SONASOFT CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

SONASOFT CORPORATION
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Sonasoft Corporation

Opinion on the Financial Statements

We have audited the accompanying balance sheet of Sonasoft Corporation (the Company) as of December 31, 2017 and 2016, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years ended December 31, 2017 and 2016, and the related notes (collectively referred to as the financial statements). These financial statements are the responsibility of the Company's management. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations stockholders' equity (deficit), and cash flows for the years ended December 31, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of Matter

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 suffered losses from operations and has not completed its efforts to establish a stabilized source of revenue sufficient to cover operating costs over an extended period of time that raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. 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
We have served as the Company's auditor since 2017.
Houston, Texas

August 27, 2018

SONASOFT CORPORATION
Balance Sheets
December 31, 2017 and 2016

ASSETS	**2017**	**2016**
Current assets		
Cash	$ 415,130	$ 108,332
Accounts receivable, net	63,848	99,386
Other current assets	3,700	3,700
Total Current Assets	482,678	211,418
Other assets		
Intangible Asset	2,638	2,638
Total Assets	$ 485,316	$ 214,056
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 242,340	$ 180,114
Accrued expenses and accrued liabilities	498,262	522,551
Accrued compensation	1,815,232	1,700,232
Due to related party	10,700	-
Deferred revenue - current portion	105,844	122,015
Royalty liabilities	733,049	733,049
Customer deposits	-	5,459
Total Current Liabilities	3,405,429	3,263,420
Non-current liabilities		
Note payable – Related party – Long term	328,109	-
Deferred revenue – long term portion	-	10,497
Total Liabilities	3,733,538	3,273,917
Stockholders' Deficit		
Common Stock, no par, 400,000,000 shares authorized, 326,144,254 and 303,158,224 shares issued and outstanding as of December 31, 2017 and 2016, respectively	13,124,266	12,012,461
Accumulated deficit	(16,372,486)	(15,072,322)
Total Stockholders' Deficit	(3,248,220)	(3,059,861)
Total Liabilities and Stockholders' Deficit	$ 485,316	$ 214,056

See accompanying notes to the financial statements

SONASOFT CORPORATION
Statements of Operations
December 31, 2017 and 2016

	2017	2016
Operations		
Revenue	$ 570,085	$ 662,380
Cost of goods sold	50,161	112,537
Gross profit	519,924	549,843
Operating expenses	1,843,326	1,445,120
Loss from operations	(1,323,402)	(895,277)
Other income (expense)		
Interest and other income	23,238	(3,982)
Net loss	$ (1,300,164)	$ (899,259)
Loss per share	$ (0.00)	$ (0.00)
Weighted average common shares outstanding	313,039,406	280,893,121

See accompanying notes to the financial statements

SONASOFT CORPORATION
Statements of Stockholders' Deficit
For the years ended December 31, 2017 and 2016

	Common Stock			Total
	Shares	Amount	Accumulated Deficit	Stockholders' Deficit
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
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
Stock options issued in 2016	-	103,920	-	103,920
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)
Issuance of common stock for cash	19,900,000	497,500	-	497,500
Stock options issued in 2017	-	537,154	-	537,154
Issuance of common stock for services	2,000,000	50,000	-	50,000
Issuance of common stock for interest payable	1,086,030	27,151	-	27,151
Net Loss year ended December 31, 2017	-	-	(1,300,164)	(1,300,164)
Balance, December 31, 2017	326,144,254	$ 13,124,266	$ (16,372,486)	$ (3,248,220)

See accompanying notes to the financial statements

SONASOFT CORPORATION

Statements of Cash Flow

For the years ended December 31, 2017 and 2016

		2017		2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(1,300,164)	$	(899,259)
Adjustments to reconcile net loss to net cash used in operating activities				
Stock options		537,154		-
Stock issued for services		50,000		66,067
Bad debt expense		-		2,904
Changes in operating assets and liabilities:				
Accounts receivable		35,537		-
Other assets / liabilities		-		704
Accounts payable		89,379		(3,486)
Accrued compensation		90,710		-
Deferred revenue		(26,668)		(5,618)
Customer deposits		(5,459)		-
Other current liabilities and accrued expenses		-		(13,979)
NET CASH USED IN OPERATING ACTIVITIES		(529,511)		(766,490)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of common stock for cash		497,500		606,000
Due to related party		10,700		-
Proceeds/Payments on notes payable		328,110		(8,800)
NET CASH PROVIDED BY FINANCING ACTIVITIES		836,309		597,200
NET CHANGE IN CASH		306,798		(169,290)
CASH - beginning of year		108,332		277,624
CASH - end of year	$	415,130	$	108,332
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	$	33,518	$	16,749
Income taxes paid	$	1,905	$	
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVIITIES				
Issuance of common stock for accounts payable	$	27,151	$	11,567
Issuance of common stock for accrued compensation or services	$	497,500	$	606,000

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 $1,300,164 and $529,511, respectively, for the year ended December 31, 2017. Additionally, the Company has a working capital deficit and accumulated deficit of approximately $2.9 million and $16.37 million, respectively, at December 31, 2017. 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, 2017 and 2016.

