

Reliance Global Group, Inc.

And Subsidiaries

Consolidated Financial Statements as of December 31, 2019 and 2018

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Reliance Global Group, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Reliance Global Group, Inc. and Subsidiaries (the "Company") as of December 31, 2019, the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

The consolidated financial statements of the Company as of December 31, 2018, were audited by other auditors whose report dated January 13, 2020, expressed an unqualified opinion on those statements.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

Mazars USA LLP

We have served as the Company's auditor since 2020.

Fort Washington, Pennsylvania

May 6, 2020

MAZARS USA LLP

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Reliance Global Group, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash	\$ 6,703	\$ 12,456
Restricted cash	484,882	88,750
Accounts receivable	103,822	-
Accounts receivable, related parties	7,131	-
Note receivables	3,825	-
Other receivables	8,284	17,319
Prepaid expense and other current assets	32,309	-
Total current assets	<u>646,956</u>	<u>118,525</u>
Property and equipment, net	592,251	57,205
Right-of-use assets	569,650	-
Intangibles, net	6,633,584	604,489
Goodwill	8,548,608	1,705,548
Other non-current assets	1,984	3,784
Total assets	<u><u>\$ 16,993,033</u></u>	<u><u>\$ 2,489,551</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 153,226	\$ 98,654
Loans payable	19,401	-
Current portion of loans payable, related parties	3,311,844	962,325
Other payables	8,351	16,942
Current portion of long-term debt	1,010,570	90,580
Current portion of leases payable	164,367	-
Total current liabilities	<u>4,667,759</u>	<u>1,168,501</u>
Loans payable, related parties, less current portion	150,786	-
Long term debt, less current portion	8,270,955	1,621,101
Leases payable, less current portion	411,159	-
Earn-out liability	2,850,050	-
Total liabilities	<u>16,350,709</u>	<u>2,789,602</u>
Stockholders' equity (deficit):		
Preferred stock, \$0.001 par value; 750,000,000 shares authorized and 33,911,991 and 40,000,000 issued and outstanding as of December 31, 2019 and 2018, respectively	33,912	40,000
Common stock, \$0.001 par value; 2,000,000,000 shares authorized and 352,742,548 and 265,699,106 issued and outstanding as of December 31, 2019 and 2018, respectively	352,743	265,699
Common stock issuable; 4,375,000 shares as of December 31, 2019 and 2018, respectively	822,116	-
Additional paid-in capital	8,216,829	4,682,045
Accumulated deficit	(8,783,276)	(5,287,795)
Total stockholders' equity (deficit)	<u>642,324</u>	<u>(300,051)</u>
Total liabilities and stockholders' equity (deficit)	<u><u>\$ 16,993,033</u></u>	<u><u>\$ 2,489,551</u></u>

The accompanying notes are an integral part of these consolidated financial statements

Reliance Global Group, Inc. and Subsidiaries and Predecessor

Consolidated Statements of Operations and Predecessor Combined Statements of Operations

	Successor		Predecessor
	For the Year ended December 31, 2019	For the Period from August 1, 2018 through December 31, 2018	For the Period from January 1, 2018 through July 31, 2018
REVENUE			
Commission income	\$ 4,450,785	\$ 390,770	\$ 627,991
Total revenue	<u>4,450,785</u>	<u>390,770</u>	<u>627,991</u>
OPERATING EXPENSES			
Commission expense	705,714	156,763	283,282
Salaries and wages	2,316,533	142,016	95,738
General and administrative expenses	3,638,896	885,800	181,400
Marketing and advertising	165,574	1,121	5,193
Depreciation and amortization	727,979	25,451	1,778
Total operating expenses	<u>7,554,696</u>	<u>1,211,151</u>	<u>567,391</u>
(Loss) income from operations	(3,103,911)	(820,381)	60,600
Other expense, net	(391,570)	(27,924)	(2,279)
Settlement agreement expense	-	(306,981)	-
	<u>(391,570)</u>	<u>(334,905)</u>	<u>(2,279)</u>
Net (loss) income	<u>\$ (3,495,481)</u>	<u>\$ (1,155,286)</u>	<u>\$ 58,321</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	
Weighted average number of shares outstanding	<u>246,656,149</u>	<u>180,479,232</u>	

The accompanying notes are an integral part of these consolidated financial statements

Reliance Global Group, Inc. and Subsidiaries and Predecessor
Consolidated Statements of Stockholders' Equity (Deficit) and
Predecessor Combined Statement of Stockholders' Deficit and Members' Equity

	Family Health Advisors, Inc.				Employee Benefit Solutions, Inc.				Tri Star Benefits, LLC	Total
	Common stock		Additional paid-in capital	Retained Earnings (Accumulated Deficit)	Common stock		Additional paid-in capital	Accumulated Deficit	Members' Equity	
	Shares	Amount			Shares	Amount				
Predecessor Balance, December 31, 2017	10,000	\$ -	\$ 1,000	\$ 870	100	\$ -	\$ 17,485	\$ (222,728)	\$ 19,337	\$(184,036)
Distributions	-	-	-	-	-	-	-	-	(18,500)	(18,500)
Dividends	-	-	(1,000)	(42,234)	-	-	-	(4,920)	-	(48,154)
Net income	-	-	-	19,832	-	-	-	18,758	19,731	58,321
Balance, July 31, 2018	<u>10,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (21,532)</u>	<u>100</u>	<u>\$ -</u>	<u>\$ 17,485</u>	<u>\$ (208,890)</u>	<u>\$ 20,568</u>	<u>\$(192,369)</u>



	Reliance Global Group, Inc.								
	Preferred stock		Common stock		Common stock issuable		Additional paid-in capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Recapitalization, August 1, 2018	50,000,000	\$ 50,000	146,993,149	\$146,993	-	-	\$ 3,993,371	\$ (4,132,509)	\$ 57,855
Shares issued pursuant to business acquisitions	-	-	16,400,000	16,400	-	-	(74,255)	-	(57,855)
Shares issued pursuant to settlement agreement	-	-	2,305,957	2,306	-	-	304,675	-	306,981

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Reliance Global Group, Inc. and Subsidiaries and Predecessor
Consolidated Statements of Stockholders' Equity (Deficit) and
Predecessor Combined Statement of Stockholders' Deficit and Members' Equity

Share based compensation	-	-	-	-	-	-	89,950	-	89,950
Stock issued for services	-	-	-	-	-	-	458,304	-	458,304
Conversion of preferred stock	(10,000,000)	(10,000)	100,000,000	100,000	-	-	(90,000)	-	-
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,155,286)</u>	<u>(1,155,286)</u>
Balance, December 31, 2018	40,000,000	\$ 40,000	265,699,106	\$265,699	-	-	\$ 4,682,045	\$ (5,287,795)	\$ (300,051)
Shares issued pursuant to business acquisitions	-	-	14,746,592	14,747	-	-	2,553,617	-	2,568,364
Shares issued to Reliance Global Holdings, LLC, related party, for transfer of ownership of SWMT and FIS	-	-	14,839,011	14,839	-	-	(14,839)	-	-
Shares cancelled pursuant to settlement agreement	-	-	(576,489)	(576)	-	-	576	-	-
Common stock issuable related to business acquisition	-	-	-	-	2,375,000	482,116	-	-	482,116
Common stock issuable related to software purchase	-	-	-	-	2,000,000	340,000	-	-	340,000
Share based compensation	-	-	-	-	-	-	1,047,376	-	1,047,376
Conversion of preferred stock	(6,088,009)	(6,088)	60,880,088	60,880	-	-	(54,792)	-	-

The accompanying notes are an integral part of these consolidated financial statements

Reliance Global Group, Inc. and Subsidiaries and Predecessor
Consolidated Statements of Stockholders' Equity (Deficit) and
Predecessor Combined Statement of Stockholders' Deficit and Members' Equity

Shares cancelled pursuant to issuance of common stock for business acquisition			(2,845,760)	(2,846)	-	-	2,846		-
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,495,481)</u>	<u>(3,495,481)</u>
Balance, December 31, 2019	<u>33,911,991</u>	<u>\$ 33,912</u>	<u>352,742,548</u>	<u>\$352,743</u>	<u>4,375,000</u>	<u>\$ 822,116</u>	<u>\$ 8,216,829</u>	<u>\$ (8,783,276)</u>	<u>\$ 642,324</u>

The accompanying notes are an integral part of these consolidated financial statements

