

**APPTECH CORP.  
AND SUBSIDIARIES**

**SEPTEMBER 30, 2016  
(UNAUDITED)**

# APPTECH CORP. AND SUBSIDIARIES

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**APPTECH CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2016**  
**(Unaudited)**

	<u>September 30, 2016</u>
<b>Assets</b>	
Current assets	
Cash	\$ (9,458)
Accounts receivable	<u>26,321</u>
Total current assets	16,863
Property and equipment, net	<u>37,823</u>
Total assets	<u>\$ 54,686</u>
<b>Liabilities and Stockholders' Deficit</b>	
Current liabilities	
Accounts payable	\$ 1,021,395
Accrued liabilities	1,424,562
Stock repurchase liability	430,000
Convertible notes payable	620,000
Convertible notes payable – related parties	150,000
Notes payable	1,108,157
Notes payable – related parties	<u>674,746</u>
Total current liabilities	\$ 5,428,860
<b>Commitments and contingencies</b>	
<b>Stockholders' Deficit</b>	
Series A preferred stock; \$0.001 par value; 100,000 shares authorized; 14 shares issued and outstanding	-
Common stock, \$0.001 par value; 1,000,000,000 shares authorized; 73,481,038 and outstanding	73,481
Additional paid-in capital	27,531,691
Treasury stock	-
Accumulated deficit	<u>(32,979,346)</u>
Total stockholders' deficit	<u>(5,374,174)</u>
Total liabilities and stockholders' deficit	<u>\$ 54,686</u>

See accompanying notes to the consolidated financial statements.

**APPTECH CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**  
**(Unaudited)**

	2016
Revenues	\$ 209,355
Cost of Revenues	136,780
Gross Profit	72,575
Operating Expenses:	
Sales and Marketing	-
General and Administrative, including stock based compensation of \$ 356,440	806,739
Total Operating Expenses	806,739
Loss from Operations	(734,164)
Other Income (Expenses)	
Other	2,601
Acquisition Costs	-
Interest Expense	(721,297)
Loss on Patent Acquisition	(561,000)
Total Other Income (Expenses)	(1,279,696)
Loss before Provision for Income Taxes	(2,013,860)
Provision for Income Taxes	-
Net Loss	\$ (2,013,860)
Basic and diluted net loss per common share	\$ (0.01)
Weighted-average number of shares used basic and diluted per share amounts	67,967,659

See accompanying notes to the consolidated financial statements.

**APPTech Corp. and Subsidiaries**  
**Consolidated Statement of Stockholders' Deficit**  
**For the Nine Months Ended September 30, 2016**  
**(Unaudited)**

	Series A Preferred		Common Stock		Additional Paid- in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance December 31, 2015	14	\$ -	62,981,538	\$ 62,981	\$ 26,777,096	\$ (30,965,486)	\$(4,125,409)
Imputed interest	-	-	-	-	12,300	-	12,300
Common stock issued for subscriptions	-	-	1,443,000	1,443	135,357	-	136,800
Common stock issued for interest expense	-	-	1,305,000	1,305	256,295	-	257,600
Common stock issued in conjunction with notes payable	-	-	1,955,000	1,955	-	-	1,955
Common stock issued for services	-	-	3,696,500	3,697	310,743	-	314,440
Common stock issued for Directors	-	-	2,100,000	2,100	39,900	-	42,000
Net Loss	-	-	-	-	-	(2,013,860)	(2,013,860)
Balance September 30, 2016	<u>14</u>	<u>\$ -</u>	<u>73,481,038</u>	<u>\$ 73,481</u>	<u>\$ 27,531,691</u>	<u>\$ (32,979,346)</u>	<u>\$(5,374,174)</u>

See accompanying notes to the consolidated financial statements.