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, 2017, and as of the report release date, the Company has 8,000,000 and 54,450,000 potentially dilutive securities outstanding, respectively, related to outstanding stock options. Those potentially dilutive common stock equivalents as of December 31, 2017, 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 are 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, 2017, the Company has included deferred revenue of $105,844 in current liabilities.

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.

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 $767,804 and $780,685 for the year ended December 31, 2017 and 2016 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, 2017 and 2016.

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, 2017, and 2016, the allowance for doubtful accounts amounted to $7,094 and $21,869 respectively. The Company recorded bad debt expense of $532 and $2,904 during the years ended December 31, 2017 and 2016, respectively.

Recent Accounting Pronouncements

The Financial Accounting Standards Board issued Accounting Standards Topic (FAS) 606-10 - Revenue from Contracts with Customers on May 9, 2017. An entity recognizes revenue in accordance with that core principle by applying the following steps

Step 1: Identify the contract(s) with a customer—
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

This standard is effective for the Company for periods beginning after December 16, 2017. The Company is currently evaluating the implications of this standard but do not anticipate that it will have any significant impact on reports financial condition or results of operations.

In February 2017, the Financial Accounting Standards Board (FASB) issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). The amendments in ASU 2016-02 replace Topic 840 Leases with Topic 842 Leases. The amendments in ASU 2016-02 are effective for public business entities fiscal years beginning after December 15, 2018 Early application is permitted for all public business entities. The Company is currently evaluating the implications of this standard but do not anticipate that it will have any significant impact on reports financial condition or results of operations.

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 3 – ACCRUED EXPENSES AND ACCRUED LIABILITIES

Accrued expenses and accrued liabilities consist of the following as of December 31, 2017 and 2016:

	2017	2016
Credit card	$ 30,143	$ 28,813
Accrued vacations	166,988	166,988
Accrued disputed attorney fees (see Note 8)	289,782	289,782
Other	11,348	36,968
Total	$ 498,261	$ 522,551

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, 2017 and 2016 are provided below:

	2017	2016
Chief Executive Officer	$ 1,199,441	$ 1,079,441
Chief Technology Officer	156,324	161,324
Vice-President Operations	226,989	226,989
Chief Financial Officer	88,000	88,000
Sales and Marketing	144,478	144,478
Total	$ 1,815,232	$ 1,700,232

During 2017, the Company paid an employee $5,000 and accrued additional $120,000 to CEO; which brought the accrued compensation to $1,815,232.

NOTE 5 – NOTES PAYABLE

On January 23, 2017, the Company issued a promissory note in the amount of $300,000 to Dr. Romesh Japra, Chairman of Sonasoft. The note bears interest at 10% per annum. The outstanding principal amount and interest due as of December 31, 2017 is $328,110.

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, 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 this 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.

During the year ended December 31, 2017, the Company sold an aggregate of 19,900,000 shares of common stock for gross proceeds of $497,500 or $0.025 per share whereby 3,000,000 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 $75,000 or $0.025 per shares.

Common Stock Issued for Services

During the year ended December 31, 2017, the Company issued an aggregate of 2,000,000 shares of common stock for services rendered. The Company valued these common shares at the fair value at $0.025 per common share.

Common Stock Issued for Accounts Payable

During the year ended December 31, 2017, the Company sold an aggregate of 1,086,030 shares of common stock to various consultants for gross proceeds of $27,151 or $0.025 per share. Such consultants and service providers agreed to offset their outstanding accounts payable balances in lieu of cash.

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

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.

The Company also granted additional 6,000,000 stock options on Jan 23, 2017 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 funds as debt to open a standby Letter of credit as 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 $171,475.

During 2017, the Company issued stock options to various professional staff and consultants.

During the year ended December 31, 2017 and 2016, the Company recorded total stock-based compensation expense in connection with vested stock options of $537,154 and $103,920, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Commitments

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 $1,199,441; 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, 2017, and 2016, the balance of royalty liabilities for both periods was $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 $3,500 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. Future minimum payments under this lease are as follows:

Year Ending December 31,		Amount
2018	$	39,960
2019		23,310
Total	$	63,270

Contingencies

Classification of Workers as Contractors vs Employees

Sonasoft treats all its workers as contractors rather than employees. The Internal Revenue Service (the IRS) has specific criteria as guidance to make these classifications and the Company does not adhere to these criteria. Accordingly, upon examination by the IRS the possibility is very high that the Company would be subjected to certain penalties related to this issue. These amounts are considered contingent liabilities as they are contingent upon an examination the IRS as an unfavorable outcome. Although these amounts cannot be estimated exactly, the potential range of liabilities as of December 31, 2017 amounted to between $87,615 and $90,891 which includes underpayments and penalties.