Reliance Global Group, Inc. and Subsidiaries and Predecessor

Consolidated Statements of Cash Flows and Predecessor Statement of Cash Flows

	Successor		Predecessor
	For the Year ended December 31, 2019	Period from August 1, 2018 to December 31, 2018	Period from January 1, 2018 to July 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	\$ (3,495,481)	\$ (1,155,286)	\$ 58,321
Adjustment to reconcile net income to net cash (used) provided by operating activities:			
Depreciation and amortization	727,979	25,451	1,778
Amortization of debt issuance costs and accretion of debt discount	13,949	1,138	-
Non-cash lease expense	6,608	-	-
Goodwill impairment	593,790	-	-
Stock compensation expense	1,047,376	548,254	-
Common stock issuable	822,116	-	-
Shares issued pursuant to settlement agreement	-	306,981	-
Change in operating assets and liabilities:			
Accounts payables and other accrued liabilities	54,572	98,654	73,440
Accounts receivable	(103,822)	-	-
Accounts receivable, related parties	(7,131)	-	-
Note receivables	(3,825)	-	-
Other receivables	9,035	(17,319)	-
Other payables	(8,591)	16,942	-
Other non-current assets	1,800	33,716	-
Prepaid expense and other current assets	(32,309)	-	-
Net cash (used in) provided by operating activities	<u>(373,934)</u>	<u>(141,469)</u>	<u>133,539</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Note receivable, related parties	-	-	(2,277)
Acquisition of business, net of cash acquired	(11,317,325)	(1,066,500)	-
Purchase of property and equipment	<u>(562,327)</u>	<u>(56,193)</u>	-
Net cash used in financing activities	<u>(11,879,652)</u>	<u>(1,122,693)</u>	<u>(2,277)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings of debt	7,982,005	1,025,000	-
Principal repayments of debt	(209,985)	(16,763)	-
Debt issuance costs	(216,125)	(25,506)	-
Loans acquired through acquisitions	19,401	-	-
Loans acquired through acquisitions, related parties	210	-	-
Dividends paid	-	-	(48,154)
Distributions to stockholders and members	-	-	(18,500)
Issuance of loans payables, related parties	-	382,637	-
Proceeds from notes payable, related parties	3,366,542	-	-
Payment of notes payable	-	-	(5,217)
Proceeds of notes payable, related parties	(866,447)	-	(24,414)
Issuance of common stock for business acquisitions	<u>2,568,364</u>	-	-
Net cash provided by (used in) financing activities	<u>12,643,965</u>	<u>1,365,368</u>	<u>(96,285)</u>
Net increase in cash and restricted cash	390,379	101,206	34,977
Cash and restricted cash at beginning of period	<u>101,206</u>	-	<u>23,611</u>
Cash and restricted cash at end of period	<u>\$ 491,585</u>	<u>\$ 101,206</u>	<u>\$ 58,588</u>

The accompanying notes are an integral part of these consolidated financial statements

Reliance Global Group, Inc. and Subsidiaries and Predecessor

Consolidated Statements of Cash Flows and Predecessor Statement of Cash Flows

SUPPLEMENTAL DISCLOSURE OF CASH AND NON-CASH INVESTING AND FINANCING TRANSACTIONS:

Conversion of preferred stock into common stock	\$ 10,000	\$ 10,000	\$ -
Cash paid for interest	\$ 414,645	\$ 26,915	\$ 2,164
Acquisition of lease asset and liability	\$ 684,083	\$ -	\$ -
Cancellation of common stock shares pursuant to settlement agreement	\$ 576	\$ -	\$ -
Cancellation of common stock shares pursuant to issuance of common stock for acquisition of FIS	\$ 2,846	\$ -	\$ -
Transfer of common stock shares to Reliance Global Holdings, LLC pursuant to transfer of ownership of SWMT and FIS	\$ 14,839	\$ -	\$ -
Assumed earn-out liability pursuant to the issuance of shares in regard to the SWMT, FIS, and ABC Transactions	\$ 2,850,050	\$ -	\$ -
Acquisition of loan payable, related party, pursuant to the purchase of software from The Referral Depot, LLC	\$ 200,000	\$ -	\$ -
Acquisition of intangibles, net through issuance of shares	\$ -	\$ 294,250	\$ -
Acquisition of goodwill through issuance of shares	\$ -	\$ 853,796	\$ -
Assumed long-term debt pursuant to the issuance of shares in regard to the USBA and EBS Transactions	\$ -	\$ 727,812	\$ -
Assumed loans payable, related party pursuant to the issuance of shares in regard to the USBA and EBS Transactions	\$ -	\$ 459,688	\$ -

The accompanying notes are an integral part of these consolidated financial statements

Reliance Global Group, Inc. and Subsidiaries and Predecessor

Notes to the Consolidated Financial Statements and Predecessor Combined Financial Statements

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Reliance Global Group, Inc. (formerly known as Ethos Media Network, Inc.) (“REL”, “Reliance”, or the “Company”) was incorporated in Florida on August 2, 2013. In September 2018, Reliance Global Holdings, LLC (“Reliance Holdings”, or “Parent Company”), a related party acquired control of the Company (see Note 4). Ethos Media Network, Inc. was then renamed on October 18, 2018.

On August 1, 2018, a related party to Reliance Holdings, US Benefits Alliance, LLC (“USBA”) acquired certain properties and assets of the insurance businesses of Family Health Advisors, Inc. and Tri Star Benefits, LLC (see Note 3) (the “USBA Transaction”). Also, on August 1, 2018, Employee Benefits, Solutions, LLC, (“EBS”), related party, acquired certain properties and assets of the insurance business of Employee Benefit Solutions, Inc. (see Note 3) (the “EBS Transaction”, and, together with USBA Transaction, the “Common Control Transactions”).

On October 24, 2018, a related party of the Company, entered into a purchase agreement to sell assign, and convey membership interest and all other property rights in EBS and USBA to Reliance.

USBA is a general agent for various insurance companies and earns override commissions on business placed by other “downstream” agencies. EBS is a retail broker with its revenues mainly sourced from independent contractor brokers.

On December 1, 2018, Commercial Coverage Solutions, LLC (“CCS”), a wholly owned subsidiary of Reliance, acquired Commercial Solutions of Insurance Agency, LLC (see Note 3). CCS is a property and casualty insurance agency that specializes in commercial trucking and transportation insurance.

On April 1, 2019, Southwestern Montana Insurance Center, LLC (“SWMT”), a wholly owned subsidiary of Reliance, acquired Southwestern Montana Financial Center, Inc. (See Note 3). SWMT is an insurance services firm which specializes in providing personal and commercial lines of insurance.

On May 1, 2019, Fortman Insurance Services, LLC (“FIS”), a wholly owned subsidiary of Reliance, acquired Fortman Insurance Agency, LLC (See Note 3). FIS is an insurance services firm which specializes in providing personal and commercial lines of insurance.

On September 1, 2019, the Company acquired Altruis Benefits Consulting, Inc. (“ABC”). ABC is an insurance agency and employee benefits provider.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The Common Control Transactions resulted in a new basis of accounting beginning on August 1, 2018 and the financial reporting periods are as follows:

- The consolidated successor period of the Company reflecting the Recapitalization and Common Control Transactions, from August 1, 2018 to December 31, 2018 and December 31, 2019.
- The combined predecessor period of Family Health Advisors, Inc., Employee Benefits Solutions, Inc., and Tri Star Benefits, LLC, for the period from January 1, 2018 to July 31, 2018.

The accompanying consolidated and combined financial statements included herein have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The accompanying consolidated financial statements include the accounting of Reliance Global Group, Inc. and its wholly owned subsidiaries.

Reliance Global Group, Inc. and Subsidiaries and Predecessor

Notes to the Consolidated Financial Statements and Predecessor Combined Financial Statements

The combined financial statements include Family Health Advisors, Inc., Employee Benefits Solutions, LLC, and Tri Star Benefits, LLC. All intercompany transactions and balances have been eliminated in consolidation and combination.

Liquidity

The Company has incurred losses of \$3,495,481 for the year ended December 31, 2019. At December 31, 2019, the Company had a working capital deficiency of approximately \$4,021,000. In 2019, the Company acquired three additional agencies to grow the company and improve profitability. Since these acquisitions are recent, management's plans to achieve operational efficiencies and reduce expenses will be implemented and enable the Company to continue to meet its obligations for at least the next twelve months. Additionally, management is planning to raise additional financing through an equity offering, although, there can be no assurance that additional equity financing will be available on terms acceptable to the company or at all.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures in the consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on assumptions believed to be reasonable under the circumstances. Actual results could differ materially from those estimates.

Cash

Cash consists of checking accounts. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash includes cash pledged as collateral to secure obligations and/or all cash whose use is otherwise limited by contractual provisions.

The reconciliation of cash and restricted cash reported within the applicable balance sheet that sum to the total of the same such amounts shown in the statement of cash flows is as follows:

	December 31, 2019	December 31, 2018
Cash	\$ 6,703	\$ 12,456
Restricted cash	484,882	88,750
Total cash and restricted cash	<u>\$ 491,585</u>	<u>\$ 101,206</u>

Property and Equipment

Property and equipment are stated at cost. Depreciation, including for assets acquired under capital leases, is recorded over the shorter of the estimated useful life or the lease term of the applicable assets using the straight-line method beginning on the date an asset is placed in service. The Company regularly evaluates the estimated remaining useful lives of the Company's property and equipment to determine whether events or changes in circumstances warrant a revision to the remaining period of depreciation. Maintenance and repairs are charged to expense as incurred.

Reliance Global Group, Inc. and Subsidiaries and Predecessor

Notes to the Consolidated Financial Statements and Predecessor Combined Financial Statements

	<u>Useful Life (in years)</u>
Computer equipment and software	5
Office equipment and furniture	7
Leasehold improvements	Shorter of the useful life or the lease term
Software	3

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 — Unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 — Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and

Level 3 — Unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

The Company's balance sheet includes certain financial instruments, including cash, notes receivables, accounts payable, notes payables and short and long-term debt. The carrying amounts of current assets and current liabilities approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization. The carrying amounts of long-term debt approximate their fair value as the variable interest rates are based on the market index.