**APPTech CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**  
**(Unaudited)**

	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net loss	\$ (2,013,860)
Adjustments to reconcile net loss to net cash used in operating activities:	
Patent acquisition deposit	300,000
Stock-based compensation and stock for services	356,440
Stock issued on notes payable	1,955
Stock issued for interest expense	257,600
Imputed interest on notes payable	12,300
Depreciation and amortization	8,842
Changes in operating assets and liabilities:	
Accounts receivable	(5,830)
Accounts payable	186,436
Accrued liabilities	157,027
Net cash used in operating activities	(739,090)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Payments on related party notes payable	(5,000)
Proceeds from notes payable	576,691
Proceeds from loans payable	10,700
Payments on loans payable	(9,878)
Proceeds from sale of common stock	136,800
Net cash provided by financing activities	709,313
Changes in cash and cash equivalents	(29,777)
Cash and cash equivalents, beginning of period	20,319
Cash and cash equivalents, end of period	\$ (9,458)
<b>Supplemental disclosures of cash flow information:</b>	
Cash paid for interest	\$ 7,397
Cash paid for income taxes	\$ -
<b>NON CASH INVESTING AND FINANCING ACTIVITIES:</b>	
Issuance of common stock for interest expense	\$ 269,900

See accompanying notes to the consolidated financial statements.

**APPTech CORP. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

**NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS**

AppTech Corp. ("AppTech") is a Wyoming Corporation incorporated on July 2, 1998. On March 15, 2013, as amended on April 30, 2013, AppTech formed a wholly-owned subsidiary AppTech Merger Corp., a Florida corporation (the "Merger Corp"), and entered into a plan of merger (the "Merger Agreement" or "Merger") with Transcendent One, Inc., a Nevada corporation ("Transcendent"). In accordance with the terms and provisions of the Merger Agreement, Transcendent merged into the Merger Corp effectively combining the stock of Transcendent with the equity of the Merger Corp.

In consideration for the Merger, the shareholders of Transcendent received a total of 44,167,667 shares of common stock of AppTech on a pro rata basis in exchange for 100% of the of the outstanding common stock Transcendent at the time of the Merger. The total shares of AppTech being issued on a pro rata basis to the Transcendent's shareholders represented approximately 99% of the total issued and outstanding common stock of AppTech, excluding the 5.0 million shares concurrently issued as discussed in Note 8. In addition, Transcendent issued 235,833 shares of common stock for subscriptions and 1,250,000 shares of common stock for services during the period of December 31, 2012 to April 30, 2013. The merger among AppTech and Transcendent was accounted for as a reverse acquisition and change in reporting entity, whereby Transcendent was the accounting acquirer. At the date of acquisition, AppTech didn't have any operations and nor significant assets and liabilities. The accompanying financial statements include the historical accounts of Transcendent and the operations of AppTech from April 30, 2013, the date of acquisition forward. The post consolidated entity is referred to as (the "Company").

AppTech is a business solutions provider for brick-and-mortar, ecommerce, and mobile businesses. The company offers a range of best-in-class IT services and comprehensive payment processing solutions.

From managed cloud services, including virtual desktop and infrastructure services, to providing remote desktop support and security assessment, AppTech IT solutions can improve business productivity and bolster technology infrastructure.

Payment processing solutions include credit card processing, electronic check and ACH processing, gift and loyalty card programs, and merchant cash advance services. AppTech maintains a breadth of financial and payment technology partners to ensure clients leverage the best solutions at the most competitive rates and fees in the merchant services industry.

With a strategic vision for the future of FinTech (Financial Technology), AppTech is developing a consumer engagement app and patented payment platform for mobile users to access exclusive retail offerings from local merchants. AppTech will soon provide proximity marketing engagement, data analysis, and mobile payment to consumers and businesses.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Also see Note 3.

**Principles of Consolidation**

The Company accounts include financials of the Company and its wholly owned subsidiaries, Transcendent One, Inc. and TransTech One, LLC. All significant intercompany transactions have been eliminated in consolidation.

**Use of Estimates**

See accompanying notes to the consolidated financial statements.

**APPTech CORP. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the estimated useful lives of property and equipment, fair market value of marketable securities and future amounts payable to an individual in connection with the sale of the marketable securities, estimated liabilities related to various vendors in which communications have ceased, contingent liabilities, fair market value of Transcendent's common stock prior to the date of AppTech's acquisition, and realization of tax deferred tax assets. Actual results could differ from those estimates.

**Concentration of Credit Risk**

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of \$250,000 per institution that pays Federal Deposit Insurance Corporation (FDIC) insurance premiums. The Company has never experienced any losses related to these balances.

