

Sonasoftware Corp.

Financial Statements

December 31, 2014 and 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Sonasoft Corp.
San Jose, California

We have audited the accompanying balance sheets of Sonasoft Corp. as of December 31, 2014 and 2013, and the related statements of operations, stockholders' deficit, and cash flows for each of the years in the two-year period ended December 31, 2014. These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sonasoft Corp. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has recurring losses from operations and likely needs financing in order to meet its financial obligations. These conditions raise significant doubt about the Company's ability to continue as a going concern. Management's plans in this regard are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty

Malone Bailey LLP

Houston, Texas
October 19, 2015

**SONASOFT CORP.
BALANCE SHEETS**

	December 31, 2014		December 31, 2013
ASSETS			
Cash	\$ 98,663	\$	19,578
Accounts Receivable, net	304,224		81,615
Notes Receivable, Related Party	69,406		-
Other Current Assets	5,432		5,432
Total Current Assets	477,725		106,625
Property and equipment	109,010		109,010
Accumulated Depreciation	(109,010)		(109,010)
Property and equipment, net	-		-
Other Assets	2,638		2,638
TOTAL ASSETS	\$ 480,363	\$	109,263
 LIABILITIES & STOCKHOLDERS' DEFICIT			
Current Liabilities			
Accounts Payable	\$ 213,221	\$	234,230
Accrued Expenses	497,713		768,329
Note Payable – Current	30,800		1,222,204
Deferred Revenue	141,458		89,843
Other Current Liabilities	60,154		104,966
Total Current Liabilities	943,346		2,419,572
Long Term Liabilities			
Deferred Compensation	1,536,009		1,427,146
Royalty Liabilities	230,697		313,309
Total Liabilities	2,710,052		4,160,027
Stockholders' Deficit			
Common Stock, no par, 400,000,000 authorized, 258,840,464 and 173,903,047 issued and outstanding as of December 31, 2014 and 2013, respectively	10,923,715		8,223,277
Accumulated Deficit	(13,153,404)		(12,274,041)
Total Stockholders' Deficit	(2,229,689)		(4,050,764)
TOTAL LIABILITES STOCKHOLDER'S DEFICIT	\$ 480,363	\$	109,263

See accompanying notes to the financial statements

SONASOFT CORP.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2014 & 2013

	December 31, 2014	December 31, 2013
Revenue	\$ 688,563	\$ 442,738
Cost of Goods Sold	(50,591)	(102,547)
Gross Profit	637,972	340,191
Selling Expenses	(307,017)	(184,100)
General and administrative	(547,816)	(380,313)
Operation Expenses	(176,535)	(129,222)
Research and development	(145,100)	(110,154)
Stock Options Expense	(199,437)	-
Total operating expenses	(1,375,905)	(803,789)
Operating Loss	(737,933)	(463,598)
Interest expense	(126,918)	(128,928)
Other Income	53,411	73,674
Other Expense	(67,923)	(88,828)
Loss before income taxes	(879,363)	(607,680)
Income taxes	-	-
Net Loss	\$ (879,363)	\$ (607,680)
 Loss per share – Basic and Diluted	 \$ (0.00)	 \$ (0.00)
 Weighted average shares outstanding – Basic and Diluted	 212,921,758	 167,003,049

See accompanying notes to the financial statements

SONASOFT CORP.
STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Common Stock		Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount		
BALANCE, December 31, 2012	114,991,797	\$ 7,866,971	\$(11,666,361)	\$(3,799,390)
Issuance of common stock for cash	29,911,250	149,556	-	149,556
Issuances of common stock for services	11,500,000	57,500	-	57,500
Issuances of common stock for accrued salaries	17,500,000	87,500	-	87,500
Forgiveness of Board Fees	-	61,750	-	61,750
Net loss	-	-	(607,680)	(607,680)
BALANCE, December 31, 2013	173,903,047	8,223,277	(12,274,041)	(4,050,764)
Issuance of common stock for cash	15,000,000	344,500	-	344,500
Issuances of common stock for services	3,400,000	70,000	-	70,000
Issuance of common stock for accrued compensation	13,881,250	69,406	-	69,406
Conversion of debt into common stock	47,656,167	1,191,404	-	1,191,404
Issuance of common stock for accounts payable	5,000,000	188,606	-	188,606
Stock Options issued for interest on promissory notes	-	637,084	-	637,084
Stock option expense	-	199,438	-	199,438
Net loss	-	-	(879,363)	(879,363)
BALANCE, December 31, 2014	258,840,464	\$ 10,923,715	\$ (13,153,404)	\$ (2,229,689)