Deferred Financing Costs

The Company has recorded deferred financing costs as a result of fees incurred by the Company in conjunction with its debt financing activities. These costs are amortized to interest expense using the straight-line method which approximates the interest rate method over the term of the related debt. As of December 31, 2019 and 2018, unamortized deferred financing costs were \$178,727, and \$46,556, respectively and are netted against the related debt.

Business Combinations

The Company accounts for its business combinations using the acquisition method of accounting. Under the acquisition method, the assets acquired, and the liabilities assumed, are recorded at the date of acquisition at their respective fair values. Definite-lived intangible assets are amortized over the expected life of the asset. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Goodwill represents the excess purchase price over the fair value of the tangible net assets and intangible assets acquired in a business combination. Acquisition-related expenses are recognized separately from business combinations and are expensed as incurred. If the business combination provides for contingent consideration, the Company records the contingent consideration at fair value at the acquisition date. Changes in fair value of contingent consideration resulting from events after the acquisition date, such as earn-outs, are recognized as follows: 1) if the contingent consideration is

Reliance Global Group, Inc. and Subsidiaries and Predecessor

Notes to the Consolidated Financial Statements and Predecessor Combined Financial Statements

classified as equity, the contingent consideration is not re-measured and its subsequent settlement is accounted for within equity, or 2) if the contingent consideration is classified as a liability, the changes in fair value are recognized in earnings.

Identifiable Intangible Assets, net

Finite-lived intangible assets such as customer relationships assets, trademarks and tradenames are amortized over their estimated useful lives, generally on a straight-line basis for periods ranging from 3 to 20 years. Finite-lived intangible assets are reviewed for impairment or obsolescence whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of intangible assets is measured by a comparison of the carrying amount of the asset to the future undiscounted net cash flows expected to be generated by that asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the estimated fair value. No impairment was recognized in the predecessor and successor periods presented.

Goodwill and other indefinite-lived intangibles

The Company records goodwill when the purchase price of a business acquisition exceeds the estimated fair value of net identified tangible and intangible assets acquired. Goodwill is assigned to a reporting unit on the acquisition date and tested for impairment at least annually, or more frequently when events or changes in circumstances indicate that the fair value of a reporting unit has more likely than not declined below its carrying value. Similarly, indefinite-lived intangible assets other than goodwill, such as trade names, are tested annually or more frequently if indicated, for impairment. If impaired, intangible assets are written down to fair value based on the expected discounted cash flows. During the year ended December 31, 2019 and the period from August 1, 2018 to December 31, 2018, the Company recorded impairment of goodwill of \$593,790 and \$0, respectively.

Revenue Recognition

In May 2014, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing. ASU 2016-10 provides guidance in identifying performance obligations and determining the appropriate accounting for licensing arrangements. The effective date and transition requirements for this ASU are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by ASU 2014-09). This ASU was adopted by the Company using the prospective method effective January 1, 2019. The adoption did not have a material effect on the Company’s consolidated financial statements.

The Company’s revenue is primarily comprised of commission paid by health insurance carriers related to insurance plans that have been purchased by a member who used the Company’s service. The Company defines a member as an individual currently covered by an insurance plan, including individual and family, Medicare-related, small business and ancillary plans, for which the Company are entitled to receive compensation from an insurance carrier.

The core principle of ASC 606 is to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. Accordingly, we recognize revenue for our services in accordance with the following five steps outlined in ASC 606:

Identification of the contract, or contracts, with a customer. A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party’s rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance, and (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer’s intent and ability to pay the promised consideration.

Reliance Global Group, Inc. and Subsidiaries and Predecessor

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Identification of the performance obligations in the contract. Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract.

Determination of the transaction price. The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer.

Allocation of the transaction price to the performance obligations in the contract. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis.

Recognition of revenue when, or as, the Company satisfies a performance obligation. The Company satisfies performance obligations either over time or at a point in time, as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring the promised good or service to the customer.

For individual and family, Medicare supplement, small business and ancillary plans, the Company's compensation is generally a percentage of the premium amount collected by the carrier during the period that a member maintains coverage under a plan (commissions) and, to a lesser extent, override commissions that health insurance carriers pays the Company for achieving certain objectives. Premium-based commissions are reported to the Company after the premiums are collected by the carrier, generally on a monthly basis. The Company generally continues to receive the commission payment from the relevant insurance carrier until the health insurance plan is cancelled or the Company otherwise does not remain the agent on the policy. The Company recognizes commission revenue for individual and family, Medicare Supplement, small business and ancillary plans when premiums are effective. The Company determines that there is persuasive evidence of an arrangement when the Company has a commission agreement with a health insurance carrier, a carrier reports to the Company that it has approved an application submitted through the Company's platform, and the applicant starts making payments on the plan. The Company's services are complete when a carrier has approved an application. The seller's price is fixed or determinable and collectability is reasonably assured when commission amounts have been reported to the Company by a carrier.

Commission revenue from insurance distribution and brokerage operations is recognized when all placement services have been provided, protection is afforded under the insurance policy, and the premium is known or can be reasonably estimated and is billable. In general, two types of billing practices occur as part of our agency contracts, which is direct bill and agency bill. In direct bill scenarios, the insurance carriers that underwrite the insurance policies directly bill and collect the premium for the policy without any involvement from the Company. Upon collection, a commission is then remitted from the insurance carrier to the Company. These commissions have not met the criteria for revenue recognition until the Company receives the commissions, as the Company does not have insight into policy acceptance and premium collections until the commission is received from the insurance carrier, representing that the insurance policy has been bound and therefore commissions have been earned by the Company. The second billing practice where the Company bills the policy holder and collects the premiums ("Agency Bill") provides greater transparency by the Company into the acceptance of the policy and premium collection. As part of the Agency Bill process, the Company can, at times, net its commissions out of the premiums to be sent to the insurance carriers. For Agency Bill customers, the revenue recognition criteria are considered met when the Agency receives the premiums from the policy holder, with an allowance established against the revenue for policies that may not be bound by the insurance companies.

All commission revenue is recorded net of any deductions for estimated commission adjustments due to lapses, policy cancellations, and revisions in coverage.

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Insurance commissions earned from carriers for life insurance products are recorded gross of amounts due to agents, with a corresponding commission expense for downstream agent commissions being recorded as commission expense within the statements of operations.

General and Administrative

General and administrative expenses primarily consist of personnel costs for the Company's administrative functions, professional service fees, office rent, all employee travel expenses, and other general costs.

Marketing and Advertising

The Company's direct channel expenses primarily consist of costs for e-mail marketing and newspaper advertisements. The Company's online advertising channel expense primarily consist of social media ads. Advertising costs for both direct and online channels are expensed as incurred.

Stock-Based Compensation

In June 2018, the FASB issued ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. This ASU, which the Company adopted as of January 1, 2019, did not have a material effect on the Company's consolidated financial statements.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis over the requisite service period, based on the terms of the awards. The fair value of the stock-based payments to nonemployees that are fully vested and non-forfeitable as at the grant date is measured and recognized at that date, unless there is a contractual term for services in which case such compensation would be amortized over the contractual term. As the Reliance Global Group, Inc. Equity Incentive Plan 2019 was adopted in January of 2019, the Company lacks the historical basis to estimate forfeitures and will recognize forfeitures as they occur.

Leases

On January 1, 2019, the Company adopted Accounting Standards Codification Topic 842, "Leases" ("ASC 842") to replace existing lease accounting guidance. This pronouncement is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet for most leases. Expenses associated with leases will continue to be recognized in a manner similar to previous accounting guidance. The Company adopted ASC 842 utilizing the transition practical expedient added by the Financial Accounting Standards Board ("FASB"), which eliminates the requirement that entities apply the new lease standard to the comparative periods presented in the year of adoption.

The Company is the lessee in a lease contract when the Company obtains the right to use the asset. Operating leases are included in the line items right-of-use asset, lease obligation, current, and lease obligation, long-term in the consolidated balance sheet. Right-of-use ("ROU") asset represents the Company's right to use an underlying asset for the lease term and lease obligations represent the Company's obligations to make lease payments arising from the lease, both of which are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Leases with a lease term of 12 months or less at inception are not recorded on the consolidated balance sheet and are expensed on a straight-line basis over the lease term in our consolidated statement of operations. The Company determines the lease term by agreement with lessor.

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Income Taxes

The Company recognizes deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. In evaluating its ability to recover deferred tax assets within the jurisdiction in which they arise, the Company considers all available positive and negative evidence, including the expected reversals of taxable temporary differences, projected future taxable income, taxable income available via carryback to prior years, tax planning strategies, and results of recent operations. The Company assesses the realizability of its deferred tax assets, including scheduling the reversal of its deferred tax assets and liabilities, to determine the amount of valuation allowance needed. Scheduling the reversal of deferred tax asset and liability balances requires judgment and estimation. The Company believes the deferred tax liabilities relied upon as future taxable income in its assessment will reverse in the same period and jurisdiction and are of the same character as the temporary differences giving rise to the deferred tax assets that will be realized.