The accounts receivable from merchant services are paid by the financial institutions on a monthly basis. The Company currently uses three financial institutions to service their merchants. The loss of one of these financial institutions would not have a significant impact on the Company's operations as there are additional financial institutions available to the Company. For the nine months ended September 30, 2016, no single merchant (customer) represented more than 10% of revenues or accounts receivable, net.

**Cash and Cash Equivalents**

The Company classifies its highly liquid investments with maturities of three months or less at the date of purchase as cash equivalents. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the designations as of each investment as of the balance sheet date for each reporting period. The Company classifies its investments as either short-term or long-term based on each instrument's underlying contractual maturity date. Investments with maturities of less than 12 months are classified as short-term and those with maturities greater than 12 months are classified as long-term. The cost of investments sold is based upon the specific identification method.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable, if needed, are recorded net of an allowance for doubtful accounts. The Company considers any changes to the financial condition of its financial institutions used and any other external market factors that could impact the collectability of its receivables in the determination of its allowance for doubtful accounts. The Company does not expect to have write-offs or adjustments to accounts receivable which could have a material adverse effect on its consolidated financial position, results of operations or cash flows as the portion which is deemed uncollectible is already taken into account when the revenue is recognized.

**Marketable Securities**

The Company classifies its marketable security investment portfolio as either held to maturity, available-for-sale, or trading. At September 30, 2016, all of the Company's marketable securities were classified as trading. Securities classified as trading are carried at fair value with unrealized gains and losses included in the consolidated statement of operations. Classification as current or non-current is based primarily on whether there is an active public market for such security as well as the daily trading volume of a security relative to the Company's ownership position. Gains or losses from the sale or redemption of the marketable securities are determined using the specific identification method.

**APPTech Corp. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**for the nine months ended September 30, 2016**

**Revenue Recognition**

The Company provides merchant processing solutions for credit cards and electronic payments. In all cases we act as an agent between the merchant which generates the credit card and electronic payments, and the bank which processes such payments. The Company's revenue is generated on services priced as a percentage of transaction value or a specified fee transaction, depending on the card or transaction type. Revenue is recorded as services are performed which is typically when the bank processes the merchant's credit card and electronic payments.

The Company provides various Cloud services to business clients. Revenues generated from the services as agreed upon in a Cloud Service Agreement. The revenue is recorded as the services are performed and billed in advance on a monthly basis. Revenues from these services represent less than 5% of the Company's total revenues.

Consideration paid to customers, such as amounts earned under our customer equity incentive program, are recorded as a reduction to revenues.

**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 as of the measurement date. Applicable accounting guidance provides an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability. There are three levels of inputs that may be used to measure fair value

Level 1 Quoted market prices available in active markets for identical assets or liabilities. reporting

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally observable inputs and not corroborated by market data.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy. The carrying amount of the Company's financial assets and liabilities, such as cash, prepaid expenses and accrued expenses approximate their fair value because of the short maturity of those instruments. The Company's notes 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 at September 30, 2016.

**APPTech CORP. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of September 30, 2016:

	<b>Fair Value Measurement Using</b>			<b>Total</b>
	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Fair values as of September 30, 2016				
Current Assets-				
Marketable Securities	\$ -	\$ -	\$ -	\$ -
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of marketable securities is determined based upon quoted market prices at each reporting date. The carrying value of the Pub Co.'s common stock is \$-0-, due to the Pub Co.'s common stock being under a trade restriction that has the marketable security carry value impaired.

**Property and Equipment**

Property and equipment is recorded at cost. Expenditures for major additions and betterments are capitalized. Maintenance and repairs are charged to operations as incurred. Depreciation of property and equipment is computed by the straight-line method (after taking into account their respective estimated residual values) over the assets estimated useful life of five (5) years. Upon sale or retirement of equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in statements of operations.

**Impairment of Long-Lived Assets**

Long-lived assets, such as property and equipment are subject to amortization, are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Long-lived assets to be disposed of by sale are reported at the lower of their carrying amounts or their estimated fair values less costs to sell and are not depreciated. As of September 30, 2016, there were no asset impairments.

**Income Taxes**

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the fiscal year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which those

**APPTech Corp. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2016**

temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statement of Operations in the period that includes the enactment date.

The Company's income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While the Company believes it has appropriate support for the positions taken on its tax returns, the Company regularly assesses the potential outcomes of examinations by tax authorities in determining the adequacy of its provision for income taxes. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known. As of September 30, 2016, the Company does not believe any provisions are required in connection with uncertain tax positions.

