

Consolidated Financial Statements

Tapinator, Inc.

Year Ended December 31, 2014 and For the
Period July 1, 2013 (Inception) to December 31, 2013

Tapinator, Inc.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Tapinator, Inc.

We have audited the accompanying consolidated balance sheets of Tapinator, Inc. (the "Company") as of December 31, 2014 and 2013, and the related consolidated statement of operations, stockholders' equity, and cash flows for the year ended December 31, 2014 and for the period from July 1, 2013 (inception) to December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the year ended December 31, 2014 and for the period from July 1, 2013 (inception) to December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Liggett, Vogt & Webb, P.A.

New York, New York
March 27, 2015

Tapinator, Inc.
Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 121,740	\$ 12,418
Accounts receivable	130,681	34,198
Due from related parties	-	9,790
Total current assets	252,421	56,406
Property and equipment, net	17,500	2,158
Software development costs, net	1,260,865	-
Investments	19,086	-
Security deposits	19,840	5,690
Total assets	\$ 1,569,712	\$ 64,254
Liabilities and stockholders' equity		
Liabilities		
Current liabilities		
Accounts payable	\$ 6,596	\$ 9,750
Accrued expenses	50,329	7,000
Due to related parties	129,327	25,811
Total current liabilities	186,252	42,561
Notes payable, net of debt discount	203,954	-
Total liabilities	390,206	42,561
Redeemable Preferred Stock of subsidiary, \$0.001 par value; 1,000,000 and zero shares authorized at December 31, 2014 and 2013; 773,499 and zero shares issued and outstanding at December 31, 2014 and 2013	773,499	-
Stockholders' equity		
Common Stock, \$0.001 par value; 74,000,000 shares authorized at December 31, 2014 and 2013; 55,031,871 and 36,700,000 shares issued and outstanding at December 31, 2014 and 2013, respectively	55,032	36,700
Series A Preferred Stock, \$0.001 par value; 22,500 shares authorized at December 31, 2014 and 2013; no shares issued and outstanding at December 31, 2014 and 2013	-	-
Series B Preferred Stock, \$0.001 par value; 10,000 shares authorized at December 31, 2014 and 2013; 10,000 and zero shares issued and outstanding at December 31, 2014 and 2013, respectively	10	-
Series C Preferred Stock, \$1.00 par value; 500,000 shares authorized at December 31, 2014 and 2013; no shares issued and outstanding at December 31, 2014 and 2013	-	-
Series D Preferred Stock, \$1.00 par value; 1,000,000 and zero shares authorized at December 31, 2014 and 2013, respectively; no shares issued and outstanding at December 31, 2014 and 2013	-	-
Additional paid-in capital	360,880	117,800
Subscriptions receivable	-	(115,000)
Retained earnings	(9,915)	(17,807)
Total stockholders' equity	406,007	21,693
Total liabilities and stockholders' equity	\$ 1,569,712	\$ 64,254

(See accompanying notes to the consolidated financial statements)

Tapinator, Inc.
Consolidated Statements of Operations

	Year Ended December 31, 2014	July 1, 2013 (Inception) to December 31, 2013
Revenue	\$ 943,449	\$ 130,980
Expenses		
Platform fees	280,688	40,268
Research and development	341,165	68,601
General and administrative	297,149	39,918
Total expenses	<u>919,002</u>	<u>148,787</u>
Operating income (loss)	24,447	(17,807)
Interest expense	15,941	-
Pretax income (loss)	8,506	(17,807)
Income taxes	614	-
Net income (loss)	<u>\$ 7,892</u>	<u>\$ (17,807)</u>
Net income (loss) per share:		
Basic	<u>\$ 0.00</u>	<u>\$ (0.00)</u>
Diluted	<u>\$ 0.00</u>	<u>\$ (0.00)</u>
Weighted average common shares outstanding:		
Basic	<u>55,041,871</u>	<u>36,700,000</u>
Diluted	<u>55,641,871</u>	<u>36,700,000</u>

(See accompanying notes to the consolidated financial statements)