Seasonality

A greater number of the Company's Medicare-related health insurance plans are sold in the fourth quarter during the Medicare annual enrollment period when Medicare-eligible individuals are permitted to change their Medicare Advantage. The majority of the Company's individual and family health insurance plans are sold in the annual open enrollment period as defined under the federal Patient Protection and Affordable Care Act and related amendments in the Health Care and Education Reconciliation Act. Individuals and families generally are not able to purchase individual and family health insurance outside of these open enrollment periods, unless they qualify for a special enrollment period as a result of certain qualifying events, such as losing employer-sponsored health insurance or moving to another state.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. Early adoption is permitted for any interim or annual period. This ASU, which the Company adopted early as of August 1, 2018, did not have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other, Simplifying the Accounting for Goodwill Impairment*. ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. This new guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any interim or annual period. This ASU, which the Company adopted early as of August 1, 2018, did not have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business*, which amends the current definition of a business. Under ASU 2017-01, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributes to the ability to create outputs. ASU 2017-01 further states that when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. The new guidance also narrows the definition of the term "outputs" to be consistent with how it is described in Topic 606, Revenue from Contracts with Customers. The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions. Early adoption is permitted for any interim or annual period. The Company early adopted this ASU effective August 1, 2018 (see Note 3).

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Recently Issued Accounting Pronouncements

Management has evaluated recently issued accounting pronouncements and does not believe that they will have a significant impact on the consolidated financial statements and related disclosures.

NOTE 3. STRATEGIC INVESTMENTS AND BUSINESS COMBINATION

USBA Transaction

On August 1, 2018, USBA entered into a Purchase Agreement with Family Health Alliance, Inc. and Tri Star Benefits, LLC whereby USBA purchased the business and certain assets noted within the Purchase Agreement (the “FHA/TSB Acquisition”) for a total purchase price of \$750,000. USBA was transferred to the Company pursuant to a Bill of Sale as noted in Note 4. The FHA/TSB Acquisition is being accounted for as a business combination in accordance with the acquisition method whereby the total purchase consideration was allocated to intangible assets acquired based on their respective estimated fair values. The acquisition method of accounting uses the fair value concept defined in ASC 820. ASC 805 requires, among other things, that most assets acquired, and liabilities assumed, if any, in a business purchase combination be recognized at their fair values as of the acquisition date. The process for estimating the fair values of identifiable intangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, and timing. The allocation of the purchase price in connection with the FHA/TSB Acquisition was calculated as follows:

Description	Fair Value	Weighted Average Useful Life (Years)
Trade name and trademarks	\$ 6,520	3
Customer relationships	116,100	9
Non-competition agreements	48,540	5
Goodwill	578,840	Indefinite
	<u>\$ 750,000</u>	

Goodwill of \$578,840 arising from the FHA/TSB Acquisition consisted of the value of the employee workforce and the residual value after all identifiable intangible assets were valued. Goodwill recognized pursuant to the FHA/TSB Acquisition is currently expected to be deductible for income tax purposes. Total acquisition costs for the FHA/TSB Acquisition incurred were \$83,162 recorded as a component of General and administrative on the accompanying Consolidated Statement of Operations for the period from August 1, 2018 to December 31, 2018.

The operating results of the acquired business has been included in the Company's Consolidated Statement of Operations for the period from August 1, 2018 to December 31, 2018 since the FHA/TSB common control date. The revenues of the acquired business for the period from August 1, 2018 through December 31, 2018 from the FHA/TSB common control date was \$135,425 and the net loss was \$12,145.

EBS Transaction

On August 1, 2018, EBS entered into a Purchase Agreement with Employee Benefit Solutions Inc. whereby the EBS shall purchase the business and certain assets noted within the Purchase Agreement (the “EBS Acquisition”) for a total purchase price of \$400,000. EBS was transferred to the Company pursuant to a Bill of Sale as noted in Note 4. The EBS Acquisition is being accounted for as a business combination in accordance using the acquisition method whereby the total purchase consideration was allocated to intangible assets acquired based on their respective estimated fair values. The acquisition method of accounting requires, among other things, that most assets acquired, and liabilities assumed, if any, in a business purchase combination be recognized at their fair values as of the acquisition date. The process for estimating the fair values

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of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, and timing.

The allocation of the purchase price in connection with the EBS Acquisition was calculated as follows:

Description	Fair Value	Weighted Average Useful Life (Years)
Trade name and trademarks	\$ 33,140	20
Customer relationships	47,630	9
Non-competition agreements	42,320	5
Goodwill	274,956	Indefinite
Fixed assets	1,954	5-7
	<u>\$ 400,000</u>	

Goodwill of \$274,956 arising from the EBS Acquisition consisted of the value of the employee workforce and the residual value after all identifiable intangible assets were valued. Goodwill recognized pursuant to the EBS Acquisition is currently expected to be deductible for income tax purposes. Total acquisition costs for the EBS Acquisition incurred were \$44,353 recorded as a component of General and administrative expenses on the accompanying Consolidated Statement of Operations for the period from August 1, 2018 to December 31, 2018.

The operating results of the acquired business has been included in the Company's Consolidated Statement of Operations for the period from August 1, 2018 to December 31, 2018 since the EBS common control date. The revenues of the acquired business for the period from August 1, 2018 through December 31, 2018 from the EBS common control date was \$246,965 and the net loss was \$143,450.

CCS Business Combination

On December 1, 2018, CCS entered into a Purchase Agreement with Commercial Solutions of Insurance Agency, LLC ("CSIA") whereby CCS shall purchase the business and certain assets of CSIA noted within the Purchase Agreement (the "CSIA Acquisition") for a total purchase price of \$1,200,000. The total purchase price is made up of (1) a cash payment of \$1,080,000 (the "Cash Payment") on the "Closing Date" or the first bank business day thereafter (i.e. December 1, 2018); (2) the balance of the purchase price, having a value of \$120,000, shall be paid in the form of 761,905 shares of common stock in the Company, issued at a per-share price equal to Fifteen and 75/100 Cents (\$0.1575) (the "Closing Shares"); and (3) the amount of any cash necessary to satisfy the required closing date working capital shall be set off against the Cash Payment by CCS. "Required closing date working capital" shall consist only of cash and pre-paid rent and/or security deposits or pre-payments or deposits for any assumed liabilities. The Closing Shares are to be transferred from the shares owned by Reliance Holdings and were transferred subsequent to December 31, 2019; and as a result, is a component of Loans payables, related parties on the accompanying Consolidated Balance Sheets.

The CSIA Acquisition is being accounted for as a business combination under the acquisition method whereby the total purchase consideration was allocated to tangible and intangible assets acquired based on their respective estimated fair values. The acquisition method requires, among other things, that most assets acquired, and liabilities assumed in a business purchase combination be recognized at their fair values as of the acquisition. The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, and timing.

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The allocation of the purchase price in connection with the CSIA Acquisition was calculated as follows:

Description	Fair Value	Weighted Average Useful Life (Years)
Cash	\$ 13,500	N/A
Fixed Assets	1,638	5-7
Customer relationships	284,560	11
Non-competition agreements	40,050	5
Trade name and trademarks	8,500	2
Goodwill	851,752	Indefinite
	<u>\$ 1,200,000</u>	

Goodwill of \$851,752 arising from the CSIA Acquisition consisted of the value of the employee workforce and the residual value after all identifiable intangible assets were valued. Goodwill recognized pursuant to the CSIA Acquisition is currently expected to be deductible for income tax purposes. Total acquisition costs for the CSIA Acquisition incurred were \$113,247 recorded as a component of General and administrative expense on the accompanying Consolidated Statement of Operations for the period from August 1, 2018 to December 31, 2018.

The operating results of the acquired business has been included in the Company's Consolidated Statement of Operations for the period from August 1, 2018 to December 31, 2018 since the CSIA Acquisition date. The revenues of the acquired business for the period from December 1, 2018 through December 31, 2018 from the CSIA Acquisition was \$8,380 and the net loss was \$136,568.

SWMT Transaction

On April 1, 2019, SWMT entered into a Purchase Agreement with Southwestern Montana Financial Center, Inc. whereby the SWMT shall purchase the business and certain assets noted within the Purchase Agreement (the "SWMT Acquisition") for a total purchase price of \$2,394,509. The purchase price was paid with a cash payment of \$1,389,840, 500,000 in shares of the Company's common stock, and an earn-out payment equal to 32% of the final earn-out EBITDA multiplied by 5.00, which is payable in \$300,000 in shares of the Company's common stock with any amount in excess of \$300,000 to be paid in cash. The balance of the earn-out liability as of December 31, 2019 was \$522,553 and is included in long term debt on the balance sheet. SWMT was transferred to the Company from Reliance Holdings as noted in Note 4. The SWMT Acquisition is being accounted for as a business combination in accordance under the acquisition method whereby the total purchase consideration was allocated to assets acquired and liabilities assumed based on their respective estimated fair values. The acquisition method of accounting requires, among other things, that most assets acquired, and liabilities assumed, if any, in a business purchase combination be recognized at their fair values as of the acquisition date. The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, and timing.

The allocation of the purchase price in connection with the SWMT Acquisition was calculated as follows:

Description	Fair Value	Weighted Average Useful Life (Years)
Customer relationships	\$ 561,000	10
Non-competition agreements	599,200	5
Goodwill	1,217,790	Indefinite
Fixed assets	41,098	5-7
Loan Payable	(24,579)	
	<u>\$ 2,394,509</u>	

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Goodwill of \$1,217,790 arising from the SWMT Acquisition consisted of the value of the employee workforce and the residual value after all identifiable intangible assets were valued. Goodwill recognized pursuant to the SWMT Acquisition is currently expected to be deductible for income tax purposes. Total acquisition costs for the FIS Acquisition were \$122,660, which were paid in full by Reliance Global Holdings, LLC, a related party.