See accompanying notes to the financial statements

SONASOFT CORP.
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Cash flows from operating activities:		
Net Loss	\$ (879,363)	\$ (607,680)
Adjustments to reconcile net loss to net cash used in operations:		
Issuance of common stock for services	70,000	53,341
Stock option expense	199,438	-
Depreciation expense	-	3,594
Forgiveness of Board fees	-	61,750
Changes in operating assets and liabilities:		
Accounts Receivable	(222,609)	(20,303)
Deferred Compensation	108,863	175,000
Accounts Payable	167,597	(14,797)
Accrued Expenses	435,874	(9,909)
Other Current Liabilities	(44,812)	32,283
Royalty Liability	(82,612)	99,969
Deferred Revenue	51,615	26,501
Net cash used in operating activities	<u>(196,009)</u>	<u>(200,251)</u>
Cash flows from investing activities:		
Notes Receivable	(69,406)	-
Net cash used in investing activities	<u>(69,406)</u>	<u>-</u>
Cash flows from financing activities:		
Issuance of Common stock for cash	344,500	149,556
Proceeds from short-term debt	-	50,000
Payments on short-term debt	-	(19,200)
Net cash provided by financing activities	<u>344,500</u>	<u>180,356</u>
Net change in cash	79,085	(19,895)
Cash at Beginning of Period	19,578	39,473
Cash at End of Period	<u>\$ 98,663</u>	<u>\$ 19,578</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 4,635	\$ 645
Income taxes paid	\$ 5,500	\$ 4,349

Supplemental disclosure of noncash investing and financing activities:

Issuance of common stock for debt conversion	\$	1,191,404	\$	-
Issuance of common stock for accrued compensation	\$	69,406	\$	-
Issuance of common stock for accounts payable	\$	188,606	\$	-
Issuance of stock options for accrued interest conversion	\$	637,084	\$	-
Issuance of stock options for accrued salaries	\$	-	\$	87,500

See accompanying notes to the financial statements

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 & 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

Organization

SONASOFT CORP. (The "Company") was incorporated under the laws of the State of California on December 18, 2002. The Company develops software that automates the disk-to-disk backup and recovery process for Microsoft Exchange, SQL and Windows Servers with integrated data protection, IM and e-mail archiving and disaster recovery solutions.

Basis of Presentation

The financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles. Accordingly, they include all the information and footnotes required by accounting principles generally accepted in the United State of America for annual financial statements.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. The Company at times has cash in banks in excess of FDIC insurance limits and places its temporary cash investments with high credit quality financial institutions. As of December 31, 2014, the Company had approximately \$98,663 in cash balances at financial institutions which are within the FDIC insured limits.

Loss per Share

Basic and diluted net loss per common share is computed based upon the weighted average common shares outstanding as defined by Accounting Standards codification ASC 260, "Earnings per Share." As of December 31, 2014 there were 250,840,464 common shares outstanding (excluding the options not yet exercised). Common stock equivalents have been excluded from the diluted net loss per share as the amounts are anti diluted.

Research and Development Costs

The Company expenses all research and development costs as incurred for which there is no alternative future use. These costs also include expensing of employee compensation and employee stock based compensation.

Income Taxes

The Company accounts for income taxes under Accounting Standards Codification (ASC 740). Under ASC 740 deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company has incurred losses over period of time, so there is no income tax payable except the minimum state tax payment.

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 & 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION - continued

Revenue Recognition

Revenue is recognized when earned in accordance with applicable accounting standard ASC 985-605. Revenue from software arrangements with end users is recognized upon final delivery of the software; provided the collection is probable and no significant obligations remain. Revenue is recognized following ASC 985-605, all the elements of bundle software sold (including installation and maintenance) will be allocated based on the residual method. Bundled software packages include the actual software, software installation, and maintenance contracts. The customer is able to purchase maintenance contracts based on a one-year, two-year, or three-year terms. Maintenance contracts are sold as a service; therefore, we calculate the VSOE for maintenance contracts to be a fixed percentage of the list price based on the term of the maintenance contract purchased. The maintenance contract revenue is recognized over the term of the maintenance contract. Amount billed in excess of revenue earned on the maintenance contract will be classified as deferred revenue. The software installation price is a fixed amount based on the number of mailboxes sold, and the residual amount after deducting installation charges and the maintenance contract will be allocated to the software product sale.