**Per Share Information**

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock and potentially outstanding shares of common stock during the period. The weighted average number of common shares outstanding and potentially outstanding common shares assumes that the Company incorporated as of the beginning of the first period presented.

As of September 30, 2016, the Company had potential dilutive securities in which consisted of options to purchase 500,000 shares of common stock, 10,920 shares of common stock issuable upon conversion of Series A preferred stock and 1,318,181 shares of common stock issuable upon conversion the convertible notes payable, respectively. These dilutive securities were not included within the calculation of dilutive net loss per common share as the effects would have been anti-dilutive.

**Convertible Debt**

Convertible debt is accounted for under the guidelines established by ASC 470-20 *Conversion and Other Options*. ASC 470-20 governs the calculation of an embedded beneficial conversion, which is treated as an additional discount to the instruments where derivative accounting does not apply. The amount of the value of additional stock and other consideration in addition to the beneficial conversion feature may reduce the carrying value of the instrument to zero, but no further. The discounts are accreted over the term of the debt using the straight line method due to the short terms of the notes.

The Company accounts for modifications of its embedded beneficial conversions, in accordance with ASC 470-50 *Modifications and Extinguishments*. ASC 470-50 requires the modification of a convertible debt instrument that changes the fair value of an embedded conversion feature and the subsequent recognition of interest expense or the associated debt instrument when the modification does not result in a debt extinguishment.

**Stock Based Compensation**

The Company recognizes as compensation expense all share-based payment awards made to employees, directors, and consultants including grants of stock options and warrants, based on estimated fair values. Fair value is generally determined based on the closing price of the Company's common stock on the date of grant and is recognized over the service period. The Company has several consulting agreements that have share based payment awards based on performance. These agreements typically require the Company to issue common stock to the consultants on a monthly basis. The Company

**APPTech Corp. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For the Nine Months Ended September 30, 2016**

records the fair market value of the common stock issuable at each month end when the performance is complete based upon the closing market price of the Company's common stock. The Company has entered into board of directors agreements that have share based payment awards based on service. These agreements require the Company to issue common stock to the directors, earned on a monthly basis, over the one year term of the agreement. The Company records the fair market value of the common stock issuable at the end of the month when the director is appointed to the board based upon the closing market price of the Company's common stock. See Note 5 for discussing of common stock issued under the Company's Merchant Equity Program for which the fair value of the common stock earned is recorded as reduction of revenues.

**New Accounting Pronouncements**

The Financial Accounting Standards Board ("FASB") issues Accounting Standard Updates ("ASU") to amend the authoritative literature in ASC. There have been a number of ASUs to date that amend the original text of ASC. The Company believes those issued to date either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to the Company or (iv) are not expected to have a significant impact on the Company.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements Going Concern", which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter. The guidance is not expected to have a material impact on the Company's financial statements.

In April 2015, FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will continue to be reported as interest expense. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015. The adoption did not have a material impact on the Company's financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this update simplify the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. These amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The guidance is not expected to have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 840), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this standard are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for a public entity. Early adoption of the amendments in this standard is permitted for all entities and the Company must recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently in the process of evaluating the effect this guidance will have on its financial statements and related disclosures.

**NOTE 3 – GOING CONCERN**

As reflected in the accompanying consolidated financial statements, during the six months ended September 30, 2016 the Company incurred a net loss of \$2,013,860 and used \$739,090 in operating activities. In addition, the Company had a negative working capital of \$5,411,997 and an accumulated deficit of \$32,979,346 at September 30, 2016. These factors

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**for the nine months ended September 30, 2016**

raise substantial doubt regarding the Company to continue as a going concern. Management has evaluated, at the six months ended September 30, 2016, the conditions or events that raise substantial doubt about the Company ability as a going concern within one year of issuance of the financial statement.