The operating results of the acquired business has been included in the Company's Consolidated Statement of Operations from the date of acquisition through December 31, 2019. The revenues of the acquired business for the period from April 1, 2019 to December 31, 2019 was \$1,036,154 and the net loss was \$23,104.

FIS Transaction

On May 1, 2019, FIS entered into a Purchase Agreement with Fortman Insurance Agency, LLC whereby the FIS shall purchase the business and certain assets noted within the Purchase Agreement (the "FIS Acquisition") for a total purchase price of \$4,156,405. The purchase price was paid with a cash payment of \$3,223,750, \$500,000 in shares of the Company's common stock, and an earn-out payment equal to 10% of the final earn-out EBITDA multiplied by 6.25. The earn-out measurement period is 12 months commencing May 1, 2021 and ending April 30, 2022. The earn-out shall not accrue and shall be paid without interest within 60 days after the measurement period. The balance of the earn-out liability as of December 31, 2019 was \$432,655 and is included in long term debt on the balance sheet. FIS was transferred to the Company from Reliance Holdings as noted in Note 4. The FIS Acquisition is being accounted for as a business combination in accordance with the Acquisition method whereby the total purchase consideration was allocated to intangible assets acquired based on their respective estimated fair values. The acquisition method of accounting requires, among other things, that most assets acquired, and liabilities assumed, if any, in a business purchase combination be recognized at their fair values as of the acquisition date. The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, and timing.

The allocation of the purchase price in connection with the FIS Acquisition was calculated as follows:

Description	Fair Value	Weighted Average Useful Life (Years)
Trade name and trademarks	\$ 289,400	5
Customer relationships	1,824,000	10
Non-competition agreements	752,800	5
Goodwill	1,269,731	Indefinite
Fixed assets	19,924	5-7
Prepaid rent	550	
	<u>\$ 4,156,405</u>	

Goodwill of \$1,269,731 arising from the FIS Acquisition consisted of the value of the employee workforce and the residual value after all identifiable intangible assets were valued. Goodwill recognized pursuant to the FIS Acquisition is currently expected to be deductible for income tax purposes. Total acquisition costs for the FIS Acquisition were \$63,663, which were paid in full by Reliance Global Holdings, LLC, a related party.

The operating results of the acquired business has been included in the Company's Consolidated Statement of Operations for the year ended December 31, 2019. The revenues of the acquired business for the period from May 1, 2019 to December 31, 2019 was \$1,166,778 and the net income was \$9,773.

ABC Transaction

On September 1, 2019, the Company entered into a Stock Purchase Agreement with Altruis Benefits Consulting, Inc. whereby the Company shall purchase the business and certain assets noted within the Purchase Agreement (the "ABC

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Acquisition”) for a total purchase price of \$7,688,168. The purchase price was paid with a cash payment of \$5,202,364, \$578,040 in shares of the Company’s common stock, and an earn-out payment made annually for 3 years. Each year one-third of the earn-out shares held in escrow shall be released to the seller. The yearly earn-out payments are equal to 6.66% of the final earn-out EBITDA multiplied by 7.00. The earn-out measurement periods are the 12 months commencing September 1, 2019 and ending August 31, 2022. The balance of the earn-out liability as of December 31, 2019 was \$1,894,842 and is included in long term debt on the balance sheet. The ABC Acquisition is being accounted for as a business combination in accordance with the acquisition method whereby the total purchase consideration was allocated to intangible assets acquired based on their respective estimated fair values. The acquisition method of accounting requires, among other things, that most assets acquired, and liabilities assumed, if any, in a business purchase combination be recognized at their fair values as of the acquisition date. The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows, developing appropriate discount rates, estimating the costs, and timing.

The allocation of the purchase price in connection with the ABC Acquisition was calculated as follows:

Description	Fair Value	Weighted Average Useful Life (Years)
Cash	\$ 1,850,037	
Trade name and trademarks	714,600	5
Customer relationships	753,000	10
Non-competition agreements	1,168,600	5
Goodwill	4,949,329	Indefinite
Fixed assets	85	5
Payable to seller	(1,747,483)	
	<u>\$ 7,688,168</u>	

Goodwill of \$4,949,329 arising from the ABC Acquisition consisted of the value of the employee workforce and the residual value after all identifiable intangible assets were valued. Goodwill recognized pursuant to the ABC Acquisition is currently expected to be deductible for income tax purposes. Total acquisition costs for the ABC Acquisition incurred were \$92,172 recorded as a component of General and administrative expenses on the accompanying Consolidated Statement of Operations for the year ended December 31, 2019.

The operating results of the acquired business has been included in the Company's Consolidated Statement of Operations for the year ended December 31, 2019. The revenues of the acquired business for the period from September 1, 2019 to December 31, 2019 was \$625,036 and the net loss was \$67,682.

NOTE 4. RECAPITALIZATION AND COMMON CONTROL TRANSACTIONS

The purchase of Ethos, as described in Note 1, is being accounted for as a reverse recapitalization. As such, Reliance and its wholly owned subsidiaries are treated as the continuing company and Ethos is treated as the “acquired” company for financial reporting purposes. This determination was primarily based on the operations of Reliance’s subsidiaries comprising of substantially all the ongoing operations of the post-combination company, the parent company of Reliance owning 84.5% of the voting control of Reliance and Reliance’s parent senior management comprising substantially all of the senior management of the post-combination Company. Accordingly, for accounting purposes, the purchase of Ethos is treated as the equivalent of Reliance and its wholly owned subsidiaries are issuing stock for the net assets of Ethos, accompanied by a recapitalization. The net assets of Reliance are stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the purchase of Ethos are the historical operations of Reliance and its wholly owned subsidiaries are the combined financial statements include Family Health Advisors, Inc., Employee Benefits Solutions, LLC, and Tri Star Benefits, LLC as discussed in Note 3.

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The amount of consideration paid on September 21, 2018 to the controlling seller of Ethos was \$287,500. Immediately following, the parent of Reliance owned approximately 50,000,000 preferred shares and 46,489,000 common shares of Ethos. Ethos was then renamed on October 18, 2018.

On October 24, 2018, Reliance Holdings and the Company entered into a Bill of Sale agreement to transfer all of the outstanding membership interest in EBS LLC and USB LLC. In exchange for the membership interest, the Board of Directors of the Company authorized and issued 16,400,000 shares of restricted common stock of the Company for all the membership interest of USB LLC and EBS LLC.

During September 2019, Reliance Holdings transferred all of the outstanding membership interest in SWMT and FIS to the Company. In exchange for the membership interest, the Board of Directors of Reliance Inc. issued 14,839,011 shares of restricted common stock of Reliance Inc. for all the membership interest of SWMT and FIS.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Estimated Useful Lives (Years)	December 31, 2019	December 31, 2018
Computer equipment and software	5	\$ 33,774	\$ 6,445
Office equipment and furniture	7	36,573	9,257
Leasehold Improvements	Shorter of the useful life or the lease term	56,631	44,083
Software	3	562,327	-
Property and equipment, gross		689,305	59,785
Less: Accumulated depreciation and amortization		(97,054)	(2,580)
Property and equipment, net		<u>\$ 592,251</u>	<u>\$ 57,205</u>

Depreciation expense associated with property and equipment is included in depreciation within the Company's Consolidated Statement of Operations was \$94,474 and \$2,580 for the year ended December 31, 2019 and the period from August 1, 2018 to December 31, 2018, respectively.

Software

On July 22, 2019, the Company entered into a purchase agreement with The Referral Depot, LLC (TRD), a related party, to purchase a client referral software created exclusively for the insurance industry. The Company purchased this software to be utilized internally and does not plan to license, sell, or otherwise market the software, as such the total cost of the software has been capitalized and will be amortized on a straight-line basis over the useful life. The total purchase price of the software is \$250,000 cash and 2,000,000 restricted common shares (at \$0.17 per share which amounted to \$340,000) of the Company. Per the agreement, the Company paid an initial payment of \$50,000 at closing and the remaining \$200,000 will be paid with forty-eight equal monthly payments commencing on the first anniversary of the effective date, or July 22, 2020. As of December 31, 2019, the Company recorded a loan payable to a related party of \$172,327, net of discount on the loan of \$27,673. As of December 31, 2019, no shares related to this acquisition have been issued. The Company has recorded the 2,000,000 shares as common stock issuable as of December 31, 2019. The total carrying cost of the software as of December 31, 2019 is \$562,327. Depreciation Expense related to the software for the year ending December 31, 2019 was \$78,101.