Allocation of revenue among various elements:

We sell software as a bundle product including installation, maintenance and product license. We allocate the revenue as follows:

- Installation revenue is a fixed amount based on the number of mailboxes sold.
- Fixed Price Maintenance Contract is a set amount calculated as 20% of list price for a one-year contract.
- Fixed Price Maintenance Contract is a set amount calculated as 17.5% of list price for a two-year contract.
- Fixed Price Maintenance Contract is a set amount calculated as 15% of list price for a three-year contract.
- Software revenue is calculated as the residual amount after deducting the installation and maintenance contract revenue

The one-year fixed price maintenance contracts revenue is recognized over 12 month period from the starting month to 12-month period. The two-year maintenance contracts revenue will be recognized on monthly basis and spread over a period of 24 months. The three-year maintenance contract revenue will be recognized over a period of 36 months.

As of December 31, 2014 the Company has included deferred revenue of \$141,458 in current liabilities.

As of December 31, 2013, the Company has included \$89,843 of deferred revenue in current liabilities.

Property & Equipment

We record our property and equipment at cost and depreciate these assets on a straight-line basis to their estimated residual values over their estimated useful lives of 3 to 7 years.

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 & 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION - continued

Stock-Based Compensation

The Company accounts for its stock-based compensation under the provisions ASC 718 “Accounting for stock based compensation” the Company is permitted to record expenses for stock options and other employee compensation plans based on their fair value at the date of grant. Any such compensation cost is charged to expense on a straight-line basis over the periods the options vest. If the options had cashless exercise provisions, the Company utilized variable accounting.

Common stock, stock options and common stock warrants issued to other than employees or directors are recorded on the basis of their fair value, as required by ASC 718, which is measured as of the date required by ASC 505, “Accounting for Stock based Compensation” In accordance with ASC 505, the stock options or common stock warrants are valued using the Black-Scholes model on the basis of the market price of the underlying common stock on the “valuation date,” which for options and warrants related to contracts that have substantial disincentives to non-performance is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Where expense must be recognized prior to a valuation date, the expense is computed under the Black-Scholes model on the basis of the market price of the underlying common stock at the end of the period, and any subsequent changes in the market price of the underlying common stock up through the valuation date is reflected in the expense recorded in the subsequent period in which that change occurs.

Fair Value of Financial Instruments

The carrying amounts of the Company’s financial instruments including accounts receivable, accounts payable and accrued expenses approximate their fair value due to the relatively short period to maturity for these instruments.

Business Segments

The Company operates in one segment and therefore segment information is not presented.

Advertising Costs

Advertising costs are expensed as incurred and include the costs of public relations activities. These costs are included in selling, general and administrative expenses and totaled \$4,995 and \$3,350 for the years ended December 31, 2014 and 2013 respectively.

Identifiable Intangible Assets

As of December 31, 2014 and 2013, \$2,638 of costs related to filing patent applications has been capitalized. When patents are approved, the costs are amortized over the life of the patent. All costs for patents not approved will be expensed at that time of denial.

Long-Lived Assets

Long-lived assets and certain identifiable intangible assets related to those assets are periodically reviewed for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. If the non-discounted future cash flows of the enterprise are less than their carrying amount, their carrying amounts are reduced to fair value and an impairment loss is recognized. There was no impairment recorded in 2014 and 2013.

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 & 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION - continued

Cost of Sales: includes all the direct costs pertaining to services provided to customers. Cost of sales includes hardware cost bought from vendors, consulting fee to provide cloud archiving services and any other related direct expenses.

Accounts Receivable & Allowance for Bad Debts: A invoice is prepared as soon as the customer receive or install or download from site a software license and is accounted for as receivable. The Accounts receivable will be adjusted for cancel items or where software license is returned. All the receivable outstanding balances are being reviewed periodically. The allowance for bad debt is not required, if the customer decides against the usage of our software license, it will be deactivated/uninstall from the server. The allowance for bad debt balance is \$39,654 and \$0 in 2014 and 2013, respectively.

