®] system technology patent in force. At September 30, 2018, amortization of the unamortized balance is as follows:

Year Ending	Amount
2018	5,000
2019	19,000
2020	19,000
2021	19,000
Thereafter	94,000
	<u>\$ 156,000</u>

At September 30, 2018 and December 31, 2017, the unamortized balance of this license deposit was \$156,000 and \$170,000, respectively. The current portion of \$19,000 is included in sublicense deposits under current liabilities and the remainder of the balance is included in non-current sublicense deposits on the accompanying balance sheets at September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018 and 2017, amortization of the license deposit which was recorded as sublicensing fee revenue amounted to \$5,000 and \$5,000, respectively. For the nine months ended September 30, 2018 and 2017, amortization of the license deposit which was recorded as sublicensing fee revenue amounted to \$14,000 and \$14,000, respectively.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

6. NON-EXCLUSIVE DISTRIBUTION SUBLICENSE WITH RENOWN POWER DEVELOPMENT, LTD.

In February 2015, the Company granted a non-exclusive distribution sublicense to Renown Power Development, Ltd., a China-based sales and distribution company (“Renown”) covering the territory defined as the Western Hemisphere. Under this sublicense, Renown will be permitted to sell, lease and distribute CSRV® products. Renown intends to source CSRV® products from Coates Power, Ltd., a China-based company formed for the purpose of manufacturing CSRV® products (“Coates Power”). Coates Power has not been able to commence operations due to ongoing delays in obtaining necessary support and approval from the Chinese government in spite of continuing efforts by Renown to do so on its behalf. This has been and continues to be a long, arduous process because the government is addressing this at a very slow pace. As of September 30, 2018, the Company has only received an initial non-refundable deposit of \$500,000. Until Coates Power can begin production of CSRV® products for Renown, the Company will not receive any further monies from its sublicense with Renown.

At this time, as the Company’s intellectual property rights only cover the territory of North America, it does not have any rights to enter into a manufacturing and sale license agreement with Coates Power. These rights are currently held by George J. Coates, Gregory G. Coates and The Coates Trust, a trust controlled by George J. Coates. Coates Power and Renown are controlled and managed by Mr. James Pang, the Company’s liaison agent in China.

The Company received a \$131,000 cash deposit with an order from Coates Power to produce two Gen Sets. This amount is included in Unearned Revenues in the accompanying balance sheets at September 30, 2018 and December 31, 2017. The Company intends to build and ship these two generators at such time that Coates Power is able to commence production in accordance with the manufacturing license agreement and there is sufficient working capital for this purpose.

7. OTHER CURRENT ASSETS

Other current assets at September 30, 2018 and December 31, 2017 amounted to \$51,000 and \$1,000, respectively. The balance at September 30, 2018, included \$48,000 for inventory billed, but not received.

8. INVENTORY

Inventory consisted of the following:

	September 30, 2018	December 31, 2017
Raw materials	<u>\$ 102,000</u>	<u>\$ 104,000</u>

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at cost, less accumulated depreciation, consisted of the following:

	September 30, 2018	December 31, 2017
Land	\$ 540,015	\$ 1,235,000
Land held for sale under contract	695,000	-
Building	964,000	964,000
Building improvements	83,000	83,000
Machinery and equipment	689,000	689,000
Furniture and fixtures	57,000	57,000
	<u>3,028,000</u>	<u>3,028,000</u>
Less: Accumulated depreciation	(1,024,000)	(996,000)
Total	<u>\$ 2,004,000</u>	<u>\$ 2,032,000</u>

Coates International, Ltd.
Notes to Financial Statements - (Continued)

In August 2018, the Company entered into a contract to sell a 3.6-acre parcel of undeveloped land that is part of the 6.4 total acres of land comprising its headquarters facility in New Jersey. The sales price for this parcel is \$1,300,000 and the sale is subject to successfully obtaining a zoning variance and subdivision of the land into two land parcels (the "Sale Contingencies"). The Company received a \$200,000 refundable deposit. The balance of the sales price is payable at closing of title. Concurrently with execution of the contract, the Company executed a \$200,000 mortgage note payable to the purchaser which has been placed in escrow for the benefit of the purchaser in the event that the requisite Sale Contingencies are not satisfied within 120 days, unless this period is extended by the purchaser. The 120-day period may be extended up to four times at the option of the purchaser, each such extension for 30 additional days. During the period that the mortgage loan is held in escrow, it will not be interest-bearing, nor will a lien be recorded on the land parcel. If the Sale Contingencies are not satisfied within the contractual times frame, including any extensions, then the sales contract would be cancelled. The Company then has the option of returning the \$200,000 deposit, in which case, the mortgage loan would be cancelled. If the deposit is not returned by the Company, then the mortgage loan would be released from escrow and the related lien on the property would be recorded. From this point forward, the mortgage loan would bear interest at the rate of 7.5% per annum and be payable in quarterly installments over a five-year period.

Depreciation expense amounted to \$10,000 and \$11,000 for the three months ended September 30, 2018 and 2017, respectively. Depreciation expense amounted to \$28,000 and \$33,000 for the nine months ended September 30, 2018 and 2017, respectively.

10. MORTGAGE LOAN PAYABLE

The Company has a mortgage loan on the land and building that serves as its headquarters and research and development facility which bears interest at the rate of 7.5% per annum, and matures in July 2023. In July 2018, the Company entered into a 5-year mortgage extension agreement with the existing lender and paid the lender \$12,000 in financing related costs which were added to the outstanding balance of the mortgage loan. Interest expense for the three months ended September 30, 2018 and 2017 amounted to \$24,000 and \$25,000, respectively. Interest expense for the nine months ended September 30, 2018 and 2017 amounted to \$72,000 and \$75,000, respectively. The loan requires monthly payments of interest, plus \$5,000 which is being applied to the principal balance. The remaining principal balance at September 30, 2018 and December 31, 2017 was \$1,240,000 and \$1,273,000, respectively. The mortgage loan may be prepaid in whole, or, in part, at any time without penalty.

The loan is collateralized by a security interest in all of the Company's assets, the pledge of 25,000 shares of common stock of the Company owned by George J. Coates, which were deposited into escrow for the benefit of the lender and the personal guarantee of George J. Coates. The Company is not permitted to create or permit any secondary mortgage liens or similar liens on the property or improvements thereon without prior consent of the lender.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are as follows:

	September 30, 2018	December 31, 2017
Legal and professional fees	\$ 1,528,000	\$ 1,427,000
Accrued interest expense	622,000	582,000
General and administrative expenses	542,000	420,000
Research and development costs	115,000	115,000
Total	<u>\$ 2,807,000</u>	<u>\$ 2,544,000</u>

Coates International, Ltd.
Notes to Financial Statements - (Continued)

12. PROMISSORY NOTES TO RELATED PARTIES

Promissory Notes Issued to George J. Coates

During the nine months ended September 30, 2018 and 2017, the Company issued, in a series of transactions, promissory notes to George J. Coates and received cash proceeds of \$55,000 and \$24,000, respectively and repaid promissory notes to George J. Coates in the aggregate principal amount of \$50,000 and \$23,000, respectively. Interest expense for the three months ended September 30, 2018 and 2017 amounted to \$17,000 and \$13,000, respectively. Interest expense for the nine months ended September 30, 2018 and 2017 amounted to \$44,000 and \$38,000, respectively.

The promissory notes are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly. At September 30, 2018, the outstanding principal balance was \$25,000 and the balance of unpaid accrued interest was \$362,000.

Promissory Note Issued to Gregory G. Coates

The Company has a non-interest bearing promissory note due to Gregory G. Coates which is payable on demand. Interest is being imputed on this promissory note at the rate of 10% per annum. During the nine months ended September 30, 2018 and 2017, the Company, partially repaid \$31,000 and \$20,000, respectively of this promissory note. Imputed interest expense for the three months ended September 30, 2018 and 2017, amounted to \$35,000 and \$36,000, respectively. Imputed interest expense for the nine months ended September 30, 2018 and 2017, amounted to \$105,000 and \$107,000, respectively. At September 30, 2018, the outstanding principal balance was \$1,387,000.

Promissory Notes Issued to Bernadette Coates

During the nine months ended September 30, 2018 and 2017, the Company issued promissory notes to Bernadette Coates, spouse of George J. Coates and received cash proceeds of \$14,000 and \$36,000, respectively. The Company repaid promissory notes to Bernadette Coates in the principal amount of \$17,000 and \$31,000, respectively. The promissory notes are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly. Interest expense for the three months ended September 30, 2018 and 2017, amounted to \$6,000 and \$4,000, respectively. Interest expense for the nine months ended September 30, 2018 and 2017, amounted to \$18,000 and \$11,000, respectively. At September 30, 2018, the outstanding principal balance was \$25,000 and the balance of unpaid accrued interest was \$113,000.

Promissory Note Issued to Employee

The Company issued promissory notes to an employee in 2016, aggregating \$5,000, which were payable on demand and provided for interest at the rate of 17% per annum, compounded monthly. In February 2018, these notes were repaid in full along with accrued interest thereon of \$1,000.

The aggregate amount of unpaid accrued interest on all promissory notes to related parties amounting to \$475,000 is included in accounts payable and accrued liabilities in the accompanying balance sheet at September 30, 2018.

13. PROMISSORY NOTE

In March 2017, the Company issued a \$25,000 promissory note with a maturity date of May 13, 2017. Interest was payable upon maturity in the form of 50,000 shares of unregistered, restricted shares of the Company's common stock. In addition, the Company agreed to extend warrants held by the lender to purchase 54,199 shares of common stock that were scheduled to expire in 2017 for an additional five years and modify the exercise price to \$0.03 per share. On May 5, 2017, the Company prepaid the note in full and issued 43,443 shares of its common stock representing the prorated number of shares for interest on the note, as a result of the prepayment. Interest expense of \$4,000 was recorded for issuance of these shares based on the closing trading price on the date of issuance.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

14. CONVERTIBLE PROMISSORY NOTES AND EMBEDDED DERIVATIVE LIABILITY

From time to time, the Company issues convertible promissory notes, the proceeds of which are used for general working capital purposes. At September 30, 2018, there was \$193,000 principal amount of convertible promissory notes outstanding. During the nine months ended September 30, 2018 and 2017, \$410,000 and \$778,000 of convertible promissory notes were issued, respectively. Outstanding notes may be converted into unregistered shares of the Company's common stock at a discount ranging from 30% to 39% of the defined trading price of the common stock on the date of conversion. The defined trading prices are based on the trading price of the stock during a defined period ranging from ten to twenty-five trading days immediately preceding the date of conversion. The conversion rate discount establishes a beneficial conversion feature ("BCF") or unamortized discount, which is required to be valued and accreted to interest expense over the six-month period until the conversion of the notes into restricted shares of common stock is permitted. In addition, the conversion formula meets the conditions that require accounting for convertible notes as derivative liability instruments. The effective interest rate on the outstanding convertible notes at September 30, 2018 ranged from 85% to 147%. The unamortized discount on the outstanding convertible notes at September 30, 2018 and December 31, 2017 amounted to \$34,000 and \$82,000, respectively.

The convertible notes generally become convertible, in whole, or in part, beginning on the six-month anniversary of the issuance date and may be prepaid at the option of the Company, with a prepayment penalty ranging from 15% to 50% of the principal amount of the convertible note at any time prior to becoming eligible for conversion.

One convertible promissory note with an aggregate outstanding balance of \$8,000 is convertible in monthly installments in an amount determined by the noteholder, plus accrued interest. The Company may elect, at its option to repay each monthly installment in whole, or in part, in cash, without penalty. The amount of each installment not paid in cash is converted into shares of the Company's common stock. This convertible note also requires that the conversion price be remeasured 23 trading days after the conversion shares are originally delivered. If the remeasured conversion price is lower, then the Company is required to issue additional conversion shares to the noteholder.

In accordance with GAAP, the estimated fair value of the embedded derivative liability related to the convertible notes is required to be remeasured at each balance sheet date. The fair value measurement accounting standard establishes a valuation hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used, when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on independent market data sources. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available. The valuation hierarchy is composed of three categories, which are as follows:

- Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs include quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs to the fair value measurement are unobservable inputs or valuation techniques.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

The estimated fair value of the embedded derivative liabilities related to promissory notes outstanding was measured as the aggregate estimated fair value, based on Level 2 inputs, which included quoted daily yield curve rates of treasury securities with comparable maturities and, because the actual volatility rate on the Company's common stock is not available, a conservative estimated volatility rate of 200%.

The embedded derivative liability arises because, based on historical trading patterns of the Company's stock, the formula for determining the Conversion Rate is expected to result in a different Conversion Rate than the closing price of the stock on the actual date of conversion (hereinafter referred to as the "Variable Conversion Rate Differential"). The estimated fair values of the derivative liabilities have been calculated based on a Black-Scholes option pricing model.

The following table presents the Company's fair value hierarchy of financial assets and liabilities measured at fair value at:

	September 30, 2018	December 31, 2017
Level 1 Inputs	\$ -	\$ -
Level 2 Inputs	311,000	359,000
Level 3 Inputs	-	-
Total	<u>\$ 311,000</u>	<u>\$ 359,000</u>

In a series of transactions, during the nine months ended September 30, 2018, convertible promissory notes with an aggregate principal balance of \$421,000, including accrued interest thereon were converted into 532,055,076 unregistered shares of common stock. The Company incurred a loss on these conversions amounting to \$69,000 for the nine months ended September 30, 2018.

In a series of transactions, during the nine months ended September 30, 2017, convertible promissory notes with an aggregate principal balance of \$604,000, including accrued interest thereon were converted into 14,810,763 unregistered shares of common stock. The Company incurred a loss on these conversions amounting to \$245,000 for the nine months ended September 30, 2017.

At September 30, 2018, the Company had reserved 1,015,452,881 shares of its unissued common stock for conversion of convertible promissory notes.

The Company made the private placement of these securities in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the "Act"), Rule 506 of Regulation D, and the rules and regulations promulgated thereunder, and/or upon any other exemption from the registration requirements of the Act, as applicable.

15. CAPITAL STOCK

Common Stock

The Company's common stock is traded on OTC Pink Sheets. Investors can find real-time quotes and market information for the Company at www.otcmarkets.com market system under the ticker symbol COTE. The Company is authorized to issue up to 2,400,000,000 shares of common stock, par value, \$0.0001 per share (the "common stock"). At September 30, 2018 and December 31, 2017, there were 577,968,318 and 36,943,242 shares of common stock issued and outstanding, respectively.

Reverse Stock Split

At the close of trading in the Company's common stock on December 1, 2017, a 1:200 reverse stock split of all of the Company's shares of common stock, shares of preferred stock, common stock warrants and stock options became effective. Shareholders were paid cash-in-lieu of any fractional shares that would have resulted in connection with the reverse stock split. The reverse stock split was approved by the board of directors and George J. Coates, the majority stockholder by means of a written consent. For purposes of presenting the accompanying financial statements as of September 30, 2018 and December 31, 2017 and for the nine months ended September 30, 2018, all balances, transactions and calculations were restated on a pro forma basis as if the reverse stock split occurred prior to the beginning of the year ended December 31, 2017.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

Certificate of Validation

On April 2, 2018, the Company filed a certificate of validation with the state of Delaware which had retroactive effect to the close of trading in the Corporation's common stock on December 1, 2017, in order to:

- (i) cure certain technical, procedural defects related to the 1:200 reverse stock split, which became effective at the close of trading on December 1, 2017,
- (ii) clarify that the reverse stock split effected a 1:200 reduction in the number of the Corporation's authorized shares of common stock, from 12,000,000,000 to 60,000,000, with retroactive effect to the close of trading on December 1, 2017,
- (iii) clarify that the reverse stock split effected 1:200 reduction in the number of authorized shares of the Corporation's preferred stock, from 100,000,000 to 500,000 with retroactive effect to the close of trading on December 1, 2017; and,
- (iv) concurrently therewith, further amend the Corporation's Amended Certificate of Articles of Incorporation with the State of Delaware to increase the number of the Corporation's authorized shares of common stock, par value \$0.0001 from 60,000,000 to 120,000,000 and reduce the number of authorized shares of the Corporation's preferred stock, par value \$0.001 from 500,000 to 350,000.

The above corporate action was authorized by the board of directors on February 28, 2018, and by means of obtaining the written consent of George J. Coates, the sole majority stockholder, was approved by the shareholders on March 1, 2018.

Certificate of Conversion and Certificate of Designation

On May 9, 2018, the Company filed a Certificate of Conversion and a Certificate of Designation which caused the following corporate actions to become effective:

- (i) The Corporation's State of Domicile was converted from the State of Delaware to the State of Nevada.
- (ii) The number of authorized shares of capital stock of the Company was increased to:
 - a. 2,400,000,000 shares of common stock, par value \$0.0001 per share
 - b. 100,000,000 shares of preferred stock, par value \$0.001 per share
- (iii) The series and number of shares of preferred stock designated from the 100,000,000 shares of preferred stock authorized, was increased to:
 - a. 1,000,000 shares of Series A Preferred Stock, \$0.001 per share
 - b. 10,000,000 shares of Series B Convertible Preferred Stock, \$0.001 per share

Coates International, Ltd.
Notes to Financial Statements - (Continued)

Section 3(a)10 Exempt Securities Transaction

On March 19, 2018, the Company entered into a Settlement Agreement and Stipulation (the "Settlement Agreement") with Livingston Asset Management LLC, a Florida limited liability company ("LAM"), pursuant to which the Company agreed to issue common stock to LAM in exchange for the settlement of \$69,000 (the "Settlement Amount") of past-due obligations and accounts payable of the Company. LAM purchased the obligations and accounts payable from certain vendors of the Company as described below.