Tapinator, Inc.
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock		Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series D Preferred Stock		Additional Paid-In-Capital	Subscriptions Receivable	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
July 1, 2013 (Inception)	-	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of common shares	36,700,000	36,700	-	-	-	-	-	-	-	-	117,800	(115,000)	-	39,500
Net loss	-	-	-	-	-	-	-	-	-	-	-	-	(17,807)	(17,807)
Balances at December 31, 2013	36,700,000	36,700	-	-	-	-	-	-	-	-	117,800	(115,000)	(17,807)	21,693
Securities exchange share issuances	9,174,372	9,174	-	-	10,000	10	461,100	461,100	885,500	885,500	(1,355,784)	115,000	-	115,000
Common shares issued related to software development cost	334,266	334	-	-	-	-	-	-	-	-	111,088	-	-	111,422
Common shares issued related to conversion of Series C	3,074,000	3,074	-	-	-	-	(461,100)	(461,100)	-	-	458,026	-	-	-
Common share issued related to conversion of Series D	5,749,233	5,749	-	-	-	-	-	-	(885,500)	(885,500)	879,751	-	-	-
Beneficial conversion feature on convertible promissory notes	-	-	-	-	-	-	-	-	-	-	150,000	-	-	150,000
Net income	-	-	-	-	-	-	-	-	-	-	-	-	7,892	7,892
Balances at December 31, 2014	55,031,871	\$ 55,032	-	\$ -	10,000	\$ 10	-	\$ -	-	\$ -	\$ 360,880	\$ -	\$ (9,915)	\$ 406,007

(See accompanying notes to the consolidated financial statements)

Tapinator, Inc.
Consolidated Statements of Cash Flows

	Year Ended December 31, 2014	July 1, 2013 (Inception) to December 31, 2013
Cash flows from operating activities		
Net income (loss)	\$ 7,892	\$ (17,807)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	39,816	20,127
Amortization of original issue discount	6,403	-
Accounts receivable	(96,483)	(34,198)
Due from related parties	9,790	(9,790)
Security deposits	(14,150)	(5,690)
Accounts payable	(10,860)	9,750
Accrued expenses	43,329	7,000
Due to related parties	103,516	25,811
Interest on promissory notes	9,538	-
Net cash provided by (used in) operating activities	<u>98,791</u>	<u>(4,797)</u>
Cash flows from investing activities		
Investments	(19,086)	-
Capitalized software development costs and other fixed assets	(439,305)	(22,285)
Net cash used in investing activities	<u>(458,391)</u>	<u>(22,285)</u>
Cash flows from financing activities		
Issuance of capital stock	-	7,000
Issuance of promissory notes	205,000	-
Beneficial conversion feature on promissory notes	37,500	-
Purchase of promissory notes	111,422	-
Stock subscriptions	115,000	32,500
Net cash provided by financing activities	<u>468,922</u>	<u>39,500</u>
Net change to cash and cash equivalents	109,322	12,418
Cash and cash equivalents at beginning of period	12,418	-
Cash and cash equivalents at end of period	<u>\$ 121,740</u>	<u>\$ 12,418</u>
Non-cash investing and financing activities		
Issuance of redeemable preferred stock and assumption of promissory notes to acquire software	<u>\$ 876,718</u>	<u>\$ -</u>

(See accompanying notes to the consolidated financial statements)

Tapinator, Inc.
Notes to Consolidated Financial Statements

NOTE 1 — ORGANIZATION AND DESCRIPTION OF BUSINESS

Tapinator, Inc. (the “Company”) conceptualizes, designs, develops, publishes, markets and monetizes mobile games for the Apple iOS, Google Play and Amazon Kindle gaming platforms. The Company offers original, full-featured premium games, as well as rapidly developed, mass-appeal games utilizing its cost-effective offshore development resources and technology.

The Company was originally incorporated in March 2005 in the state of Nevada. The Company migrated from Nevada to Delaware in December 2013, and acquired Tapinator, Inc., a Colorado corporation, on the migration date.

In June 2014, the Company executed a securities exchange agreement with the members of Tapinator LLC, a New York limited liability company, whereby the Company issued 36,700,000 shares of its common stock (representing 80% of its then common stock outstanding after giving effect to the transaction) to the members of Tapinator LLC in exchange for 100% of the outstanding membership interests of Tapinator LLC. The transaction resulted in a business combination and a change of control within its business purpose.