Notes Receivable: A note receivable is written promise to receive specific amount from the maker to holder of note on a specific date. The notes receivable balances as of December 31, 2014 and 2013 are due from officers, directors and key employees. The notes receivable have specific interest rates and dates when they are due and payable, there is no prepayment penalty.

Recent Accounting Pronouncements:

In April 2015, the Financial Accounting Standards Board (the “FASB”) issued an accounting standard providing guidance to customers about whether a cloud archiving arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud archiving arrangement does not include a software license, the customer should account for the arrangement as a service contract amortized over a period of contract time. The standard update is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted.

NOTE 2 - GOING CONCERN

As reflected in the accompanying financial statements, the Company has net accumulated loss of \$13,153,404 and net loss for fiscal year ending December 31, 2014 of \$879,363, a working capital deficit of \$465,621 and a stockholder’s deficit of \$2,229,689 as of December 31, 2014. The total liabilities of \$2,710,052 include \$1,536,009 owed to key stockholders at December 31, 2014. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company’s ability to raise additional capital and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management believes that actions presently being taken to obtain additional funding and to implement its strategic sales plan provide the opportunity for the Company to continue as a going concern.

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts receivable, net at December 31, 2014 and 2013 consisted of the following:

	<u>As of December 31, 2014</u>	<u>As of December 31, 2014</u>
Trade and other receivables	\$ 343,878	\$ 81,615
Less: Allowance for doubtful accounts	(39,654)	-
Accounts Receivable, net	<u>\$ 304,224</u>	<u>\$ 81,615</u>

The bad debt expense for the years ending December 31, 2014 and 2013 was \$39,654 and \$0 respectively.

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 & 2013

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Office equipment	\$ 20,721	\$ 20,721
Office furniture	1,821	1,821
Leasehold improvements	7,588	7,588
Computer equipment	78,881	78,881
Total cost	109,010	109,010
Less: Accumulated depreciation	(109,010)	(109,010)
Property and equipment, net	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the years ending December 31, 2014 and 2013 was \$0 and \$3,594, respectively.

NOTE 5 - STOCKHOLDERS' DEFICIT

On January 10, 2014, the Company changed its authorized capital by increasing the shares of common stock available for issuance from 200,000,000 shares to 400,000,000

Common Stock Issued for Cash

During the year ending December 31, 2013, the Company issued 29,911,250 shares of common stock for cash of \$149,556 at \$0.005 per share. Of the total shares issued for cash, 5,000,000 shares of common stock were issued to Dr Romesh Japra, Chairman of the Board/Director and over 10% stockholder of the Company, for \$25,000 cash at \$0.005 per share.

During the year ending December 31, 2014, the Company issued 15,000,000 shares of common stock for cash of \$344,500 at \$0.025 cents per share. Of the total shares issued for cash, 8,500,000 shares of common stock were issued to Dr Romesh Japra and Romi Randhawa, Chairman of the Board/Director and over 10% stockholder and Director of the Company, respectively, for \$202,500 cash or \$0.025 per share.

Common Stock Issued for Services

During the year ending December 31, 2013, the Company issued 11,500,000 shares of common stock, at \$0.005 per share, valued at \$57,500 to various consultants for professional and legal services.

During the year ending December 31, 2014, the Company issued 3,400,000 shares of common stock, at \$0.025 per share, valued at \$70,000 to legal advisors and consultants for services.

Common Stock Issued for Accrued Compensation

During the year ending December 31, 2013, the Company issued 17,500,000 shares of common stock, at \$0.005 per share, valued at \$87,500, to key officers and employees in lieu of past due salaries.

During the year ending December 31, 2014, the Company issued 13,881,250 shares of common stock, at \$0.005 per share, valued at \$69,406, to key officers and employees in lieu of past due salaries.

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 & 2013

NOTE 5 - STOCKHOLDERS' DEFICIT - continued

Common Stock Issued for Debt Conversion

During the year ending December 31, 2014, the Company issued 47,656,167 shares of common stock, at \$0.025 per share, valued at \$1,191,404, to note payable holders, to convert debt into equity.

During the year ending December 31, 2014, the Company also reached a settlement agreement with a vendor and issued 5,000,000 shares of common stock, at an agreed upon price of \$0.038 per share, valued \$188,606, to settle accounts payable owed as of December 31, 2014.