On April 2, 2018, the Circuit Court of Baltimore County, Maryland (the "Court"), entered an order (the "LAM Order") approving, among other things, the fairness of the terms and conditions of an exchange in reliance upon an exemption from registration provided for in Section 3(a)(10) of the Securities Act of 1933, as amended (the "Securities Act"), in accordance with a stipulation of settlement, pursuant to the Settlement Agreement between the Company and LAM. Pursuant to the court order, LAM commenced an action against the Company to recover an aggregate of \$69,000 of past-due obligations and accounts payable of the Company, which LAM had purchased from certain vendors of the Company pursuant to the terms of separate claim purchase agreements between LAM and each of such vendors (the "LAM Assigned Accounts"). The LAM Assigned Accounts relate to certain accounting services provided to the Company and a supplier invoice. The Settlement Agreement became effective and binding upon the Company and LAM upon execution of the Order by the Court on April 2, 2018.

Pursuant to the terms of the Settlement Agreement approved by the LAM Order, on April 2, 2018, the Registrant agreed to issue shares to LAM (the "LAM Settlement Shares") of the Registrant's common stock at a 30% discount from the selling price of the settlement shares sold by LAM, as defined in the settlement agreement. The Settlement Agreement provides that the LAM Settlement Shares will be issued in one or more tranches, as necessary, sufficient to satisfy the settlement amount through the issuance of freely trading securities issued in reliance upon an exemption provided for in Section 3(a)(10) of the Securities Act. The parties reasonably estimate that the fair market value of the LAM Settlement Shares to be received by LAM is equal to approximately \$99,000. Additional tranche requests shall be made as requested by LAM until the LAM Settlement Amount is paid in full.

The Settlement Agreement provides that in no event shall the number of shares of common stock issued to LAM or its designee in connection with the Settlement Agreement, when aggregated with all other shares of common stock then beneficially owned by LAM and its affiliates (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder), result in the beneficial ownership by LAM and its affiliates (as calculated pursuant to Section 13(d) of the Exchange Act and the rules and regulations thereunder) at any time of more than 9.99% of the Common Stock.

The Company is required to reserve a sufficient number of shares of its common stock to provide for issuances thereof, upon full satisfaction of the Settlement Amount.

The following common stock transactions occurred during the nine months ended September 30, 2018:

- In a series of transactions, convertible promissory notes with an aggregate principal balance of \$421,000, including accrued interest thereon were converted into 532,055,076 unregistered shares of common stock.
- In a series of transactions, the Company issued 8,970,000 shares of its common stock to LAM to be sold in the open market in reliance upon an exemption provided for in Section 3(a)(10) of the Securities Act. Proceeds from the sales are to be used to satisfy past-due obligations of the Company previously assigned to LAM. During the nine months ended September 30, 2018, Lam has paid \$40,000 of the Settlement Amount of the Company's past due obligations in accordance with the Settlement Agreement.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

The following common stock transactions occurred during the nine months ended September 30, 2017:

- In a series of transactions, convertible promissory notes with an aggregate principal balance of \$604,000, including accrued interest thereon were converted into 14,810,763 unregistered shares of common stock.
- Barry C. Kaye converted 6.86 shares of Series B Convertible Preferred Stock ("Series B") into 6,860 unregistered, restricted shares of the Company's common stock.
- The Company issued 43,443 shares of common stock in payment of interest on a \$25,000 promissory note as more fully discussed in Note 13.

Preferred Stock and anti-dilution rights

The Company is authorized to issue 100,000,000 shares of preferred stock, par value, \$0.001 per share (the "Preferred Stock"). The Company may issue any class of the Preferred Stock in any series. The board is authorized to establish and designate series, and to fix the number of shares included in each such series and the relative rights, preferences and limitations as between series, provided that, if the stated dividends and amounts payable on liquidation are not paid in full, the shares of all series of the same class shall share ratably in the payment of dividends including accumulations, if any, in accordance with the sums which would be payable on such shares if all dividends were declared and paid in full and in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full. Shares of each such series when issued, shall be designated to distinguish the shares of each series from shares of all other series.

There are two series of Preferred Stock that have been designated to date from the total 100,000,000 authorized shares of Preferred Stock. These are as follows:

- Series A Preferred Stock, par value \$0.001 per share ("Series A"), 1,000,000 and 50,000 shares designated, 15,620 and 3,601 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively. Shares of Series A entitle the holder to 10,000 votes per share on all matters brought before the shareholders for a vote. These shares are not entitled to receive dividends or share in distributions of capital and have no liquidation preference. All outstanding shares of Series A are owned by George J. Coates, which entitle him to 152,620,000 votes in addition to his voting rights from the shares of common stock and the shares of Series B he holds.

The Company may issue additional shares of Series A Preferred Stock to Mr. Coates if deemed necessary to provide anti-dilution protection and maintain his ownership percentage of eligible votes.

Issuances of shares of Series A to George J. Coates do not have any effect on the share of dividends or liquidation value of the holders of the Company's common stock. However, the voting rights of the holders of the Company's common stock are diluted with each issuance.

During the nine months ended September 30, 2018 and 2017, the Company issued 12,019 and 3,351 shares, respectively, of Series A Preferred Stock to George J. Coates representing anti-dilution shares to maintain Mr. Coates' percentage of eligible votes at 85.7%.

- Series B Convertible Preferred Stock, par value \$0.001 per share, 10,000,000 and 345,000 shares designated and 3,261,396 and 228,471 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively. Shares of Series B do not earn any dividends and may be converted at the option of the holder at any time beginning on the second annual anniversary date after the date of issuance into 1,000 unregistered shares of the Company's common stock. Holders of the Series B are entitled to one thousand votes per share held on all matters brought before the shareholders for a vote.

In the event that either (i) the Company enters into an underwriting agreement for a secondary public offering of securities, or (ii) a change in control of the Company is consummated representing 50% more of the then outstanding shares of Company's common stock, plus the number of shares of common stock into which any convertible preferred stock is convertible, regardless of whether or not such shares are otherwise eligible for conversion, then the Series B may be immediately converted at the option of the holder into restricted shares of the Company's common stock.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

The Company provides anti-dilution protection for certain of its key employees. For each new share of common stock issued by the Company to non-Coates family members in the future, additional shares of Series B will be issued to maintain their fixed ownership percentage of the Company. The fixed ownership percentage is adjusted for acquisitions and dispositions of common stock, not related to conversions of Series B Convertible Preferred Stock, by these key employees. At September 30, 2018, the fixed ownership percentages were as follows:

1. George J. Coates – 80.63%
2. Gregory G. Coates – 6.10%
3. Barry C. Kaye – 0.048%

These anti-dilution provisions do not apply to new shares of common stock issued in connection with exercises of employee stock options, a secondary public offering of the Company's securities or a merger or acquisition.

The following presents by year, the number of shares of Series B held and the year that they become eligible for conversion into shares of common stock, as of September 30, 2018.

	Total	2018	2019	2020
George J. Coates	3,015,159	74,506	136,599	2,804,054
Gregory G. Coates	228,384	5,484	10,646	212,254
Barry C. Kaye	17,853	413	823	16,617
Total	<u>3,261,396</u>	<u>80,403</u>	<u>148,068</u>	<u>3,032,925</u>

For the nine months ended September 30, 2018, 2,804,054, 212,254 and 16,617 shares of Series B were issued to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively, having an estimated fair value of \$1,221,000, \$92,000 and \$7,000, respectively. These amounts were included in stock-based compensation expense in the accompanying statements of operations for the nine months ended September 30, 2018.

For the nine months ended September 30, 2017, 92,031, 7,270 and 570 shares of Series B were issued to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively, having an estimated fair value of \$4,511,000, \$370,000 and \$29,000, respectively. These amounts were included in stock-based compensation expense in the accompanying statements of operations for the nine months ended September 30, 2017.

During the nine months ended September 30, 2017, Barry C. Kaye converted 6.86 shares of Series B into 6,860 unregistered, restricted shares of the Company's common stock.

In the event that all of the 3,261,396 shares of Series B outstanding at September 30, 2018 were converted, once the conversion restrictions lapse, an additional 3,261,396,000 new restricted shares of common stock would be issued. On a pro forma basis, based on the number of shares of common stock outstanding at September 30, 2018, this would dilute the ownership percentage of non-affiliated stockholders from 99.4% to 12.8%.

To the extent that additional shares of Series B are issued under the anti-dilution plan, the non-affiliated stockholders' percentage ownership of the Company would be further diluted.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

16. LOSS PER SHARE

At September 30, 2018, there were stock warrants outstanding to purchase 731,736 shares of common stock at exercise prices ranging from \$0.10 to \$13.50 per share, vested stock options outstanding to acquire 62,351 shares of common stock at exercise prices ranging from \$5.60 to \$88.00 per share and \$125,000 of convertible promissory notes outstanding eligible for conversion, which on a pro forma basis assuming all such promissory notes, eligible for conversion, were converted into shares of common stock using the contractual conversion price determined as of the close of trading on the last trading in September 2018, would have been convertible into 459,433,619 shares of common stock.

At September 30, 2017, there were stock warrants outstanding to purchase 751,725 shares of common stock at exercise prices ranging from \$0.10 to \$13.50 per share, vested stock options outstanding to acquire 62,351 shares of common stock at exercise prices ranging from \$5.60 to \$88.00 per share. None of the convertible promissory notes outstanding were eligible for conversion.

For the three and nine-month periods ended September 30, 2018 and 2017, none of the potentially issuable shares of common stock were assumed to be converted because the Company incurred a net loss in those periods and the effect of including them in the calculation of earnings per share would have been anti-dilutive.

17. STOCK OPTIONS

The Company's 2006 Stock Option and Incentive Plan (the "Stock Plan") was adopted by the Company's board in October 2006. In September 2007, the Stock Plan, by consent of George J. Coates, majority shareholder, was adopted by our shareholders. The Stock Plan provides for the grant of stock-based awards to employees, officers and directors of, and consultants or advisors to, the Company and its subsidiaries, if any. Under the Stock Plan, the Company may grant options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("ISO's"), options not intended to qualify as incentive stock options ("non-statutory options"), restricted stock and other stock-based awards. ISO's may be granted only to employees of the Company. All of the shares of common stock authorized under the Stock Plan have been granted and no further grants may be awarded thereunder.

The Company established a 2014 Stock Option and Incentive Plan (the "2014 Stock Plan") which was adopted by the Company's board on May 30, 2014. On March 2, 2015, the 2014 Stock Plan, by consent of George J. Coates, majority shareholder, was adopted by our shareholders. The 2014 Stock Plan provides for the grant of stock-based awards to employees, officers and directors of, and consultants or advisors to, the Company and its subsidiaries, if any. Under the 2014 Stock Plan, the Company may grant ISO's, non-statutory options, restricted stock and other stock-based awards. ISO's may be granted only to employees of the Company. A total of 250,000 shares of common stock may be issued upon the exercise of options or other awards granted under the 2014 Stock Plan. The maximum number of shares with respect to which awards may be granted during any one year to any employee under the 2014 Stock Plan shall not exceed 25% of the 250,000 shares of common stock covered by the 2014 Stock Plan. At September 30, 2018, none of the shares of common stock authorized under the 2014 Stock Plan had been granted as stock options or awards.

The Stock Plan and the 2014 Stock Plan (the "Stock Plans") are administered by the board and the Compensation Committee. Subject to the provisions of the Stock Plans, the board and the Compensation Committee each has the authority to select the persons to whom awards are granted and determine the terms of each award, including the number of shares of common stock subject to the award. Payment of the exercise price of an award may be made in cash, in a "cashless exercise" through a broker, or if the applicable stock option agreement permits, shares of common stock, or by any other method approved by the board or Compensation Committee. Unless otherwise permitted by the Company, awards are not assignable or transferable except by will or the laws of descent and distribution.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

Upon the consummation of an acquisition of the business of the Company, by merger or otherwise, the board shall, as to outstanding awards (on the same basis or on different bases as the board shall specify), make appropriate provision for the continuation of such awards by the Company or the assumption of such awards by the surviving or acquiring entity and by substituting on an equitable basis for the shares then subject to such awards either (a) the consideration payable with respect to the outstanding shares of common stock in connection with the acquisition, (b) shares of stock of the surviving or acquiring corporation, or (c) such other securities or other consideration as the board deems appropriate, the fair market value of which (as determined by the board in its sole discretion) shall not materially differ from the fair market value of the shares of common stock subject to such awards immediately preceding the acquisition. In addition to, or in lieu of the foregoing, with respect to outstanding stock options, the board may, on the same basis or on different bases as the board shall specify, upon written notice to the affected optionees, provide that one or more options then outstanding must be exercised, in whole or in part, within a specified number of days of the date of such notice, at the end of which period such options shall terminate, or provide that one or more options then outstanding, in whole or in part, shall be terminated in exchange for a cash payment equal to the excess of the fair market value (as determined by the board in its sole discretion) for the shares subject to such stock options over the exercise price thereof. Unless otherwise determined by the board (on the same basis or on different bases as the board shall specify), any repurchase rights or other rights of the Company that relate to a stock option or other award shall continue to apply to consideration, including cash, that has been substituted, assumed or amended for a stock option or other award pursuant to these provisions. The Company may hold in escrow all or any portion of any such consideration in order to effectuate any continuing restrictions.

The board may at any time provide that any stock options shall become immediately exercisable in full or in part, that any restricted stock awards shall be free of some or all restrictions, or that any other stock-based awards may become exercisable in full or in part or free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

The board or Compensation Committee may, in its sole discretion, amend, modify or terminate any award granted or made under the Stock Plan, so long as such amendment, modification or termination would not materially and adversely affect the participant.

During the nine months ended September 30, 2018 and 2017, no stock options were granted. There were no unvested stock options outstanding at September 30, 2018.

During the nine months ended September 30, 2018 and 2017, the Company did not incur any stock-based compensation expense related to employee stock options. At September 30, 2018, all stock-based compensation expense related to outstanding stock options had been fully recognized.

Details of the stock options outstanding under the Company's Stock Option Plans are as follows:

	Exercise Price Per Share	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price	Weighted Average Fair Value Per Stock Option at Date of Grant
Balance, 9/30/18	\$5.60 – \$88.00	62,500	8	62,500	\$ 36.34	\$ 33.84

No stock options were exercised, forfeited or expired during the nine months ended September 30, 2018 and 2017.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

The weighted average fair value of the Company's stock options was estimated using the Black-Scholes option pricing model which requires highly subjective assumptions including the expected stock price volatility. These assumptions were as follows:

• Historical stock price volatility	139% - 325%
• Risk-free interest rate	0.21% - 4.64%
• Expected life (in years)	4
• Dividend yield	\$0.00

The valuation assumptions were determined as follows:

- Historical stock price volatility: The Company utilized the volatility in the trading of its common stock computed for the 12 months of trading immediately preceding the date of grant.
- Risk-free interest rate: The Company bases the risk-free interest rate on the interest rate payable on U.S. Treasury securities in effect at the time of the grant for a period that is commensurate with the assumed expected option life.
- Expected life: The expected life of the options represents the period of time options are expected to be outstanding. The Company has very limited historical data on which to base this estimate. Accordingly, the Company estimated the expected life based on its assumption that the executives will be subject to frequent blackout periods during the time that the stock options will be exercisable and based on the Company's expectation that it will complete its research and development phase and commence its initial production phase. The vesting period of these options was also considered in the determination of the expected life of each stock option grant.
- No expected dividends.

18. INCOME TAXES

Deferred income taxes are determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities. Deferred income taxes are measured based on the tax rates expected to be in effect when the temporary differences are included in the Company's tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

Deferred tax assets increased by \$235,000 and \$701,000 for the three months ended September 30, 2018 and 2017, respectively. Deferred tax assets increased by \$940,000 and \$2,151,000 for the nine months ended September 30, 2018 and 2017, respectively. These amounts were fully offset by a corresponding increase in the tax valuation allowance resulting in no net change in deferred tax assets, respectively, during these periods.

No liability for unrecognized tax benefits was required to be reported at September 30, 2018 and December 31, 2017. Based on the Company's evaluation, it has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for tax years ended 2015 through 2017, the only periods subject to examination. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate that adjustments, if any, will result in a material change to its financial position. For the nine months ended September 30, 2018 and 2017, there were no penalties or interest related to the Company's income tax returns.

At September 30, 2018, the Company had available, \$21,139,000 of net operating loss carryforwards which may be used to reduce future federal taxable income, expiring between 2018 and 2038 and \$10,757,000 of net operating loss carryforwards which may be used to reduce future state taxable income, expiring between 2029 and 2038.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

19. RELATED PARTY TRANSACTIONS

Licensing Agreement for CSRV[®] System Technology

The Company's intellectual property rights for the CSRV[®] System Technology are derived from the licensing agreement with George J. Coates and Gregory G. Coates, as more fully discussed in Note 4. The Company pays for all costs of new patent filings and patent maintenance on intellectual properties licensed to it by George J. Coates and Gregory G. Coates.

