

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
Long Beach, California

We have audited the accompanying consolidated financial statements of Apollo Enterprise Solutions, Ltd. and Subsidiary, which comprise the balance sheet as of December 31, 2012, and the related statements of operations, stockholders' deficiency, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Apollo Enterprise Solutions, Ltd. and Subsidiary as of December 31, 2012, 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.

LORENZ & OPDAHL LLP



Encino, California
February 8, 2013

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2012

ASSETS

CURRENT ASSETS	
Cash (Note 2)	\$ 17,850
Accounts receivable (Notes 2 and 9)	<u>625,090</u>
Total Current Assets	642,940
PROPERTY AND EQUIPMENT, net (Notes 2 and 3)	13,824
OTHER ASSETS	
Patents, less accumulated amortization of \$1,777,225 (Notes 2 and 4)	<u>1,883,245</u>
TOTAL ASSETS	<u>\$ 2,540,009</u>

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES	
Accounts payable	\$ 818,339
Accrued expenses (Note 5)	44,825
Deferred rent	88,471
Dividend payable (Note 10)	<u>1,834,621</u>
Total Current Liabilities	2,786,256
LONG-TERM LIABILITIES (Note 6)	1,142,401
COMMITMENTS (Note 8)	
STOCKHOLDERS' DEFICIENCY:	
Class A preferred stock, authorized, 4,000,000 shares, issued and outstanding, 324,733 shares (Note 10)	8,118,321
Class A-1 preferred stock, 420,000 authorized, issued and outstanding, 42,000 shares (Note 10)	1,050,000
Class A-2 preferred stock, authorized, 1,200,000 shares issued and outstanding 15,022 shares	375,500
Junior preferred stock, authorized, 3,500,000 shares, issued and outstanding, 117,762 shares (Note 10)	2,929,044
Common stock, authorized, 310,880,000 shares issued and outstanding, 6,840,231 shares (Note 8)	684
Additional paid-in capital	7,924,554
Retained deficit	<u>(21,786,751)</u>
Total Stockholders' Deficiency	<u>(1,388,648)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	<u>\$ 2,540,009</u>

The independent auditor's report and notes are an integral part of these financial statements

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2012

NET REVENUES (Notes 1, 2, 6, and 9)	\$ 2,938,098
COST OF GOODS SOLD	<u>517,441</u>
GROSS PROFIT	2,420,657
OPERATING EXPENSES:	
Selling and general administrative (Notes 3, 4, and 8)	4,887,164
Interest	<u>23,447</u>
Total Operating Expenses	<u>4,910,611</u>
LOSS BEFORE INCOME TAXES	(2,489,954)
PROVISION FOR INCOME TAXES (Notes 2 and 7)	<u>(800)</u>
NET LOSS	<u>\$ (2,490,754)</u>

The independent auditor's report and notes are an integral part of these financial statements

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
Year Ended December 31, 2012

	Class A Preferred Stock		Class A-1 Preferred Stock		Class A-2 Preferred Stock		Junior Preferred Stock		Common Stock		Additional Paid-In Capital		Retained Deficit		Total Stockholders' Equity (Deficiency)	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Amount	Amount	Amount	Amount	Amount	Amount
Balance January 1, 2012	3,247,328	\$ 8,118,321	420,000	\$ 1,050,000	-	-	1,177,619	\$ 2,929,044	68,247,311	\$ 6,825	\$ 7,794,977	\$ (18,730,878)	\$ 1,168,289			
Reverse stock split 1 for 10	1 for 10	-	1 for 10	-	-	-	1 for 10	-	1 for 10	-	-	-	-	-	-	-
Change in par value	-	-	-	-	-	-	-	-	-	(6,141)	6,141	-	-	-	-	-
Balance	324,733	8,118,321	42,000	1,050,000	-	-	117,762	2,929,044	6,824,731	684	7,801,118	(18,730,878)	1,168,289			
Issuance of preferred stock	-	-	-	-	15,022	375,500	-	-	-	-	-	-	375,500			
Exercised stock purchase options	-	-	-	-	-	-	-	-	15,500	-	6,335	-	6,335			
Compensation reflected upon issuance of stock options	-	-	-	-	-	-	-	-	-	-	117,101	-	117,101			
Dividends declared	-	-	-	-	-	-	-	-	-	-	-	(565,119)	(565,119)			
Net loss	-	-	-	-	-	-	-	-	-	-	(2,490,754)	(2,490,754)	(2,490,754)			
Balance, December 31, 2012	324,733	\$ 8,118,321	42,000	\$ 1,050,000	15,022	\$ 375,500	117,762	\$ 2,929,044	6,840,231	\$ 684	\$ 7,924,554	\$ (21,786,751)	\$ (1,388,648)			

The independent auditor's report and notes are an integral part of these financial statements.