NOTE 6 STOCK OPTION PLAN

Effective January 1, 2006, transactions under the Company's 2003 Plan (as defined below) were accounted for in accordance with the recognition and measurement provisions of ASC 718 "Share-Based Payment", and related interpretations of ASC 718 requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within SEC Staff Accounting Bulletin No. 107, which provides the views of the staff of the SEC regarding the interaction between ASC 718 and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Under the modified prospective approach, the provisions of ASC 718 are applied to new awards and to awards modified, repurchased, or cancelled after the effective date. Additionally, compensation costs for the portion of awards for which the requisite service has not been rendered that are outstanding as of the effective date are recognized as the requisite services are rendered on or after such date. The compensation costs for that portion of awards are based on the grant-date fair value of those awards as calculated for either recognition of pro-forma disclosures

Stock option compensation expense for calendar year ending December 31, 2014 is \$199,438 and December 31, 2013 is \$0, and is the estimated fair value of options granted, amortized on a straight line basis over the requisite service period for the entire portion of the award.

Black-Scholes Valuation

The fair value of options at the date of grant is estimated using the Black Scholes option pricing model. The assumptions made in calculating the fair values of options are as follows:

	For the year ending December 31, 2014
Expected term (in years)	10
Expected volatility	100% to 137%
Risk-free interest rate	1.79% to 3.05%

There were 23.6 million stock option awards granted during the year ending December 31, 2014. No stock options were issued to employees or consultants in the year ending December 31, 2013.

Plan Information

In February 2003, the 2003 Incentive and Non-Statutory Stock Option Plan was approved and adopted by the Board of Directors. The 2003 Plan became effective upon the approval of the holders of the Company's stock at the Company's annual stockholders meeting held on June 4, 2003. Under the 2003 Plan, the Company may grant stock options to its employees, officers, and other key persons employed or retained by the Company and any non-employee director, consultant, vendor or other individual having a business relationship with the Company. Options are granted at various times and usually vest over a thirty-six (36) month period. As of December 31, 2014 the Company had total options pursuant to the 2003 Plan of 23.6 million.

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 & 2013

NOTE 6 - STOCK OPTION PLAN - continued

The following table sets forth certain information concerning our outstanding options for all of our option holders as of December 31, 2014.

Outstanding Equity Awards at December 31, 2014

	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$)	Option Vesting Date
Aaron Marinucci	250,000	0	0.025	07/31/2015
Bilal Ahmed	3,000,000	0	0.025	07/31/2015
Jim Gilmer	500,000	0	0.025	07/31/2015
Douglas MacKallor	3,500,000	0	0.025	07/31/2015
Neil Khanna	3,000,000	0	0.025	07/31/2015
Mike Khanna	3,000,000	0	0.025	07/31/2015
Robert Serafini	250,000	0	0.025	07/31/2015
Dennis Smith	250,000	0	0.025	07/31/2015
Subhash Sachdeva	1,500,000	0	0.025	07/31/2015
Paul Krisch	350,000	0	0.025	07/31/2015
Steve Defilipps	1,000,000	0	0.025	07/31/2015
Dr Romesh Japra	2,000,000	0	0.025	07/31/2015
Romi Randhawa	2,000,000	0	0.025	07/31/2015
Nand Khanna (Andy)	3,000,000	0	0.025	07/31/2015
TOTAL	23,600,000	0		

*Expire 60 days after the employment relationship with the Company is terminated.

All the options issued to Employees or Consultants are authorized by Board prior to issuance.

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - STOCK OPTION PLAN - continued

Exercise Price	Number Outstanding December 31, 2014	Weighted Average remaining Contractual Life	Weighted Average exercise Price	Number Exercisable at December 31, 2014	Weighted Average Exercise Price
\$0.025	23,600,000	9.59	0.025	11,000,000	\$0.025
	<u>23,600,000</u>			<u>11,000,000</u>	

The exercise price of the option is \$.025 cents per vested option.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Employment Agreement

The company has entered into an employment agreement with its Chief Executive Officer through the year 2014 at an annual minimum salary of \$150,000 per year, with additional fringe benefits as determined by the Board of Directors. In the event of termination of the agreement by the company, the company is required to pay a severance payment equivalent to 12 months of salary at the rate, and with the benefits, in effect at the date of termination.

