

HGS COLIBRIUM, INC.
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2017

HGS COLIBRIUM, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
HGS Colibrium, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated financial statements of HGS Colibrium, Inc. (a C Corporation), which comprise the consolidated balance sheet as of March 31, 2017, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HGS Colibrium, Inc. as of March 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

May 12, 2017

Frazin : Dexter, L.L.C.

HGS COLIBRIUM, INC.

Consolidated Balance Sheet

March 31, 2017

Assets

Current Assets:

| | | |
|--|----|----------------|
| Cash | \$ | 1,376,715 |
| Accounts receivable | | 2,337,291 |
| Unbilled receivables | | 1,431,517 |
| Note receivable from related party - current portion | | 49,837 |
| Prepaid expenses and other current assets | | <u>243,512</u> |

Total current assets 5,438,872

Property and equipment, net 1,196,399

Other assets:

| | | |
|--|--|----------------|
| Due from related parties | | 11,718 |
| Note receivable from related party, net of current portion | | 67,321 |
| Goodwill | | 8,073,341 |
| Other intangible assets, net | | 12,556,225 |
| Deposits | | <u>105,503</u> |

Total other assets 20,814,108

Total Assets \$ 27,449,379

See notes to consolidated financial statements.

HGS COLIBRIUM, INC.

Consolidated Balance Sheet - Continued

March 31, 2017

Liabilities and Stockholders' Equity

Current Liabilities:

| | |
|---|------------------|
| Notes payable to related party | \$ 15,200,000 |
| Capital lease obligations - current portion | 79,145 |
| Accounts payable | 296,693 |
| Due to related parties | 7,815,792 |
| Accrued salaries and benefits | 132,636 |
| Accrued liabilities | 23,717 |
| Deferred revenue | <u>1,424,162</u> |

Total current liabilities 24,972,145

| | |
|---|------------------|
| Capital lease obligations, net of current portion | 49,232 |
| Deferred tax liability | <u>2,319,207</u> |

Total liabilities 27,340,584

Commitments

Stockholders' Equity:

| | |
|--|------------------|
| Preferred stock, \$.001 par value, 3,157,014 shares authorized, issued, and outstanding | 3,157 |
| Common stock, \$.001 par value, 3,493,014 shares authorized, issued, and outstanding | 3,493 |
| Additional paid-in capital | 4,772,913 |
| Accumulated deficit | (4,205,434) |
| Less: treasury stock, 7,000 preferred shares and 192,500 common shares, at cost | <u>(465,334)</u> |

Total stockholders' equity 108,795

Total Liabilities and Stockholders' Equity \$ 27,449,379

See notes to consolidated financial statements.

HGS COLIBRIUM, INC.

Consolidated Statement of Operations

For the Year Ended March 31, 2017

| | |
|---|------------------------------|
| Revenue | \$ 12,151,722 |
| Cost of revenues | 8,645,090 |
| Operating expenses | <u>7,676,795</u> |
| Operating loss | <u>(4,170,163)</u> |
| Other (income) expense: | |
| Other income - related party | (439,775) |
| Interest expense | 8,978 |
| Other expense | <u>852</u> |
| Total other (income) expense | <u>(429,945)</u> |
| Loss before benefit for income taxes | (3,740,218) |
| Benefit for federal and state income taxes: | |
| Deferred | <u>(1,415,295)</u> |
| Net loss | <u><u>\$ (2,324,923)</u></u> |

See notes to consolidated financial statements.

HGS COLIBRIUM, INC.

Consolidated Statement of Stockholders' Equity

For the Year Ended March 31, 2017

| | <u>Preferred Stock</u> | | <u>Common Stock</u> | | <u>Additional</u> | <u>Accumulated</u> | <u>Treasury</u> | <u>Total</u> |
|----------------------------|------------------------|-----------------|---------------------|-----------------|---------------------|-----------------------|---------------------|----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Shares</u> | <u>Amount</u> | <u>Paid-In</u> | <u>Deficit</u> | <u>Stock</u> | <u>Stockholders'</u> |
| | | | | | <u>Capital</u> | | | <u>Equity</u> |
| Balance, March 31, 2016 | 3,157,014 | \$ 3,157 | 3,493,014 | \$ 3,493 | \$ 4,772,913 | \$ (1,880,511) | \$ - | \$ 2,899,052 |
| Purchase of treasury stock | - | - | - | - | - | - | (465,334) | (465,334) |
| Net loss | - | - | - | - | - | (2,324,923) | - | (2,324,923) |
| Balance, March 31, 2017 | <u>3,157,014</u> | <u>\$ 3,157</u> | <u>3,493,014</u> | <u>\$ 3,493</u> | <u>\$ 4,772,913</u> | <u>\$ (4,205,434)</u> | <u>\$ (465,334)</u> | <u>\$ 108,795</u> |

See notes to consolidated financial statements.

