SONASOFT CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

SONASOFT CORPORATION
INDEX

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and shareholders of
Sonasoft Corporation
San Jose, California

We have audited the accompanying balance sheet of Sonasoft Corporation (the "Company") as of December 31, 2016 and 2015, and the related statements of operations, stockholders' deficit and cash flows for the years then ended, and the related notes to the financial statements. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, 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 1 to the financial statements the Company suffered recurring losses from operations, has consistently generated negative cash flow from operations, has significant negative working capital and an accumulated deficit and currently does not have sufficient available funding to fully implement its business plan. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Thayer O'Neal Company, LLC

Thayer O’Neal Company, LLC
Houston, Texas

August 24, 2017

SONASOFT CORPORATION
Balance Sheets
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	$ 108,332	$ 277,624
Accounts receivable, net	99,386	84,546
Other current assets	3,700	5,432
Total Current Assets	211,418	367,602
Intangible Asset	2,638	2,638
Total Assets	$ 214,056	$ 370,240
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 180,113	$ 183,600
Accrued expenses and accrued liabilities	522,551	536,530
Accrued compensation	1,700,232	1,700,232
Note payable - current	-	8,800
Deferred revenue - current portion	122,015	113,637
Royalty liabilities	733,049	733,049
Customer deposits	5,459	6,487
Total Current Liabilities	3,263,420	3,282,335
Deferred revenue - long term portion	10,497	24,493
Total Liabilities	3,273,917	3,306,828
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT		
Common Stock, no par, 400,000,000 authorized, 303,158,224 and 276,275,564 issued and outstanding as of December 31, 2016 and 2015, respectively	12,012,461	11,236,475
Accumulated deficit	(15,072,322)	(14,173,063)
Total Stockholders' Deficit	(3,059,861)	(2,936,588)
Total Liabilities and Stockholders' Deficit	$ 214,056	$ 370,240

See accompanying notes to the financial statements

SONASOFT CORPORATION
Statements of Operations
December 31, 2016 and 2015

		2016		2015
Operations				
Revenue	$	662,380	$	736,001
Cost of goods sold		112,537		142,274
Gross profit		549,843		593,727
Operating expenses		1,445,120		1,602,575
Loss from operations		(798,270)		(729,772)
Other income (expense)				
Interest expense		(3,982)		(10,808)
Net loss	$	(899,259)	$	(1,019,656)
Loss per share	$	0.00	$	0.00
Weighted average common shares outstanding		280,893,121		271,985,840

See accompanying notes to the financial statements

SONASOFT CORPORATION
Statements of Stockholders' Deficit
For the years ended December 31, 2016 and 2015

	Common Stock			
	Number of Shares	**Amount**	**Accumulated Deficit**	**Total Stockholders' Deficit**
Balance, December 31, 2014	**258,840,464**	**$ 10,923,715**	**$ (13,153,407)**	**$ (2,229,692)**
Issuance of common stock for cash	15,000,000	375,000	-	375,000
Issuance of common stock for accrued compensation	500,000	2,500	-	2,500
Issuance of common stock for accounts payable	4,685,100	117,128	-	117,128
Stock Options issued in 2015		318,132		318,132
Cancellation of Common stock	(2,750,000)	(500,000)		(500,000)
Net Loss year ended December 31, 2015	-	-	(1,019,656)	(1,019,656)
Balance, December 31, 2015	**276,275,564**	**11,236,475**	**(14,173,063)**	**(2,936,588)**
Issuance of common stock for cash	24,240,000	606,000	-	606,000
Stock Options issued in 2016	-	103,920	-	103,920
Issuance of common stock for services	- 2,180,000	54,500	-	54,500
Issuance of common stock for interest payable	- 462,660	11,567	-	11,567
Net Loss year ended December 31, 2016	- -	-	(899,259)	(899,259)
Balance, December 31, 2016	**303,158,224**	**$ 12,012,461**	**$ (15,072,322)**	**$ (3,059,861)**

See accompanying notes to the financial statements

SONASOFT CORPORATION
Statements of Cash Flow
For the years ended December 31, 2016 and 2015