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NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in goodwill during the year ended December 31, 2019 and the period from August 1, 2018 to December 31, 2018 were as follows:

	Goodwill
Balance, July 31, 2018	\$ -
Goodwill recognized in connection with transactions on August 1, 2018	853,796
Goodwill recognized in connection with acquisition on December 1, 2018	851,752
Impairment of goodwill	-
December 31, 2018	<u>\$ 1,705,548</u>
Goodwill recognized in connection with acquisition on April 1, 2019	1,217,790
Goodwill recognized in connection with acquisition on May 1, 2019	1,269,731
Goodwill recognized in connection with acquisition on September 1, 2019	4,949,329
Impairment of goodwill	(593,790)
December 31, 2019	<u>\$ 8,548,608</u>

The following table sets forth the major categories of the Company's intangible assets and the weighted-average remaining amortization period as of December 31, 2019:

	Weighted Average Remaining Amortization period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade name and trademarks	4.3	\$ 1,052,160	\$ (96,258)	\$ 955,902
Customer relationships	9.4	3,586,290	(257,529)	3,328,761
Non-competition agreements	4.4	2,651,510	(302,589)	2,348,921
		<u>\$ 7,289,960</u>	<u>\$ (656,376)</u>	<u>\$ 6,633,584</u>

The following table sets forth the major categories of the Company's intangible assets and the weighted-average remaining amortization period as of December 31, 2018:

	Weighted Average Remaining Amortization period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade name and trademarks	14.0	\$ 48,160	\$ (1,951)	\$ 46,209
Customer relationships	10.1	448,290	(12,680)	435,610
Non-competition agreements	4.7	130,910	(8,240)	122,670
		<u>\$ 627,360</u>	<u>\$ (22,871)</u>	<u>\$ 604,489</u>

The Company tests goodwill and indefinite-lived intangible assets for impairment annually on October 1st, or more frequently whenever events or changes in circumstances indicate that the asset might be impaired. The Company tested goodwill using discounted cash flow analysis and probability weighted market multiples valuations to determine the fair

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value of EBS, USBA, and CCS. The Company determined that CCS was overvalued by \$593,790 and recorded goodwill impairment expense for the full amount. During the years ended December 31, 2019 and 2018, the Company recorded impairment of goodwill of \$593,790 and \$0, respectively.

Amortization expense was \$633,505 and \$22,871 for the year ended December 31, 2019 and the period from August 1, 2018 to December 31, 2018, respectively.

The amortization expense of acquired intangible assets for each of the following five years are expected to be as follows:

<u>Years ending December 31,</u>	<u>Amortization Expense</u>	
2020	\$	1,096,692
2021		1,091,887
2022		1,090,620
2023		1,082,374
2024		710,052
Thereafter		1,561,959
Total	\$	<u>6,633,584</u>

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Significant components of accounts payable and accrued liabilities were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts payable	\$ 102,112	\$ 14,888
Accrued expenses	5,797	65,302
Accrued credit card payables	32,395	18,464
Other accrued liabilities	12,922	-
	<u>\$ 153,226</u>	<u>\$ 98,654</u>

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NOTE 8. LONG-TERM DEBT

The composition of the long-term debt follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Oak Street Funding LLC Term Loan for the acquisition of EBS and USBA, net of deferred financing costs of \$19,044 and \$21,263 as of December 31, 2019 and 2018, respectively	\$ 595,797	\$ 711,974
Oak Street Funding LLC Senior Secured Amortizing Credit Facility for the acquisition of CCS, net of deferred financing costs of \$22,737 and \$25,293 as of December 31, 2019 and 2018, respectively	963,174	999,707
Oak Street Funding LLC Term Loan for the acquisition of SWMT, net of deferred financing costs of \$16,685 as of December 31, 2019	1,066,815	-
Oak Street Funding LLC Term Loan for the acquisition of FIS, net of deferred financing costs of \$54,293 as of December 31, 2019	2,593,707	-
Oak Street Funding LLC Term Loan for the acquisition of ABC, net of deferred financing costs of \$65,968 as of December 31, 2019	4,062,032	-
	<u>9,281,525</u>	<u>1,711,681</u>
Less: current portion	<u>(1,010,570)</u>	<u>(90,580)</u>
Long-term debt	<u>\$ 8,270,955</u>	<u>\$ 1,621,101</u>

Oak Street Funding LLC – Term Loans

On August 1, 2018, EBS and USBA entered into a Credit Agreement with Oak Street Funding LLC (“Oak Street”) whereby EBS and USBA borrowed \$750,000 from Oak Street under a Term Loan. The Term Loan is secured by certain assets of the Company. Interest will accrue at 5.00% on the basis of a 360-day year, maturing 120 months from the Amortization Date (September 25, 2018). For the period from August 1, 2018 to December 31, 2018, the Company incurred debt issuance costs associated with the Term Loan in the amount of \$22,188, which were deferred and are amortized to interest expense over the length of the Term Loan. The proceeds of the Term Loan were to be used for the purpose of acquiring entities through the respective USBA and EBS acquisitions.

On April 1, 2019, SWMT entered into a Credit Agreement with Oak Street Funding LLC (“Oak Street”) whereby SWMT borrowed \$1,136,000 from Oak Street under a Term Loan. The Term Loan is secured by certain assets of the Company. The borrowing rate under the Facility is a variable rate equal to Prime + 2.00% and matures 10 years from the closing date. For the year ended December 31, 2019, the Company incurred debt issuance costs associated with the Term Loan in the amount of \$28,849, which were deferred and are amortized to interest expense over the length of the Term Loan. The proceeds of the Term Loan were to be used for the purpose of acquiring an entity through SWMT.

On May 1, 2019, FIS entered into a Credit Agreement with Oak Street Funding LLC (“Oak Street”) whereby FIS borrowed \$2,648,000 from Oak Street under a Term Loan. The Term Loan is secured by certain assets of the Company. The borrowing rate under the Facility is a variable rate equal to Prime + 2.00% and matures 10 years from the closing date. For the year ended December 31, 2019, the Company incurred debt issuance costs associated with the Term Loan in the amount of \$58,171, which were deferred and are amortized to interest expense over the length of the Term Loan. The proceeds of the Term Loan were to be used for the purpose of acquiring an entity through FIS.

On September 5, 2019, ABC entered into a Credit Agreement with Oak Street Funding LLC (“Oak Street”) whereby ABC borrowed \$4,128,000 from Oak Street under a Term Loan. The Term Loan is secured by certain assets of the Company. The borrowing rate under the Facility is a variable rate equal to Prime + 2.00% and matures 10 years from the closing date.

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For the year ended December 31, 2019, the Company incurred debt issuance costs associated with the Term Loan in the amount of \$94,105, which were deferred and are amortized to interest expense over the length of the Term Loan. The proceeds of the term loan were to be used for the purpose of acquiring ABC.

Oak Street Funding LLC – Senior Secured Amortizing Credit Facility (“Facility”)

On December 7, 2018, CCS entered into a Facility with Oak Street whereby CCS borrowed \$1,025,000 from Oak Street under a senior secured amortizing credit facility. The borrowing rate under the Facility is a variable rate equal to Prime +1.50% and matures 10 years from the closing date. For the period from August 1, 2018 to December 31, 2018, the Company incurred debt issuance costs associated with the Facility in the amount of \$25,506, which were deferred and are amortized over the length of the Facility. The proceeds of the term loan were to be used for the purpose of acquiring CSIA.

Aggregated cumulative maturities of long-term obligations (including the Term Loan and the Facility), excluding deferred financing costs, as of December 31, 2019 are:

<u>Years ending December 31,</u>	<u>Maturities of Long-Term Debt</u>	
2020	\$	1,010,570
2021		1,010,570
2022		1,010,570
2023		1,010,570
2024		1,010,570
Thereafter		4,228,675
Total	\$	<u>9,281,525</u>

As of December 31, 2019, the Company was not in compliance with a covenant due to start up initiatives that were funded by Reliance Holdings. The Company received a waiver of default from Oak Street Funding LLC.

NOTE 9. SIGNIFICANT CUSTOMERS

Carriers representing 10% or more of total revenue are presented in the table below:

<u>Insurance Carrier</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
BlueCross BlueShield	26.2%	39.5%
Priority Health	19.7%	44.2%

No other single insurance carrier accounted for more than 10% of the Company’s commission revenues. The loss of any significant customer, including Priority Health and BlueCross BlueShield, could have a material adverse effect on the Company.

NOTE 10. EQUITY

Preferred Stock

The Company has been authorized to issue 750,000,000 shares of \$0.001 par value Preferred Stock. The Board of Directors is expressly vested with the authority to divide any or all of the Preferred Stock into series and to fix and determine the relative rights and preferences of the shares of each series so established, within certain guidelines established in the Articles of Incorporation.

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As of December 31, 2019 and 2018, there were 33,911,991 and 40,000,000 shares of Series A Convertible Preferred Stock issued and outstanding, respectively. Each share of Series A Convertible Preferred Stock shall have ten (10) votes per share and may be converted into ten (10) shares of \$0.001 par value common stock. The holders of the Series A Convertible Preferred Stock shall be entitled to receive, when, if and as declared by the Board, out of funds legally available therefore, cumulative dividends payable in cash. The annual interest rate at which cumulative preferred dividends will accrue on each share of Series A Convertible Preferred Stock is 0%. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, before any distribution of assets of the Corporation shall be made to or set apart for the holders of the Common Stock and subject and subordinate to the rights of secured creditors of the Company, the holders of Series A Preferred Stock shall receive an amount per share equal to the greater of (i) one dollar (\$1.00), adjusted for any recapitalization, stock combinations, stock dividends (whether paid or unpaid), stock options and the like with respect to such shares, plus any accumulated but unpaid dividends (whether or not earned or declared) on the Series A Convertible Preferred Stock, and (ii) the amount such holder would have received if such holder has converted its shares of Series A Convertible Preferred Stock to common stock, subject to but immediately prior to such liquidation.

Common Stock

The Company has been authorized to issue 2,000,000,000 shares of common stock, \$0.001 par value. Each share of issued and outstanding common stock shall entitle the holder thereof to fully participate in all shareholder meetings, to cast one vote on each matter with respect to which shareholders have the right to vote, and to share ratably in all dividends and other distributions declared and paid with respect to common stock, as well as in the net assets of the corporation upon liquidation or dissolution.