Non-Exclusive distribution sublicense to Renown Power Development, Ltd.

The Company has granted a non-exclusive distribution sublicense to Renown, as more fully discussed in Note 6. Renown is controlled by James Pang, the Company's exclusive liaison agent in China.

Issuances and Repayments of Promissory Notes to Related Parties

Issuances and repayments of promissory notes to related parties during the nine months ended September 30, 2018 and 2017, are discussed in detail in Note 12.

Promissory notes issued to George J. Coates and Bernadette Coates are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly. The promissory note issued to Gregory G. Coates is non-interest bearing, however, the Company imputes interest at a rate of 10% per annum, which has been charged to interest expense in the accompanying statements of operations.

Stock Options

Stock options previously granted to related parties, all of which are fully vested are more fully discussed in Note 17.

Issuances and Conversions of Preferred Stock

Shares of Series A Preferred Stock awarded to George J. Coates during the nine months ended September 30, 2018 and 2017, are discussed in detail in Note 15.

Shares of Series B Convertible Preferred Stock awarded to George J. Coates, Gregory G. Coates and Barry C. Kaye and shares converted during the nine months ended September 30, 2018 and 2017, are discussed in detail in Note 15.

Personal Guaranty and Stock Pledge

In connection with the Company's mortgage loan on the Company's headquarters facility, George J. Coates has pledged certain of his shares of common stock of the Company to the extent required by the lender and provided a personal guaranty as additional collateral.

Compensation and Benefits Paid

The approximate amount of compensation and benefits, all of which were approved by the board, paid to George J. Coates and Gregory G. Coates, exclusive of stock-based compensation for unregistered, restricted shares of Preferred Stock awarded to George J. Coates and Gregory G. Coates is summarized as follows:

	For the nine months ended September 30,	
	2018	2017
George J. Coates (a) (b)	\$ 13,000	\$ 22,000
Gregory G. Coates (c) (d)	71,000	34,000

(a) For the nine months ended September 30, 2018 and 2017, George J. Coates earned additional base compensation of \$188,000 and \$178,000, respectively, payment of which is being deferred until the Company has sufficient working capital. The total amount of deferred compensation included in the accompanying balance sheets at September 30, 2018 and December 31, 2017, was \$1,408,000 and \$1,221,000, respectively.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

- (b) During the nine months ended September 30, 2018 and 2017, George J. Coates was awarded Series A Preferred Stock and Series B Converted Preferred Stock for anti-dilution. The details are presented in Note 15.
- (c) For the nine months ended September 30, 2018 and 2017, Gregory G. Coates earned additional base compensation of \$56,000 and \$91,000, respectively, payment of which is being deferred until the Company has sufficient working capital. The total amount of deferred compensation included in the accompanying balance sheets at September 30, 2018 and December 31, 2017, was \$199,000 and \$180,000, respectively.
- (d) During the nine months ended September 30, 2018 and 2017, Gregory G. Coates was awarded Series B Converted Preferred Stock for anti-dilution. The details are presented in Note 15.

The Company had been deferring base compensation for Bernadette Coates, who retired in 2016, until it has sufficient working capital. The total amount of deferred compensation included in the accompanying balance sheets at September 30, 2018 and December 31, 2017, was \$242,000.

During the nine months ended September 30, 2018 and 2017, Barry C. Kaye, Treasurer and Chief Financial Officer was paid compensation of \$50,000 and \$53,000, respectively. For the nine months ended September 30, 2018 and 2017, Mr. Kaye earned compensation of \$91,000 and \$85,000, respectively, which was not paid and is being deferred until the Company has sufficient working capital to remit payment to him. During the nine months ended September 30, 2018 and 2017, interest accrued on Mr. Kaye's deferred compensation, at the rate of 17% per annum, compounded monthly, amounted to \$58,000 and \$43,000, respectively. At September 30, 2018, the total amount of Mr. Kaye's unpaid, deferred compensation, including accrued interest thereon, was \$517,000. This amount is included in accounts payable and accrued liabilities in the accompanying balance sheet at September 30, 2018. During the nine months ended September 30, 2018 and 2017, Barry C. Kaye was awarded Series B Convertible Preferred Stock for anti-dilution. The details are presented in Note 15.

At September 30, 2018 the Company owed deferred compensation to an employee in the amount of \$45,000, payment of which is being deferred until the Company has sufficient working capital. This amount is included in deferred compensation in the accompanying balance sheet at September 30, 2018.

Agreements with a Director

The Company is a party to two agreements with The Whitworth Group, an entity controlled by Richard Whitworth, a member of the Company's board of directors. One agreement provides for the payment of fees, plus reasonable out-of-pocket expenses incurred, to The Whitworth Group upon a successful debt or equity capital raise from a lender and/or investor identified by The Whitworth Group and not previously known by the Company, as follows:

- 6% of the first million dollars received at closing

Coates International, Ltd.
Notes to Financial Statements - (Continued)

- 4% of the second million dollars received at closing
- 3% of the third million dollars received at closing
- 2% of the fourth million dollars received at closing, and
- 1% of the balance of funds above \$4,000,000 received at closing

The other agreement provides for payment of a fee to The Whitworth Group for introducing prospective customers to the Company equal to 10% of the net amount of sales realized from such prospect, plus reasonable out-of-pocket expenses incurred.

No payments have been made under either of these agreements to date.

20. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes the Company's contractual obligations and commitments at September 30, 2018:

	Total	2018	2019	2020	2021	2022
Deferred compensation	\$ 1,892,000	\$ 1,892,000	\$ -	\$ -	\$ -	\$ -
Promissory notes to related parties	1,438,000	1,438,000	-	-	-	-
Mortgage loan payable	1,180,000	60,000	60,000	60,000	60,000	940,000
Convertible promissory notes	193,000	117,000	76,000	-	-	-
Total	<u>\$ 4,703,000</u>	<u>\$ 3,507,000</u>	<u>\$ 136,000</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ 940,000</u>

21. LITIGATION AND CONTINGENCIES

The Company is not a party to any litigation that is material to its business.

22. RECENTLY ISSUED ACCOUNTING STANDARDS

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) (“ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in its first quarter of 2019. The Company does not believe the adoption of the new financial instruments standard will have a material impact on its financial statements.

Coates International, Ltd.
Notes to Financial Statements - (Continued)

23. SUBSEQUENT EVENTS

Issuance of Convertible Promissory Note

During the period from October 1, 2018 to November 9, 2018, the Company issued a back-end convertible promissory note and received net proceeds of \$50,000, after transaction costs. This note was immediately eligible for conversion into shares of the Company's common stock at a conversion price equal to 70% of the trading price, as defined, of the Company's common stock over a specified trading period prior to the date of conversion. This convertible note also requires that the conversion price be remeasured 23 trading days after the conversion shares are originally delivered. If the remeasured conversion price is lower, then the Company is required to issue additional conversion shares to the noteholder.

Conversion of Convertible Promissory Notes

During the period from October 1, 2018 to November 9, 2018, \$57,000 principal amount of convertible promissory notes, including accrued interest, was converted into 337,299,945 unregistered, restricted shares of the Company's common stock.

Issuance of Anti-dilution Shares

During the period from October 1, 2018 to November 9, 2018, the Company issued 755,946, 57,221 and 4,484 shares of Series B Convertible Preferred Stock to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively, representing anti-dilution shares related to newly issued shares of common stock. The estimated fair value of these shares was \$129,000, \$10,000 and \$1,000, respectively.

Issuances and Repayments of Promissory Notes to Related Parties

During the period from October 1, 2018 to November 9, 2018, the Company issued promissory notes to George J. Coates and Bernadette Coates and received aggregate cash proceeds of \$5,000 and \$2,000, respectively. During the period from October 1, 2018 to November 9, 2018, the Company repaid \$7,000 of a promissory note to Gregory G. Coates.

Deferred Compensation

During the period from October 1, 2018 to November 9, 2018, George J. Coates, Gregory G. Coates, Barry C. Kaye and one employee agreed to additional deferral of their compensation amounting to \$29,000, \$9,000, \$12,000 and \$4,000, respectively. During the period from October 1, 2018 to November 9, 2018, Barry C. Kaye was paid compensation of \$7,000.

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

THE FOLLOWING DISCUSSION OF OUR PLAN OF OPERATION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES TO THE FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS REPORT. THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. THESE STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE OUR ACTUAL RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. THESE RISKS AND OTHER FACTORS INCLUDE, AMONG OTHERS, THOSE LISTED UNDER "FORWARD-LOOKING STATEMENTS" AND "RISK FACTORS" INCLUDED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE YEAR ENDED DECEMBER 31, 2017.

Background

We have completed development of the Coates spherical rotary valve engine ("CSRVR[®]") system technology. This technology has been successfully applied to natural gas fueled industrial electric power CSRVR[®] generator engines ("Gen Sets"), automobile engines, residential generators and high-performance racing car engines. We have also designed and retrofitted the CSRVR[®] system technology into a diesel engine which is suitable for and can be applied to heavy trucks. Provided we can raise sufficient new working capital, we intend to devote a substantial amount of resources during the remainder of 2018 to develop Hydrogen Gen Sets, capable of producing up to 1MW of electrical power output.

We have completed production of an initial next generation 855 cubic inch industrial Gen Set. If we are able to raise sufficient new working capital, we intend to begin ramping up production for sales and distribution to end users. We have not sold any of these Gen Sets to date.

In February 2015, we granted a non-exclusive distribution sublicense to a China-based sales and distribution company that covers distribution in the territory of the Western Hemisphere. Under this sublicense, Renown will be permitted to sell, lease and distribute CSRVR[®] products. Renown intends to source CSRVR[®] products from Coates Power, Ltd., a China-based company formed for the purpose of manufacturing CSRVR[®] products ("Coates Power"). Coates Power has not been able to commence operations due to ongoing delays in obtaining necessary support and approval from the Chinese government in spite of continuing efforts by Renown to do so on its behalf. This has been and continues to be a long, arduous process because the government is addressing this at a very slow pace. We have only received, in prior years, an initial non-refundable deposit of \$500,000 towards this license. Until Coates Power can begin production of CSRVR[®] products for Renown, we will not receive any further monies from our sublicense with Renown.

At this time, as our intellectual property rights only cover the territory of North America, we do not have any rights to enter into a manufacturing and sale license agreement with Coates Power. These rights are currently held by George J. Coates, Gregory G. Coates and The Coates Trust, a trust controlled by George J. Coates. Coates Power and Renown are controlled and managed by Mr. James Pang, the Company's liaison agent in China.

Independent testing on internal combustion engines incorporating the CSRVR[®] system technology indicated the following advantages would be derived from this technology:

- Better fuel efficiency
- Reduced harmful emissions

Based on more than ten years of operating a Mercedes 300 with an SE 280 engine retrofitted with the CSRV[®] system technology, the following advantages were demonstrated:

- Longer intervals between engine servicing, and
- Longer engine life than conventional internal combustion engines.

We continue to be engaged in new research and development activities from time-to-time in connection with applying this technology to other commercially feasible internal combustion engine applications and intend to manufacture engines and/or license the CSRV[®] system technology to third party Original Equipment Manufacturers (“OEM’s”) for multiple other applications and uses.

Hydrogen Reactor Technology Based on Hydrogen Gas Owned by George J. Coates

George J. Coates is continuing his effort to complete a project to develop a hydrogen reactor that generates Hydrogen Gas (H₂) from H₂O water molecules. Upon completion, the Hydrogen Gas is expected to be able be used to power the Company’s various CSRV[®] system technology Hydrogen Engines and CSRV[®] system technology Hydrogen Gen Sets.

Conventional internal combustion engines employing poppet valve assemblies require lubrication and would experience excessive heat and friction if powered with Hydrogen Gas. This, in turn, would cause the engines to burn out in a rather short period of time. The materials and components of the CSRV[®] engines do not require such lubrication and because of their design, are able to operate relatively trouble-free on Hydrogen Gas as the engine fuel. There can be no assurance that this technology can be developed successfully, or that if developed, it will be feasible to penetrate the internal combustion engine market with this technology.

Applications for patent protection of this technology would be filed upon completion of the research and development. Although at this time no arrangements have been made between us and George J. Coates, owner of the technology, regarding licensing of the hydrogen reactor, Mr. Coates has provided his commitment to license this technology to us to manufacture Hydrogen Gas powered products, once the related patent protection is in place. Accordingly, we do not currently have any rights to manufacture, use, sell and distribute the hydrogen reactor technology, should it become commercially feasible to manufacture and distribute products powered by the Hydrogen Gas fuel. We have been responsible for all costs incurred to date related to the development of this technology.

Plan of Operation

Manufacturing, Sales and Distribution

We have completed development of the CSRV[®] system technology-based generator engine, including retrofitting a next generation Cummins industrial engine with our CSRV[®] engine technology. This unit is being used to attract new licensing transactions and other manufacturing activities. We will need to raise sufficient new working capital to ramp up our own manufacturing and distribution operations.

As discussed above, we plan to primarily devote our resources for the remainder of 2018 to completing development of CSRV[®] Hydrogen Engines and Gen Sets.

We intend to take advantage of the fact that essentially all the parts and components of the CSRV[®] generator engine may be readily sourced and acquired from U.S. based suppliers and subcontractors, and, accordingly, expect to manufacture Gen Sets by developing assembly lines within owned manufacturing facilities. The initial limited production will enable us to prove our concept for the CSRV[®] system technology and we expect this will dovetail with the existing demand in the marketplace. We plan to address this demand by establishing large scale manufacturing operations in the United States. Transitioning to large scale manufacturing is expected to require a substantial increase in our work force, securing additional manufacturing capacity and substantial capital expenditures.

Our ability to establish such manufacturing operations, recruit plant workers, finance initial manufacturing inventories and fund capital expenditures is highly dependent on our ability to successfully raise substantial new working capital in an amount and at a pace which matches our business plans. Potential sources of such new working capital include (i) licensing fees from new sublicensing agreements, (ii) positive working capital generated from sales of our CSRV[®] products and (iii) issuances of promissory notes to related parties and issuances of convertible notes. Although we have been successful in raising sufficient working capital to continue our ongoing operations, we have encountered very challenging credit and equity investment markets and have not been able to raise sufficient new working capital to enable us to commence production of our Gen Sets. There can be no assurance that we will be successful in raising adequate new working capital or even any new working capital to carry out our business plans.

Sublicensing

We plan to sublicense the CSRV[®] system technology to multiple OEM's in order to take advantage of third party manufacturers' existing production capacity and resources by entering into OEM agreements.

Significant Estimates

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires our management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These significant estimates include determining the fair value of convertible promissory notes containing embedded derivatives as a result of variable conversion rate provisions, determining a value for Series A Preferred Stock and Series B Convertible Preferred Stock issued in connection with anti-dilution provisions in place, assigning useful lives to our property, plant and equipment, determining an appropriate amount to reserve for obsolete and slow moving inventory, providing a valuation allowance for deferred tax assets, assigning expected lives to and estimating the rate of forfeitures of stock options granted and selecting a volatility factor for the Company's stock options in order to estimate the fair value of the Company's stock options on the date of grant. Actual results could differ from those estimates.

Results of Operations for the Three Months Ended September 30, 2018 and 2017

Our principal business activities and efforts during the three months ended September 30, 2018 and 2017, were devoted to (i) applying the CSRV[®] system technology to optimally fuel industrial engines with hydrogen gas and (ii) undertaking efforts to raise additional working capital in order to fund ongoing operations.

Although we incurred substantial net losses for the three months ended September 30, 2018 and 2017 of (\$1,326,118) and (\$2,450,453), respectively, it is important to consider that a substantial portion of these losses resulted from non-cash expenses required to be recorded for financial reporting purposes in accordance with GAAP. These net losses should be considered in view of the fact that actual cash used in operating activities amounting to (\$215,681) and (\$112,228) in 2018 and 2017, respectively, was significantly less than these reported net losses. The differences between the reported net losses and actual cash losses incurred in 2018 and 2017 are described in detail in the section "*Liquidity and Capital Resources*".

Revenue

There were no sales for the three months ended September 30, 2018 and 2017.

Sublicensing fee revenue for the three months ended September 30, 2018 and 2017 amounted to \$4,800 and \$4,800, respectively. Sublicensing fees are being recognized by amortizing the license deposit of \$300,000 on the Canadian License over the approximate remaining life of the last CSRV[®] technology patent in force.

Expenses

Research and Development Expenses

Research and development activities for the three months ended September 30, 2018 and 2017 were devoted to the ongoing development of the Hydrogen Reactor technology. Research and development expenses for the three months ended September 30, 2018, were \$99,435 primarily related to the Hydrogen Reactor project. There were no research and development activities in the third quarter of 2017.

Stock-based Compensation Expense

Stock-based compensation expense decreased by \$896,114 to \$819,483 for the three months ended September 30, 2018 from \$1,715,597 for the three months ended September 30, 2017. This decrease was primarily due to a decrease in issuances of Series B Convertible Preferred Stock to George J. Coates, Gregory G. Coates and Barry C. Kaye, for anti-dilution.