		2016		2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(899,259)	$	(1,019,656)
Adjustments to reconcile net loss to net cash used in operating activities				
Stock options		103,920		318,132
Stock compensation				2,500
Stock issued for services		66,067		117,128
Stock cancelation due to non-performed service				(500,003)
Bad debt expense		2,904		58,897
Changes in operating assets and liabilities:				
Accounts receivable		(17,743)		230,186
Other assets / liabilities		704		6,487
Accounts payable		(3,486)		(29,624)
Accrued compensation		-		164,223
Deferred revenue		(5,618)		(3,328)
Royalty liabilities		-		502,352
Other current liabilities and accrued expenses		(13,979)		(21,336)
NET CASH USED IN OPERATING ACTIVITIES		(766,490)		(174,039)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of common stock for cash		606,000		375,000
Payments on notes payable		(8,800)		(22,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES		597,200		353,000
NET CHANGE IN CASH		(169,290)		178,961
CASH - beginning of year		277,624		98,663
CASH - end of year	$	108,332	$	277,624
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	$	16,749	$	10,808
Income taxes paid	$	1,085	$	2,397
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVIITIES				
Issuance of common stock for accounts payable	$	11,567	$	100,628
Issuance of common stock from exercise of stock options in exchange for notes receivable	$	-	$	69,406
Issuance of common stock for accrued compensation or services	$	54,500	$	2,500
Issuance of common stock for expenses and payable	$	-	$	16,500

See accompanying notes to the financial statements

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Sonasoft Corporation (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, Structured Query Language ("SQL") and Windows Servers with integrated data protection, instant messaging and e-mail archiving and disaster recovery solutions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and going concern

The financial statements are prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"). As reflected in the accompanying financial statements, the Company has a net loss and net cash used in operations of approximately $899,259 and $766,490, respectively, for the year ended December 31, 2016. Additionally, the Company has a working capital deficit and accumulated deficit of approximately $3.04 million and $15.07 million, respectively, at December 31, 2016. These factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the issuance date of these financial statements. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or to obtain the necessary financing to meet its debt obligations and repay its liabilities arising from normal business operations when they come due. The Company's ability to raise additional capital through future issuances of common stock is unknown. The obtainment of additional financing, the successful development of the Company's contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations.

Uncertainty regarding these matters raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. While the Company believes in the viability of its strategy to generate revenues, there can be no assurances to that effect. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet, and revenues and expenses for the period then ended. Actual results may differ significantly from those estimates. Significant estimates made by management include, but are not limited to asset valuations and the fair value of common stock issued, the valuation of stock-based compensation and valuation of deferred tax assets.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. The Company did not have cash equivalents at December 31, 2016 and 2016. The Company places its cash with high credit quality financial institutions. The Company's accounts at these institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At December 31, 2016, the Company had not reached bank balances exceeding the FDIC insurance limit on interest bearing accounts. To reduce its risk associated with the failure of such financial institutions, the Company evaluates at least annually the rating of the financial institutions in which it holds deposits.

Basic and diluted net loss per share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares during the period. Diluted net loss per share is computed using the weighted average number of common shares and potentially dilutive securities outstanding during the period. At December 31, 2015, the Company has 28,600,000 potentially dilutive securities outstanding, respectively, related to outstanding stock options. Those potentially dilutive common stock equivalents were excluded from the dilutive loss per share calculation as they would be antidilutive due to the net loss.

Research and Development Costs

Research and development ("R&D") costs are expensed as incurred. R&D costs include salaries and benefits, stock-based compensation and other personnel-related costs associated with product development. Also included in R&D expenses are infrastructure costs, which consist of materials used in the development effort, other internal costs, as well as expenditures for third party professional services. Material software development costs incurred subsequent to establishing technological feasibility through the general release of the software products are capitalized. Technological feasibility is demonstrated by the completion of a detailed program design or working model, if no program design is completed. GAAP requires that annual amortization expense of the capitalized software development costs be the greater of the amounts computed using the ratio of gross revenue to a products' total current and anticipated revenues, or the straight-line method over the products' remaining estimated economic life. We have determined that technological feasibility for the Company's software products is reached shortly before the products are released to manufacturing. Costs incurred after technological feasibility is established have not been material. We expense software-related research and development costs as incurred.

Income Taxes

The Company accounts for income taxes pursuant to the provision of Accounting Standards Codification ("ASC") 740-10, "Accounting for Income Taxes" ("ASC 740-10"), which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, there may be uncertainty about the merits of positions taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefit associated with tax positions taken that exceed the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all more likely than not to be upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25, "Definition of Settlement", which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The federal and state income tax returns of the Company are subject to examination by the IRS and state taxing authorities, generally for three years after they are filed. The Company currently has no federal or state tax examinations nor has it had any federal or state examinations since its inception. The Company's 2016, 2015, and 2014 tax years may still be subject to federal and state tax examination.