HGS COLIBRIUM, INC.

Consolidated Statement of Cash Flows

For the Year Ended March 31, 2017

Increase (Decrease) in Cash

Cash flows from operating activities:

| | | |
|--|----|-------------|
| Net loss | \$ | (2,324,923) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | | 585,820 |
| Amortization | | 2,475,382 |
| Deferred tax benefit | | (1,415,295) |
| Changes in assets and liabilities: | | |
| Accounts receivable | | (677,230) |
| Unbilled receivables | | (1,067,555) |
| Prepaid expenses and other current assets | | 72,741 |
| Due from related parties | | 14,040 |
| Deposits | | (1,340) |
| Accounts payable | | 3,960,791 |
| Due to related parties | | 92,439 |
| Accrued salaries and benefits | | (260,892) |
| Accrued liabilities | | (421,966) |
| Deferred revenue | | 1,040,320 |
| | | <hr/> |
| Net cash provided by operating activities | | 2,072,332 |

Cash flows from investing activities:

| | | |
|---|--|-------------|
| Expenditures for internally developed software | | (1,102,298) |
| Capital expenditures | | (8,339) |
| Issuance of note receivable - from related party | | (150,000) |
| Collections on note receivable - from related party | | 88,600 |
| | | <hr/> |
| Net cash used in investing activities | | (1,172,037) |

Cash flows from financing activities:

| | | |
|--|--|-----------|
| Payments on capital leases | | (257,653) |
| Cash received on note payable to related party | | 600,000 |
| Repurchase of treasury stock | | (465,335) |
| | | <hr/> |
| Net cash used in financing activities | | (122,988) |

| | | |
|--------------------------------|----|-----------------------|
| Net increase in cash | | 777,307 |
| Cash, beginning of year | | <hr/> 599,408 |
| Cash, end of year | \$ | <hr/> <hr/> 1,376,715 |

Supplemental Disclosure of Cash Flow Information:

| | | |
|------------------------|----|-------------------|
| Cash paid for interest | \$ | <hr/> <hr/> 8,978 |
|------------------------|----|-------------------|

See notes to consolidated financial statements.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements

March 31, 2017

Note 1 - Description of business and summary of significant accounting policies:

HGS Colibrium, Inc., Colibrium Partners, Inc., and Colibrium Direct, Inc. (collectively the Company), is a premier provider of innovative software products as well as telesale and business process outsourcing for the health insurance industry. The Company's roots are in consulting for the health insurance industry, initially providing clients with strategic consulting services, custom software development and CRM (Customer Relationship Management) implementation services. The Company has developed the Tuo (Latin derivative for "YOUR") product suite which is designed to provide health plans with both turn-key and modular solutions. Tuo brings market segmentation and comprehensive functionality across the entire health insurance enterprise. The Company also provides a pre-configured version of Microsoft® Dynamics CRM specially designed with functionality for the health insurance industry.

Colibrium Partners, Inc. and Colibrium Direct, Inc. were founded in January 2005. These entities were converted from a partnership (Colibrium Partners, LLC and Colibrium Direct, LLC) to a C-Corporation in February 2015. HGS Colibrium, Inc. was founded in March 2015. On March 27, 2015, the members of Colibrium Partners, Inc. and Colibrium Direct, Inc. sold 89.98% of their membership interest to HGS Colibrium, Inc, USA (a 100% owned subsidiary of Hinduja Global Solutions Limited). On March 31, 2015, HGS Colibrium, Inc.; Colibrium Partners, Inc.; and Colibrium Direct, Inc. merged into one Company.

The following is a summary of the more important accounting principles and policies followed by the Company:

Basis of presentation

The Company has adopted the Financial Accounting Standards Board (FASB) Codification (Codification). The Codification is the single official source of authoritative accounting principles generally accepted in the United States of America (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities, and all of the Codification's content carries the same level of authority.

Basis of consolidation

The consolidated financial statements include the accounts of HGS Colibrium, Inc., Colibrium Partners, Inc. and Colibrium Direct, Inc. All material intercompany transactions have been eliminated.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables and credit policies

The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk exposure is limited. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis.