While the Company is continuing operations and generating revenues, the Company's cash position is not significant enough to support the Company's daily operations. To fund operations and reduce the working capital deficit, Management intends to raise additional funds through public or private debt and/or equity offerings. During 2016, the Company raised \$483,300 in debt offerings and \$136,800 in subscription offers to fund operations. Management believes that the actions presently being taken to further implement its business plan and generate revenues provide the opportunity for the Company to continue as a going concern, however, such are not guaranteed. While the Company believes in the viability of its strategy to generate revenues and in its ability to raise additional funds, there can be no assurances to that effect, no can there be assurance that such funds will be at acceptable terms. As of the date of these consolidated financial statements, the Company has not finalized a commitment for additional capital. The ability of the Company to continue as a going concern is dependent upon the Company's ability to further implement its business plan and generate revenues. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**NOTE 4 – PROPERTY AND EQUIPMENT AND DEPOSITS**

**Property and Equipment**

Property and equipment at September 30, 2016 consisted of the following:

	<u>September 30, 2016</u>
Property and equipment	\$ 82,112
Less: Accumulated depreciation	<u>(44,290)</u>
	<u>\$ 37,822</u>

Property and equipment primarily consists of computer equipment in which is depreciated over five years. Depreciation expense for the nine months ended September 30, 2016 was \$8,842.

**NOTE 5 – ACCRUED LIABILITIES**

**Accrued Interest**

Notes payable and convertible notes payable incur interest at rates between 10% and 15%, per annum. Accrued interest at September 30, 2016 was \$1,259,867, of which \$594,063 was due to related parties. The accrued interest in most cases is currently in technical default due to the notes being past their maturity date.

**Accrued Residuals**

The Company pays commissions to independent agents which refer merchant accounts. The amounts payable to these independent agents is based upon a percentage of the amounts processed on a monthly basis by these merchant accounts. At September 30, 2016, amounts owed to these independent agents were \$37,911, and included within accrued liabilities on the accompanying consolidated balance sheets.

**Accrued Merchant Equity Liability**

The Company provided all merchants the opportunity to earn shares of the Company's common stock through their Merchant

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Equity Program (the "Program"). Under the Program, the merchant earns 1% of their total Visa/MasterCard volume processed during the first year of their contract. For example if a merchant processes \$1.0 million in credit card charges, the merchant will receive 10,000 shares of the Company's common stock. The merchant must process with the Company for a period of three years for the shares to vest.

For merchants in which the shares of common stock are not known as they are within the one-year period, the Company estimates on a quarterly basis as to the estimated amount of shares based upon the expected amount to be processed by the merchant on an annual basis. At the end of the first year, when the number of shares issuable is known, the Company makes an adjustment to the value of the shares, if needed.

The Company accounts for the value of the shares under the program as a sales incentive and thus the amounts, in connection with the Program, are recorded as a reduction to revenues. As of September 30, 2016, the Company has an obligation of \$119,405, recorded within accrued liabilities on the accompanying consolidated balance sheets, which represent approximately 868,325 shares of the Company's common stock issuable under the Program. All merchants became fully vested when the Company ended the program effective December 31, 2015.

**Accrued Settlements and Litigation**

Included within accounts payable at September 30, 2016 is \$43,462 related to three judgments in connection with Division of Labor claims. The obligations were incurred in 2007 and 2008 for unpaid compensation and workers' compensation.

Included within accounts payable at September 30, 2016 is \$31,456 related to an outstanding judgment regarding amounts payable in connection with a former office lease rental obligation. The obligation was incurred in 2009 when the office at that location was closed.

Included within accounts payable at September 30, 2016 is \$70,800 related to an outstanding judgment in connection with a former professional services agreement. The obligation was incurred in 2009.

**NOTE 6 – NOTES PAYABLE AND CONVERTIBLE NOTES PAYABLE**

The Company funds operations through cash flows generated from operations and the issuance of notes payable. The following is a summary of notes payable outstanding as of September 30, 2016. Related parties noted below are either members of management, board of directors, significant shareholders or individuals in which have significant influence over the Company.

**Subordinated Notes Payable**

In 2016, the Company issued \$433,682 in subordinated notes payable to third parties. The subordinated notes payable due in thirty to ninety days, incur interest between 10% and 36% per annum. The Company is in default of the subordinated note agreements. As of September 30, 2016, the Company was in default on \$83,682 of the note agreements.