Compensation and Benefits

Compensation and benefits decreased by \$110,679 to \$45,492 for the three months ended September 30, 2018 from \$156,171 for the three months ended September 30, 2017. This decrease was primarily due to a \$94,200 increase in the amount of compensation allocated from compensation and benefits expense to research and development costs in the 2018 period and an \$18,011 decrease in compensation and benefits in 2018 from the retirement of Bernadette Coates.

General and Administrative Expenses

General and administrative expenses increased by \$45,306 to \$147,283 for the three months ended September 30, 2018 from \$101,977 for the three months ended September 30, 2017. This net increase in 2018 resulted from increases in legal and professional fees of \$52,410 resulting from \$95,658 of settlement adjustments to legal and accounting fees in 2017 and an increase in legal fees related to real estate transactions in 2018 and financing costs of \$5,359, partially offset by a (\$10,890) decrease in patent maintenance costs and a decrease in all other expenses, net of (\$1,573).

Depreciation and Amortization

Depreciation and amortization expense decreased to \$11,342 for the three months ended September 30, 2018 from \$12,249 for the three months ended September 30, 2017.

Loss from Operations

A loss from operations of (\$1,118,235) was incurred for the three months ended September 30, 2018 compared with a loss from operations of (\$1,981,194) for the three months ended September 30, 2017. The \$862,959 decrease in the amount of the loss from operations in 2018 was primarily attributable to decreases in non-cash, stock-based compensation expense of \$896,114 and compensation and benefits of \$110,679 partially offset by a \$45,306 increase in general and administrative expenses.

Other Income (Expense)

Decrease (Increase) in Estimated Fair Value of Embedded Derivative Liabilities

The estimated fair value of embedded derivative liabilities, which relates to outstanding convertible promissory notes, is remeasured at each balance sheet date. For the three months ended September 30, 2018 and 2017, other income (expense) was recorded to reflect the decrease (increase) in the fair value of embedded derivative liabilities of \$44,491 and (\$118,570), respectively.

Loss on Conversion of Convertible Notes

For the three months ended September 30, 2018 and 2017, the Company realized a non-cash loss on conversion of convertible notes of (\$40,492) and (\$84,625), respectively.

Interest Expense

Interest expense decreased to (\$211,882) for the three months ended September 30, 2018 from (\$266,064) in 2017. Interest expense in 2018 consisted of non-cash interest related to convertible promissory notes of \$106,869, interest on amounts due to related parties and deferred compensation of \$78,867, mortgage loan interest of \$23,734 and other interest of \$2,412.

Interest expense in 2017 consisted of non-cash interest related to convertible promissory notes of \$172,394, interest on promissory notes to related parties and deferred compensation of \$67,080, mortgage interest of \$24,885 and other interest of \$1,705.

Deferred Taxes

For the three months ended September 30, 2018 and 2017, the change in deferred taxes was fully offset by a valuation allowance, resulting in a \$-0- net income tax provision.

Net Loss

For the three months ended September 30, 2018, we incurred a net loss of (\$1,326,118) or a basic net loss of (\$0.01) per share, as compared with net loss of (\$2,450,453) or a basic net loss of (\$0.09) per share for the three months ended September 30, 2017. The \$1,124,335 decrease in the amount of the net loss was primarily attributable to a decrease in loss from operations of \$862,959, a decrease in the estimated fair value of embedded derivative liabilities of \$163,061, a decrease in the loss on conversion of convertible notes of \$44,133 and a decrease in interest expense of \$54,182.

Results of Operations for the Nine Months Ended September 30, 2018 and 2017

Our principal business activities and efforts during the nine months ended September 30, 2018 and 2017 were devoted to (i) applying the CSR[®] system technology to optimally fuel industrial engines with hydrogen gas and (ii) undertaking efforts to raise additional working capital in order to fund ongoing operations.

Although we incurred substantial net losses for the nine months ended September 30, 2018 and 2017 of (\$4,334,640) and (\$7,270,057), respectively, it is important to consider that a substantial portion of these losses resulted from non-cash expenses required to be recorded for financial reporting purposes in accordance with GAAP. These net losses should be considered in view of the fact that actual cash used in operating activities amounting to (\$483,317) and (\$663,268) in 2018 and 2017, respectively, was significantly less than these reported net losses. The differences between the reported net losses and actual cash losses incurred in 2018 and 2017 are described in detail in the section "*Liquidity and Capital Resources*".

Revenue

There were no sales for the nine months ended September 30, 2018 and 2017.

Sublicensing fee revenue for the nine months ended September 30, 2018 and 2017 amounted to \$14,400 and \$14,400, respectively. Sublicensing fees are being recognized by amortizing the license deposit of \$300,000 on the Canadian License over the approximate remaining life of the last CSRV® technology patent in force.

Expenses

Research and Development Expenses

Research and development activities for the nine months ended September 30, 2018 and 2017 were devoted to the ongoing development of the Hydrogen Reactor technology. Research and development expenses decreased by \$1,918 to \$194,680 from \$196,598 in 2017.

Stock-based Compensation Expense

Stock-based compensation expense decreased by \$2,224,236 to \$2,702,916 for the nine months ended September 30, 2018 from \$4,927,152 for the nine months ended September 30, 2017. This decrease was primarily due to a decrease in issuances of Series B Convertible Preferred Stock to George J. Coates, Gregory G. Coates and Barry C. Kaye, for anti-dilution.

Compensation and Benefits

Compensation and benefits decreased by \$155,770 to \$226,328 for the nine months ended September 30, 2018 from \$382,098 for the nine months ended September 30, 2017. This decrease was primarily due to a \$99,900 increase in the amount of compensation allocated from compensation and benefits expense to research and development costs in the 2018 period and a \$54,040 reduction in 2018 due to the retirement of Bernadette Coates.

General and Administrative Expenses

General and administrative expenses increased by \$188,677 to \$433,764 for the nine months ended September 30, 2018 from \$245,087 for the nine months ended September 30, 2017. This net increase in 2018 resulted from increases in legal and professional fees of \$178,536 resulting from \$95,658 of settlement adjustments to legal and accounting fees in 2017 and an increase in legal fees related to real estate transactions in 2018, investor relations costs of \$14,816, property taxes and insurance of \$5,981, miscellaneous taxes of \$4,049, building expenses of \$3,281, financing costs of \$2,045 and all other expenses, net of \$646, partially offset by decreases in patent maintenance costs of \$ (\$11,015), utilities of (\$6,268) and miscellaneous expenses of (\$3,394) .

Depreciation and Amortization

Depreciation and amortization expense decreased to \$32,351 for the nine months ended September 30, 2018 from \$36,746 for the nine months ended September 30, 2017.

Loss from Operations

A loss from operations of (\$3,575,639) was incurred for the nine months ended September 30, 2018 compared with a loss from operations of (\$5,773,281) for the nine months ended September 30, 2017. The \$2,197,642 decrease in the amount of the loss from operations in 2018 was primarily attributable to the decrease in non-cash, stock-based compensation expense of \$2,224,236 and a decrease in compensation and benefits of \$155,770, partially offset by a \$188,677 increase in general and administrative expenses.

Other Expenses

Decrease (Increase) in Estimated Fair Value of Embedded Derivative Liabilities

The estimated fair value of embedded derivative liabilities, which relates to outstanding convertible promissory notes, is remeasured at each balance sheet date. For the nine months ended September 30, 2018 and 2017, other income (expense) was recorded to reflect the decrease (increase) in the fair value of embedded derivative liabilities of \$49,406 and (\$281,957), respectively.

Loss on Conversion of Convertible Notes

For the nine months ended September 30, 2018 and 2017, the Company realized a non-cash loss on conversion of convertible notes of (\$69,078) and (\$245,372), respectively.

Interest Expense

Interest expense decreased to (\$739,329) for the nine months ended September 30, 2018 from (\$969,447) in 2017. Interest expense in 2018 consisted of non-cash interest related to convertible promissory notes of \$434,784, interest on amounts due to related parties and deferred compensation of \$224,893, mortgage loan interest of \$71,548 and other interest of \$8,104.

Interest expense in 2017 consisted of non-cash interest related to convertible promissory notes of \$678,790, interest on amounts due to related parties and deferred compensation of \$198,017, mortgage loan interest of \$75,016 and other interest of \$17,624.

Deferred Taxes

For the nine months ended September 30, 2018 and 2017, the change in deferred taxes was fully offset by a valuation allowance, resulting in a \$-0- net income tax provision.

Net Loss

For the nine months ended September 30, 2018, we incurred a net loss of (\$4,334,640) or a basic net loss of (\$0.04) per share, as compared with net loss of (\$7,270,057) or a basic net loss of (\$0.35) per share for the nine months ended September 30, 2017. The \$2,935,417 decrease in the net loss in 2018 was primarily attributable to the decrease in the loss from operations of \$2,197,642, a \$331,363 decrease in the change in embedded derivative liability, a \$176,294 decrease in the loss on conversion of convertible notes and a \$230,118 decrease in interest expense.

Liquidity and Capital Resources

Our cash position at September 30, 2018 was \$17,726, an increase of \$10,919 from the cash position of \$6,807 at December 31, 2017. We had negative working capital of (\$6,865,173) at September 30, 2018, which represents a reduction in the amount of our negative working capital of \$601,826 compared to the (\$7,466,999) of negative working capital at December 31, 2017. Our current liabilities of \$7,035,862 at September 30, 2018, decreased by \$542,162 from \$7,578,024 at December 31, 2017. This net decrease resulted from (i) reclassification of \$1,168,159 of the mortgage loan payable from current liabilities to non-current liabilities upon extending the mortgage loan maturity date by five years, (ii) reclassification of \$41,525 of sublicense deposits to non-current liabilities, (iii) a \$47,949 decrease in the derivative liability related to convertible promissory notes, (iv) repayment of \$45,000 of principal of the mortgage loan payable and (v) a \$34,964 net decrease in promissory notes to related parties, partially offset by (vi) a \$270,889 increase in deferred compensation payable, (vii) a \$262,190 increase in accounts payable and accrued liabilities, (viii) a \$200,000 increase in deposit on sale of property and (ix) a \$62,356 increase in the carrying amount of convertible promissory notes, net of unamortized discount.

Major outlays of cash during the nine months ended September 30, 2018 and 2017 were for repayments of principal and interest on the mortgage loan, repayments of loans from related parties, patent maintenance expenses, employee compensation and benefits, legal and professional fees, property taxes, financing costs, investors relations expenses and other general and administrative expenses.

Net Cash Flows Used in Operating Activities

Operating activities utilized cash of (\$483,318) for the nine months ended September 30, 2018, a decrease of \$179,951 from the cash utilized for operating activities of (\$663,268) for the nine months ended September 30, 2017. Cash utilized by operating activities for the nine months ended September 30, 2018 resulted from (i) a cash basis net loss of (\$935,856), after adding back (deducting) non-cash stock-based compensation expense of \$2,702,916, interest accrued, but not paid of \$658,245, a non-cash loss on conversion of convertible notes of \$69,078, depreciation and amortization of \$32,351, a decrease in embedded derivative liabilities related to convertible notes of (\$49,406) and non-cash licensing revenues of (\$14,400) and (ii) changes in current assets and liabilities, including a decrease in inventory of \$1,446, an increase in other assets of (\$50,192), an increase of \$271,921 in accounts payable and accrued liabilities, a (\$41,525) decrease in the current portion of sublicense deposits and an increase in deferred compensation payable of \$270,889.

Net Cash Used in Investing Activities

No cash was used in investing activities for the nine months ended September 30, 2018 and 2017.

Net Cash Provided by Financing Activities

Cash provided by financing activities for the nine months ended September 30, 2018, amounted to \$494,236, a decrease of (\$165,348) from the cash provided by financing activities of \$659,584 for the nine months ended September 30, 2017. This was comprised of proceeds from issuances of convertible promissory notes aggregating \$374,200, a \$200,000 deposit received towards sale of property and issuances of promissory notes to related parties of \$68,230, partially offset by partial repayments of principal and interest on promissory notes to related parties of (\$103,194) and principal repayments of (\$45,000) on a mortgage loan payable.

Going Concern

We have incurred net recurring losses since inception, amounting to an accumulated deficit of (\$78,047,850) as of September 30, 2018 and had a stockholders' deficiency of (\$6,645,541). Further, the recent trading price range of our common stock at a fraction of a penny, has introduced additional risk and difficulty to our challenge to secure needed additional working capital. We will need to obtain additional working capital in order to continue to cover our ongoing cash expenses.

These factors raise substantial doubt about our ability to continue as a going concern. Our Independent Registered Public Accountants have stated in their Auditor's Report dated April 17, 2018, with respect to our financial statements as of and for the year ended December 31, 2017, that these circumstances raise substantial doubt about our ability to continue as a going concern.

During 2018, we restricted variable costs to only those expenses that are necessary to perform activities related to efforts to negotiate sublicenses for distribution of our CSRV[®] products, raising working capital to enable us to commence limited production of our CSRV[®] system technology products, research and development and general and administrative costs in support of such activities.

Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Potential sources of working capital and new funding being pursued by us include (i) the balance due at closing consisting of cash proceeds of \$1,100,000, less closing costs, if the contingent sale of a portion of the land we own is consummated, as more fully discussed in Note 9 to the financial statements, (ii) issuances of promissory notes to related parties and convertible promissory notes, (iii) licensing fees for CSR^V® industrial generators, (iv) proceeds from a pending sale of an undeveloped portion of the land comprising our headquarters facility, (v) new equity investments, (vi) new borrowing arrangements and (vii) proceeds from sales of CSR^V® Gen Sets. There can be no assurance that we will be successful in securing any of these sources of additional funding. In this event, we may be required to substantially or completely curtail our operations, which could have a material adverse effect on our operations and financial condition.

At September 30, 2018, current liabilities amounted to \$7,035,862, comprised of deferred compensation of \$1,892,211, promissory notes due to related parties aggregating \$1,437,445, legal and professional fees of \$1,527,787, accrued interest expense of \$621,739, accrued general and administrative expenses of \$541,807, a derivative liability related to convertible promissory notes of \$311,047, a \$200,000 deposit on sale of property, convertible promissory notes, net of unamortized discount of \$159,172, unearned revenues of \$150,595, accrued research and development expenses of \$114,859, a mortgage loan amounting to \$60,000 and a sublicense deposit of \$19,200.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments at September 30, 2018:

	Total	2018	2019	2020	2021	2022
Deferred compensation	\$ 1,892,211	\$ 1,892,211	\$ -	\$ -	\$ -	\$ -
Promissory notes to related parties	1,437,445	1,437,445	-	-	-	-
Mortgage loan payable	1,180,490	60,000	60,000	60,000	60,000	940,490
Convertible promissory notes	192,533	117,000	75,533	-	-	-
Total	\$ 4,702,679	\$ 3,506,656	\$ 135,533	\$ 60,000	\$ 60,000	\$ 940,490

Critical Accounting Policies

Our significant accounting policies are presented in the notes to our financial statements for the period ended September 30, 2018, which are contained in this filing and notes to financial statements for the year ended December 31, 2017, which are contained in our 2017 Annual Report on Form 10-K. The significant accounting policies that are most critical and aid in fully understanding and evaluating the reported financial results include the following:

We prepare our financial statements in conformity with GAAP. These principals require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with the board of directors; however, actual results could differ from those estimates.

Long-lived assets such as property, equipment and identifiable intangibles are reviewed for impairment whenever facts and circumstances indicate that the carrying value may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. The fair value is determined based on estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. If the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount and fair value of the asset. When fair values are not available, we estimate fair value using the expected future cash flows discounted at a rate commensurate with the risk associated with the recovery of the assets. We did not recognize any impairment losses for any periods presented.

Other significant estimates include determining the fair value of convertible promissory notes containing embedded derivatives and variable conversion rates, determining a value for Series A Preferred Stock and Series B Convertible Preferred Stock issued, assigning useful lives to the Company's property, plant and equipment, determining an appropriate amount to reserve for obsolete and slow moving inventory, estimating a valuation allowance for deferred tax assets, assigning expected lives to, and estimating the rate of forfeitures of, stock options granted and selecting a trading price volatility factor for the Company's common stock in order to estimate the fair value of the Company's stock options on the date of grant or other appropriate measurement date. Actual results could differ from those estimates.

New Accounting Pronouncements

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) (“ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in our first quarter of 2019. We do not believe adoption of the new financial instruments standard will have a material impact on our financial statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are not required to provide the information under this item as we are a smaller reporting company.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”), we carried out an evaluation, with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) (our principal financial and accounting officer), of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter 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

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our company's or our company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our 2017 Annual Report on Form 10-K filed April 17, 2018.

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

The following issuances of securities during the nine months ended September 30, 2018 were exempt from registration pursuant to Section 4(a)(2), Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act") and Section 3(a)(10) of the Securities Act. We made this determination based on the representations of the Investors which included, in pertinent part, that such Investors were "accredited investors" within the meaning of Rule 501 of Regulation D promulgated under the Securities Act, and that such Investors were acquiring our common stock for investment purposes for their own respective accounts and not as nominees or agents, and not with a view to the resale or distribution thereof, and that the Investors understood that the shares of our common stock may not be sold or otherwise disposed of without registration under the Securities Act or an applicable exemption therefrom.