Revenue Recognition

Revenue is recognized when earned in accordance with applicable accounting standard ASC 985-605 “Accounting for Software Revenue Recognition”. 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, the Company calculates the vendor-specific objective evidence (“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:

The Company sells software as a bundle product including installation, maintenance and product license. The Company allocates 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, 2016, the Company has included deferred revenue of $122,015 in current liabilities and $10,497 as long-term liability as it pertains to contracts over 12 months.

As of December 31, 2015, the Company has included deferred revenue of $113,637 in current liabilities and $24,493 as long-term liability as it pertains to contracts over 12 months.

Customer may cancel the software products and the maintenance service anytime. The Company is not required to refund any fees or remaining deferred revenue balances after cancellation by customer.

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 $780,685 and $935,546 for the year ended December 31, 2016 and 2015 respectively.

Stock-Based Compensation

Stock-based compensation is accounted for based on the requirements of ASC 718, “Compensation – Stock Compensation”, which requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. The Company recognizes compensation on a straight-line basis over the requisite service period for each award.

The Company accounts for non-employee stock-based awards in accordance with the measurement and recognition criteria under ASC Topic 505-50, "Equity – Based Payments to Non-Employees". Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the measurement date. Measurement date is the date at which the equity share price and other pertinent factors, such as expected volatility, that enters into measurement of the total recognized amount of compensation cost for an award of share-based payments are fixed. The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date.

Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The Company classifies assets and liabilities recorded at fair value under the fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The fair value measurements are classified under the following hierarchy:

- Level 1—Observable inputs that reflect quoted market prices (unadjusted) for identical assets and liabilities in active markets;
- Level 2—Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity that is significant to the fair value of assets or liabilities.

The estimated fair values of certain financial instruments, including cash, accounts receivable, accounts payable, accrued expense, accrued compensation, deferred revenues, royalty liabilities and other current liabilities approximates their carrying values because of the short-term nature of these instruments and for the use of implicit interest rates. The note payable approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to the Company for similar financial arrangements.

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. The Company did not record any impairment losses during the year ended December 31, 2016 and 2015.

Cost of Sales

Cost of sales includes all the direct costs pertaining to services provided to customers. Cost of sales includes cost of hardware, consulting fees to provide cloud archiving services and any other related direct expenses.

Accounts Receivable and Allowance for doubtful accounts

The Company has a policy of providing on allowance for doubtful accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. The Company's bad debt allowance policy is to provide 10% of the accounts receivable balance at the period end or accumulation of specific uncollectible receivable whichever is higher. Account balances deemed to be uncollectible are charged to bad debt expense and included in the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of December 31, 2016, and 2015, the allowance for doubtful accounts amounted to $21,869 and $25,559, respectively. The Company recorded bad debt expense of $2,904 and $58,897 during the years ended December 31, 2016 and 2015, respectively.

Recent Accounting Pronouncements

In April 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2016-05"). ASU 2016-05 requires that customers apply the same criteria as vendors to determine whether a cloud computing arrangement ("CCA") contains a software license or is solely a service contract. Under ASU 2016-05, fees paid by a customer in a CCA will be within the scope of internal-use software guidance if both of the following criteria are met: 1) the customer has the contractual right to take possession of the software at any time without significant penalty, and 2) it is feasible for the customer to run the software on its own hardware (or to contract with another party to host the software). The standard is effective beginning January 1, 2016, with early adoption permitted, and may be applied prospectively or retrospectively. The Company does not anticipate adoption will impact our statements of financial position or results of operations.

In March 2016, FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718)", or ASU 2016-09. ASU 2016-09 was issued as part of the FASB's simplification initiative focused on improving areas of GAAP for which cost and complexity may be reduced while maintaining or improving the usefulness of information disclosed within the financial statements. ASU 2016-09 focuses on simplification specifically with regard to share-based payment transactions, including income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash flows. The guidance in ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company will evaluate the effect of ASU 2016-09 for future periods.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

NOTE 2 – NOTES RECEIVABLE

On December 30, 2014, in lieu of cash, the Company received written promissory notes issued by various officers and key personnel of the Company in connection with the exercise of their vested options for $69,406. The notes receivable bore 5% interest per annum and was due on demand. The Company recorded interest income of $3,470 during the year ended December 31, 2015. In December 2015, the Company wrote-off the balance of the uncollected notes and has been included in general and administrative expenses.