In 2015, the Company entered into a subordinated note payable with a third party for \$275,000 in proceeds. Under the terms of the agreement, the holders received 500,000 shares of common stock in lieu of interest. The note was due October 31, 2015. On the date of the agreement, the Company calculated the fair market value of the common stock issued and recorded prepaid interest of \$40,000 to be expensed over the term of the subordinated note. During the year ended December 31, 2015, the Company expensed \$40,000 interest expense. In addition, the agreement provided the holder with warrants to purchase 2,000,000 shares of the Company's common stock for a period of 0.25 years at \$0.15 per share. The Company valued the warrants at \$10,588 using the Black Scholes valuation model with the following variables; expected volatility of 100%, risk free rate of 0.12%, fair market value of the Company's common stock of \$0.08 and an expected life of 0.25 years. The

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Company recorded the relative fair market value of the warrants of \$10,558 as a discount to the note payable. The discount was amortized to interest expense during the year December 31, 2015. On December 22, 2015, the holder of the warrants exercised into 2,000,000 shares of common stock through payment of an additional \$25,000 and \$275,000 from relief of the note payable.

**Convertible Notes Payable**

In 2015, the Company issued \$50,000 in convertible notes payable. The convertible notes payable are unsecured, due in six months; incurring interest at 10% per annum and are convertible at \$1.00 per share. As of September 30, 2016 the Company was in default on the note agreement and interest expensed in the amount of \$4,583 was accrued at September 30, 2016. In addition, since the conversion price was in excess of the fair market value of the Company's common stock on the date of the agreement, a beneficial conversion feature did not exist.

In 2014, the Company issued \$400,000 in convertible notes payable. The convertible notes payable are unsecured, due in periods ranging up to one year, incurring interest between 10% to 12% per annum and are convertible at prices ranging from \$0.33 to \$1.00 per share. In addition, the Company issued 400,000 shares of common stock in connection with convertible notes payable. The Company has the obligation to repurchase 400,000 shares of common stock at \$1.00 per share within one year. On the date of the agreements, the Company calculated the fair market value of the common stock issued in connection with the convertible notes payable of \$400,000 and recorded a discount of \$52,762 to the convertible notes payable based upon the relative fair market value of the convertible notes payable. The offsetting entry was to common stock for the par value of \$0.001 or \$400 and stock repurchase liability of \$52,362. The Company is amortizing the discount on the convertible notes payable to the carrying value of \$400,000 and the stock repurchase liability to the repurchase amount of \$400,000 over the term of the convertible notes payables. As of December 31, 2015, the discounts and stock purchase were fully amortized. As of September 30, 2016 the Company was in default of the note agreements and interest expensed in the amount of \$52,833 was accrued at September 30, 2016.

In 2008 and 2009, the Company issued \$320,000 in convertible notes payable, of which \$150,000 was from related parties. The convertible notes payable are currently due on demand, incur interest at 15% per annum, and convertible at \$0.60 per share. As of September 30, 2016, accrued interest related to the convertible notes was \$360,013, of which \$170,250 was due to related parties. As of September 30, 2016, the Company was in default of the note agreements.

**Notes Payable**

In 2016, the Company issued \$143,000 in notes payable to third parties. The notes payable due in sixty days, incur interest between 3% and 8% per month. The Company is in default of the note agreements.

In 2015, the Company received \$50,000 from a third party. To date, the note payable terms were never finalized with the lender. Thus, the Company has included the amount in current liabilities within notes payable.

In 2007 and 2008, the Company entered into note payable with a third party for \$46,000 in proceeds. The notes payable were due on demand and incurred interest at 12% per annum. In 2014, the Company and the holder of the note payable rolled the principal and interest into one new unsecured promissory note for \$39,153. The new promissory note incurs interest at a rate of 12.0% per annum, with sixty (60) monthly payments of \$1,000, which began on September 1, 2015 and a final balloon payment of \$81,097 due on May 31, 2019. In addition, the Company issued the holder 250,000 shares of common stock in settlement of 250,000 options held by the note holder. The Company determined that the exchange resulted in a modification of the original note payable as the future expected cash flows, including the changed in the current fair market value of options versus the common stock, was less than 10%. As the future cash flows were immaterial, the Company expensed \$2,060, the difference in fair value of the options and common stock to interest expense rather than record a discount to the new note payable during 2014. As of September 30, 2016, the Company was in default of the note payable agreement and

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interest expensed in the amount of \$17,388 was accrued at September 30, 2016.