- In a series of transactions, convertible promissory notes with an aggregate principal balance of \$420,503, including accrued interest thereon were converted into 532,055,076 unregistered shares of common stock for an average price per share of \$0.00079. The net proceeds from the original issuances of convertible promissory notes were used for general working capital purposes.
- In a series of transactions, the Company issued 8,970,000 shares of its common stock to Livingston Asset Management ("LAM") to be sold in the open market in reliance upon an exemption provided for in Section 3(a)(10) of the Securities Act. Proceeds from the sales are to be used to satisfy past-due obligations of the Company previously assigned to LAM.
- 2,804,054, 212,254 and 16,617 shares of Series B Convertible Preferred Stock were issued to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively,

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Item 1.01. Entry into a Material Definitive Agreement.

Real Estate Transaction

In August 2018, the Company entered into a contract to sell a 3.6-acre parcel of undeveloped land that is part of the 6.4 total acres of land comprising its headquarters facility in New Jersey. The sales price for this parcel is \$1,300,000 and the sale is subject to successfully obtaining a zoning variance and subdivision of the land into two land parcels (the "Sale Contingencies"). The Company received a \$200,000 refundable deposit. The balance of the sales price is payable at closing of title. Concurrently with execution of the contract, the Company executed a \$200,000 mortgage note payable to the purchaser which has been placed in escrow for the benefit of the purchaser in the event that the requisite Sale Contingencies are not satisfied within 120 days, unless this period is extended by the purchaser. The 120-day period may be extended up to four times at the option of the purchaser, each such extension for 30 additional days. During the period that the mortgage loan is held in escrow, it will not be interest-bearing, nor will a lien be recorded on the land parcel. If the Sale Contingencies are not satisfied within the contractual times frame, including any extensions, then the sales contract would be cancelled. The Company then has the option of returning the \$200,000 deposit, in which case, the mortgage loan would be cancelled. If the deposit is not returned by the Company, then the mortgage loan would be released from escrow and the related lien on the property would be recorded. From this point forward, the mortgage loan would bear interest at the rate of 7.5% per annum and be payable in quarterly installments over a five-year period.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

Promissory Notes Issued to George J. Coates

During the nine months ended September 30, 2018, the Company issued, in a series of transactions, promissory notes to George J. Coates (our Chairman of the Board, Chief Executive Officer and President) and received cash proceeds of \$55,000. The promissory notes are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly.

The notes are short-term debt obligation that are material to the Company.

Promissory Notes Issued to Bernadette Coates

During the nine months ended September 30, 2018, the Company issued promissory notes to Bernadette Coates, spouse of George J. Coates and received cash proceeds of \$14,000. The promissory notes are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly.

The notes are short-term debt obligation that are material to the Company.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Filed or Furnished Herewith
10.1	Convertible Promissory Note issued to Power Up Lending Group, Ltd., dated August 16, 2018.	X
10.2	Securities Purchase Agreement between the Registrant and Power Up Lending Group, Ltd., dated August 16, 2018.	X
10.3	Contract for Sale of Land from Registrant to W&S Investments, dated August 15, 2018	X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*	X
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*	X
101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Schema	X
101.CAL	XBRL Taxonomy Calculation Linkbase	X
101.DEF	XBRL Taxonomy Definition Linkbase	X
101.LAB	XBRL Taxonomy Label Linkbase	X
101.PRE	XBRL Taxonomy Presentation Linkbase	X
101.DE	XBRL Taxonomy Extension Definition Linkbase Document	X

* In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

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.

COATES INTERNATIONAL, LTD.

Date: November 9, 2018

/s/ George J. Coates

George J. Coates
Duly Authorized Officer, President and
Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2018

/s/ Barry C. Kaye

Barry C. Kaye
Duly Authorized Officer, Treasurer and
Chief Financial Officer
(Principal Financial Officer)

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Principal Amount: \$33,000.00
Purchase Price: \$33,000.00

Issue Date: August 16, 2018

CONVERTIBLE PROMISSORY NOTE

FOR VALUE RECEIVED, COATES INTERNATIONAL, LTD., a Delaware corporation (hereinafter called the "Borrower"), hereby promises to pay to the order of **POWER UP LENDING GROUP LTD.**, a Virginia corporation, or registered assigns (the "Holder") the sum of \$33,000.00 together with any interest as set forth herein, on May 30, 2019 (the "Maturity Date"), and to pay interest on the unpaid principal balance hereof at the rate of eight percent (8%) (the "Interest Rate") per annum from the date hereof (the "Issue Date") until the same becomes due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. This Note may not be prepaid in whole or in part except as otherwise explicitly set forth herein. Any amount of principal or interest on this Note which is not paid when due shall bear interest at the rate of twenty two percent (22%) per annum from the due date thereof until the same is paid ("Default Interest"). Interest shall commence accruing on the date that the Note is fully paid and shall be computed on the basis of a 365-day year and the actual number of days elapsed. All payments due hereunder (to the extent not converted into common stock, \$0.0001 par value per share (the "Common Stock") in accordance with the terms hereof) shall be made in lawful money of the United States of America. All payments shall be made at such address as the Holder shall hereafter give to the Borrower by written notice made in accordance with the provisions of this Note. Each capitalized term used herein, and not otherwise defined, shall have the meaning ascribed thereto in that certain Securities Purchase Agreement dated the date hereof, pursuant to which this Note was originally issued (the "Purchase Agreement").

This Note is free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Borrower and will not impose personal liability upon the holder thereof.

The following terms shall apply to this Note:

ARTICLE I. CONVERSION RIGHTS

1.1 Conversion Right. The Holder shall have the right from time to time, and at any time during the period beginning on the date which is one hundred eighty (180) days following the date of this Note and ending on the later of: (i) the Maturity Date and (ii) the date of payment of the Default Amount (as defined in Article III), each in respect of the remaining outstanding principal amount of this Note to convert all or any part of the outstanding and unpaid principal amount of this Note into fully paid and non-assessable shares of Common Stock, as such Common Stock exists on the Issue Date, or any shares of capital stock or other securities of the Borrower into which such Common Stock shall hereafter be changed or reclassified at the conversion price (the "Conversion Price") determined as provided herein (a "Conversion"); provided, however, that in no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Borrower subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13 (d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso. The beneficial ownership limitations on conversion as set forth in the section may NOT be waived by the Holder. The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing the Conversion Amount (as defined below) by the applicable Conversion Price then in effect on the date specified in the notice of conversion, in the form attached hereto as Exhibit A (the "Notice of Conversion"), delivered to the Borrower by the Holder in accordance with Section 1.4 below; provided that the Notice of Conversion is submitted by facsimile or e-mail (or by other means resulting in, or reasonably expected to result in, notice) to the Borrower before 6:00 p.m., New York, New York time on such conversion date (the "Conversion Date"); however, if the Notice of Conversion is sent after 6:00pm, New York, New York time the Conversion Date shall be the next business day. The term "Conversion Amount" means, with respect to any conversion of this Note, the sum of (1) the principal amount of this Note to be converted in such conversion plus (2) at the Holder's option, accrued and unpaid interest, if any, on such principal amount at the interest rates provided in this Note to the Conversion Date, plus (3) at the Holder's option, Default Interest, if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2) plus (4) at the Holder's option, any amounts owed to the Holder pursuant to Sections 1.4 hereof.

1.2 Conversion Price. The conversion price (the "Conversion Price") shall equal the Variable Conversion Price (as defined herein) (subject to equitable adjustments by the Borrower relating to the Borrower's securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The "Variable Conversion Price" shall mean 61% multiplied by the Market Price (as defined herein) (representing a discount rate of 39%). "Market Price" means the average of the lowest three (3) Trading Prices (as defined below) for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. "Trading Price" means, for any security as of any date, the closing bid price on the OTCQB, OTCQX, Pink Sheets electronic quotation system or applicable trading market (the "OTC") as reported by a reliable reporting service ("Reporting Service") designated by the Holder (i.e. Bloomberg) or, if the OTC is not the principal trading market for such security, the closing bid price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no closing bid price of such security is available in any of the foregoing manners, the average of the closing bid prices of any market makers for such security that are listed in the "pink sheets". If the Trading Price cannot be calculated for such security on such date in the manner provided above, the Trading Price shall be the fair market value as mutually determined by the Borrower and the holders of a majority in interest of the Notes being converted for which the calculation of the Trading Price is required in order to determine the Conversion Price of such Notes. "Trading Day" shall mean any day on which the Common Stock is tradable for any period on the OTC, or on the principal securities exchange or other securities market on which the Common Stock is then being traded.

1.3 Authorized Shares. The Borrower covenants that during the period the conversion right exists, the Borrower will reserve from its authorized and unissued Common Stock a sufficient number of shares, free from preemptive rights, to provide for the issuance of Common Stock upon the full conversion of this Note issued pursuant to the Purchase Agreement. The Borrower is required at all times to have authorized and reserved eight times the number of shares that would be issuable upon full conversion of the Note (assuming that the 4.99% limitation set forth in Section 1.1 is not in effect)(based on the respective Conversion Price of the Note (as defined in Section 1.2) in effect from time to time, initially 499,369,482)(the "Reserved Amount"). The Reserved Amount shall be increased (or decreased with the written consent of the Holder) from time to time in accordance with the Borrower's obligations hereunder. The Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. In addition, if the Borrower shall issue any securities or make any change to its capital structure which would change the number of shares of Common Stock into which the Notes shall be convertible at the then current Conversion Price, the Borrower shall at the same time make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Note. The Borrower agrees that its issuance of this Note shall constitute full authority to its officers and agents who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock in accordance with the terms and conditions of this Note.

If, at any time the Borrower does not maintain the Reserved Amount it will be considered an Event of Default under Section 3.2 of the Note.

1.4 Method of Conversion.

(a) Mechanics of Conversion. As set forth in Section 1.1 hereof, from time to time, and at any time during the period beginning on the date which is one hundred eighty (180) days following the date of this Note and ending on the later of: (i) the Maturity Date and (ii) the date of payment of the Default Amount, this Note may be converted by the Holder in whole or in part at any time from time to time after the Issue Date, by (A) submitting to the Borrower a Notice of Conversion (by facsimile, e-mail or other reasonable means of communication dispatched on the Conversion Date prior to 6:00 p.m., New York, New York time) and (B) subject to Section 1.4(b), surrendering this Note at the principal office of the Borrower (upon payment in full of any amounts owed hereunder).

(b) Surrender of Note Upon Conversion. Notwithstanding anything to the contrary set forth herein, upon conversion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Borrower unless the entire unpaid principal amount of this Note is so converted. The Holder and the Borrower shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Borrower, so as not to require physical surrender of this Note upon each such conversion.

(c) Delivery of Common Stock Upon Conversion. Upon receipt by the Borrower from the Holder of a facsimile transmission or e-mail (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section 1.4, the Borrower shall issue and deliver or cause to be issued and delivered to or upon the order of the Holder certificates for the Common Stock issuable upon such conversion within three (3) business days after such receipt (the "Deadline") (and, solely in the case of conversion of the entire unpaid principal amount hereof, surrender of this Note) in accordance with the terms hereof and the Purchase Agreement. Upon receipt by the Borrower of a Notice of Conversion, the Holder shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, the outstanding principal amount and the amount of accrued and unpaid interest on this Note shall be reduced to reflect such conversion, and, unless the Borrower defaults on its obligations hereunder, all rights with respect to the portion of this Note being so converted shall forthwith terminate except the right to receive the Common Stock or other securities, cash or other assets, as herein provided, on such conversion. If the Holder shall have given a Notice of Conversion as provided herein, the Borrower's obligation to issue and deliver the certificates for Common Stock shall be absolute and unconditional, irrespective of the absence of any action by the Holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Borrower to the holder of record, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder of any obligation to the Borrower, and irrespective of any other circumstance which might otherwise limit such obligation of the Borrower to the Holder in connection with such conversion.

(d) Delivery of Common Stock by Electronic Transfer. In lieu of delivering physical certificates representing the Common Stock issuable upon conversion, provided the Borrower is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer ("FAST") program, upon request of the Holder and its compliance with the provisions set forth herein, the Borrower shall use its best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of Holder's Prime Broker with DTC through its Deposit Withdrawal Agent Commission ("DWAC") system.

(e) Failure to Deliver Common Stock Prior to Deadline. Without in any way limiting the Holder's right to pursue other remedies, including actual damages and/or equitable relief, the parties agree that if delivery of the Common Stock issuable upon conversion of this Note is not delivered by the Deadline due to action and/or inaction of the Borrower, the Borrower shall pay to the Holder \$2,000 per day in cash, for each day beyond the Deadline that the Borrower fails to deliver such Common Stock (the "Fail to Deliver Fee"); provided; however that the Fail to Deliver Fee shall not be due if the failure is a result of a third party (i.e., transfer agent; and not the result of any failure to pay such transfer agent) despite the best efforts of the Borrower to effect delivery of such Common Stock. Such cash amount shall be paid to Holder by the fifth day of the month following the month in which it has accrued or, at the option of the Holder (by written notice to the Borrower by the first day of the month following the month in which it has accrued), shall be added to the principal amount of this Note, in which event interest shall accrue thereon in accordance with the terms of this Note and such additional principal amount shall be convertible into Common Stock in accordance with the terms of this Note. The Borrower agrees that the right to convert is a valuable right to the Holder. The damages resulting from a failure, attempt to frustrate, interference with such conversion right are difficult if not impossible to qualify. Accordingly, the parties acknowledge that the liquidated damages provision contained in this Section 1.4(e) are justified.

1.5 Concerning the Shares. The shares of Common Stock issuable upon conversion of this Note may not be sold or transferred unless: (i) such shares are sold pursuant to an effective registration statement under the Act or (ii) the Borrower or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration (such as Rule 144 or a successor rule) (“Rule 144”); or (iii) such shares are transferred to an “affiliate” (as defined in Rule 144) of the Borrower who agrees to sell or otherwise transfer the shares only in accordance with this Section 1.5 and who is an Accredited Investor (as defined in the Purchase Agreement).

Any restrictive legend on certificates representing shares of Common Stock issuable upon conversion of this Note shall be removed and the Borrower shall issue to the Holder a new certificate therefore free of any transfer legend if the Borrower or its transfer agent shall have received an opinion of counsel from Holder’s counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that (i) a public sale or transfer of such Common Stock may be made without registration under the Act, which opinion shall be accepted by the Company so that the sale or transfer is effected; or (ii) in the case of the Common Stock issuable upon conversion of this Note, such security is registered for sale by the Holder under an effective registration statement filed under the Act; or otherwise may be sold pursuant to an exemption from registration. In the event that the Company does not reasonably accept the opinion of counsel provided by the Holder with respect to the transfer of Securities pursuant to an exemption from registration (such as Rule 144), at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

1.6 Effect of Certain Events.

(a) Effect of Merger, Consolidation, Etc. At the option of the Holder, the sale, conveyance or disposition of all or substantially all of the assets of the Borrower, the effectuation by the Borrower of a transaction or series of related transactions in which more than 50% of the voting power of the Borrower is disposed of, or the consolidation, merger or other business combination of the Borrower with or into any other Person (as defined below) or Persons when the Borrower is not the survivor shall be deemed to be an Event of Default (as defined in Article III) pursuant to which the Borrower shall be required to pay to the Holder upon the consummation of and as a condition to such transaction an amount equal to the Default Amount (as defined in Article III). “Person” shall mean any individual, corporation, limited liability company, partnership, association, trust or other entity or organization.

(b) Adjustment Due to Merger, Consolidation, Etc. If, at any time when this Note is issued and outstanding and prior to conversion of all of the Note, there shall be any merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, as a result of which shares of Common Stock of the Borrower shall be changed into the same or a different number of shares of another class or classes of stock or securities of the Borrower or another entity, or in case of any sale or conveyance of all or substantially all of the assets of the Borrower other than in connection with a plan of complete liquidation of the Borrower, then the Holder of this Note shall thereafter have the right to receive upon conversion of this Note, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion, such stock, securities or assets which the Holder would have been entitled to receive in such transaction had this Note been converted in full immediately prior to such transaction (without regard to any limitations on conversion set forth herein), and in any such case appropriate provisions shall be made with respect to the rights and interests of the Holder of this Note to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and of the number of shares issuable upon conversion of the Note) shall thereafter be applicable, as nearly as may be practicable in relation to any securities or assets thereafter deliverable upon the conversion hereof. The Borrower shall not affect any transaction described in this Section 1.6(b) unless (a) it first gives, to the extent practicable, ten (10) days prior written notice (but in any event at least five (5) days prior written notice) of the record date of the special meeting of shareholders to approve, or if there is no such record date, the consummation of, such merger, consolidation, exchange of shares, recapitalization, reorganization or other similar event or sale of assets (during which time the Holder shall be entitled to convert this Note) and (b) the resulting successor or acquiring entity (if not the Borrower) assumes by written instrument the obligations of this Note. The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers or share exchanges.