NOTE 3 – ACCRUED EXPENSES AND ACCRUED LIABILITIES

Accrued expenses and accrued liabilities consist of the following:

	December 31, 2016	December 31, 2015
Credit card	$ 28,813	$ 28,184
Accrued vacations	166,988	166,988
Accrued interest	-	12,766
Accrued disputed attorney fees (see Note 8)	289,782	289,782
Other	36,968	38,810
Total	$ 522,551	$ 536,530

NOTE 4 – ACCRUED COMPENSATION

The accrued compensation in the accompanying balance sheet represents unpaid salaries due to key management. The details of compensation outstanding as of December 31, 2016 and 2015, are provided below:

	2016	2015
Chief Executive Officer	$ 1,079,441	$ 1,079,441
Chief Technology Officer	161,324	161,324
Vice-President Operations	226,989	226,989
Chief Financial Officer	88,000	88,000
Sales and Marketing	144,478	144,478
Total	$ 1,700,232	$ 1,700,232

The Management decided not to accrue any outstanding compensation due from Jan 1, 2016 onwards.

NOTE 5 – NOTES PAYABLE

On January 15, 2013, the Company issued a promissory note in the amount of $50,000 to an unrelated party. The note bears interest at 15% per annum. The outstanding principal amount and interest due should be paid in three installments of $19,200 and was payable in April 2013, July 2013 and October 2013. As of December 31, 2016, and 2015, the balance of the principal amount of this note amounted to $0 and $8,800, respectively. Accrued interest as of December 31, 2016 and 2015 amounted to $ 0 and $12,767, respectively.

NOTE 6 – STOCKHOLDERS' DEFICIT

Common Stock

On January 10, 2016, the Board of Directors of the Company approved to increase the authorized number of shares of common stock, no par-value, from 200,000,000 shares to 400,000,000.

Common Stock Issued for Cash

During the year ended December 31, 2015, the Company sold an aggregate of 15,000,000 shares of common stock for gross proceeds of $375,000 or $0.025 per share whereby 3,200,000 shares of these common stock were sold and issued to individuals, who are both members of the Board of Directors and over 10% and 5% respectively stockholder of the Company for $80,000 or $0.025 per shares.

During the year ended December 31, 2016, the Company sold an aggregate of 24,240,000 shares of common stock for gross proceeds of $606,000 or $0.025 per share whereby 14,600,000 shares of these common stock were sold and issued to individuals who are both members of the Board of Directors and over 10% and 5% respectively stockholder of the Company for $365,000 or $0.025 per share.

Common Stock Issued for Exercise of Stock Options

During the year ended December 31, 2015, the Company issued an aggregate of 500,000 shares of common stock issued to our Chief Executive Officer, in connection with the exercise of stock options with an exercise price of $0.005 per share. In lieu of receiving cash from the exercise of stock options, the Company recorded stock as reduction in accrued compensation of $2,500 during the year ended December 31, 2015.

Common Stock Issued for Services and Interest

During the year ended December 31, 2016, the Company issued an aggregate of 2,642,660 shares of common stock for services rendered. The Company valued these common shares at the fair value at $0.25 per common share. The Company also issued 462,660 shares of common stock to settle the outstanding interest owed on a Note Payable. The Company valued these common shares at the fair value at $0.25 cent per common share.

Common Stock Issued for Accounts Payable

During the year ended December 31, 2015, the Company sold an aggregate of 900,000 shares of common stock to various consultants for gross proceeds of $22,500 or $0.025 per share. Such consultants agreed to offset their outstanding accounts payable balances in lieu of cash.

During the year ended December 31, 2015, the Company issued 3,785,100 shares of common stock to a vendor to settle the balance of unpaid rental fees of $94,628 for the Company's leased office.

Cancellation of Common Stock

During the year ended December 31, 2015, the Company cancelled an aggregate of 2,750,000 shares of common stock.

NOTE 7 – COMMON STOCK OPTIONS

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.

Stock Options Granted to Employees and Consultants

In 2015, the Company granted an aggregate of ten-year 4,000,000 options to purchase common stock at an exercise price of $0.025 per share with a vesting period of 1 year. The 4,000,000 options were valued on the grant date at approximately $0.05 per option or a total of $100,000 using a Black-Scholes option pricing model.

On June 20, 2016, the Company granted a ten-year 2,000,000 option to purchase common stock at an exercise price of $0.025 per share with a vesting period of 1 year. The 2,000,000 options were valued on the grant date at approximately $0.025 per option for a total value of$185,630. The options were granted to a Director of the Company.