For accounting and financial reporting purposes, Tapinator LLC was considered the acquirer and the transaction was treated as a reverse merger. All financial information presented for periods prior to the merger reflects only that of Tapinator LLC, and does not reflect the pre-merger Tapinator, Inc. assets, liabilities, or operating results. In addition, all share, per share and related Tapinator LLC information have been retrospectively adjusted to take into account the merger.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying consolidated financial statements and related notes have been prepared in conformity with United States generally accepted accounting principles (“GAAP”). The consolidated financial statements include the operations of the Company and its wholly-owned subsidiary, Tapinator IAF, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include assumptions used in the fair value of revenue recognition, long lived assets, stock-based compensation, and the fair value of other equity and debt instruments.

Revenue Recognition

The Company derives revenue from the three gaming platforms in the form of paid downloads of its mobile games and the sale of in-game virtual goods; and from several ad networks in the form of advertising placements within its mobile games. The Company recognizes revenue when all of the following conditions are satisfied: there is persuasive evidence of an arrangement; the service is delivered to the player; the collection of fees is reasonably assured; and the amount of fees to be paid by the player is fixed or determinable.

The Company recognizes online game revenue based on the gross amount paid by the player because the Company is the primary obligor and has the contractual right to determine the price to be paid by the player. The Company records the related platform fees and ad network revenue share as expenses in the period incurred.

In accordance with Accounting Standards Codification Topic (“ASC”) 605-45, *Revenue Recognition: Principal Agent Considerations*, the Company evaluates its agreements with the gaming platforms and ad networks in order to determine whether or not it is acting as the principal or as an agent when selling its games or when selling advertisements within its games, which it considers in determining if revenue should be reported gross or net. Key indicators that the Company evaluates to reach this determination include:

Tapinator, Inc.
Notes to Consolidated Financial Statements

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

- the terms and conditions of the Company's contracts with the gaming platforms and ad networks;
- the party responsible for determining the type, category and quantity of the methods to generate game revenue;
- whether the Company is paid a fixed percentage of the arrangement's consideration or a fixed fee for each game, transaction, or advertisement;
- the party which sets the pricing with the end-user, and has the credit and inventory risk; and
- the party responsible for the fulfillment of the game or serving of advertisements and that determines the specifications of the game or advertisement.

Based on the evaluation of the above indicators, the Company has determined that it is generally acting as a principal and is the primary obligor to end-users for its games distributed on the gaming platforms and for advertisements served by the ad networks. Therefore, the Company recognizes revenue related to these arrangements on a gross basis, when the necessary information about the gross amounts or platform fees charged, before any adjustments, are made available by the gaming platforms and ad networks.

Accounts Receivable and Allowance for Doubtful Accounts

The Company monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, and other information. The allowance for doubtful accounts is estimated based on an assessment of the Company's ability to collect on customer accounts receivable. There is judgment involved with estimating the allowance for doubtful accounts and if the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against revenues. The Company writes-off accounts receivable against the allowance when it determines a balance is uncollectible and no longer actively pursues its collection. The Company's accounts receivable are not collateralized by any security. As of December 31, 2014 and 2013, based upon the review of the outstanding accounts receivable, the Company has determined that an allowance for doubtful accounts is not required.

Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts.

The Company derives revenue from one gaming platform and two ad networks which each contribute 10% or more of the Company's revenues. For the year ended December 31, 2014 and for the period from July 1, 2013 (inception) to December 31, 2013, the revenue derived from the gaming platform and ad networks comprised of 77% and 64% of such periods total revenue, respectively.

Property and Equipment

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference, less any amount realized from disposition, is reflected in earnings. Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Tapinator, Inc.
Notes to Consolidated Financial Statements

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

Computer equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	remaining term of lease

Capitalized Software Development Costs

In accordance with ASC 985-20, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, the Company capitalizes certain costs related to the development of new software products or the enhancement of existing software products for use in its product offerings. These costs are capitalized from the point in time that technological feasibility has been established, as evidenced by a working model or detailed working program design to the point in time that the product is available for general release to customers. Capitalized development costs are amortized on a straight-line basis over the estimated economic lives of the products, beginning when the product is placed into service. Such amortization is shown in the Research and Development line of the Statements of Operations. Generally, the Company has estimated the useful life of its online games to range between 1 to 3 years.