(c) Adjustment Due to Distribution. If the Borrower shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a dividend, stock repurchase, by way of return of capital or otherwise (including any dividend or distribution to the Borrower's shareholders in cash or shares (or rights to acquire shares) of capital stock of a subsidiary (i.e., a spin-off)) (a "Distribution"), then the Holder of this Note shall be entitled, upon any conversion of this Note after the date of record for determining shareholders entitled to such Distribution, to receive the amount of such assets which would have been payable to the Holder with respect to the shares of Common Stock issuable upon such conversion had such Holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

1.7 Prepayment. Notwithstanding anything to the contrary contained in this Note, at any time during the periods set forth on the table immediately following this paragraph (the "Prepayment Periods"), the Borrower shall have the right, exercisable on not more than three (3) Trading Days prior written notice to the Holder of the Note to prepay the outstanding Note (principal and accrued interest), in full, in accordance with this Section 1.7. Any notice of prepayment hereunder (an "Optional Prepayment Notice") shall be delivered to the Holder of the Note at its registered addresses and shall state: (1) that the Borrower is exercising its right to prepay the Note, and (2) the date of prepayment which shall be not more than three (3) Trading Days from the date of the Optional Prepayment Notice. On the date fixed for prepayment (the "Optional Prepayment Date"), the Borrower shall make payment of the Optional Prepayment Amount (as defined below) to Holder, or upon the direction of the Holder as specified by the Holder in a writing to the Borrower (which direction shall be sent to Borrower by the Holder at least one (1) business day prior to the Optional Prepayment Date). If the Borrower exercises its right to prepay the Note, the Borrower shall make payment to the Holder of an amount in cash equal to the percentage ("Prepayment Percentage") as set forth in the table immediately following this paragraph opposite the applicable Prepayment Period, multiplied by the sum of: (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the Optional Prepayment Date plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and (x) plus (z) any amounts owed to the Holder pursuant to Section 1.4 hereof (the "Optional Prepayment Amount"). If the Borrower delivers an Optional Prepayment Notice and fails to pay the Optional Prepayment Amount due to the Holder of the Note within two (2) business days following the Optional Prepayment Date, the Borrower shall forever forfeit its right to prepay the Note pursuant to this Section 1.7.

Prepayment Period	Prepayment Percentage
1. The period beginning on the Issue Date and ending on the date which is sixty (60) days following the Issue Date.	130%
2. The period beginning on the date which is sixty-one (61) days following the Issue Date and ending on the date which is ninety (90) days following the Issue Date.	135%
3. The period beginning on the date that is ninety-one (91) day from the Issue Date and ending one hundred twenty (120) days following the Issue Date.	140%
4. The period beginning on the date that is one hundred twenty-one (121) day from the Issue Date and ending one hundred fifty (150) days following the Issue Date.	145%
5. The period beginning on the date that is one hundred fifty-one (151) day from the Issue Date and ending one hundred eighty (180) days following the Issue Date.	150%

After the expiration of one hundred eighty (180) days following the Issue Date, the Borrower shall have no right of prepayment.

ARTICLE II. CERTAIN COVENANTS

2.1 Sale of Assets. So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, sell, lease or otherwise dispose of any significant portion of its assets outside the ordinary course of business. Any consent to the disposition of any assets may be conditioned on a specified use of the proceeds of disposition.

ARTICLE III. EVENTS OF DEFAULT

If any of the following events of default (each, an "Event of Default") shall occur:

3.1 Failure to Pay Principal and Interest. The Borrower fails to pay the principal hereof or interest thereon when due on this Note, whether at maturity or upon acceleration and such breach continues for a period of five (5) days after written notice from the Holder.

3.2 Conversion and the Shares. The Borrower fails to issue shares of Common Stock to the Holder (or announces or threatens in writing that it will not honor its obligation to do so) upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Note, fails to transfer or cause its transfer agent to transfer (issue) (electronically or in certificated form) any certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, the Borrower directs its transfer agent not to transfer or delays, impairs, and/or hinders its transfer agent in transferring (or issuing) (electronically or in certificated form) any certificate for shares of Common Stock to be issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, or fails to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note (or makes any written announcement, statement or threat that it does not intend to honor the obligations described in this paragraph) and any such failure shall continue uncured (or any written announcement, statement or threat not to honor its obligations shall not be rescinded in writing) for three (3) business days after the Holder shall have delivered a Notice of Conversion. It is an obligation of the Borrower to remain current in its obligations to its transfer agent. It shall be an event of default of this Note, if a conversion of this Note is delayed, hindered or frustrated due to a balance owed by the Borrower to its transfer agent. If at the option of the Holder, the Holder advances any funds to the Borrower's transfer agent in order to process a conversion, such advanced funds shall be paid by the Borrower to the Holder within forty-eight (48) hours of a demand from the Holder.

3.3 Breach of Covenants. The Borrower breaches any material covenant or other material term or condition contained in this Note and any collateral documents including but not limited to the Purchase Agreement and such breach continues for a period of twenty (20) days after written notice thereof to the Borrower from the Holder.

3.4 Breach of Representations and Warranties. Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith (including, without limitation, the Purchase Agreement), shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.5 Receiver or Trustee. The Borrower or any subsidiary of the Borrower shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business, or such a receiver or trustee shall otherwise be appointed.

3.6 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings, voluntary or involuntary, for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any subsidiary of the Borrower.

3.7 Delisting of Common Stock. The Borrower shall fail to maintain the listing of the Common Stock on at least one of the OTC (which specifically includes the quotation platforms maintained by the OTC Markets Group) or an equivalent replacement exchange, the Nasdaq National Market, the Nasdaq SmallCap Market, the New York Stock Exchange, or the American Stock Exchange.

3.8 Failure to Comply with the Exchange Act. The Borrower shall fail to comply with the reporting requirements of the Exchange Act; and/or the Borrower shall cease to be subject to the reporting requirements of the Exchange Act.

3.9 Liquidation. Any dissolution, liquidation, or winding up of Borrower or any substantial portion of its business.

3.10 Cessation of Operations. Any cessation of operations by Borrower or Borrower admits it is otherwise generally unable to pay its debts as such debts become due, provided, however, that any disclosure of the Borrower's ability to continue as a "going concern" shall not be an admission that the Borrower cannot pay its debts as they become due.

3.11 Financial Statement Restatement. The restatement of any financial statements filed by the Borrower with the SEC at any time after 180 days after the Issuance Date for any date or period until this Note is no longer outstanding, if the result of such restatement would, by comparison to the un-restated financial statement, have constituted a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.12 Replacement of Transfer Agent. In the event that the Borrower proposes to replace its transfer agent, the Borrower fails to provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to the Purchase Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount) signed by the successor transfer agent to Borrower and the Borrower.

3.13 Cross-Default. Notwithstanding anything to the contrary contained in this Note or the other related or companion documents, a breach or default by the Borrower of any covenant or other term or condition contained in any of the Other Agreements, after the passage of all applicable notice and cure or grace periods, shall, at the option of the Holder, be considered a default under this Note and the Other Agreements, in which event the Holder shall be entitled (but in no event required) to apply all rights and remedies of the Holder under the terms of this Note and the Other Agreements by reason of a default under said Other Agreement or hereunder. "Other Agreements" means, collectively, all agreements and instruments between, among or by: (1) the Borrower, and, or for the benefit of, (2) the Holder and any affiliate of the Holder, including, without limitation, promissory notes; provided, however, the term "Other Agreements" shall not include the related or companion documents to this Note. Each of the loan transactions will be cross-defaulted with each other loan transaction and with all other existing and future debt of Borrower to the Holder.

Upon the occurrence and during the continuation of any Event of Default specified in Section 3.1 (solely with respect to failure to pay the principal hereof or interest thereon when due at the Maturity Date), the Note shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to the Default Sum (as defined herein). UPON THE OCCURRENCE AND DURING THE CONTINUATION OF ANY EVENT OF DEFAULT SPECIFIED IN SECTION 3.2, THE NOTE SHALL BECOME IMMEDIATELY DUE AND PAYABLE AND THE BORROWER SHALL PAY TO THE HOLDER, IN FULL SATISFACTION OF ITS OBLIGATIONS HEREUNDER, AN AMOUNT EQUAL TO: (Y) THE DEFAULT SUM (AS DEFINED HEREIN); MULTIPLIED BY (Z) TWO (2). Upon the occurrence and during the continuation of any Event of Default specified in Sections 3.1 (solely with respect to failure to pay the principal hereof or interest thereon when due on this Note upon a Trading Market Prepayment Event pursuant to Section 1.7 or upon acceleration), 3.3, 3.4, 3.7, 3.8, 3.10, 3.11, 3.12, 3.13, and/or 3.14 exercisable through the delivery of written notice to the Borrower by such Holders (the "Default Notice"), and upon the occurrence of an Event of Default specified the remaining sections of Articles III (other than failure to pay the principal hereof or interest thereon at the Maturity Date specified in Section 3.1 hereof), the Note shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to the greater of (i) 150% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment (the "Mandatory Prepayment Date") plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and/or (x) plus (z) any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof (the then outstanding principal amount of this Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "Default Sum") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum in accordance with Article I, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "Default Amount") and all other amounts payable hereunder shall immediately become due and payable, all without demand, presentment or notice, all of which hereby are expressly waived, together with all costs, including, without limitation, legal fees and expenses, of collection, and the Holder shall be entitled to exercise all other rights and remedies available at law or in equity.

If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

ARTICLE IV. MISCELLANEOUS

4.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privileges. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

4.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Borrower, to:

COATES INTERNATIONAL, LTD.
2100 Highway 34, Wall Township
New Jersey 07719
Attn: Barry C. Kaye, Chief Financial Officer
Fax:
Email: bk@coatesengine.com

If to the Holder:

POWER UP LENDING GROUP LTD.
111 Great Neck Road, Suite 214
Great Neck, NY 11021
Attn: Curt Kramer, Chief Executive Officer
e-mail: info@poweruplending.com

With a copy by fax only to (which copy shall not constitute notice):

Naidich Wurman LLP
111 Great Neck Road, Suite 216
Great Neck, NY 11021
Attn: Allison Naidich
facsimile: 516-466-3555
e-mail: allison@nwlaw.com

4.3 Amendments. This Note and any provision hereof may only be amended by an instrument in writing signed by the Borrower and the Holder. The term "Note" and all reference thereto, as used throughout this instrument, shall mean this instrument (and the other Notes issued pursuant to the Purchase Agreement) as originally executed, or if later amended or supplemented, then as so amended or supplemented.

4.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to be the benefit of the Holder and its successors and assigns. Each transferee of this Note must be an "accredited investor" (as defined in Rule 501(a) of the Securities and Exchange Commission). Notwithstanding anything in this Note to the contrary, this Note may be pledged as collateral in connection with a bona fide margin account or other lending arrangement; and may be assigned by the Holder without the consent of the Borrower.

4.5 Cost of Collection. If default is made in the payment of this Note, the Borrower shall pay the Holder hereof costs of collection, including reasonable attorneys' fees.

4.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Virginia without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Note shall be brought only in the state courts of New York or in the federal courts located in the state and county of Nassau. The parties to this Note hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Borrower and Holder waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Note or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Note, any agreement or any other document delivered in connection with this Note by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

4.7 Purchase Agreement. By its acceptance of this Note, each party agrees to be bound by the applicable terms of the Purchase Agreement.

4.8 Remedies. The Borrower acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Borrower acknowledges that the remedy at law for a breach of its obligations under this Note will be inadequate and agrees, in the event of a breach or threatened breach by the Borrower of the provisions of this Note, that the Holder shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Note and to enforce specifically the terms and provisions thereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by its duly authorized officer this on August 16, 2018

COATES INTERNATIONAL, LTD.

By: /s/ Barry C. Kaye
Barry C. Kaye
Chief Financial Officer

EXHIBIT A -- NOTICE OF CONVERSION

The undersigned hereby elects to convert \$ _____ principal amount of the Note (defined below) into that number of shares of Common Stock to be issued pursuant to the conversion of the Note ("Common Stock") as set forth below, of COATES INTERNATIONAL, LTD., a Delaware corporation (the "Borrower") according to the conditions of the convertible note of the Borrower dated as of August 16, 2018 (the "Note"), as of the date written below. No fee will be charged to the Holder for any conversion, except for transfer taxes, if any.

Box Checked as to applicable instructions:

- The Borrower shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the undersigned or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("DWAC Transfer").

Name of DTC Prime Broker:
Account Number:

- The undersigned hereby requests that the Borrower issue a certificate or certificates for the number of shares of Common Stock set forth below (which numbers are based on the Holder's calculation attached hereto) in the name(s) specified immediately below or, if additional space is necessary, on an attachment hereto:

POWER UP LENDING GROUP LTD.
111 Great Neck Road, Suite 214
Great Neck, NY 11021
Attention: Certificate Delivery
e-mail: info@poweruplendinggroup.com

Date of conversion: _____
Applicable Conversion Price: \$ _____
Number of shares of common stock to be issued pursuant to conversion of the Notes: _____
Amount of Principal Balance due remaining under the Note after this conversion: _____

POWER UP LENDING GROUP LTD.

By: _____
Name: Curt Kramer
Title: Chief Executive Officer
Date: _____

SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of August 16, 2018, by and between **COATES INTERNATIONAL, LTD.**, a Delaware corporation, with its address at 2100 Highway 34, Wall Township, New Jersey 07719 (the “Company”), and **POWER UP LENDING GROUP LTD.**, a Virginia corporation, with its address at 111 Great Neck Road, Suite 216, Great Neck, NY 11021 (the “Buyer”).

WHEREAS:

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”); and

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement a convertible note of the Company, in the form attached hereto as Exhibit A, in the aggregate principal amount of \$33,000.00 (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, \$0.0001 par value per share, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note.

NOW THEREFORE, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On the Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the “Purchase Price”) by wire transfer of immediately available funds to the Company, in accordance with the Company’s written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer’s name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. Subject to the satisfaction (or written waiver) of the conditions thereto set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Note pursuant to this Agreement (the “Closing Date”) shall be 12:00 noon, Eastern Standard Time on or about August 20, 2018, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the “Closing”) shall occur on the Closing Date at such location as may be agreed to by the parties.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note (such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor").

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer.

e. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act; or may be sold pursuant to an applicable exemption from registration, the Conversion Shares may bear a restrictive legend in substantially the following form:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES LAWS, AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR (2) THE ISSUER OF SUCH SECURITIES RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH SECURITIES, WHICH COUNSEL AND OPINION ARE REASONABLY ACCEPTABLE TO THE ISSUER'S TRANSFER AGENT, THAT SUCH SECURITIES MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS."

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to an exemption from registration without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144, at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

f. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its Subsidiaries (as defined below), if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted. "Subsidiaries" means any corporation or other organization, whether incorporated or unincorporated, in which the Company owns, directly or indirectly, any equity or other ownership interest.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Capitalization. As of the date hereof, the authorized common stock of the Company consists of 2,400,000,000 authorized shares of Common Stock, \$0.0001 par value per share, of which 188,934,066 shares are issued and outstanding; and 499,369,482 shares are reserved for issuance upon conversion of the Note. All of such outstanding shares of capital stock are, or upon issuance will be, duly authorized, validly issued, fully paid and non-assessable.

d. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

e. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its Subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). The businesses of the Company and its Subsidiaries, if any, are not being conducted, and shall not be conducted so long as the Buyer owns any of the Securities, in violation of any law, ordinance or regulation of any governmental entity. "Material Adverse Effect" means any material adverse effect on the business, operations, assets, financial condition or prospects of the Company or its Subsidiaries, if any, taken as a whole, or on the transactions contemplated hereby or by the agreements or instruments to be entered into in connection herewith.

f. SEC Documents; Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act") (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents (other than exhibits to such documents) incorporated by reference therein, being hereinafter referred to herein as the "SEC Documents"). Upon written request the Company will deliver to the Buyer true and complete copies of the SEC Documents, except for such exhibits and incorporated documents. As of their respective dates or if amended, as of the dates of the amendments, the SEC Documents complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the statements made in any such SEC Documents is, or has been, required to be amended or updated under applicable law (except for such statements as have been amended or updated in subsequent filings prior the date hereof). As of their respective dates or if amended, as of the dates of the amendments, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with United States generally accepted accounting principles, consistently applied, during the periods involved and fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). The Company is subject to the reporting requirements of the 1934 Act.

g. Absence of Certain Changes. Since June 30, 2018, except as set forth in the SEC Documents, there has been no material adverse change and no material adverse development in the assets, liabilities, business, properties, operations, financial condition, results of operations, prospects or 1934 Act reporting status of the Company or any of its Subsidiaries.

h. Absence of Litigation. Except as set forth in the SEC Documents, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against or affecting the Company or any of its Subsidiaries, or their officers or directors in their capacity as such, that could have a Material Adverse Effect. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

i. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company's securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

j. No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby.

k. No Investment Company. The Company is not, and upon the issuance and sale of the Securities as contemplated by this Agreement will not be an "investment company" required to be registered under the Investment Company Act of 1940 (an "Investment Company"). The Company is not controlled by an Investment Company.

l. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under Section 3.4 of the Note.