The Company also granted 6,000,000 stock options to purchase common stock at an exercise price of $0.025 per share with a vesting period of 1 year to a Director, as he provided a guarantee towards bond issued in our legal dispute. The 6,000,000 options were valued on the grant date at approximately $0.025 per option for a total value of $53,268.

During the year ended December 31, 2015 and 2016, the Company recorded total stock-based compensation expense in connection with vested stock options of $318,132 and $103,920, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Employment Agreement

In March 2012, the Company has entered into an employment agreement with its Chief Executive Officer through year 2016 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. These employment agreements were extended until December 31, 2016. As of December 31, 2015, and 2016, accrued compensation owed to the CEO of the Company was $1,079,442; since management decided to discontinue the accrual of compensation as the Company is not profitable.

In March 2012, the Company has also entered into similar agreements each extending through year 2016 with three other employees and managers at an average annual salary of $150,000. 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. These employment agreements were extended until December 31, 2016.

Royalty Agreements

During year 2003, the Company entered into royalty agreements with certain investors whereby these investors in exchange of their royalty investment were entitled up to 5% of the gross sales until such time as the investor received 5 times the amount of the royalty investment (the “Royalty Premium”). The Royalty Premium shall be paid in installments within 10 days from the end of each calendar quarter. Such Royalty Premium was payable only if management of the Company reasonably determines that the Company is profitable. The royalty arrangement pertains to the Company’s product, Sona back- up and recovery solution, which was developed for SQL server and exchange in 2003. The Company discontinued selling this product in year 2010 and the Company did not replace this product with any other product line. The Company stopped the accrual of royalty liability in year 2010 when the product was discontinued. As of December 31, 2016, and 2015, the balance of royalty liabilities for both periods were $733,049.

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. Starting February 2015, the monthly rent is $3,100 per month expense is included in the operating expenses on the income statement.

The Company executed a lease agreement to rent office space with starting date on August 1, 2016 thru July 31, 2019 at monthly rental amount of $3,300 per month. The facility rent will increase to $3500 per month from August 1, 2017 and $3,700 per month from August 1, 2018. The Company has also had option to renew the lease for five years after the expiry of current lease term.

Employment Related Lawsuit

In year 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, the Company had made payments towards the settlement and 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. The Company has accrued $289,782 for the disputed attorney fee.

NOTE 9 – INCOME TAXES

The Company operates in the United States; accordingly, federal and state income taxes have been provided based upon the tax laws and rates of the U.S. The Company has incurred losses since inception and, accordingly has a net operating loss carry forward as of December 31, 2016, of approximately $3,186,339. This loss carry-forward expires according to the following schedule:

Year Ending December 31,		Amount
12/31/2030	$	901,341
12/31/2031		376,179
12/31/2032		107,409
12/31/2033		168,410
12/31/2034		535,280
12/31/2035		381,075
12/31/2036		716,647
Total	$	3,186,339

The income tax provision differs from the amount of income tax determined by applying the federal income tax rate to pre- tax income from continuing operations for the years ended December 31, 2016 and 2015, due to the following:

Description		2016		2015
Tax provision at expected tax rate (35%)	$	(314,741)	$	(356,879)
Impact of permanent differences		38,880		1,976
Increase to valuation allowance		275,861		354,903
Income tax provision	$	-	$	-

Deferred tax assets at December 31, 2016 and 2015 are comprised of net operating loss carry forwards. The amounts for tax purposes could vary from those disclosed above as the Company has not addressed the differences in valuation of share-based compensation for tax purposes.

Tax years 2011-2016; remain subject to examination by the IRS and respective states.

NOTE 10 – SUBSEQUENT EVENTS

Between January 2017 and June 30, 2017, the Company issued an aggregate of 13,300,000 shares of common stock for gross proceeds of $332,500 or $0.025 per share, of which $197,500 were received in 2016, but the 7,900,000 shares were issued in January 2017.

During the first 6 months of the fiscal year ended December 31, 2017, the company incurred these equity transactions:

- A Director of the Company, purchases 2,600,000 shares of common stock for $65,000;

- The Company issued 342,820 shares of common stock to a contractor for services provided and reflected consulting expense in the amount of $8,570;

- The Company issued 657,180 shares of common stock to a contractor for services provided to upgrade the Sona Vault product and reflected consulting expense in the amount of $16,430;

- The company received loan of $300,000 from a Director and deposited it in the bank as security for a standby letter of credit issued by a bank to a bonding company in legal dispute with an employee;

- The Company issued 6,000,000 to a Director for on January 23, 2017 vested after one year.

Subsequent events have been evaluated through August 24, 2017, as that is the date these financial statements were available for release.