A valuation allowance is provided for known and anticipated credit losses, as determined by management in the course of regularly evaluating individual customer receivables. This evaluation takes into consideration a customer's financial condition and credit history as well as current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. No interest is charged on customer accounts. Management has determined that an allowance for doubtful accounts was not required at March 31, 2017.

Note receivable from related party

Note receivable from related party consists of amounts due from a minority owner. Note receivable from related party is accrued at the original amount including accrued interest less an estimate made for doubtful accounts. A valuation allowance is provided for known and anticipated credit losses, as determined by management, in the course of evaluating the note receivable from related party. This evaluation takes into consideration the note holder's financial condition and credit history, as well as current economic conditions. The note receivable from related party is written off when it is deemed uncollectible. Recoveries are recorded when received. As of March 31, 2017, the Company did not record an allowance for doubtful accounts.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Revenue recognition

The Company has a variety of revenue recognition policies based on the type of services performed for its customers. Hosting and consulting services revenue primarily result from contracts and agreements executed with each customer within a short time frame, with each service essential to the functionality of the other. As such, the contracts and agreements are treated as single arrangements with each customer.

Consulting services revenue, which primarily relates to implementation, enhancement, training and support services associated with the Company's products, is derived under both time-and-material and fixed-fee agreements. Revenue from time-and-material agreements is recognized as labor hours are delivered and direct expenses are incurred. Revenue related to fixed-fee agreements is recognized on a percentage-of-completion basis over the term of the agreement, which in most instances is one year or less.

Services that relate to business process outsourcing of the Company's products on behalf of its customers and data center hosting are provided as a fixed-price per measure of output contract and as a fixed-price contract, respectively, with contract terms ranging from less than one year to up to two years. Revenue from business process outsourcing is recognized in the period the services are provided using an objective measure of output over the term of the contract; the amount of revenue recognized is based on the services delivered in the period. Revenue from the data center hosting contracts is recognized monthly as service is provided over the term of the contract.

The Company invoices customers in advance for certain contracts and services agreements. In addition, certain customers are billed in advance for these services to be provided in the subsequent year. Unbilled receivables in the accompanying consolidated balance sheet represent contracts and agreements that have been signed but not yet billed as well as services performed but not yet billed.

Deferred revenue

Deferred revenue represents billings rendered to, cash payments received from, or non-cancelable contracts with customers for services for which revenue has not been earned.

Property and equipment

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Property and equipment - continued

Expenditures for maintenance and repairs are charged to income as incurred. Additions and betterments are capitalized. The cost of properties sold or otherwise disposed of, and the accumulated depreciation thereon, is eliminated from the property and reserve accounts, and gains and losses are reflected in the statement of operations.

Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. The Company tests goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable rather than amortize the balance. Management has determined that no impairment exists as of March 31, 2017.

Intangible assets

Intangible assets are comprised of customer relationships, developed technology, trade name, non-compete agreements, and favorable/unfavorable leases; which were recorded as a result of HGS Colibrium, Inc.'s acquisition of its equity interest in Colibrium Partners, Inc. and Colibrium Direct, Inc. The Company amortizes intangible assets by using the straight-line method.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the enactment date. Income tax benefit is the change during the year in deferred tax assets and liabilities.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position. As of March 31, 2017, there are no known items which would result in a material accrual related to where the Company has federal or state attributable tax positions.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 1 - Description of business and summary of significant accounting policies - continued:

Impairment of long-lived assets and long-lived assets to be disposed of

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value. There was no impairment charge recognized during the year ended March 31, 2017.

Research and development and software development costs

In accordance with U.S. GAAP, capitalization of software development costs begins upon the establishment of technological feasibility of the product. Establishing technological feasibility, and the ongoing assessment of the recoverability of these costs, requires considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life, and changes in software and hardware technology. The Company capitalized \$1,102,298 during the year ended March 31, 2017 for developing software that has not yet been placed in service; therefore none of these costs have started being amortized at March 31, 2017.

During the year ended March 31, 2017, the Company placed \$2,690,393 of internally-developed software into service. The capitalized cost of software internally-developed in-service is being amortized on the straight-line basis over the estimated life of the related software, not to exceed seven years. Amortization expense recorded for internally-developed software for the year ended March 31, 2017 was \$288,257.

Subsequent events

The Company has evaluated subsequent events through May 12, 2017, which is the date these financial statements were available to be issued. All subsequent events, if any, requiring recognition as of March 31, 2017, have been incorporated into these financial statements.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 2 - Note receivable from related party:

On April 18, 2016, the Company issued a note receivable for \$150,000 to a minority owner. The note bears interest at 3% per annum and will be paid through biweekly payroll deductions in the amount of \$2,017 through May 2019. As of March 31, 2017, \$117,158 was outstanding.

