

# *Financial Statements*

**SYNTONIC WIRELESS, INC.**

*Years Ended December 31, 2015 and 2014;  
and the Period from April 1, 2013 (Date of Inception) to December 31, 2013*

*and*

*Independent Auditor's Report*

**Hellam | Varon**  
CERTIFIED PUBLIC ACCOUNTANTS

**SYNTONIC WIRELESS, INC.**

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and the Period from April 1, 2013 (Date of Inception) to December 31, 2013**

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*Independent Auditor's Report*



To the Stockholders  
Syntonic Wireless, Inc.

We have audited the accompanying financial statements of Syntonic Wireless, Inc., which comprise the statements of financial position as of December 31, 2015, 2014 and 2013, and the related statements of profit and loss, statements of changes in equity, and statements of cash flows for the years ended December 31, 2015 and 2014; and for the period from April 1, 2013 (Date of Inception) to December 31, 2013, and the related notes to the financial statements, which, as described in Note 1 to the financial statements, have been prepared on the basis of International Financial Reporting Standards.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Syntonic Wireless, Inc. as of December 31, 2015, 2014 and 2013, and the results of its operations and its cash flows for the years ended December 31, 2015 and 2014; and for the period from April 1, 2013 (Date of Inception) to December 31, 2013, in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the Company prepares its financial statements in accordance with International Financial Reporting Standards, which differ from the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Hellam, Varon & Co. Inc.*

February 15, 2016

**SYNTONIC WIRELESS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2015, 2014 and 2013

*(in US Dollars)*

<b><u>Assets</u></b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<i>Current assets</i>			
Cash and cash equivalents	\$ 113,772	\$ 516,472	\$ 1,037,432
Unbilled revenue	80,000	-	-
Prepayments	5,010	-	-
<b>Total current assets</b>	<b>198,782</b>	<b>516,472</b>	<b>1,037,432</b>
<i>Non-current assets</i>			
Security deposit	5,010	5,010	1,010
<b>Total non-current assets</b>	<b>5,010</b>	<b>5,010</b>	<b>1,010</b>
<b>Total assets</b>	<b>\$ 203,792</b>	<b>\$ 521,482</b>	<b>\$ 1,038,442</b>
<b><u>Liabilities and Equity</u></b>			
<i>Current liabilities</i>			
Loans from investors	\$ 1,525,000	\$ 1,525,000	\$ 1,025,000
Trade and other payables	67,578	39,278	-
Other payables, related parties	458,879	144,006	124,389
Accrued salaries and payroll taxes	64,789	25,366	32,971
Accrued interest	153,000	61,500	-
Deferred revenue	143,700	-	-
<b>Total current liabilities</b>	<b>2,412,946</b>	<b>1,795,150</b>	<b>1,182,360</b>
<i>Equity</i>			
Issued capital - \$0.0001 par value; authorized 10,000,000 shares	405	405	405
Share premium	6,356	4,217	3,645
Retained losses	(2,215,915)	(1,278,290)	(147,968)
<b>Total equity</b>	<b>(2,209,154)</b>	<b>(1,273,668)</b>	<b>(143,918)</b>
<b>Total liabilities and equity</b>	<b>\$ 203,792</b>	<b>\$ 521,482</b>	<b>\$ 1,038,442</b>

See accompanying notes to financial statements.

**SYNTONIC WIRELESS, INC.**  
**STATEMENTS OF PROFIT AND LOSS**  
**Years Ended December 31, 2015 and 2014;**  
**and the Period from April 1, 2013 (Date of Inception) to December 31, 2013**

*(in US Dollars)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Revenues</i>	\$ 435,000	\$ -	\$ -
<i>Cost of sales</i>	<u>42,174</u>	<u>20,818</u>	<u>-</u>
<b>Gross profit (loss)</b>	<u>392,826</u>	<u>(20,818)</u>	<u>-</u>
<i>Operating expenses</i>			
Selling, travel and marketing	170,421	181,533	25,102
Research and development expenses	599,694	518,389	63,500
Salaries, payroll taxes and benefits	274,960	145,121	33,560
General and administrative	<u>228,002</u>	<u>203,511</u>	<u>25,808</u>
	<u>1,273,077</u>	<u>1,048,554</u>	<u>147,970</u>
<b>Operating loss</b>	<u>(880,251)</u>	<u>(1,069,372)</u>	<u>(147,970)</u>
<i>Other income (expense)</i>			
Option fee, nonrefundable portion	35,925	-	-
Interest income	1	550	2
Interest expense	<u>(93,300)</u>	<u>(61,500)</u>	<u>-</u>
	<u>(57,374)</u>	<u>(60,950)</u>	<u>2</u>
<b>Loss before tax</b>	(937,625)	(1,130,322)	(147,968)
Income tax expense (benefit)	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net loss</b>	<u>\$ (937,625)</u>	<u>\$ (1,130,322)</u>	<u>\$ (147,968)</u>

See accompanying notes to financial statements.