In October 2018, Reliance Global Holdings, LLC transferred 6,584,830 shares of the Company's common stock at a price of \$0.07 per share to a non-employee of the Company for legal services provided to the Company. In November 2018, the Company issued 16,400,000 shares of common stock as part of the transaction discussed in Note 4.

In November 2018, Reliance Global Holdings, LLC, a related party, converted 10,000,000 shares of Series A Convertible Preferred Stock into 100,000,000 shares of common stock.

In November 2018, Reliance Global Holdings, LLC, a related party, transferred 500,000 shares of the Company's common stock at a price of \$0.1799 per share to an employee of the Company. The transaction was accounted for as share based compensation and the Company recognized \$89,950 of share-based compensation.

In November 2018, 2,305,957 shares of the Company's common stock were transferred to EMA Financial LLC ("EMA"). The transfer was the result of an obligation of Ethos prior to the recapitalization (see Note 4). The Company contested this transfer as it was represented that the obligation was settled prior to the recapitalization. Subsequently, on May 24, 2019, the Company entered into a Confidential Settlement Agreement and General Release to settle its dispute with EMA. Under the terms of this settlement agreement the Company agreed to allow EMA to retain 1,729,468 shares of the Company's common stock in which the Company received 576,489 of the Company's common stock back which was subsequently cancelled. At the date of the transfer the Company's common stock was valued at \$0.1775 based on its closing price. Accordingly, the Company recorded a settlement charge of \$306,981 based upon the common stock retained by EMA.

In January 2019, Reliance Global Holdings, LLC, a related party, converted 5,485,325 shares of Series A Convertible Preferred Stock into 54,853,248 shares of common stock.

In February 2019, Reliance Global Holdings, LLC, a related party, converted 318,108 shares of Series A Convertible Preferred Stock into 3,181,080 shares of common stock.

In May 2019, the Company was to issue 2,845,760 shares of common stock to the members of Fortman Insurance Agency, LLC as a result of the FIS Acquisition (see Note 3). In September 2019, Reliance Global Holdings, LLC, a related party, converted 284,576 shares of Series A Convertible Preferred Stock into 2,845,760 shares of common stock which were

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immediately cancelled. The Company then issued 2,845,760 new shares of common stock to the members of Fortman Insurance Agency, LLC.

On July 22, 2019, the Company entered into a purchase agreement with The Referral Depot, LLC (TRD) to purchase a client referral software created exclusively for the insurance industry. The total purchase price of the software is \$250,000 cash and 2,000,000 restricted common shares of the Company. Per the agreement the Company paid an initial payment of \$50,000 at closing and the remaining \$200,000 will be paid with forty-eight equal monthly payments commencing on the first anniversary of the effective date, or July 22, 2020. As of December 31, 2019, no shares related to this acquisition have been issued. The Company has recorded the 2,000,000 shares as common stock issuable as of December 31, 2019.

In September 2019, Reliance Global Holdings, LLC transferred its ownership in SWMT and FIS to the Company in exchange for 14,839,011 shares of restricted common stock.

In September 2019, the Company issued 11,900,832 shares of common stock to the former sole shareholder of Altruis Benefits Consulting, Inc. as a result of the ABC Acquisition (see Note 3).

Stock Options

During the year ended December 31, 2019, the Company adopted the Reliance Global Group, Inc. 2019 Equity Incentive Plan (the “Plan”) under which options exercisable for shares of common stock have been or may be granted to employees, directors, consultants, and service providers. A total of 60,000,000 shares of common stock are reserved for issuance under the Plan. At December 31, 2019, there were 40,300,000 shares of common stock reserved for future awards under the Plan. The Company issues new shares of common stock from the shares reserved under the Plan upon exercise of options.

The Plan is administered by the Board of Directors (the “Board”). The Board is authorized to select from among eligible employees, directors, and service providers those individuals to whom options are to be granted and to determine the number of shares to be subject to, and the terms and conditions of the options. The Board is also authorized to prescribe, amend, and rescind terms relating to options granted under the Plan. Generally, the interpretation and construction of any provision of the Plan or any options granted hereunder is within the discretion of the Board.

The Plans provide that options may or may not be Incentive Stock Options (ISOs) within the meaning of Section 422 of the Internal Revenue Code. Only employees of the Company are eligible to receive ISOs, while employees, non-employee directors, consultants, and service providers are eligible to receive options which are not ISOs, i.e. “Non-Statutory Stock Options.” The options granted by the Board in connection with its adoption of the Plan were Non-Statutory Stock Options.

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model or the value of the services provided, whichever is more readily determinable. The Black-Scholes option pricing model takes into account, as of the grant date, the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock and the risk-free interest rate for the term of the option.

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The following is a summary of the stock options granted, forfeited or expired, and exercised under the Plan for the year ended December 31, 2019:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018	-	\$ -	-	-
Granted	19,700,000	0.18	4.62	-
Forfeited or expired	-	-	-	-
Exercised	-	-	-	-
Outstanding at December 31, 2019	<u>19,700,000</u>	<u>\$ 0.18</u>	<u>4.62</u>	<u>\$ 2,995,640</u>

The following is a summary of the Company's non-vested stock options as of December 31, 2019, and changes during the year ended December 31, 2019:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)
Non-vested at December 31, 2018	-	\$ -	-
Granted	19,700,000	0.18	4.62
Vested	(1,500,000)	0.20	4.21
Forfeited or expired	-	-	-
Non-vested at December 31, 2019	<u>18,200,000</u>	<u>\$ 0.18</u>	<u>4.30</u>

During the year ended December 31, 2019, the Board approved options to be issued pursuant to the Plan to certain current employees totaling 12,000,000 shares. These options have been granted with an exercise price equal to the market value of the common stock on the date of grants and have a contractual term of 5 years. The options vest ratably over a 3-year period through August 2022 and remain subject to forfeiture if vesting conditions are not met. Compensation cost is recognized on a straight-line basis over the vesting period or requisite service period.

During the year ended December 31, 2019, the Board approved options to be issued pursuant to the Plan to consultants totaling 4,000,000 shares. These options have been granted with an exercise price equal to the market value of the common stock on the date of grants and have a contractual term of 5 years. The options vest ratably over a 3-year period through August 2022 and remain subject to forfeiture if vesting conditions are not met. Compensation cost is recognized on a straight-line basis over the vesting period or requisite service period.

During the year ended December 31, 2019, the Board approved options to be issued pursuant to the Plan to nonemployee directors totaling 700,000 shares. These options have been granted with an exercise price equal to the market value of the common stock on the date of grants and have a contractual term of 5 years. The options vest ratably over a 4-year period through November 2023 and remain subject to forfeiture if vesting conditions are not met. Compensation cost is recognized on a straight-line basis over the vesting period or requisite service period.

During the year ended December 31, 2019, the Board approved options to be issued pursuant to the Plan to a service provider totaling 3,000,000 shares. These options have been granted with an exercise price equal to the market value of the common stock on the date of grant and have a contractual term of 5 years. One half of these options, or 1,500,000 shares, vested immediately upon issuance; the other half of these options vest on the one-year anniversary of the grant date, or March 14, 2020, unless the Company deems the services provided to be unhelpful, in which case the second half of the options shall

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be void. The service period per the agreement was from February 2019 to February 2020. As of December 31, 2019, the Company determined the services were no longer needed, as such no services were provided subsequent to December 31, 2019. The Company deemed the services provided to be helpful and allowed the second half of the options to vest as scheduled. As services were only provided during the year ended December 31, 2019, the full compensation cost associated with these options was recognized during the year.

The Company determined that the options granted had a total fair value of \$3,343,861 which will be amortized in future periods through November 2023. During the year ended December 31, 2019, the Company recognized \$465,377 of compensation expense relating to the stock options granted to employees, directors, and consultants and \$581,999 of compensation expense relating to the stock options granted to service providers. As of December 31, 2019, unrecognized compensation expense totaled \$2,296,485 which will be recognized on a straight-line basis over the vesting period or requisite service period through November 2023.

The intrinsic value is calculated as the difference between the market value and the exercise price of the shares on December 31, 2019. The market values as of December 31, 2019 was \$0.33 based on the closing bid price for December 31, 2019.

The Company estimated the fair value of each stock option on the grant date using a Black-Scholes option-pricing model. Black-Scholes option-pricing models requires the Company to make predictive assumptions regarding future stock price volatility, recipient exercise behavior, and dividend yield. The Company estimated the future stock price volatility using the historical volatility over the expected term of the option. The expected term of the options was computed by taking the mid-point between the vesting date and expiration date. The following assumptions were used in the Black-Scholes option-pricing model:

	<u>Year Ended December 31, 2019</u>
Exercise price	\$0.17 - \$0.27
Expected term	3.25 to 3.75 years
Risk-free interest rate	1.35% - 2.43%
Estimated volatility	484.51% - 533.64%
Expected dividend	-
Option price at valuation date	\$0.16 - \$0.27

NOTE 11. EARNINGS (LOSS) PER SHARE

Basic earnings per common share ("EPS") applicable to common stockholders is computed by dividing earnings applicable to common stockholders by the weighted-average number of common shares outstanding.