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, 2017, of approximately $4,915,930. 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
12/31/2037		1,729,591
Total	$	4,915,930

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, 2017 and 2016, due to the following:

Description		2017		2016
Tax provision at expected tax rate (35%)	$	(455,057)	$	(314,741)
Impact of permanent differences		190,398		38,880
Increase to valuation allowance		264,659		275,861
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 2012-2017; remain subject to examination by the IRS and respective states.

NOTE 10 – SUBSEQUENT EVENTS

During fiscal year starting January 1, 2018 ending on December 31, 2018, the Company issued an aggregate of 21,600,000 shares of common stock for gross proceeds of $540,000 or $0.025 per share. The Company also issued 2,000,000 to existing shareholder who invested $50,000 on December 22, 2017; the shares were issued in Feb 2018. The Company also issued 56,030 shares to independent sales person in lieu of commission due $1,400.76.

The Company also issued 50,000 Series A Preferred share for investment of $125,000 at $2.50 per share. The Preferred shareholder will be entitled to same terms and condition as Common stock holders who convert the existing common stock shares into Preferred stock shares.

During the first 8 months of the fiscal year ended December 31, 2018, the company incurred these equity transactions:

- A Chairman & Director of the Company purchased 4,000,000 shares of common stock for $100,000
- The Company issued stock options 6,490,000 to professionals working at reduced salaries since Jan 1, 2018.
- The Company issued stock options 1,450,000 to various professional consultants, the exercise price is $0.025 (Two and Half cent) and the vesting period is 24 months.

  The Company filed with State of California on March 9, 2018 to amend Articles of Incorporation to include:

  The Corporation is authorized to issue two classes of stock to be designated as Common stock and Preferred stock. The corporation is authorized to increase the number of shares of Common stock from four hundred million (400,000,000) shares of Common stock to Seven hundred million (700,000,000) shares of Common stock and a new class of stock, Ten million (10,000,000) shares of Series a Preferred Stock.

  The Company created Series A Preferred Stock so that existing shareholders can convert Common stock into Preferred stock based on the following terms and conditions:

  a) Common stock holders are eligible to convert shares of common stock in ratio of 100 common stock shares will get one share of Preferred stock.
  b) Lock up Period: After conversion into Preferred shares, the shareholder cannot convert them into shares of common stock for eighteen months from issuance date unless one of the following conditions is met:

     1) Sale of Sonasoft and its subsidiaries to another public and private company and there is change of control.
     2) Secondary offering: Sonasoft raise funds from public market using Investment Banker and under writer.
     3) Upon conversion of preferred shares into common stock shares, the preferred stockholder will be entitled to additional 10% of common stock shares as Bonus shares.
     4) Conversion Ratio: The Preferred shareholder will receive the same number of common stock shares; the ratio will be one share of Preferred stock equals to 100 shares of common stock.

As of August 21, 2018, Sonasoft common stock holders converted 171, 921,800 approximately of common stock shares into preferred stock.

The Company executed a stock purchase agreement on April 27, 2018, to acquire Cornerstone Tech Inc. Upon Closing, each share of the stock of the Cornerstone Tech ("Company Stock") issued and outstanding immediately prior to the Effective Time (the "Shares" are transferred to Sonasoft in exchange for:

(I) each pre-Closing Company shareholders collectively entitle to 382,450 Preferred shares (equals to 38,245,000 shares of common stock) and 6,755,000 dilutable shares and/or options of common stock of Parent ("Parent Common Stock"), which will be subject to Rule 144.

(ii) Parent paying off the outstanding loan owed by Company to Dennis Ray Minato and Augustina Minato (“Lender”) on Company's balance sheet amounting to no more than a total of $325,000 (the "Loan") (together the "Merger Consideration"). The Loan payment is to be paid in two installments in cash to Lender. The first installment of $162,500 will be paid within thirty days after closing (the "First Installment"). The second installment of $162,500 will be paid within one year after closing (the "Second Installment"). Until the Second Installment is paid in full, the remainder of the Loan will be held by Lender against the Company with an interest rate of 8% per annum that will be paid on a monthly basis. Parent grants an option (“Option”) to Lender to convert some or all of the Loan into Parent Common Stock after Closing, with the conversion stock price equal to the current prevailing average Parent Common Stock price on the over-the-counter market for the ten (10) days prior to Closing (or if there have been no trades within that period, the last price at which Parent Common Stock was traded) less 25%.

As part of debt payment and settlement agreement executed by Cornerstone Tech Inc. dba Cornerstone Technologies Sonasoft will issue 8,000,000 shares @$.025 per share amounting to $200,000, against the outstanding loan to Dennis Ray Minato and Augustine Minato owed by Cornerstone Tech Inc. Sonasoft paid $75,000 to Cornerstone Tech on July 20, 2018, as short-term loan, this will adjusted against the purchase consideration.

The audit of Cornerstone Tech Inc. will be performed prior to final closing of the triangular merger transaction.

Subsequent events have been evaluated through August 21, 2018, as that is the date these financial statements were available for release.