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	<u>\$ (2,490,754)</u>
Adjustments to reconcile net loss to net cash used by operating activities:	
Amortization	323,397
Depreciation	15,997
Stock option compensation	117,101
Changes in operating assets and liabilities:	
Accounts receivable	(463,195)
Prepaid expenses and other current assets	39,872
Accounts payable	719,457
Accrued expenses	(18,334)
Deferred revenue	(75,901)
Customer deposit	(113,837)
Deferred rent	<u>3,380</u>
Net Cash Used by Operating Activities	(1,942,817)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds received from issuance of long-term liabilities	1,120,000
Proceeds from exercise of stock option	6,335
Proceeds from issuance of preferred stock Class A-2	<u>375,500</u>
Net Cash Provided by Financing Activities	1,501,835
NET DECREASE IN CASH	(440,982)
Cash, beginning	<u>458,832</u>
Cash, ending	<u><u>\$ 17,850</u></u>

The independent auditor's report and notes are an integral part of these financial statements

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS –SUPPLEMENTAL INFORMATION

YEAR ENDED DECEMBER 31, 2012

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$	1,046
Income taxes		800

The independent auditor's report and notes are an integral part of these financial statements

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

1. NATURE OF OPERATIONS

Apollo Enterprise Solutions, Ltd. (“AES” or the “Company”) was incorporated in Bermuda on September 27, 2012 for the purpose of effecting a reverse triangular merger with its wholly-owned subsidiary Apollo Enterprise Solutions, Inc. (“Apollo Inc.”) or “Subsidiary”. Once the merger was completed in October 2012, the Company pursued listing its shares on the Bermuda Stock Exchange (“BSX”) and this was approved by the BSX on November 8, 2012. Apollo Inc. continues as the operating entity and develops and sells computer based software solutions for the credit portfolio recovery activities of financial institutions worldwide (Banks, Finance Companies, Collection Agencies, etc.). AES continues to serve as merely a holding company. Apollo, Inc. has developed a patented software tool known as the debt collection decision engine now called by a suite of names under the TRUE™ trademark (TRUE™ Collect, TRUE™ Recover, etc.). Apollo, Inc. has modified its proprietary software to enable more rapid installation of its products using menu driven options once customers have contracted with them. Apollo, Inc. runs its customer customized TRUE™ software on servers located at Cloud Computing data centers. The Company currently utilizes Amazon and Savvis as Cloud data center hosts in the U.S. and in the U.K.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include Apollo Enterprise Solutions, Ltd and its Subsidiary which is 100% owned by Apollo Enterprise Solutions, Ltd.

The Company has certain transactions originally denominated in foreign currency. These transactions have been translated into United States dollars at the time of the transaction. The foreign currency gain/loss is insignificant. All intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Companies observe a calendar year as its fiscal year. The accompanying financial statements are presented as of December 31, 2012 and for the twelve months then ended.

Credit Risk-Cash

At times, the Companies maintain bank balances in excess of federally insured limits. No losses have been experienced on such balances.

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the related assets.

Software Patent Costs

The costs incurred internally to create the company's computer software debt collection decision engine are carried at actual internal development cost. There were no additions to patent costs in 2012. Patent costs are amortized on a straight-line basis over the product's estimated economic life (generally 15 years).

Revenue Recognition

Revenues from the monthly processing of transactions through the debt recoveries decision engine are billed to customers at the rate stipulated in each customer's contract. Revenue for special projects requested by customers is billed at the point the customer initiates and finally accepts the project. Revenue for maintenance fees are billed and recorded according to contract terms. These fees are not prorated as there is no provision for refund if a contract terminates early.

Accounts Receivable

The Subsidiary bills customers a month in arrears for transaction fees since the number of transactions must be known prior to billing. Monthly flat fees (minimums, maintenance fees, etc) are billed on the first of each month. All invoices are net 30 days. Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the bad debt account when determined to be uncollectible.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the period presented. The Companies regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Companies file separate income tax returns on the cash basis of accounting. This is considered in the determination of deferred income taxes. This requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are determined based on the difference between the financial statement and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents income taxes payable for the period and the change during the period in any deferred tax assets and liabilities. Income tax related to the parent is insignificant.