Costs incurred prior to establishing technological feasibility and costs incurred subsequent to general product release to customers are charged to Research and Development as incurred. The Company periodically evaluates whether events or circumstances have occurred that indicate that the remaining useful lives of the capitalized software development costs should be revised or that the remaining balance of such assets may not be recoverable.

Impairment of Long-lived Assets

The Company regularly reviews property, equipment, software development costs and other long-lived assets for possible impairment. This review occurs annually or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Based on upon management's assessment, there were no indicators of impairment of the Company's property, equipment and software development costs during the periods ended December 31, 2014 and 2013.

In general, investments in which the Company owns less than 20 percent of an entity's equity interest or does not hold significant influence over the investee are accounted for under the cost method. Under the cost method, these investments are carried at the lower of cost or fair value. The Company periodically assesses its cost method investments for impairment. If determination that a decline in fair value is other than temporary, the Company will write-down the investment and charge the impairment against operations. At December 31, 2014, the carrying value of \$19,086 related two investments were recorded on the cost method.

Fair Value of Financial Instruments

Fair value is defined as 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 at the measurement date. Assets and liabilities that are measured at fair value are reported using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date of identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Tapinator, Inc.
Notes to Consolidated Financial Statements

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments (continued)

As of December 31, 2014 and 2013, the Company did not identify any non-recurring assets and liabilities that are required to be presented in the balance sheets at fair value in accordance with ASC 825, *Financial Instruments*.

Investments in Nonconsolidated Affiliates

In general, investments in which the Company owns 20 percent to 50 percent of an entity's equity interest or otherwise exercises significant influence over the investee are accounted for under the equity method. The Company does not recognize gains or losses upon the issuance of securities by any of its equity method investees. The Company reviews the value of equity method investments and records impairment charges in the statement of operations for any decline in value that is determined to be other-than-temporary.

Platform Fees

The Company, along with all mobile application publishers, is required to pay platform fees to Apple, Google and Amazon equal to approximately 30% of gross revenue. The Company is also required to pay a revenue share of approximately 30% to the ad networks.

Advertising, Marketing and Public Relations

The Company follows the policy of charging the costs of advertising, marketing, and public relations to expense as incurred. Such costs were \$22,938 and \$144 for the periods ended December 31, 2014 and 2013, respectively.

Income Taxes

The Company accounts for income taxes pursuant to the asset and liability method under ASC 740, *Income Taxes*, which requires deferred income tax assets and liabilities to be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Prior to June 2014, Tapinator LLC had elected to be treated under the Internal Revenue Code as a Limited Liability Company. As such, the Company's taxable income or loss was allocated to its members in accordance with their respective percentage ownership. In accordance with the share exchange agreement, the Company is treated under the Internal Revenue Code as a C-Corporation.

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As of December 31, 2014 and 2013, the Company has not recorded any unrecognized tax benefits.

Stock-Based Compensation

Share-based compensation issued to employees is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period. The Company measures the fair value of the share-based compensation issued to non-employees using the stock price observed in the arms-length private placement transaction nearest the measurement date (for stock transactions), or the fair value of the award (for non-stock transactions), which were considered to be more reliably determinable measures of fair value than the value of the services being rendered. The measurement date is the earlier of (1) the date at which commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete.

Tapinator, Inc.
Notes to Consolidated Financial Statements

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basic and Diluted Net Income (Loss) per Share Calculations

Income (Loss) per share dictates the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

Reclassification

Certain reclassifications have been made to the prior years' data to conform to the current year presentation. These reclassifications had no effect on reported income (losses).

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, which creates ASC 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, ASU 2014-09 supersedes the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*, and creates new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. In summary, the core principle of ASC 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is not permitted. Therefore the amendments in ASU 2014-09 will become effective for the Company as of the beginning of the 2017 fiscal year. The Company is currently assessing the impact of implementing the new guidance.

In August 2014, FASB issued ASU 2014-15, *Presentation of Financial Statements Going Concern*, which provides guidance to reduce diversity in the timing and content of footnote disclosures. The amendment requires management to assess the Company's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The Company has to define the term of substantial doubt, which has to be evaluated every reporting period including interim periods. Management has to provide principles for considering the mitigating effect of its plan, and disclose when substantial doubt is alleviated as well as when it is not alleviated. The Company is required to assess management's plan for a period of one year after the financial statements are issued (or available to be issued). The amendment is effective for annual periods ending after December 15, 2016. Early adoption is permitted. The Company is currently assessing the impact of implementing the new guidance.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated financial statements.