The company has also entered into similar agreements each extending through the year 2014 with two other employees/managers at an average annual salary of \$120,000. In the event of termination of the agreement by the company, the company is required to pay a severance payment equivalent to 12 months of salary at the rate, and with the benefits, in effect at the date of termination.

Royalty Agreement

During 2003 the company entered into royalty agreements with investors. The maximum liability under the agreement will be \$1,500,000. The maximum amount due to investors in each year will be 5% of revenue up to a total of \$1,500,000. Such premium is payable only if management of the Company reasonably determines that the company is profitable. Accordingly, in accordance with the signed royalty agreements, the Company is accruing the royalty premium at 5% of revenue. The royalty balance as of December 31, 2014 and 2013 is \$233,049. The Company has stopped the accrual of royalty liability since the product for which investment was received has been discontinued.

Lease Agreement

The company has entered into a lease agreement for an office building, the lease period ends on February 28, 2013. The company is currently on a month to month basis. The base rent for this property is \$2,424.75 for the remainder of our lease. In addition to the base rent, we pay roughly \$2,500 in operating expenses under the terms of our lease. In January 2015, the company negotiated settlement agreement with EMI Property management to pay off all the outstanding balance through January 31, 2015 converting past due amount into common stock. Starting February 2015, the monthly rent is \$3,100 per month including all the operating expenses.

SONASOFT CORP.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 & 2013

NOTE 7 - COMMITMENTS AND CONTINGENCIES - continued

Employment Related Lawsuit

In 2006, an ex-employee filed a lawsuit against the Company for wrongful termination. The Company has accrued a tentative settlement with the ex-employee for the payment of \$227,000 in cash and an additional 95,000 shares of the Company stock as of December 31, 2007. As of December 31, 2012 Company had made payments towards the settlement, the final payment of \$85,526 was made in February 2013. The legal case is still pending and contested in Appeals Court for attorney's fees claimed by the plaintiff. On September 17, 2015, the Company filed its first reply brief with the courts.

NOTE 8 - NOTE PAYABLE – RELATED PARTY

- A)** Note Amount \$500,000 payable to Dr Romesh Japra, issued on December 19, 2008, interest rate 10% per annum. The principal and outstanding interest due should be paid in 36 months, maturity date of December 18, 2011. The note holder is also entitled to purchase 2,272,727 warrants of shares of common stock of Sonasoft with a term of 36 months exercisable by holder upon payment of \$0.22 cents per share of stock actually purchased. The note holder did not exercise the warrants granted. The balance outstanding including principal and interest as of December 31, 2013 is \$700,000 and as of December 31, 2014 is \$0. The Note holder agreed to convert the debt into Sonasoft common stock at \$0.025 cents per share as of December 30, 2014 and the accrued interest in lieu of vested options.
- B)** Note Amount \$33,000 payable to Michelle Rose, issued on November 1, 2009, carrying interest rate 10% per annum. The principal and outstanding interest due should be paid in 36 months, maturity date of October 31, 2012. The note holder is also entitled to purchase 165,000 warrants of shares of common stock of Sonasoft with a term of 36 months exercisable by holder upon payment of \$0.22 cents per share of stock actually purchased. The note holder did not exercise the warrants granted. The balance outstanding including principal and interest as of December 31, 2013 is \$43,450, and as of December 31, 2014 is \$0. The Note holder agreed to convert the debt into Sonasoft common stock at \$0.025 cents per share as of December 30, 2014 and the accrued interest in lieu of vested options.
- C)** Note Amount \$100,000 payable to Joseph and Anne Rapp, issued on November 1, 2009, carrying interest rate 10% per annum. The principal and outstanding interest due should be paid in 36 months, maturity date of October 31, 2012. The note holder is also entitled to purchase 500,000 warrants of shares of common stock of Sonasoft with a term of 36 months exercisable by holder upon payment of \$0.20 cents per share of stock actually purchased. The note holder did not exercise the warrants granted. The balance outstanding including principal and interest as of December 31, 2013 is 131,667, as of December 31, 2014 is \$0. The Note holder agreed to convert the debt into Sonasoft common stock at \$0.025 cents per share as of December 30, 2014 and the accrued interest in lieu of vested options.
- D)** Note Amount \$22,000 payable to Ken Fishmen, issued on November 1, 2009, carrying interest rate 10% per annum. The principal and outstanding interest due should be paid in 36 months, maturity date of October 31, 2012. The note holder is also entitled to purchase 110,000 warrants of shares of common stock of Sonasoft with a term of 36 months exercisable by holder upon payment of \$0.20 cents per share of stock actually purchased. The note holder did not exercise the warrants granted. The balance outstanding including principal and interest as of December 31, 2013 is \$28,967, as of December 31, 2014 is \$0. The Note holder agreed to convert the debt into Sonasoft common stock at \$0.025 cents per share as of December 30, 2014 and the accrued interest in lieu of vested options.