**SYNTONIC WIRELESS, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**Years Ended December 31, 2015 and 2014;**  
**and the Period from April 1, 2013 (Date of Inception) to December 31, 2013**

(in US Dollars)

	Number of shares	Share capital	Share premium	Retained losses	Total
<i>Balance, April 1, 2013</i>	-	\$ -	\$ -	\$ -	\$ -
Issue of share capital	4,050,000	405	3,645	-	4,050
Net loss	-	-	-	(147,968)	(147,968)
<i>Balance, December 31, 2013</i>	4,050,000	405	3,645	(147,968)	(143,918)
Share-based payment	-	-	572	-	572
Net loss	-	-	-	(1,130,322)	(1,130,322)
<i>Balance, December 31, 2014</i>	4,050,000	405	4,217	(1,278,290)	(1,273,668)
Share-based payment	-	-	2,139	-	2,139
Net loss	-	-	-	(937,625)	(937,625)
<i>Balance, December 31, 2015</i>	<u>4,050,000</u>	<u>\$ 405</u>	<u>\$ 6,356</u>	<u>\$ (2,215,915)</u>	<u>\$ (2,209,154)</u>

See accompanying notes to financial statements.

**SYNTONIC WIRELESS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2015 and 2014;**  
**and the Period from April 1, 2013 (Date of Inception) to December 31, 2013**

(in US Dollars)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Cash flows from operating activities:</i>			
Net loss	\$ (937,625)	\$ (1,130,322)	\$ (147,968)
Adjustments to reconcile net loss to net cash generated by (used in) operating activities:			
Share-based payment transactions	2,139	572	-
Changes in operating assets and liabilities:			
Unbilled revenue	(80,000)	-	-
Prepayments	(5,010)	-	-
Security deposit	-	(4,000)	(1,010)
Trade and other payables	28,300	39,278	-
Other payables, related parties	314,873	19,617	124,389
Accrued salaries and payroll taxes	39,423	(7,605)	32,971
Accrued interest	91,500	61,500	-
Deferred revenue	143,700	-	-
Net cash generated by (used in) operating activities	<u>(402,700)</u>	<u>(1,020,960)</u>	<u>8,382</u>
<i>Cash flows from financing activities:</i>			
Proceeds from issue of convertible notes	-	500,000	1,025,000
Proceeds from issue of share capital	-	-	4,050
Net cash generated by financing activities	<u>-</u>	<u>500,000</u>	<u>1,029,050</u>
Net increase (decrease) in cash	(402,700)	(520,960)	1,037,432
Cash at the beginning of the year	516,472	1,037,432	-
Cash at the end of the year	<u>\$ 113,772</u>	<u>\$ 516,472</u>	<u>\$ 1,037,432</u>
<i>Supplemental cash flow disclosures:</i>			
Interest paid	<u>\$ 1,800</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

## SYNTONIC WIRELESS, INC.

### NOTES TO FINANCIAL STATEMENTS

#### 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

**Nature of business** - Syntonic Wireless, Inc. ("Syntonic" or "the Company") is a Delaware C corporation. The address of its principal place of business is 119 First Avenue South, Suite 100; Seattle WA; 98104. Syntonic is a leader in mobile connected services for sponsored application access on smartphones, tablets, wearables, PC's, and IoT devices for both businesses and consumers. Syntonic's cloud-managed Connected Services Platform ("CSP") is transforming the mobile Internet with the first operator independent B2B split billing service, Syntonic DataFlex®, and the leading B2C sponsored data service, Freeway by Syntonic®. Syntonic DataFlex is the mobile industry's first operator-independent, split mobile billing solution designed for businesses to reduce their monthly BYOD ("Bring-Your-Own-Device") expenditure by up to 50%. This represents a Syntonic Dataflex addressable market of more than 330 million mobile BYO devices by 2018 (IDC, 2014). Freeway by Syntonic provides sponsored data that allows consumers access to premium content and mobile applications without incurring any mobile data charges. This provides brands new opportunities for increased customer acquisition, engagement, and monetization.

**Basis of accounting** - These financial statement have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and presented in US dollars.

**Use of judgements and estimates** - In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

**Concentration of credit risk** - Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash.

During the years ended December 31, 2015 and 2014; and for the period from April 1, 2013 (Date of Inception) to December 31, 2013, the Company maintained its cash and savings accounts at one financial institution. Amounts were insured up to the FDIC limit of \$250,000. Insured and uninsured amounts at December 31<sup>st</sup> are:

	2015	2014	2013
Insured	\$113,772	\$250,000	\$ 250,000
Uninsured	-	266,472	787,432
	<u>\$113,772</u>	<u>\$516,472</u>	<u>\$1,037,432</u>

**SYNTONIC WIRELESS, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)**

**1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Trade payables** - Trade payables are obligations on the basis of normal credit terms and do not bear interest.