NOTE 3 — PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 11,944	\$ -
Furniture and fixtures	4,793	-
Computer equipment	2,285	2,285
Property and equipment, cost	19,022	2,285
Less: accumulated depreciation and amortization	(1,522)	(127)
Property and equipment, net	<u>\$ 17,500</u>	<u>\$ 2,158</u>

During the periods ended December 31, 2014 and 2013, depreciation and amortization expense was \$1,395 and \$127, respectively.

Tapinator, Inc.
Notes to Consolidated Financial Statements

NOTE 4 — CAPITALIZED SOFTWARE DEVELOPMENT

Capitalized software development costs at December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Mini-game software development assets (a)	\$ 876,718	\$ -
Other internally developed software	422,568	20,000
Capitalized software development, cost	1,299,286	20,000
Less: accumulated depreciation and amortization	(38,421)	(20,000)
Capitalized software development, net	<u>\$1,260,865</u>	<u>\$ -</u>

At December 31, 2014 and 2013, the carrying value of software under development but not yet released to customers totaled \$222,675 and \$0, respectively.

(a) In October 2014, the Company purchased the mini-game software development business from a related party (the “Minigame Acquisition”). The purchase consideration included the assumption of secured promissory notes in the aggregate amount of \$153,677 and the issuance of Tapinator IAF, LLC Redeemable Series A Preferred Stock with a potential future redemption value of \$773,499. For accounting purposes, the Minigame Acquisition was recorded as an asset acquisition as there was not sufficient continuity of the acquired entity’s operations prior to and after the transaction to qualify as a business.

NOTE 5 — NOTES PAYABLE TO RELATED PARTIES

Related party notes payable as of December 31, 2014 and 2013 were comprised of the following:

	<u>2014</u>	<u>2013</u>
Convertible promissory note (a)	\$ 150,000	\$ -
Secured promissory notes (b)	153,677	-
Royalty notes payable (c)	55,000	-
Accrued interest	17,818	-
Total notes payable	376,495	-
Less:		
Debt discount – beneficial conversion feature	(112,500)	-
Debt discount – original issue discount	(60,041)	-
Notes payable, net	<u>\$ 203,954</u>	<u>\$ -</u>

(a) In September 2014, the Company issued a convertible promissory note in the principal amount of \$150,000 to a shareholder which is due and payable on October 1, 2015. The note bears an interest rate of 10% per year, provided however that any past due principal on the note shall bear interest until paid at the maximum non-usurious interest rate allowable under applicable law, or 18% per annum if no such maximum is established. On October 1, 2015, the Company shall automatically convert any outstanding unpaid balance into the Company’s common stock at a conversion price equal to 80% of the volume weighted average closing price of the common stock during the ten trading days prior to the conversion date. The conversion price shall have a minimum price of \$0.25, and a maximum price of \$1.00. The Company recognized an embedded beneficial conversion feature of \$150,000. This amount was recorded as a debt discount and as an increase to additional paid-in capital as of the issuance date. The debt discount is being amortized to interest expense over the term of the note. As of December 31, 2014, the unamortized debt discount and accrued interest on these notes was \$112,500 and \$4,217, respectively. During 2015, this note was restated into two separate convertible promissory notes of \$75,000 each as disclosed in Note 11 – Subsequent Events.

(b) In October 2014, as part of the consideration of the Minigame Acquisition, the Company assumed \$95,513 of promissory notes – face value of \$153,677, plus accrued interest of \$8,280, less unamortized original issue discount of

Tapinator, Inc.
Notes to Consolidated Financial Statements

NOTE 5 — NOTES PAYABLE TO RELATED PARTIES (continued)

\$66,444 – that mature in May 2017 and June 2017, and can be extended up to twelve months at the Company’s discretion. The notes bear interest at the rate of 13% through maturity, increasing to 20% during the extension period.

The notes are secured by substantially all of the acquired software minigame assets. At December 31, 2014, the carrying amount of the notes was \$107,237, which included accrued interest of \$13,601, less unamortized original issue discount of \$60,041.