In 2007, the Company entered into note payable with a related party for \$58,600 in proceeds. The note payable is currently due on demand and incurs interest at 10% per annum. As of September 30, 2016, accrued interest related to the note payable was \$51,468.

In 2007, the Company entered into note payable with a third party for \$128,000 in proceeds. Under the terms of the agreement the holder received a flat interest amount of \$37,496. As of September 30, 2016, the Company was in default of the note payable agreement and the entire amount of \$37,496 has been included within accrued interest. Since the note payable didn't incur interest, the Company imputed interest at \$9,600 which represented an interest rate of 10% per annum during the nine months ended September 30, 2016.

In 2008, the Company entered into notes payable with two third parties for \$36,000 in total proceeds. The notes payable are currently in default and have a flat interest amount due of \$60,000. During 2014, the Company entered into an agreement whereby they would repay the principal and accrued interest by April 30, 2014 and issue the holders 90,000 shares of common stock. The Company recorded the fair market value of the common stock issued of \$24,300 based on the date of issuance as interest expense. Other than to the issuance of the shares of common stock, the Company did not perform under the agreement. Since the notes payable don't incur interest, the Company imputed interest at \$2,700 which represented an interest rate of 10% per annum during the nine months ended September 30, 2016.

In 2007, the Company entered into note payable with a third party for \$221,800 in proceeds. The note payable is currently in default and incurs interest at 10% per annum. In September 30, 2013, the holder received an arbitration settlement for the principal and accrued interest. As of September 30, 2016, accrued interest related to the note payable was \$298,947.

Two significant shareholders funded the Company's operations through notes payable in primarily 2009 and 2010 and continue to support operations on a limited basis. The Company extends the notes on an annual basis. The notes payable incur interest at 10% per annum and are due on December 31, 2016. As of September 30, 2016, the aggregate balance of the notes payable was \$616,146 and accrued interest was \$372,345.

**NOTE 7 – COMMITMENTS AND CONTIGENCIES**

**Operating Lease**

The Company entered into a lease agreement for office space commencing December 1, 2015 through November 30, 2018. The lease is guaranteed by various members of management. The monthly rent under the lease agreement is as follows:

December 1, 2015 – November 30, 2016	\$ 6,528
December 1, 2016 – November 30, 2017	\$ 6,891
December 1, 2017 – November 30, 2018	\$ 7,072

The following is the future minimum annual payment related to non-cancellable lease as of September 30, 2016:

For years ending December 31,

2016	\$ 19,947
2017	82,873
2018	<u>77,792</u>
	<u>\$ 180,612</u>

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In 2014, the Company entered into a lease agreement for a co-location facility commencing November 10, 2014 through November 9, 2019. The monthly rent under the lease agreement is \$3,472 for the entire term. As of September 30, 2016, the Company was in default of the lease agreement. The following are the future minimum annual payments related to non-cancellable leases as of September 30, 2016, which include past due payments as part of 2016 minimum payments:

For years ending December 31:

2016	\$ 32,884
2017	41,664
2018	41,664
2019	<u>31,248</u>
	<u>\$ 147,460</u>

**Litigation**

In March 2016, a shareholder of the Company (“Plaintiff”) filed a lawsuit against the Company in the state of California, alleging breach of contract, fraud and negligent misrepresentation based on supposed oral promises in 2013 to give Plaintiff Company shares in exchange for stocks in another company and a 2014 consulting agreement. The Company strongly disputes all claims made in the lawsuit. On October 13, 2016, Plaintiff filed a Third Amended Complaint and the Company will respond by November 17, 2016.

In April 2014, a shareholder of AppTech filed a lawsuit against the Company in the State of Washington claiming breach of contract related to the sale / transfer of unregistered shares at the time of AppTech acquisition. On August 13, 2014, the Company notified the transfer agent and placed a ‘Stop Order’ on the shares. The shareholder claims that the 2.5 million shares received are unrestricted and should be reflected as such. On August 19, 2014, the Company filed a motion to dismiss the lawsuit. The lawsuit was dismissed on October 31, 2014.

**Employee versus Contractor Classification**

The Company compensates various individuals as consultants. Annually, these consultants are issued 1099s for amounts paid to them. In addition, these consultants don’t have arrangements in which specify compensation payable to them. The Company risks potential tax and legal actions if these consultants are deemed to be employees by governmental agencies.