The control number for determining whether including potential common stock in the diluted EPS computation would be antidilutive is net income. As a result, if there is a loss from operations, diluted EPS is computed in the same manner as basic EPS is computed. Similarly, if the Company has net income but its preferred dividend adjustment made in computing income available to common stockholders results in a net loss available to common stockholders, diluted EPS would be computed in the same manner as basic EPS. Accordingly, the outstanding Series A Convertible Preferred Stock is considered anti-dilutive in which 33,911,991 and 40,000,000 were issued and outstanding at December 31, 2019 and 2018, respectively. Series A Convertible Preferred Stock is convertible into common stock on a 10 for 1 basis. The outstanding stock options are considered anti-dilutive in which 19,700,000 were issued and outstanding at December 31, 2019.

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The calculations of basic and diluted EPS, are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Basic and diluted loss per common share:		
Net loss	\$ (3,495,481)	\$ (1,155,286)
Basic weighted average shares outstanding	246,656,149	180,479,232
Basic and diluted loss per common share:	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

NOTE 12. LEASES

Operating Leases

The Company adopted ASU 2016-02, Leases, effective January 1, 2019. The standard requires a lessee to record a right-of-use asset and a corresponding lease liability at the inception of the lease, initially measured at the present value of the lease payments. As a result, we recorded right-of-use assets aggregating \$684,083 as of January 1, 2019, utilizing a discount rate of 7.45%. That amount consists of operating leases on buildings and office space.

ASU 2016-02 requires recognition in the statement of operations of a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. As of December 31, 2019, the Company reflected accumulated amortization of right of use assets of \$114,433 related to these leases, resulting in a net asset balance of \$569,650.

In accordance with ASU 2016-02, the right-of-use assets are being amortized over the life of the underlying leases.

As of December 31, 2019, the weighted average remaining lease term for the operating leases is 3.42 years. The weighted average discount rate for the operating leases is 7.45%.

Future minimum lease payment under these operating leases consisted of the following:

<u>Year ending December 31,</u>	<u>Operating Lease Obligations</u>
2020	\$ 224,096
2021	172,361
2022	144,000
2023	81,000
2024	33,000
Thereafter	-
Total undiscounted operating lease payments	<u>654,457</u>
Less: Imputed interest	<u>78,931</u>
Present value of operating lease liabilities	<u>\$ 575,526</u>

NOTE 13. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Company is subject to various legal proceedings and claims, either asserted or unasserted, arising in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe the outcome of any of these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows, and accordingly, no legal contingencies are accrued as of December 31, 2019 and 2018. Litigation relating to the

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insurance brokerage industry is not uncommon. As such the Company, from time to time have been, subject to such litigation. No assurances can be given with respect to the extent or outcome of any such litigation in the future.

NOTE 14. INCOME TAXES

The provision (benefit) for income taxes consists of the following for the year ended December 31, 2019 and the period from August 1, 2018 through December 31, 2018:

	<u>December 31, 2019</u>	<u>August 1, 2018 to December 31, 2018</u>
Federal	\$ -	\$ -
State	-	-
Deferred	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

The difference between the actual income tax rate versus the tax computed at the Federal Statutory rate follows:

	<u>December 31, 2019</u>	<u>August 1, 2018 to December 31, 2018</u>
Federal rate	21%	21%
State, net of federal	3%	3%
Non-deductible acquired intangible assets	(18)%	0%
Valuation allowance	<u>(6)%</u>	<u>(24)%</u>
Effective income tax rate	<u>0%</u>	<u>0%</u>

The Company did not have any material uncertain tax positions. The Company's policy is to recognize interest and penalties accrued related to unrecognized benefits as a component income tax expense (benefit). The Company did not recognize any interest or penalties, nor did it have any interest or penalties accrued as of December 31, 2019 and 2018.

Deferred income tax assets and (liabilities) consist of the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deferred tax assets		
Net operating loss carryforward	\$ 1,013,793	\$ 351,114
Other	3	2,833
Total deferred tax assets	<u>1,013,796</u>	<u>353,947</u>
Valuation allowance	<u>(559,175)</u>	<u>(353,947)</u>
Net deferred tax assets	454,621	-
Deferred tax liabilities		
Goodwill and intangibles	\$ (454,621)	\$ -
Other	-	-
Total deferred tax liabilities	<u>(454,621)</u>	<u>-</u>
Net deferred taxes	<u>\$ -</u>	<u>\$ -</u>

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The Company has not recognized a deferred tax asset and corresponding increase in the valuation allowance for the deductible temporary difference resulting from its stock-based compensation expense because the timing of the recognition of the tax deduction will be absorbed into the net operating loss carryforward.

The Company has approximately \$4,216,000 of Federal Net Operating Loss Carry forwards, of which \$1.2 million will begin to expire beginning 2031 and \$3 million will not expire but are limited to use of 80% of current year taxable income. The Company has approximately \$4,216,000 of state net operation loss carry forward to offset future taxable income in the states in which it currently operates.

Internal Revenue Code Section 382 limits the ability to utilize net operating losses if a 50% change in ownership occurs over a three-year period. Such limitation of the net operating losses may have occurred, but we have not analyzed it at this time as the deferred tax asset is fully reserved. On March 27, 2020, the US government signed the Coronavirus Aid, Relief and Economic Security (CARES) Act into law, a \$2 trillion relief package to provide support to individuals, businesses and government organizations during the COVID-19 pandemic. The income tax provisions contained in the CARES Act are not likely to have an impact for the Company.

During the year ended December 31, 2019, the valuation allowance increased \$205,228.

The tax period ending December 31, 2018 is open for examination.

NOTE 15. RELATED PARTY TRANSACTIONS

The Company has entered into a Loan Agreement with Reliance Global Holdings, LLC, a related party under common control. There is no term to the loan, and it bears no interest. Repayment will be made as the Company has business cash flows. The proceeds from the various loans were utilized to fund the FHA/TSB Acquisition, the EBS Acquisition, CCS Acquisition, SWMT Acquisition, FIS Acquisition, and ABC Acquisition.

Reliance Global Holdings, LLC provided \$335,169 for funding of the SWMT Acquisition and paid \$122,660 in transaction costs on behalf of the Company.

Reliance Global Holdings, LLC provided \$779,099 for funding of the FIS Acquisition and paid \$63,663 in transaction costs on behalf of the Company.

Reliance Global Holdings, LLC provided \$1,378,961 for funding of the ABC Acquisition.

Reliance Global Holdings, LLC provided \$50,000 for funding of the purchase of software from The Referral Depot, LLC.

In October 2019, the Company began sharing leased office space with Reliance Global Holdings, LLC. Reliance Global Holdings, LLC leases the office space from an unrelated third party and is the only lessee listed per the lease agreement. Both Reliance Global Holdings, LLC and the Company each pay 50% of the monthly rent payments. As the Company is not legally obligated to make payments on the lease, this is treated as a month-to-month expense. For the year ended December 31, 2019, the Company's paid \$16,153 towards the lease and recorded as rent expense in the Statement of Operations.

At December 31, 2019 and 2018, Reliance Holdings owned approximately 32% and 57%, respectively, of the common stock of the Company.

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NOTE 16. SUBSEQUENT EVENTS

On February 19, 2020, the Company entered into a securities purchase agreement with NSURE, Inc. (“NSURE”) whereas the Company may invest up to an aggregate of \$20,000,000 in NSURE which will be funded with three tranches. In exchange, the Company will receive a total of 5,837,462 shares of NSURE’s Class A Common Stock, which represents 35% of the outstanding shares. The first tranche of \$1,000,000 was paid immediately upon execution of the agreement. As a result of the first tranche, the Company received 291,873 shares of NSURE’s Class A Common Stock. The second tranche of \$3,000,000 and third tranche of \$16,000,000 are not due until a later date in 2020. The Company will use the cost method of acquisition for the initial recognition of this investment. Once the Company determines that it can exercise significant influence over NSURE, it will begin to account for its investment under the equity method.

In February 2020, the Company issued 4,000,000 shares of common stock to a third-party individual for the purpose of raising capital to fund the Company’s investment in NSURE, Inc. The Company received proceeds of \$1,000,000 for the issuance of these common shares.

On March 23, 2020, the Company granted 2,000,000 options exercisable for shares of common stock to an employee. The options have an exercise price of \$0.39 and expire on March 23, 2025. The options vest ratably over a 4-year period through February 2024 and remain subject to forfeiture if vesting conditions are not met.

Coronavirus (COVID-19) Impact

The spread of the coronavirus (COVID-19) outbreak in the United States has resulted in economic uncertainties which may negatively impact the Company's business operations. While the disruption is expected to be temporary, there is uncertainty surrounding the duration and extent of the impact. The impact of the coronavirus outbreak on the consolidated financial statements cannot be reasonably estimated at this time.

Adverse events such as health-related concerns about working in our offices, the inability to travel and other matters affecting the general work environment could harm our business and our business strategy. While we do not anticipate any material impact to our business operations as a result of the coronavirus, in the event of a major disruption caused by the outbreak of pandemic diseases such as coronavirus, we may lose the services of our employees or experience system interruptions, which could lead to diminishment of our business operations. Any of the foregoing could harm our business and delay the implementation of our business strategy and we cannot anticipate all the ways in which the current global health crisis and financial market conditions could adversely impact our business.

Management is actively monitoring the global situation on its financial condition, liquidity, operations, industry and workforce. Given the daily evolution of the coronavirus and the global responses to curb its spread, the Company is not able to estimate the effects of the coronavirus on its results of operations, financial condition or liquidity for fiscal year 2020.