**Deferred revenue** - At December 31, 2015, the Company has deferred revenue relating to an option fee for the possible acquisition by Pacific Ore Limited as outlined in the Binding Heads of Agreement between the two companies. See Note 9 for further details.

**Revenue recognition** - Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Rendering of services revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. Billings rendered subsequent to year-end for services performed prior to year-end are accrued and recorded as unbilled revenue.

**Research and development costs** - Research and development costs are expensed in the period incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) the intention to complete the intangible asset and use or sell it; (c) the ability to use or sell the intangible asset; (d) how the intangible asset will generate probable future economic benefits; (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (f) the ability to measure reliably the expenditure attributable to the intangible asset during its development. Accordingly, the Company has not capitalized any development costs to date.

**Income taxes** - Income tax expense represents the sum of the tax currently payable and deferred tax. Due to recurring loss, no tax is currently payable in all periods presented.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognized in profit or loss.

**SYNTONIC WIRELESS, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)**

**1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income taxes** (continued) - Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

Due to the improbability that a deferred tax asset would be used in future years, no deferred tax asset was recorded for the net operating loss carryforwards of approximately \$2,211,000 which begin to expire in 2033.

The Company files US income tax returns, and may be subject to income taxes in states in which it conducts business. All tax returns filed remain subject to examination by the Internal Revenue Service and state agencies.

**Share-based payments** - For equity-settled share-based payment transactions to employee and consultants, the Company measures the goods or services received, and the corresponding increase in equity over the vesting period of the awards, at the fair value of the goods or services received. However, since the Company cannot estimate reliably the fair value of the goods or services received, it measures their fair value by reference to the fair value of the equity instruments granted. Share-based payments are discussed further in Note 5.

**2. CONVERTIBLE PROMISSORY NOTES**

Outstanding loans from investors at December 31, 2015 represent two rounds of financing.

The first represents 15 loans ranging from \$25,000 to \$200,000 totaling \$1,025,000. All were originally due June 30, 2015 and have been extended to June 30, 2016.

The second represents 9 loans ranging from \$50,000 to \$100,000 totaling \$500,000. All are due on June 30, 2016.

All loans require interest at 6.00%.

**SYNTONIC WIRELESS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(CONTINUED)**

**2. CONVERTIBLE PROMISSORY NOTES (continued)**

All unpaid principal, together with any then unpaid and accrued interest are due and payable on the earlier of (i) upon demand by the holders of at least 50% of the aggregate outstanding principal amount of the notes on or at any time after June 30, 2016 (the "Maturity Date"), or (ii) when, upon or after the occurrence of an event of default. The promissory notes contain multiple conversion options. These conversion options include: (i) the holders of at least 50% of the aggregate outstanding principal amounts may by written notice to the Company elect to cause the conversion of all principal and accrued interest into common stock; (ii) automatic conversion upon certain financing closings or (iii) an acquisition event. The equity conversion price would be determined by dividing \$4,000,000 by the number of fully diluted, as-converted shares of capital stock outstanding prior to conversion. Certain acquisition events result in the notes being repaid at 2.5 times the principal amount.

Conversion terms allow the investor to convert their note into a number of shares equal to the face value of their note at current market price. This fails the fixed for fixed equity conversion requirement since a variable number of shares will be issued to extinguish the liability. Such a conversion feature is a derivative liability, but as the conversion price is set at the conversion data share price, the derivative liability has no value.

**3. COMMITMENTS UNDER OPERATING LEASES**

The Company has entered into two operating leases for office facilities. The first lease agreement was signed in December 2013 and expired in May 2014. Subsequently, the Company entered into a lease for Seattle office facilities in July 2014 with an initial term expiring in August 2016 and one six-month extension expiring February 2016. The lease requires the Company to pay a pro rate share of operating expenses such as maintenance, insurance and property taxes.

The following is a schedule of future minimum lease payments under noncancellable operating leases (with initial or remaining terms in excess of one year) as of December 31, 2015:

	<u>Minimum payments</u>
2016 (within one year)	\$10,020

Rental expense included in the statements of profits and loss is \$59,791 in 2015, \$28,289 in 2014 and \$505 in 2013.

**SYNTONIC WIRELESS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(CONTINUED)**

**4. EQUITY AGREEMENTS**

The Company and its founding stockholders each have a *Restricted Stock Purchase Agreement* which provides for certain restrictions on the transfer of Company stock. The agreement provides rights of first refusal to the Company to purchase the Company's stock from selling stockholders upon the occurrence of certain events.