**NOTE 8 – STOCKHOLDERS’ DEFICIT**

**Series A Preferred Stock**

The Company is authorized to issue 100,000 shares of \$0.001 par value Series A preferred stock (“Series A”). There were fourteen (14) shares of Series A preferred stock outstanding as of September 30, 2016. The holders of Series A preferred stock are entitled to one vote per share on an “as converted” basis on all matters submitted to a vote of stockholders and are not entitled to cumulate their votes in the election of directors. The holders of Series A preferred stock are entitled to any dividends that may be declared by the Board of Directors out of funds legally available, therefore on a pro rata basis according to their holdings of shares of Series A preferred stock, on an as converted basis. In the event of liquidation or dissolution of the Company, holders of Series A preferred stock are entitled to share ratably in all assets remaining after payment of liabilities and have no liquidation preferences. Holders of Series A preferred stock have a right to convert each share of Series A in 780 shares common stock.

**Common Stock**

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The Company is authorized to issue 1,000,000,000 shares of \$0.001 par value common stock. There were 73,481,038 shares of common stock outstanding as of September 30, 2016. The holders of common stock are entitled to one vote per share on all matters submitted to a vote of stockholders and are not entitled to cumulate their votes in the election of directors. The holders of common stock are entitled to any dividends that may be declared by the Board of Directors out of funds legally available, therefore subject to the prior rights of holders of any outstanding shares of preferred stock and any contractual restrictions against the payment of dividends on common stock. In the event of liquidation or dissolution of the Company, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive or other subscription rights and no right to convert their common stock into any other securities.

During the nine months ended September 30, 2016, the Company issued 3,696,500 shares of common stock to six consultants in connection with investor relations and business development services. The Company valued the common stock issuances at \$314,440 based upon the closing market price of the Company's common stock on the date in which the performance was complete. The amounts were expensed to general and administrative expenses on the accompanying consolidated statements of operations.

During the nine months ended September 30, 2016, the Company issued 2,100,000 shares of common stock to seven directors appointed to the board. The Company valued the common stock issuances at \$42,000 based upon the closing market price of the Company's common stock on the date in which the appointment was approved. The amounts were expensed to general and administrative expenses on the accompanying consolidated statement of operations.

**Stock Options**

On September 16, 2015, the Company issued warrants to purchase 2,000,000 shares of common stock at \$0.15 per share. See Note 6 for additional information.

On August 31, 2015, the Company issued an option to purchase 250,000 shares of common stock at \$0.15 per share with an expiration date of December 31, 2016. The options were valued at \$14,638 and included within stock issued for services. The Company valued the options at \$14,638 using the Black Scholes valuation model with the following variables; expected volatility of 100 %, risk free rate of 0.12 %, fair market value of the Company's common stock of \$0.08 on the date of grant, and an expected life of 1.33 years.

On May 16, 2008, the Company issued an option to purchase 250,000 shares of common stock at \$0.01 per share. The option was issued in connection with a convertible note payable, vested upon issuance and had an initial term of ten (10) years. On April 1, 2014, the holder of the option was issued 250,000 shares of common stock in satisfaction of the option. See Note 6 for additional information.

On February 10, 2007, the Company issued an option to purchase 250,000 shares of common stock at \$0.25 per share. The option was issued in connection with a note agreement, vested six months after issuance and had an initial term of two (2) years. On December 1, 2009, the options exercise price was modified to \$0.15 per share and an original life of ten (10) years.

**NOTE 9 – INCOME TAXES**

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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At September 30, 2016, the Company had net operating loss carry forwards of approximately \$5,615,000 that may be offset against future taxable income from the years 2016 to 2021. The net tax benefit of \$2,102,279 has not been reported as of September 30, 2016 on the consolidated financial statements since the potential tax benefit is offset by a 100% valuation allowance of the same amount. During the nine months ended September 30, 2016, the valuation allowance increased by \$537,624. The difference between the Company's tax rate and the statutory rate is due to significant non-deductible expenses related to stock based compensation, non-cash interest expense, etc.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal Income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Company believes they are no longer subject to income tax examinations for years prior to 2011. However, the Company hasn't filed their 2013, 2014 and 2015 federal and state tax returns.

**NOTE 10 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events pursuant to the requirements of ASC Topic 855 and has determined that no material subsequent events exist.