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NOTE 8 - NOTE PAYABLE – RELATED PARTY - continued

- E)** Note Amount \$400,000 payable to Dr. Romesh Japra, issued on November 1, 2009, carrying interest rate 10% per annum. The principal and outstanding interest due should be paid in 36 months, maturity date of October 31, 2012. The note holder is also entitled to purchase 2,000,000 warrants of shares of common stock of Sonasoft with a term of 36 months exercisable by holder upon payment of \$0.20 cents per share of stock actually purchased. The note holder did not exercise the warrants granted. The balance outstanding including principal and interest as of December 31, 2013 is \$526,667, as of December 31, 2014 is \$0. The Note holder agreed to convert the debt into Sonasoft common stock at \$0.025 cents per share as of December 30, 2014 and the accrued interest in lieu of vested options.
- F)** Note Amount \$50,000 payable to Muriel K. MacKallor issued on January 15, 2013, carrying interest rate of 15% per annum. The principal and outstanding interest due should be paid in three installments, April, July and October 2013. The first installment of principal and interest due was paid in April 2013. The balance outstanding including principal and interest as of December 31, 2013 is \$54,967, as of December 31, 2014 is \$40,197.
- G)** Note Amount \$134,404 payable to Camden Properties issued on January 1, 2010 carrying interest rate of 8% per annum. The balance outstanding including principal and interest as of December 31, 2013 is \$177,893, as of December 31, 2014 is \$0. The Note holder agreed to convert the debt into Sonasoft common stock at \$0.025 cents per share as of December 30, 2014 and the accrued interest in lieu of vested options.

NOTE 9 - DEFERRED COMPENSATION

In order to conserve cash resources, the key employees who are part of management team had paid partial amount towards salary. The accruals were computed based on approved salary less actual payment. The accrued remuneration has been classified as long term liability, since the disbursement of any past due salary will be made from the company's profits, which is expected to be more than one year out.

The deferred compensation on the balance sheet represents salaries due to key management. The details of compensation outstanding as of December 31, 2014 and 2013 are provided below:

		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Nand Khanna (Andy)	CEO	\$ 981,941	\$ 845,942
Billal Ahmad	CTO	161,324	149,824
Neil Khanna	VP Operations	198,366	177,366
Subhash Sachdeva	Acting CFO	52,000	11,500
Mike Khanna	Sales & Marketing	142,378	132,378
Other Employees	Sales & Marketing	-	110,136
Total Deferred Salaries & Compensation		<u>\$ 1,536,009</u>	<u>\$ 1,427,146</u>

The key management agreed to defer the compensation due to limited cash resources available to the company in last five years.

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NOTE 10 - SUBSEQUENT EVENTS

The Company entered agreements with Note holders and EMI property management to settle all the debt payable and past dues by executing debt to equity conversion agreements. During 2015, the Company also issued 3,785,100 shares, at \$0.025, valued at \$94,629, to settle the past due rent owed to EMI Property.

In February 2015, the Company issued 900,000 shares, at \$0.025, valued at \$22,500, to settle the expenses and commissions owed to employees.

In January 2015, the Company issued 1,000,000 stock options to an employee.

During 2015, The Company issued 13,400,000 Reg. A and Rule 144 stock for cash of \$335,000.

In August 2015, the Company issued 1,600,000 share, at \$.025 per share for cash of \$40,000 to existing shareholders including Dr Romesh Japra who owns more than 10% of shares in the company.

In August 2015, the Company issued 2,000,000 stock options to an employee.

The Company evaluated subsequent events through October 19, 2015, the date these financial statements were available to be issued.