Uncertain Tax Positions

The Subsidiary's income tax returns are subject to audit for 2009, 2010 and 2011.

3. PROPERTY AND EQUIPMENT, Net

Property and equipment consists of the following:

Furniture and fixtures	\$ 48,609
Machinery and equipment	<u>103,007</u>
	151,616
Less: Accumulated depreciation	<u>137,792</u>
	<u>\$ 13,824</u>

Depreciation charged to operations for the year ended December 31, 2012 was \$15,997.

4. PATENTS

The Company has a wide-range of United States and Foreign portfolio of 35 approved and/or pending patents. These cover virtually all the critical aspects of maximizing the collection of debts via new media channels, including the web, mobile, and IVR (Interactive Voice Response).

Nine (9) patents have been approved and issued, five (5) are approved and awaiting issuance, and twenty-one (21) are awaiting further action from the United States and various Foreign patent offices.

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

4. PATENTS (Continued)

The cost of the patents and related amortization are as follows:

Patents, at cost	\$ 3,660,470
Accumulated amortization through December 31, 2012	<u>1,777,225</u>
	<u>\$ 1,883,245</u>

5. ACCRUED EXPENSES

Accrued expenses consist of vacation pay which has been earned by the employees.

6. LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

Unsecured notes due to stockholders, principal and interest at 6% per annum, due on January 1, 2015	\$ 860,000
Line of credit, stockholder is unsecured and provides for borrowing up to \$1,000,000. Principal and interest at 6% per annum, due on December 1, 2015	260,000
Accrued interest represents interest accrued on the above notes due to stockholders and the line of credit	<u>22,401</u>
	<u>\$ 1,142,401</u>

7. INCOME TAXES

Deferred income taxes relate primarily to the future income tax benefit of the net operating loss carryforwards.

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

7. INCOME TAXES (Continued)

The Subsidiary's provision for income taxes for the year ended December 31, 2012 consists of currently payable state taxes.

Deferred income taxes consist of the following:

Deferred income tax benefit	\$ 7,361,000
Less valuation allowance	<u>(7,361,000)</u>
Net deferred tax benefit	<u><u>\$ 0</u></u>

100% valuation allowance is considered necessary due to the uncertainty surrounding realization of any future benefit.

The Subsidiary has available net operating loss carryforwards approximating \$17,000,000 that may be used to reduce future federal and state taxable income, if any, through 2032 for federal purposes and 2022 for state purposes.

8. COMMITMENTS

Lease

The Subsidiary has a lease with an unrelated party for its office space located in Long Beach, California. The office space is leased through July 2015. The Subsidiary also subleases an excess of its office to a company owned by one of the stockholders at the same lease rates. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Lease</u> <u>Payments</u>	<u>Sublease</u> <u>Income</u>	<u>Net</u> <u>Payments</u>
2013	\$ 222,000	\$ 99,000	\$ 123,000
2014	230,000	101,000	129,000
2015	<u>150,000</u>	<u>66,000</u>	<u>84,000</u>
	<u><u>\$ 602,000</u></u>	<u><u>\$ 266,000</u></u>	<u><u>\$ 336,000</u></u>

Rent expense approximates \$115,000, net of sublease income of \$85,000 for the year ended December 31, 2012.

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

8. COMMITMENTS (Continued)

Lease (Continued)

The Companies reflect rent expense on a straight-line basis over the lease period. Any differences between rent expense and rent paid due to scheduled rent increases or rent abatements are included in deferred rent on the accompanying balance sheet.

Consulting

The Subsidiary has a consulting agreement with a management company, which is affiliated with a significant stockholder. This company provides leadership personnel and financial management personnel for the company. The agreement provides for monthly payments of \$41,000 through June 2014.

Minimum annual payments under the consulting agreement are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2013	\$ 492,000
2014	<u>246,000</u>
	<u>\$ 738,000</u>

In addition, the Subsidiary receives consulting from various related and unrelated parties and there are no long-term agreements. Included in the related parties amount below is \$492,000 paid on the consulting agreement mentioned above.