Note 3 - Due to/from related parties:

The Company paid transaction fees of \$11,718 on behalf of the founders of the Company. These amounts are recorded in due from related parties on the consolidated balance sheet and are not expected to be repaid until the founders sell their stock in the Company.

HGS (USA), LLC paid operating expenses of \$10,100,575 on behalf of the Company for the year ended March 31, 2017. The Company had a due to related party of \$7,815,792 at March 31, 2017.

The Company subleases some capital leased equipment to HGS (USA), LLC. The Company recorded \$257,653 of sublease income from HGS (USA), LLC during the year ended March 31, 2017. The Company paid operating expenses of \$720,910 on behalf of HGS (USA), LLC during the year ended March 31, 2017. The Company had accounts receivable outstanding from HGS (USA), LLC of \$17,586 at March 31, 2017.

Note 4 - Property and equipment:

Property and equipment consisted of the following at March 31, 2017:

| | |
|---|---------------------|
| Leasehold improvements | \$ 665,377 |
| Computer equipment | 1,389,213 |
| Computer equipment and software | 560,545 |
| Office furniture and equipment | <u>1,495,587</u> |
| | 4,110,722 |
| Less: Accumulated depreciation and amortization | <u>(2,914,323)</u> |
| Property and equipment, net | <u>\$ 1,196,399</u> |

Depreciation expense was \$585,820 for the year ended March 31, 2017.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 5 - Other intangible assets:

Other intangible assets consist of the following as of March 31, 2017:

| | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Weighted- Average Remaining Amortization Period</u> |
|--|--------------------------------------|-------------------------------------|---------------------------|--|
| Internally-developed software placed into service | \$ 2,690,393 | \$ 288,257 | \$ 2,402,136 | 84 months |
| Internally-developed software | 1,102,297 | - | 1,102,297 | 84 months |
| Developed technology | 5,532,000 | 1,591,397 | 3,940,603 | 72 months |
| Trade name | 3,448,000 | 991,890 | 2,456,110 | 72 months |
| Customer relationships | 4,408,000 | 1,775,277 | 2,632,723 | 48 months |
| Non-compete | <u>68,000</u> | <u>45,644</u> | <u>22,356</u> | 24 months |
| | <u>\$ 17,248,690</u> | <u>\$ 4,692,465</u> | <u>\$ 12,556,225</u> | |

Amortization of other intangible assets included in the consolidated statement of operations during the year ended March 31, 2017 was \$2,475,382. The following is a schedule by year of future amortization of other intangible assets:

| <u>For the Year Ended March 31,</u> | |
|-------------------------------------|----------------------|
| 2018 | \$ 2,715,504 |
| 2019 | 2,706,270 |
| 2020 | 2,694,193 |
| 2021 | 1,824,670 |
| 2022 | 1,807,097 |
| Thereafter | <u>808,491</u> |
| | <u>\$ 12,556,225</u> |

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 6 - Notes payable to related party:

Notes payable to related party consists of the following at March 31, 2017:

| | |
|---|---------------------|
| Note payable to owner dated March 25, 2015 and amended March 31, 2015, up to \$15,680,000, interest-free, callable on demand. | <u>15,200,000</u> |
| Total | 15,200,000 |
| Less: current portion | <u>(15,200,000)</u> |
| Long-term portion | <u>\$ -</u> |

Note 7 - Lease obligations:

Capital lease obligations

The Company has entered into various capital leases that require monthly payments ranging from \$271 to \$6,492. The leases have implied interest ranging from 0% to 9.5%. The leases expire at various times from July 2016 through November 2018. Capital leases outstanding at March 31, 2017 total \$128,377.

Future maturities of capital lease obligations as of March 31, 2017 are as follows:

| | |
|---|------------------|
| <u>Year Ending March 31,</u> | |
| 2018 | \$ 83,162 |
| 2019 | <u>49,519</u> |
| Total minimum lease payments | 132,681 |
| Less: Amount representing interest | <u>(4,304)</u> |
| Present value of net minimum lease payments | 128,377 |
| Less: Current portion | <u>(79,145)</u> |
| Long-term portion | <u>\$ 49,232</u> |

Amortization of capitalized lease assets is included in operating expenses in the consolidated statement of operations. At March 31, 2017, there was \$1,706,706 and \$257,653 of cost and accumulated amortization, respectively, included in property and equipment related to capital leases.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 7 - Lease obligations - continued:

Operating leases

The Company leases office facilities and equipment under various lease commitments through December 2019. Total rent and lease expense amounted to \$592,957 for the year ended March 31, 2017.