**5. EQUITY-SETTLED SHARE BASED PAYMENTS ARRANGEMENTS**

In 2013, the Company's Board of Directors adopted and approved the Company's 2013 Equity Incentive Plan (the Plan), which provides for the issuance of nonqualified and incentive stock options to employees, consultants and directors to acquire up to 950,000 shares of common stock. The options carry neither rights to dividends nor voting rights. The Board of Directors determines the terms and conditions of options granted under the Plan, including the exercise price. The exercise price for incentive stock options shall not be less than estimated fair market value at the date of grant. The exercise price for incentive stock options granted to a stockholder with greater than 10% voting power shall not be less than 110% of fair market value on the date of the grant. Options generally vest over a period of two or four years and expire in ten years.

The fair value of the share options has been measured using the Black-Scholes formula. In addition, the Company has estimated zero forfeitures. The Company recognizes compensation expense as the shares vest, with the following weighted average assumptions for each of the periods:

Risk-free interest rate	1%
Expected dividend yield	0%
Expected life (years)	2
Expected volatility	75%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price and historical volatility of other technology companies. The expected term of the instruments has been based on historical experience and general option holder behavior. The risk-free interest rate is the implied yield currently available on a U.S. Treasury security with a remaining expected term of the option being valued. The average expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and historical exercise patterns.

# SYNTONIC WIRELESS, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 5. EQUITY-SETTLED SHARE BASED PAYMENTS ARRANGEMENTS (continued)

A summary of option activity under the Plan as of December 31, 2015, 2014 and 2013, and changes during the periods then ended is as follows:

	<u>Options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u>	<u>Aggregate intrinsic value</u>
Granted	250,000	\$0.010		
Cancelled	(250,000)	\$0.010		
Outstanding at December 31, 2013	-		-	
Granted	127,500	\$0.100		
Cancelled	(25,000)	\$0.100		
Outstanding at December 31, 2014	102,500	\$0.100	3.55	
Granted	100,000	\$0.550		
Cancelled	(25,000)	\$0.100		
Outstanding at December 31, 2015	<u>177,500</u>	\$0.353	1.94	\$-0-
Exercisable at December 31, 2015	<u>50,417</u>	\$0.137	1.94	\$-0-

Compensation cost to be recognized in future periods totals \$4,529 as of December 31, 2015.

### 6. RELATED PARTY TRANSACTIONS

**Other payables, related parties** - Certain product development costs are provided by Adroit Business Solutions (Adroit) which is owned by one of the stockholders of the Company. Costs included in cost of sales and research and development expenses total \$594,250 in 2015, \$479,000 in 2014 and \$63,500 in 2013. Amounts payable to Adroit were \$346,750, \$131,500 and \$63,500 at December 31, 2015, 2014 and 2013, respectively.

Transactions with stockholders consisted of advances and expense reimbursements. Advances due to stockholders were \$103,000, \$-0- and \$-0- at December 31, 2015, 2014 and 2013, respectively. Reimbursements due to stockholders were \$2,745, \$260 and \$38,592 at December 31, 2015, 2014 and 2013, respectively.

The Company used legal services from Wilson Sonsini Goodrich & Rosati (WSGR). An investment fund owned by WSGR is a stockholder of the Company and provided advice on formation of the Company and financing through convertible debt. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. Legal fees included in general and administrative expenses totaled \$13,167 in 2015, \$44,017 in 2014 and \$22,297 in 2013. Amounts payable to WSGR were \$6,384, \$12,246 and \$22,297 at December 31, 2015, 2014 and 2013, respectively.

**SYNTONIC WIRELESS, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)**

**6. RELATED PARTY TRANSACTIONS (continued)**

**Convertible promissory note** - A stockholder loaned the Company \$25,000 through a convertible promissory note. Amounts accrued for interest were \$3,000, \$1,500, and \$-0- at December 31, 2015, 2014 and 2013, respectively. Convertible promissory notes are described in Note 2.

**7. REVENUE CONCENTRATION**

In 2015, 100% of the Company's revenue came from one customer.

**8. LIQUIDITY AND DEBT FUNDING**

As shown in the accompanying statement of financial position, liabilities (including convertible promissory notes) exceed assets by approximately \$2,200,000 at December 31, 2015.

The ability of the Company to continue as a going concern is dependent on its ability to expand its customer base and/or continue to obtain financing from investors. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**9. SUBSEQUENT EVENTS**

The Company has entered into a Binding Heads of Agreement to be acquired by Pacific Ore Limited. As part of the agreement, Pacific Ore will provide a loan to the Company in the amount of \$250,000 AUD. The loan has an interest rate of 6.00% and is due on December 31, 2016.

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 15, 2016, the date the financial statements were available for issue.

**10. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Board of Directors and authorized for issue on February 15, 2016.