A summary of consulting expense (included in operating expenses) is as follows:

Related parties	\$ 765,839
Unrelated parties	<u>731,521</u>
	<u>\$ 1,497,360</u>

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

8. COMMITMENTS (Continued)

Stock Purchase Warrants

The Company has granted warrants to purchase up to 3,996,350 shares of the Company's common stock at prices ranging from \$25.00 to \$55.00 per share with various expirations. Stock warrant activity during the year ended December 31, 2012 is as follows:

	<u>Shares</u>	<u>Warrant Price</u>
Outstanding as of January 1, 2012	17,663,503	\$2.50 to .0.1
Reverse stock split 1 for 10	<u>(15,897,153)</u>	
Balance	1,766,350	25.00 to 1.00
Granted in 2012	2,281,818	.55
Cancelled in 2012	<u>(11,182)</u>	<u>.50 to 2.50</u>
Outstanding as of December 31, 2012	<u>4,036,986</u>	

Stock Option Plans

The Company has two stock option plans. The stock option plan prior to 2009 provides for the granting of up to 30,922,167 shares of common stock. The reverse revenue stock split 1 for 10 reduced the number of options for granting of up to 3,092,217. The stock option plan commencing in 2009 provides for the granting of up to 45,093,093 shares of common stock. During 2012, the Company increased the number of options for granting of up to 100,000,000. The reverse stock split 1 for 10 reduced the number of options for granting of up to 10,000,000. The option price per share will be fixed on the date the option is granted and the maximum term of an option may not exceed ten years. The option price will be not less than the fair value of the stock at the date of the grant.

Stock option activity during the year ended December 31, 2012 is as follows:

	<u>Shares</u>	<u>Option Price</u>
Outstanding as of January 1, 2012	60,598,647	\$.03 to .05
Reverse stock split 1 for 10	<u>(54,538,782)</u>	
Balance	6,059,865	.30 to .50
Granted in 2012	3,225,120	.50
Exercised in 2012	(15,500)	.30 to .50
Cancelled during 2012	<u>(1,586,944)</u>	<u>.30 to .50</u>
Outstanding as of December 31, 2012	<u>7,682,541</u>	\$.30 to .50

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

8. COMMITMENTS (Continued)

Stock Option Plans (Continued)

The options have been granted to employees, former employees, stockholders, debtors, and directors. During the year ended December 31, 2012, approximately \$117,000 of stock option expense has been included in compensation expense.

Common Stock

Included in common stock is 9,400,000 shares of stock that were reacquired by the Company for a nominal amount.

9. MAJOR CUSTOMER

For the year ended December 31, 2012, 100% of the Companies' net sales were made to one customer located in the U.K.

10. PREFERRED STOCK

There are various classes of preferred stock. All of the classes of preferred stock are convertible into common stock. The holders of the outstanding preferred shares are entitled to certain liquidation preferences. Class A, A-1 and A-2 stockholders are entitled to a 6% annual dividend. The dividends are payable after the company achieves 3 consecutive quarters of positive net income. Accordingly, dividends of \$1,834,621 have been accrued as of December 31, 2012. No dividends are payable on common or junior preferred stock. Liquidation rights for Class A, A-1 and A-2 are superior to junior preferred and common stock.

Such liquidation amounts will be determined based upon future events such as liquidation, merger or sale of the Company. Rights and preferences of unissued preferred shares will be designated at a future time by the Board of Directors.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 8, 2013, the date which financial statements were available for issue. There were no material subsequent events to disclose except as follows.

In November 2012, the Company listed its Class B Common Shares on the Bermuda Stock Exchange (BSX). In contemplating to dual list the Company's shares on a European Exchange, the Company determined that it needed a single class of Common Shares in order to dual list. Accordingly, the Company merged its two (2) classes of Common Shares (Class A and Class B Common Shares), delisted the now eliminated Class B Common Shares and relisted its single class of Common Shares on the BSX in January 2013.

APOLLO ENTERPRISE SOLUTIONS, LTD AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

12. MANAGEMENT PLANS

Management continues to minimize operating expenses while bringing on its significant customer and its related subsidiaries. Management believes that if the significant customer and Apollo Inc. execute current plans to stand up planned products with scheduled subsidiaries that Apollo Inc. can achieve breakeven in 2013. In order to accelerate company growth and profitability, Apollo Inc. is actively looking to dual list its shares on a European Stock Exchange and conduct a fund raising with European Institutional Investors in connection with the dual listing. If the Company is successful in this regard, it plans to increase both sales and project management staffing in order to hasten installation of the Company's products in additional customer sites. The additional funding to be raised will more than support the Company's efforts to accelerate the planned growth.