4. COVENANTS.

a. Best Efforts. The Company shall use its best efforts to satisfy timely each of the conditions described in Section 7 of this Agreement.

b. Form D; Blue Sky Laws. The Company agrees to timely make any filings required by federal and state laws as a result of the closing of the transactions contemplated by this Agreement.

c. Use of Proceeds. The Company shall use the proceeds for general working capital purposes.

d. Expenses. At the Closing, the Company's obligation with respect to the transactions contemplated by this Agreement is to reimburse Buyer's expenses shall be \$3,000.00 for Buyer's legal fees and due diligence fee.

e. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except with the prior written consent of the Buyer.

f. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under Section 3.4 of the Note.

g. Failure to Comply with the 1934 Act. So long as the Buyer beneficially owns the Note, the Company shall comply with the reporting requirements of the 1934 Act; and the Company shall continue to be subject to the reporting requirements of the 1934 Act.

5. Transfer Agent Instructions. In the event that the Company proposes to replace its transfer agent, the Company shall provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to this Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount as such term is defined in the Note) signed by the successor transfer agent to Company and the Company. Prior to registration of the Conversion Shares under the 1933 Act or the date on which the Conversion Shares may be sold pursuant to an exemption from registration, all such certificates shall bear the restrictive legend specified in Section 2(e) of this Agreement. The Company warrants that: (i) no instruction will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement and the Note; (ii) it will not direct its transfer agent not to transfer or delay, impair, and/or hinder its transfer agent in transferring (or issuing)(electronically or in certificated form) any certificate for Conversion Shares to be issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement; and (iii) it will not fail to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any Conversion Shares issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and/or this Agreement. If the Buyer provides the Company and the Company's transfer, at the cost of the Buyer, with an opinion of counsel in form, substance and scope customary for opinions in comparable transactions, to the effect that a public sale or transfer of such Securities may be made without registration under the 1933 Act, the Company shall permit the transfer, and, in the case of the Conversion Shares, promptly instruct its transfer agent to issue one or more certificates, free from restrictive legend, in such name and in such denominations as specified by the Buyer. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer, by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Section 5 may be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Section, that the Buyer shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate transfer, without the necessity of showing economic loss and without any bond or other security being required.

6. Conditions to the Company's Obligation to Sell. The obligation of the Company hereunder to issue and sell the Note to the Buyer at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions thereto, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

- a. The Buyer shall have executed this Agreement and delivered the same to the Company.
- b. The Buyer shall have delivered the Purchase Price in accordance with Section 1(b) above.

c. The representations and warranties of the Buyer shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), and the Buyer shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Buyer at or prior to the Closing Date.

d. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

7. Conditions to The Buyer's Obligation to Purchase. The obligation of the Buyer hereunder to purchase the Note at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions, provided that these conditions are for the Buyer's sole benefit and may be waived by the Buyer at any time in its sole discretion:

- a. The Company shall have executed this Agreement and delivered the same to the Buyer.

b. The Company shall have delivered to the Buyer the duly executed Note (in such denominations as the Buyer shall request) in accordance with Section 1(b) above.

- c. [intentionally omitted].

d. The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at such time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date. The Buyer shall have received a certificate or certificates, executed by the chief executive officer of the Company, dated as of the Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Buyer including, but not limited to certificates with respect to the Board of Directors' resolutions relating to the transactions contemplated hereby.

e. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

f. No event shall have occurred which could reasonably be expected to have a Material Adverse Effect on the Company including but not limited to a change in the 1934 Act reporting status of the Company or the failure of the Company to be timely in its 1934 Act reporting obligations.

g. The Conversion Shares shall have been authorized for quotation on an exchange or electronic quotation system and trading in the Common Stock on such exchange or electronic quotation system shall not have been suspended by the SEC or an exchange or electronic quotation system.

h. The Buyer shall have received an officer's certificate described in Section 3(d) above, dated as of the Closing Date.

8. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Virginia without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state and county of Nassau. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement, the Note or any related document or agreement by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

c. Headings. The headings of this Agreement are for convenience of reference only and shall not form part of, or affect the interpretation of, this Agreement.

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer and an officer of the Company.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be as set forth in the heading of this Agreement with a copy by fax only to (which copy shall not constitute notice) to Naidich Wurman LLP, 111 Great Neck Road, Suite 214, Great Neck, NY 11021, Attn: Allison Naidich, facsimile: 516-466-3555, e-mail: allison@nwlaw.com. Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its "affiliates," as that term is defined under the 1934 Act, without the consent of the Company.

h. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

i. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

j. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

k. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

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IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

COATES INTERNATIONAL, LTD.

By: /s/ Barry C. Kaye
Barry C. Kaye
Chief Financial Officer

POWER UP LENDING GROUP LTD.

By: /s/ Curt Kramer
Name: Curt Kramer
Title: Chief Executive Officer
111 Great Neck Road, Suite 216
Great Neck, NY 11021

AGGREGATE SUBSCRIPTION AMOUNT:

Aggregate Principal Amount of Note:	\$ 33,000.00
Aggregate Purchase Price:	\$ 33,000.00

AGREEMENT

THIS AGREEMENT entered into as of this 15th day of August, 2018, by and between COATES INTERNATIONAL, LTD, a Nevada Corporation, having an address of 2100 Route 34, Wall Township, NJ 07719 (the "Seller"), and W & S INVESTMENTS, L.L.C., A New Jersey Limited Liability Company, AND/OR ITS ASSIGNS, having an address of P.O. Box 496, Allenwood, NJ 08720 (the "Purchaser or Buyer").

WITNESSETH:

WHEREAS, Seller is the owner of 3.6 acres of real property in the Township of Wall, located at 2100 Route 34 and being the rear portion of Lot 4 in Block 806 as shown on the tax map of the Township of Wall, Monmouth County, New Jersey ("Subject Premises"). The Subject Premises is currently unimproved. The Subject Premises is part of a larger currently undivided parcel of real estate (the "Overall Parcel"). Purchaser is subdividing the Overall Parcel and Seller is retaining a portion. The portion of the Overall Parcel excluding the Subject Premises is referred to herein as the "Retained Property". Exhibit A depicts the line dividing the Subject Premises from the Retained Property; and

WHEREAS, it is the intention of Buyer to acquire the Subject Premises for the purpose of constructing a self-storage facility that is operated by the Buyer ("Intended Purpose").

WHEREAS, Seller wishes to sell to Purchaser, and Purchaser wishes to acquire from Seller, the Subject Premises consisting of the 3.6 acres located at 2100 Route 34 and being the rear portion of Lot 4 in Block 806 as shown on the tax map of the Township of Wall, Monmouth County, New Jersey, and as further depicted on Exhibit A attached hereto and made a part hereof all upon and subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, IN CONSIDERATION OF THE FOREGOING, AND OF THE REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS HEREINAFTER CONTAINED, THE PARTIES HERETO DO HEREBY MUTUALLY AGREE AS FOLLOWS:

1. **Purchase and Sale of Subject Premises.** Subject to the terms and conditions set forth in this Agreement, Seller agrees to sell, convey, transfer, assign and deliver to Purchaser, and Purchaser agrees to purchase from Seller the Subject Premises which is the 3.6 acres of real property known as a rear portion of Lot 4 in Block 806 as shown on the tax map of the Township of Wall, and as further described on Exhibit A attached hereto and made a part hereof.

2. **Purchase Price.** The total Purchase Price for the Subject Premises that will be paid by the Buyer to the Seller shall be the sum of ONE MILLION THREE HUNDRED THOUSAND AND 00/100 (\$1,300,000.00) DOLLARS and shall be payable as follows:

A. The initial deposit in the amount of FIFTY THOUSAND (\$50,000.00) DOLLARS which sum has been released to Seller pursuant to the contract terms.

B. The sum of ONE HUNDRED FIFTY THOUSAND (\$150,000.00) DOLLARS shall be paid upon execution of this Agreement also to be released to Seller pursuant to the contract terms and the terms of the Escrow Agreement attached hereto as Exhibit B. Inasmuch as Purchaser shall be applying to the Township of Wall for the approval of its Intended Purpose, and given that real estate taxes (taxes) to the Township of Wall on the Overall Parcel must be current, any arrears in taxes for the years 2017 and 2018 through the fourth quarter of 2018 shall first be disbursed to the Township of Wall by Purchaser for said taxes prior to the release of any monies under this subparagraph B to Seller.

C. The balance of **ONE MILLION ONE HUNDRED THOUSAND AND 00/100 (\$1,100,000.00) DOLLARS** to be paid on the date of closing in cash by title company escrow check, bank check or wired monies.

3. Mortgage securing released deposit monies.

Upon execution of the within Agreement and prior to the release of the remainder of the deposit monies indicated in 2 B., Seller shall execute a note and mortgage (to be prepared by Purchaser's attorney) in favor of Purchaser in the amount of **TWO HUNDRED THOUSAND AND 00/100 (\$200,000.00) DOLLARS** and placed upon the Overall Parcel located at 2100 Route 34 and being known as lot 4 in block 806 as shown on the tax map of the Township of Wall, County of Monmouth, State of New Jersey. The mortgage shall be held in escrow subject to the terms of the Escrow Agreement attached hereto as **Exhibit B**. The Note shall be reduced by \$1,000. For each extension requested by Purchaser up to a total of \$4,000. Said Note shall be interest-free from the date of execution until closing of title between the parties hereof upon Purchaser's successful subdivision and approval for development as contained herein. Should closing not occur between the parties for any reason, then in that event, the principal amount of the Note shall be called and become due and payable to Purchaser. Failing to repay the Note: (a) the mortgage shall be released from escrow and delivered to the Buyer's attorney at which point the Buyer may record the mortgage with the Clerk of Monmouth County; and (b) the repayment of principal and interest shall commence and accrue at the rate of seven and one-half (7 1/2%) percent per annum on the principal balance thereof and shall be repaid by Seller in quarterly payments utilizing a five year amortization schedule.

4. **Due Diligence Review.** Buyer, its agents, representatives and employees may, during reasonable business hours and on notice to Seller, during a period commencing on the date hereof and expiring ninety (90) days after the date Seller's Deliveries pursuant to Article 5 A(v) are received by Buyer (the "**Inspection Period**"), inspect, audit and copy the Seller's Deliveries. Provided that if Buyer has not obtained all final (not subject to challenge or appeal and recorded if applicable) necessary governmental approvals and permits (including site plan approval, zoning approval and building permits) satisfactory to Buyer for Buyer's subdivision of the Overall Parcel and its anticipated development of the Subject Premises for the Intended Purpose by the end of the Inspection Period (the "**Approvals**"), Buyer may extend the Inspection Period up to four (4) times for thirty (30) days each by giving written notice to Seller on or before the last day of the then existing Inspection Period and pay Seller \$1,000. Per extension. If Buyer elects to extend the Inspection Period, \$1,000 per extension shall be subtracted from the principal amount of the Note and mortgage and treated in accordance with the terms contained therein. Seller shall notify Buyer when Seller believes Seller has made all of Seller's Deliveries, and within two business days thereafter Buyer shall either verify in writing that Buyer has received all of Seller's Deliveries or notify Seller in writing as to which of Seller's Deliveries Buyer believes Buyer has not received. Once all Seller's Deliveries have been received by Buyer, Buyer shall acknowledge such to Seller. In addition, Buyer, its agents, representatives and employees (including an independent engineer/surveyor) shall have access to the Subject Premises during normal business hours and on notice to Seller for purposes of obtaining a survey (the "**Survey**") of the Subject Premises, a physical inspection of the Subject Premises, including one or more reports from other engineering companies (the "**Engineering Reports**"), and a Phase I environmental report, the scope and level of detail of which shall be satisfactory to Buyer, prepared by a qualified environmental consultant acceptable to Buyer and addressed to Buyer (the "**Environmental Report**"), as well as any other inspections called for by such Environmental Report or Engineering Reports. Buyer's review of the Seller's Deliveries and other inspections and items referred to in this Article is referred to as Buyer's "**Due Diligence Review.**" and shall be at Buyer's sole expense. Buyer shall indemnify and hold Seller harmless from any and all damage caused by Buyer or its independent contractors, agents, representatives or employees in conducting such Due Diligence Review; provided that Buyer shall have no obligation for any pre-existing conditions or the discovery thereof. Buyer shall restore the Real Estate to the condition in which it existed as of the date of this Agreement. Before entry onto the Subject Premises Buyer shall provide a certificate of insurance acceptable to Seller from an insurance company authorized to do business in the State of New Jersey having a rating of AAA.

Buyer shall, at Buyer's sole expense, take all such actions as are necessary to legally subdivide the Subject Premises from the Retained Property such that the Subject Premises shall be a separate legal parcel that is taxed as of the next assessment date and is in compliance with all subdivision and other applicable laws and ordinances as an independent real estate parcel and shall provide Seller with evidence thereof (collectively, the "Subdivision"). It shall be a condition to Seller's and Buyer's obligation to close that such Subdivision has been effectuated and that the Title Policy shall at Buyer's expense include subdivision and separate tax parcel endorsements. Buyer shall also, at Buyer's sole expense, obtain final site plan approval and all variances desired by Buyer for the Intended Purpose. Buyer shall also be responsible, at its sole expense, to fulfill each of the conditions contained in the subdivision and site plan approvals and to obtain all other government permits and approvals desired by Buyer, or required, for the Intended Purpose.

Seller hereby agrees to cooperate with Purchaser, its agents, representatives and employees, including but not limited to executing forms or applications required in furtherance of the subdivision and approval for the Intended Purpose.

If the Purchaser does not close title within thirty (30) days of the end of the Due Diligence Period, Seller shall have the right to terminate this Agreement in which event the \$200,000. deposit shall be promptly returned to Purchaser minus \$1,000 for each extension received by the Purchaser. Failing to immediately return the deposit monies to the Seller, the terms of the Note and mortgage shall commence. In addition, each Party shall have recourse to all remedies available to it at law and in equity.

5. Conditions Precedent to Closing.

A. **Purchaser** shall not be required to proceed on the closing date with the transaction contemplated by this **Agreement** unless each of the following conditions precedent shall have been fulfilled and satisfied:

- i. Each of the warranties, representations and covenants of **Seller** contained herein shall be true, valid and correct.
- ii. **Seller** shall have complied with the covenants herein.
- iii. There shall have been delivered by **Seller** to **Purchaser** all of the items in Seller's possession required to be delivered to **Purchaser** pursuant subparagraph v below.
- iv. Upon execution of the within **Agreement**, **Purchaser**, at its sole expense, shall obtain an Environmental Report, commonly known as a Phase 1, for the Subject Premises and, based upon said Environmental Report, may declare this **Agreement**, within the Inspection Period, null and void if said Report shall be unsatisfactory to **Purchaser** in **Purchaser's** sole and absolute discretion.
- v. Upon execution of this Agreement, **Seller** shall furnish **Purchaser** with a copy of all engineering and site plans, surveys, resolutions and any and all governmental approvals and permits with respect to the property that are in Seller's possession.

vi. **Purchaser**, in **Purchaser's** sole and absolute discretion, shall satisfy itself as to the zoning and other ordinances of the Township of Wall with respect to the Intended Purpose indicated hereinabove within the initial ninety (90) days and any extension thereof after execution of the within **Agreement**, the due diligence period.

Notwithstanding what is contained in Paragraph 5A, the ninety (90) day due diligence time period for i through vi shall commence on that date upon which all of those items to be delivered to **Purchaser** by **Seller** in subparagraph 5A(v) shall have been delivered to **Purchaser** at its offices in Wall Township, New Jersey, and evidenced by an acknowledgment by **Purchaser** that it has received all of those items requested, in **Purchaser's** sole and absolute discretion.

In the event that, after due diligence by the **Purchaser**, one or more conditions, (1) through (vi) above, are not fulfilled, or waived, within the time periods set forth, then the **Purchaser** may, at any time thereafter, elect, by written notice to the **Seller**, to cancel this **Agreement**, and the \$200,000 deposit shall be promptly returned to Purchaser minus \$1,000 for each extension received by the Purchaser. Failing to immediately return the deposit monies to the Seller, the terms of the Note and mortgage shall commence. This **Agreement** shall then be deemed to be null and void, and of no further force and effect.

B. **Seller** shall not be required to proceed on the closing date with the transaction contemplated by this **Agreement** unless each of the following conditions precedent shall have been fulfilled and satisfied.

- i. Each of the warranties, representations and covenants of **Purchaser** contained herein shall be true, valid and correct.
- ii. There shall be delivered by **Purchaser** to **Seller** all of the items to be delivered to **Seller** hereunder at or prior to the closing.

In the event that one or more of the foregoing conditions is not fulfilled, or waived, within the time periods set forth, then the **Seller** may, at any time thereafter, elect, by written notice to the **Purchaser**, to cancel this **Agreement**, and the \$200,000. deposit shall be promptly returned to Purchaser minus \$1,000 for each extension received by the Purchaser. Failing to immediately return the deposit monies to the Seller, the terms of the note and mortgage shall commence. This **Agreement** shall then be deemed to be null and void, and of no further force and effect.

Each party shall have recourse to all remedies available to it at law or in equity.