(c) In December 2014, in exchange for \$110,000 of proceeds, the Company sold a 12.5% royalty interest in the net revenues, as defined in the royalty agreements, to be generated by one of its original, full-featured premium games to two separate investors (6.25% was sold to each investor at \$55,000), one of which is a shareholder, and the other a related entity of another shareholder. When royalty earnings of the investors have reached \$240,000 (\$120,000 to each investor), the royalty rate shall be reduced to 2.5% (1.25% to each investor) for the remaining life of the game. As of December 31, 2014, \$55,000 had been received in total from the two investors. During 2015, one investor paid the remaining amount due on the royalty agreement, while the other royalty agreement was cancelled and the \$30,000 payment on that agreement was converted into a convertible promissory note as disclosed in Note 11 – Subsequent Events.

NOTE 6 — RELATED PARTY TRANSACTIONS

The Company utilizes the services of an officer/shareholder for the development of rapidly developed, mass-appeal mobile games. Amounts expensed by the Company for such development services for the periods ended December 31, 2014 and 2013 were \$333,731 and \$66,204, respectively.

In July 2014, the Company purchased promissory notes with a principal amount of \$91,000 plus accrued interest of \$20,422 with a related party in exchange for 334,266 shares of the Company’s common stock. Concurrent with this transaction, the Company entered into a services agreement with this related company whereby the Company received mobile game development services in exchange for (i) waiving of interest payments on the purchased notes, and (ii) a development fee of \$180,000. Such development fee was offset against the outstanding balance on the notes and other loans extended to this related company. At December 31, 2014, the development fee was fully paid and the outstanding balance on the notes was zero.

In September 2013, the Company was issued promissory notes from two shareholders (one of whom is an officer) that were repaid in June 2014.

NOTE 7 — COMMITMENTS AND CONTINGENCIES

In November 2014, the Company entered into a lease for office space which expires in November 2017. Future minimum lease payments under this lease are as follows:

Year ended December 31,	
2015	\$ 60,080
2016	61,769
2017	58,080
2018	-
Total	<u>\$ 179,929</u>

For the periods ended December 31, 2014 and 2013, rent expense totaled \$36,446 and \$4,374 respectively

NOTE 8 — REDEEMABLE PREFERRED STOCK

In accordance with the Minigame Acquisition agreement on October 1, 2014, Tapinator IAF, LLC issued Redeemable Series A Preferred Stock with a par value of \$1.00 per share and a potential future redemption value of \$773,499. The Redeemable Series A Preferred Stock will be redeemed from 50% of the remaining net profits (after repaying any

Tapinator, Inc.
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NOTE 8 — REDEEMABLE PREFERRED STOCK (continued)

assumed notes and lines of credit) until fully redeemed. Any non-redeemed portion of the Redeemable Series A Preferred Stock may be convertible upon both parties consent into the Company's common stock at a conversion price equal to 75% of the 30 day volume weighted average closing price prior to the date of conversion. As of December 31, 2014, the Company's carrying value of the Redeemable Series A Preferred Stock was \$773,499.

Since there is limited trading volume of Company's common stock, the Company determined that the variable conversion provisions embedded in the Redeemable Series A Preferred Stock did not meet the defined criteria of a derivative in such that the net settlement requirement of delivery of common shares does not meet the "readily convertible to cash" requirement as described in ASC 815 and therefore bifurcation is not required.

NOTE 9 — STOCKHOLDERS' EQUITY

The authorized capital of the Company consists of 74,000,000 shares of common stock, par value \$0.001 per share and 1,532,500 shares of preferred stock, consisting of 22,500 shares designated as Series A with a par value of \$0.001 per share, 10,000 shares designated as Series B with a par value of \$0.001 per share, 500,000 shares designated as Series C with a par value of \$1.00 per share, and 1,000,000 shares designated as Series D with a par value of \$1.00 per share.

The holders of all 22,500 shares Series A preferred stock converted their shares into common stock prior to the securities exchange transaction disclosed in Note 1, in which the Company issued 36,700,000 shares of its common stock to the members of Tapinator LLC in exchange for 100% of the outstanding membership interest units of Tapinator LLC. Accordingly, no Series A shares are issued or outstanding as of December 31, 2014.