The future minimum lease payments under non-cancelable operating lease agreements at March 31, 2017 are as follows:

| <u>Year Ending March 31,</u> | |
|------------------------------|---------------------|
| 2018 | \$ 655,497 |
| 2019 | 370,261 |
| 2020 | <u>285,079</u> |
| | <u>\$ 1,310,837</u> |

The Company subleases some office facilities to a third party. The future minimum lease payments to be received from the sublessee at March 31, 2017 are as follows:

| <u>Year Ending March 31,</u> | |
|------------------------------|-------------------|
| 2018 | \$ 237,891 |
| 2019 | <u>161,735</u> |
| | <u>\$ 399,626</u> |

Note 8 - Income taxes:

The Company did not record any income tax expense and have recorded a deferred tax benefit for the year ended March 31, 2017. The Company has reported operating tax losses from inception through the year ended March 31, 2017.

A reconciliation of the expected income tax expense (based on the federal statutory rate of 34%) to the actual income tax expense (benefit) for the year ended March 31, 2017 is as follows:

| | |
|---|-----------------------|
| Computed "expected" income tax (benefit) expense | \$ (1,273,790) |
| State income tax (benefit) expense, net of federal effect | (148,993) |
| Other, net | (727) |
| Permanent difference | <u>8,215</u> |
| | <u>\$ (1,415,295)</u> |

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 8 - Income taxes - continued:

The income tax effect of temporary differences that give rise to significant portions of the Company's deferred income tax assets and liabilities at March 31, 2017 is presented below:

| | |
|--|-----------------------|
| Deferred income tax assets: | |
| Net operating loss and credit carryforward | \$ 2,327,087 |
| Deferred rent | 30,466 |
| Accrued vacation | 12,661 |
| Charitable contributions | <u>2,103</u> |
| Total gross deferred income tax assets | <u>2,372,317</u> |
| Deferred tax liabilities: | |
| Depreciation | (89,562) |
| Gain/(loss) on sale of assets | (2,682) |
| Amortization | (3,159,574) |
| Internally developed software | <u>(1,439,706)</u> |
| Total gross deferred tax liabilities | <u>(4,691,524)</u> |
| Net deferred tax liabilities | <u>\$ (2,319,207)</u> |

The Company has net operating loss carryforwards for federal and state income tax purposes of \$6,175,289 at March 31, 2017, which are available to offset future taxable income and begin expiring in the year 2035 through 2037.

The Company's ability to benefit from certain net operating loss carryforwards could be limited under Section 382 of the Internal Revenue Code if the Company is deemed to have had an ownership change of greater than 50%. Accordingly, certain U.S. federal net operating losses may not be realizable in future years should this limitation apply.

Note 9 - Concentration of credit risk:

The Company maintains its cash in bank deposits, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

At March 31, 2017, the Company had four major customers that accounted for 72% of total accounts receivable. During the year ended March 31, 2017, the Company generated revenues from three major customers that accounted for 63% of revenues.

HGS COLIBRIUM, INC.

Notes to Consolidated Financial Statements - Continued

March 31, 2017

Note 10 - Employee benefit plan:

The Company has a 401(k) plan (the Plan) which covers all employees. The Plan requires the employer to make matching contributions to the plan. For the year ended March 31, 2017, the Company's matching contributions totaled \$113,237.

SUPPLEMENTAL INFORMATION

HGS COLIBRIUM, INC.

Consolidated Schedule of Operating Expenses

For the Year Ended March 31, 2017

| | |
|-----------------------------|---------------------|
| Amortization | \$ 2,475,382 |
| Bank fees | 21,669 |
| Benefits | 455,983 |
| Building services | 22,169 |
| Business licenses | 25,826 |
| Contract services | 59,054 |
| Depreciation | 585,820 |
| Insurance | 4,341 |
| Marketing | 275,391 |
| Other | 5,236 |
| Payroll taxes | 316,506 |
| Professional fees | 584,680 |
| Recruitment and retention | 93,270 |
| Rent | 592,957 |
| Repairs and maintenance | 5,866 |
| Salaries and contract labor | 1,322,735 |
| Supplies | 33,534 |
| Technology services | 434,486 |
| Postage | 4,795 |
| Travel and entertainment | 312,518 |
| Voice and data services | <u>44,577</u> |
| | <u>\$ 7,676,795</u> |

See independent auditors' report on supplemental information.