6. **Warranties, Representation and Covenants of Seller.** **Seller** warrants, represents to and covenants with **Purchaser** as follows:

A. It is the owner of the Subject Premises.

B. The execution and delivery of this **Agreement** and the consummation of the transaction contemplated with the exception, perhaps, of the existing mortgage(s) on the Overall Parcel, hereby will not violate any **agreement** of **Seller**, or result in the breach of any term or provision of, or, with or without the passage of time or the giving of notice, or both, constitute a default under, or permit the acceleration of maturity under any loan **agreement**, note, debenture, mortgage, deed of trust or other **agreement** to which **Seller** is a party or by which **Seller** is bound.

C. To the best of Seller's knowledge and belief, there are no encroachments on the Subject Premises, except other than as may appear of record. **Seller** agrees that any such recorded encroachments will not prevent, limit or restrict the Intended Purpose.

D. **Seller** represents and warrants, to the best of its knowledge, that the Subject Premises does not contain nor has ever contained any hazardous wastes or substances, including but not limited to, petroleum based products, paints and solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonium compounds, asbestos, PCB's and other chemical products, or any underground storage tanks; nor are any governmental cleanup or any other response actions contemplated, proposed, or initiated for the subject premises. **Seller** further agrees to provide **Purchaser** with any Environmental Approvals and/or representations which may be necessary as a result of the condition of the subject Premises at no cost and expense to **Purchaser pursuant to paragraph 9D**. **Seller's** representations as to this sub-paragraph D shall be contained in a separate affidavit pursuant to paragraph 9E. **Seller**, however, shall have no obligation to remediate the Subject Premises, the Overall Parcel or the Retained Property but **Purchaser** shall have the right, as its sole remedy to cancel this Agreement in which event the \$200,000. deposit shall be promptly returned to **Purchaser** minus \$1,000 for each extension received by the **Purchaser**. Failing to immediately return the deposit monies to the **Seller**, the terms of the Note and mortgage shall commence.

E. **Seller** shall convey the Subject Premises to **Purchaser** free of all tenancies. Also, the Subject Premises shall be conveyed free of all surface debris, as determined by **Purchaser** in its sole and absolute discretion, provided **Seller** shall not be required to incur any cost for environmental remediation of the Subject Premises, Overall Parcel or Retained Property.

F. In addition to being true as of the date of this **Agreement**, each of the warranties, representations and covenants of **Seller** contained in this **Agreement** shall be true on and as of the closing date with the same force and effect as though made on such date.

7. **Warranties, Representations and Covenants of Purchaser**. **Purchaser** represents and warrants to **Seller** that the following are true and correct to the best of its knowledge without independent investigation on the date hereof, which representations and warranties where the context so indicates, shall also be true on the date of each closing of title hereunder.

A. **Purchaser** is a limited liability company duly organized and validly existing under the laws of the State of New Jersey and has full power and authority and has taken all action required by law to execute, deliver, and perform this **Agreement** and the transactions contemplated hereby and thereby and had taken all action required by law, its Certificate of Formation, Operating Agreement or otherwise to authorize the execution and delivery of the **Agreement** and the transactions contemplated hereby.

B. Neither the authorization, execution and delivery of this **Agreement** nor the consummation of the transactions contemplated hereby or thereby will conflict with or result in the breach of any terms or provisions of **Purchaser's** Certificate of Formation and Operating Agreement or any applicable statutes, laws, rules or regulations of any governmental body having jurisdiction in the premises.

8. **Right to Terminate**. If, prior to the expiration of the Inspection/Due Diligence Period, **Buyer** determines for any or no reason in its sole discretion that the Subject Premises is not a suitable for the Intended Purpose, **Buyer** may terminate this Agreement by giving **Seller** written notice of such determination upon or before the expiration of the Inspection Period, in which case the \$200,000. deposit shall be promptly returned to **Purchaser** minus \$1,000 for each extension received by the **Purchaser**. Failing to immediately return the deposit monies to the **Seller**, the terms of the Note and mortgage shall commence.

9. **The Closing**. The closing with respect to the transactions contemplated hereby (herein referred to as the "Closing") shall take place at the office of Robert J. Saxton, Esquire., 1540 State Highway 138, Wall Township, NJ 07719, thirty (30) days after **Purchaser** has satisfied all of the conditions precedent set forth in Paragraphs 4 and 5A.; but in no event any later than thirty (30) days after completion of the Due Diligence Period.

At the closing, **Seller** shall deliver to **Purchaser** each of the following:

A. Certificates signed by the appropriate signatories of **Seller** and to the effect that, as of the closing date, **Seller** has complied with its warranties, representations and covenants hereunder, and that the warranties, representations and covenants made by **Seller** hereunder are true, valid and correct as of the closing date with the same force and effect as if such warranties, representations and covenants had been made on the closing date.

B. Bargain and Sale Deed with Covenants against Grantor's Acts.

C. Appropriate affidavits of title and corporate resolutions.

D. If required for the sale of the Subject Premises by any regulatory agency: (i) a non-applicability letter; (ii) a de minimus quantity exemption; and/or (iii) approval of **Seller's** negative declaration; for which **Seller** shall promptly apply pursuant to the Environmental cleanup Responsibility Act, (ECRA) and/or the Industrial Site Remedial Act, (ISRA) the regulations promulgated thereunder and any successor legislation and regulations, or any other environmental approvals that may be necessary as a result of **Seller's** business and/or the real property at no cost and expense to **Purchaser**.

E. Affidavits indicating that the Subject Premises, to the best of **Seller's** knowledge, has no Environmental problems as same is defined in paragraph 6D. provided, however, Seller shall have no obligation to remediate the Subject Premises, Overall Parcel or Retained Property.

F. Assignment of all engineering, plans, resolutions permits and approvals in Seller's possession from **Seller to Purchaser**.

10. **Tax Clearance.** Buyer shall have received appropriate notice under the New Jersey Bulk Sales Act as to the amount of taxes to be withheld from Seller, if any, at the time of Closing and paid to the State. To that end, Seller agrees to make all appropriate submissions to the NJ Division of Taxation, Bulk Sales Division.

11. **Adjustments at Closing.** The **Purchaser** shall require that any person with a claim or right affecting the Subject Premises shall be paid off from the proceeds of this sale. The **Purchaser** and **Seller** agree to adjust the municipal water and sewer charges (save for special assessments) as of the closing date. There shall be no proration of real estate taxes at Closing. With respect to any real estate tax bills that cover both the Subject Premises and all or any other part of the balance of the Overall Parcel (i.e. prior to the time that the subdivision of the Subject Premises from the balance of the Overall Parcel has taken effect and the Subject Premises has its own separate tax bill) and that relate to a year in which (for all or part of such year) Buyer owns the Subject Premises, Seller shall pay such tax bills when due and Buyer shall pay to Seller Buyer's prorated (based upon Buyer's period of ownership) share of the portion of such bill allocable to the Subject Premises. For such purpose, the portion of a bill allocable to the Land shall be 75% of the actual bill multiplied by percentage obtained by dividing the square footage of the Subject Premises by the square footage of the Overall Parcel. For example, if the annual bill for the Overall Parcel were \$10,000 and the area of the Subject Premises comprised 40% of the area of the Overall Parcel, then the portion of such bill deemed allocable to the Subject Premises would be 75% times \$10,000 times 40% = \$3,000. Seller shall provide Buyer with copies of each such applicable bill, and Buyer shall pay to Seller the amount owed by Buyer with respect thereto within thirty days after receipt of each such bill. Seller shall provide Buyer with evidence of payment of each such bill when made. The terms of this Section shall survive Closing.

12. **Real Estate Brokers.** Both parties hereby warrant and represent that the within transaction was not brought about by the efforts of any broker, agent or the like, and both parties hereby agree to indemnify and hold the other harmless from any and all claims made by any broker claiming to have acted on behalf of either party.

13. **Accessibility.** **Purchaser** and **Purchaser's** agents and employees are granted the right, during normal business hours and on notice to Seller, of ingress and egress upon and across the Subject Premises for the purposes contained herein **Purchaser** agrees to indemnify the **Seller** from liability resulting from ingress and egress and the acts performed, and **Purchaser** further agrees to reimburse **Seller** for any damage to the property caused by the acts performed under the terms of this **Agreement**, and if requested by the Seller, provide **Seller** with a Certificate of Insurance. Before entry on the Subject Premises Buyer shall provide a certificate of insurance acceptable to Seller from an insurance company authorized to do business in the State of New Jersey having a rating of AAA.

14. **Additional Documents and Acts.** Each of the parties hereto agrees that they will at any time and from time to time do, execute, acknowledge and deliver, or will cause to be done, executed, acknowledged and delivered, all such further acts, assignments, applications, transfers, conveyances and assurances as may reasonably be required by the other party hereto in order to carry out fully and to effectuate the transaction herein contemplated in accordance with the provisions of this **Agreement**.

15. **Notices.** All notices required to be given under the terms of this **Agreement** or which any of the parties desires to give hereunder shall be in writing and delivered personally or sent by registered or certified mail, postage prepaid, return receipt requested, each addressed as follows:

As to **Seller**:

Coates International, LTD
2100 Route 34
Wall, NJ 07719

&

William Wolf, Esq
Bathgate, Wegner & Wolf
One Airport Rd
Lakewood, NJ 08701

As to **Purchaser**:

W & S Investments, L.L.C.
P.O. Box 496
Allenwood, NJ 08720

&

Robert J. Saxton, Esq
1540 State Highway 138
P.O. Box 1141
Wall, NJ 07719

or to such other address and to the attention of or of such other person as the party to whom such notice is to be given may have theretofore designated in a notice to the other party hereto. Any notice given in accordance with the foregoing shall be deemed to have been given when delivered in person or, if mailed, on the second business day next following the date on which it shall have been deposited in the mail.

16. **Assignment.** This **Agreement** shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that no party hereto may assign this **Agreement**, in whole or in part without the prior written consent of each other party except that **Purchaser** may assign the within **Agreement** to another corporate entity or partnership provided that Messrs. WESHNAK and SMITH are majority principals thereof without the prior consent of the **Seller**.

17. **Risk of Loss.** The **Seller** is responsible for any damage to the Subject Premises, except for normal wear and tear, until the closing or for damage or loss caused by the Purchaser. If there is damage, the **Purchaser** can proceed with the closing and either require that the **Seller** repair the damage not caused by Purchaser before the closing, or deduct from the purchase price a fair and reasonable estimate of the cost to repair the property. Nonetheless, **Seller** shall only be responsible for up to the sum of TEN THOUSAND (\$10,000.00) DOLLARS. Above said sum, **Purchaser** shall have the option of canceling the within **Agreement**, or be responsible for any sum greater than TEN THOUSAND (\$10,000.00) DOLLARS.

18. **Captions.** The captions of this **Agreement** are for convenience only and shall not affect the construction or interpretation of any term or provision hereof.

19. **Governing Law.** This **Agreement** shall be governed by and construed in accordance with the laws of the State of New Jersey.

20. **Arbitration of Disputes.** Except as otherwise provided herein, any controversy or claim between the **Purchaser** and the **Seller** arising out of or relating to this **Agreement**, will, upon notice by either party, be submitted to and be settled by arbitration held in Monmouth County, New Jersey. Such arbitration shall be conducted in accordance with the New Jersey Statutes then in effect, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The parties hereby submit to the jurisdiction of the courts of the State of New Jersey for the purpose of confirming any such award and entering judgment thereon.

21. **Completeness of Agreement.** This **Agreement** and the attachments hereto and the **Agreements** and other documents referred to or provided for herein represent the entire contract between the parties with respect to the subject matter hereof and thereof, and the same shall not be modified or affected by any offer, proposal, statement or representation, oral or written, made by or for any party in connection with the negotiation of the terms hereof.

22. **Amendment.** This **Agreement** shall not be amended or modified except by an instrument in writing signed by each of the parties hereto.

23. **Counterparts.** This **Agreement** may be executed in counterparts, each of which need not contain the signatures of more than one party, but such counterparts taken together will constitute one and the same **Agreement**.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the day and year first above written.

WITNESS:

COATES INTERNATIONAL, LTD
A Nevada Corporation



Handwritten signature of George J. Coates in blue ink, with the date 11/13/13 written below it.

BY: /s/ GEORGE J. COATES
GEORGE J. COATES, PRESIDENT

WITNESS:

W & S INVESTMENTS, L.L.C.
A New Jersey
Limited Liability Company



Handwritten signature of Barry Weshnak in blue ink.

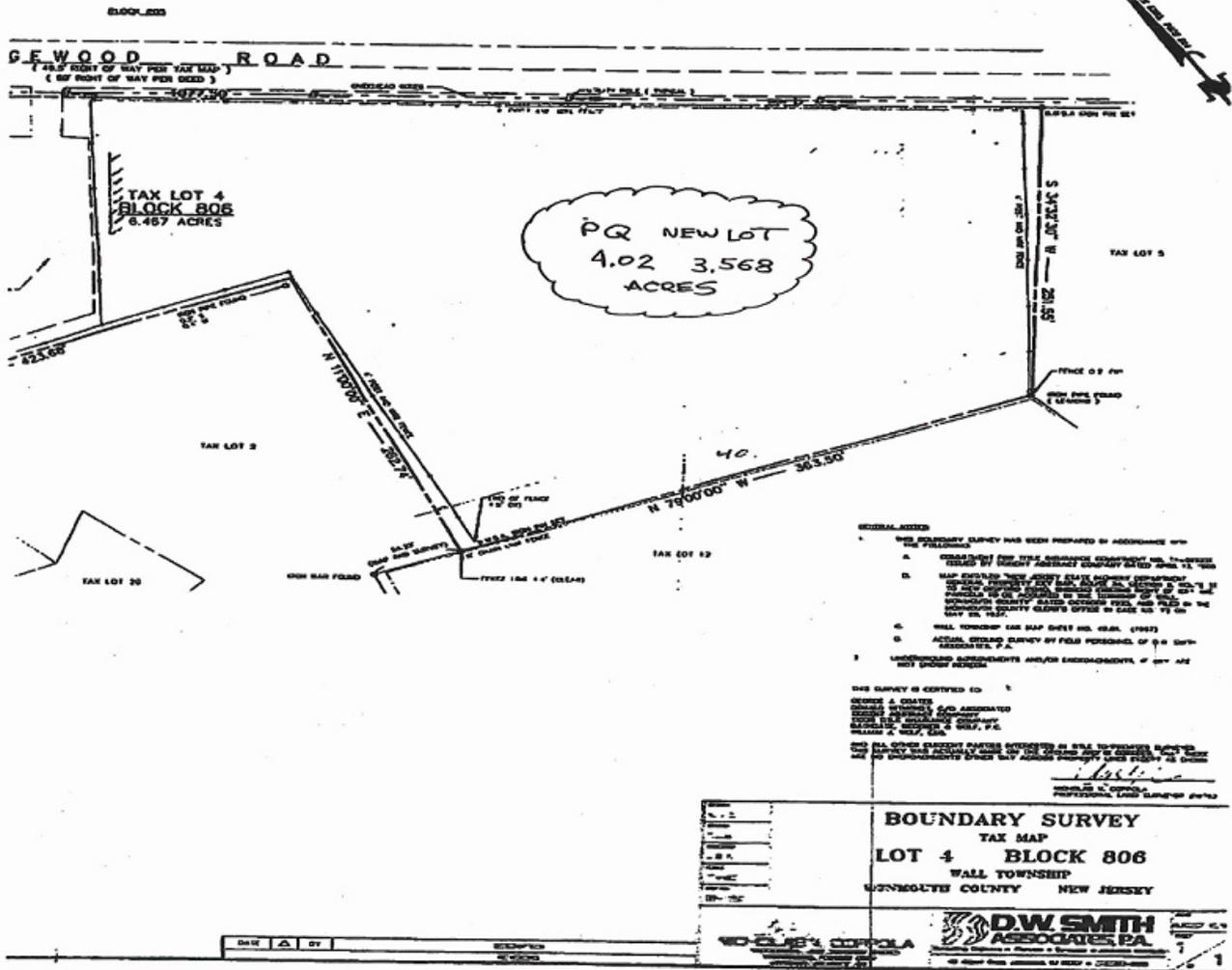
BY: /s/ BARRY WESHNAK
BARRY WESHNAK
Managing Member



Handwritten signature of Thomas W. Smith in blue ink.

BY: /s/ THOMAS W. SMITH
THOMAS W. SMITH
Managing Member

EXHIBIT A



**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, George J. Coates, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Coates International, Ltd. (the “registrant”);
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(s) 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(s) 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 reasonably 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 control over financial reporting.

Date: November 9, 2018

/s/ George J. Coates

George J. Coates
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry C. Kaye, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Coates International, Ltd. (the “registrant”);
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(s) 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(s) 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 reasonably 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 control over financial reporting.

Date: November 9, 2018

/s/ Barry C. Kaye

Barry C. Kaye
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Coates International, Ltd. (the "Company") on Form 10-Q for the period ended September 30, 2018 (the "Report"), I, George J. Coates, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2018

/s/ George J. Coates

George J. Coates
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Coates International, Ltd. (the "Company") on Form 10-Q for the period ended September 30, 2018 (the "Report"), I, Barry C. Kaye, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2018

/s/ Barry C. Kaye

Barry C. Kaye
Treasurer and Chief Financial Officer
(Principal Financial Officer)