The Company's Series B preferred stock provides the holders of such stock the right to vote 20,000 votes for every share held. Additionally, 2/3 of the holders of the Series B stock must consent to any major action taken by the Company, including changes to its Articles of Incorporation. There are 10,000 shares of series B preferred stock issued and outstanding as of December 31, 2014.

In June 2014, prior to the securities exchange agreement, the Company issued 885,500 shares of Series D preferred stock. By consent of the Company and unanimous consent of the holders of this Series D, a mutual agreement was reached in September 2014 to amend the Series D designation. This amendment allowed the Company to retire all of the Series D shares by issuing 5,615,907 shares of restricted common stock. Accordingly, no Series D shares are issued or outstanding as of December 31, 2014.

In July 2014, all 461,100 shares of Series C preferred stock were converted into 3,074,000 shares of restricted common stock. Accordingly, no Series C shares are issued or outstanding as of December 31, 2014.

In July 2014, the Company issued 334,266 shares of restricted common stock to purchase the debt obligations owed to the note holders of a related party.

NOTE 10 — INCOME TAXES

As of December 31, 2014, the Company has federal net operating loss carryforwards ("NOL's") of approximately \$400,000 that will be available to reduce future taxable income, if any. These NOL's begin to expire in 2034. Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, provide for annual limitations on the utilization of net operating loss and credit carryforwards if the Company were to undergo an ownership change, as defined in Section 382 of the Code. In general, an ownership change occurs whenever the percentage of the shares of a corporation owned, directly or indirectly, by 5-percent shareholders, as defined in Section 382 of the Code, increases by more than 50 percentage points over the lowest percentage of the shares of such corporation owned, directly or indirectly, by such 5-percent shareholders at any time over the preceding three years. In the event such ownership change occurs, the annual limitation may result in the expiration of the net operating losses prior to full utilization.

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NOTE 10 — INCOME TAXES (continued)

The Company performs an analysis each year to determine whether the expected future income will more likely than not be sufficient to realize the deferred tax assets. No tax benefit has been reported in the financial statements, since the potential tax benefit is offset by a valuation allowance of the same amount.

As of December 31, 2014, open tax years include the period from July 1, 2013 (inception) through December 31, 2014.

The Company applies the standard relating to accounting (ASC 740-10) for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is required to recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. There were no significant unrecognized tax benefits recorded as of December 31, 2014 and 2013.

NOTE 11 — SUBSEQUENT EVENTS

Management has evaluated subsequent events in accordance with the requirements of ASC 855, *Subsequent Events*, and has determined that there are the following subsequent events:

In March 2015, the royalty agreement with a related entity of a shareholder disclosed in Note 5 was cancelled. The payments made prior to cancellation of \$30,000 were reclassified as a convertible promissory note. The note pays simple interest at the rate of 10% per year and matures in March 2016. The note is convertible into the Company's common stock automatically upon a qualified financing, or absent a qualified financing, voluntarily by the holder at a 30% discount to the Company's 10 day volume weighted adjusted common share price, with a floor of \$0.205 and ceiling of \$0.30.

In March 2015, the Company issued a convertible promissory note to a shareholder in the principal amount of \$6,500. The note pays simple interest at the rate of 10% per year and matures in March 2016. The note is convertible into the Company's common stock automatically upon a qualified financing, or absent a qualified financing, voluntarily by the holder at a 30% discount to the Company's 10 day volume weighted adjusted common share price, with a floor of \$0.205 and ceiling of \$0.30.

In April 2015, the Company entered into an agreement with the holder of 5,000 shares of its Series B preferred stock whereby such stock will be forfeited by the holder, and returned to the Company for cancellation on December 31, 2015.

In April 2015, the Company issued a convertible promissory note in the principal amount of \$50,000. The note pays simple interest at the rate of 10% per year and matures in October 2015. The note is convertible into the Company's common stock automatically upon a qualified financing, or absent a qualified financing, voluntarily by the holder at a 30% discount to the Company's 10 day volume weighted adjusted common share price, with a floor of \$0.205 and ceiling of \$0.30.

In April 2015, pursuant to a letter of acknowledgement received by the Company from the holder of the \$150,000 convertible promissory note issued in September 2014, such note was restated into two separate convertible promissory notes of \$75,000 each, issued to the original note holder and to a related party, with same terms as the original note.