**Wellness Center USA, Inc.**
**September 30, 2022 and 2021**
**Index to the Consolidated Financial Statements**

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**Wellness Center USA, Inc.**
**Consolidated Balance Sheets**

| | September 30, 2022 (Unaudited) | September 30, 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | $ 63,155 | $ 32,079 |
| Inventories, net | 100,202 | 50,000 |
| **Total Current Assets** | 163,357 | 82,079 |
| **TOTAL ASSETS** | $ 163,357 | $ 82,079 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIT** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 791,378 | $ 624,337 |
| Payroll taxes payable, past due | 57,834 | 75,834 |
| Lease abandonment liability | 547,878 | 672,878 |
| Loans payable from officers and shareholders, net of debt discount of $15,822 in 2021 | 2,662,200 | 2,055,378 |
| **Total Current Liabilities** | 4,059,290 | 3,428,427 |
| U.S. SBA loan payable | 304,600 | - |
| **Total Liabilities** | 4,363,890 | 3,428,427 |
| **Shareholders' Deficit** | | |
| Common stock, par value $0.001, 200,000,000 shares authorized; 137,562,077 and 123,877,077 shares issued and outstanding, respectively | 137,562 | 123,877 |
| Additional paid-in capital | 25,853,570 | 25,258,005 |
| Accumulated deficit | (29,500,049) | (28,389,628) |
| **Total Wellness Center USA shareholders' deficit** | (3,508,917) | (3,007,746) |
| Non-controlling interest | (691,616) | (338,602) |
| **Total Shareholder's deficit** | (4,200,533) | (3,346,348) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT** | $ 163,357 | $ 82,079 |

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

**Wellness Center USA, Inc.**
**Consolidated Statements of Operations**

| | Years Ended September 30, | |
|---|---|---|
| | 2022 | 2021 |
| | (Unaudited) | |
| Trade sales | $ 578,042 | $ 239,962 |
| Cost of goods sold | 69,249 | 228,580 |
| Gross profit | 508,793 | 11,382 |
| Operating expenses | 1,769,188 | 1,239,238 |
| Loss from operations | (1,260,395) | (1,227,856) |
| Other income (expenses): | | |
| Interest expense | (192,132) | (134,449) |
| Amortization of debt discount | (15,822) | (1,678) |
| Forgiveness of U.S. Small Business Administration PPP loan payable | - | 37,166 |
| Gain on settlememt of debt | 4,914 | - |
| Total other expenses, net | (203,040) | (98,961) |
| NET LOSS | (1,463,435) | (1,326,817) |
| Net loss attributable to non-controlling interest | 353,014 | 520,552 |
| NET LOSS ATTRIBUTABLE TO WELLNESS CENTER USA, INC | (1,110,421) | (806,265) |
| BASIC AND DILUTED LOSS PER SHARE | $ (0.01) | $ (0.01) |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED | 131,447,228 | 120,944,817 |

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

**Wellness Center USA, Inc.**
**Consolidated Statements of Shareholders' Deficit (Unaudited)**

| | Common Stock | | Additional | Accumulated | Total WCUI | Non-controlling | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-in Capital | Deficit | Deficit | Interest | Total |
| **Balance, September 30, 2020** | 118,252,077 | $ 118,252 | $ 25,053,616 | $ (27,583,363) | $ (2,411,495) | $ 181,950 | $ (2,229,545) |
| Fair value of vested stock options | - | - | 21,764 | - | 21,764 | - | 21,764 |
| Fair value of common stock issued for services to officers and directors | 5,275,000 | 5,275 | 165,475 | - | 170,750 | - | 170,750 |
| Fair value of common stock issued with note payable | 350,000 | 350 | 17,150 | - | 17,500 | - | 17,500 |
| Net loss for the year ended September 30, 2021 | - | - | - | (806,265) | (806,265) | (520,552) | (1,326,817) |
| **Balance, September 30, 2021** | 123,877,077 | $ 123,877 | $ 25,258,005 | $ (28,389,628) | $ (3,007,746) | $ (338,602) | $ (3,346,348) |
| Fair value of common stock issued for services to officers and directors | 5,625,000 | 5,625 | 200,625 | - | 206,250 | - | 206,250 |
| Fair value of common stock issued to officers and directors in connection with shareholder loans | 7,060,000 | 7,060 | 345,940 | - | 353,000 | - | 353,000 |
| Fair value of common stock issued for consulting services | 1,000,000 | 1,000 | 49,000 | - | 50,000 | - | 50,000 |
| Net loss for the year ended September 30, 2022 (unaudited) | - | - | - | (1,110,421) | (1,110,421) | (353,014) | (1,463,435) |
| **Balance, September 30, 2022 (unaudited)** | 137,562,077 | $ 137,562 | $ 25,853,570 | $ (29,500,049) | $ (3,508,917) | $ (691,616) | $ (4,200,533) |

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

**Wellness Center USA, Inc.**
**Consolidated Statements of Cash Flows**

| | Years Ended September 30, 2022 (Unaudited) | Years Ended September 30, 2021 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net loss | $ (1,463,435) | $ (1,326,817) |
| | | |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Gain on forgiveness of U.S. SBA PPP loan payable | - | (37,166) |
| Amortization of right-of-use asset | - | 6,961 |
| Amortization of debt discount | 15,822 | 1,678 |
| Provision for excess and slow moving inventories | - | 173,930 |
| Fair value of common shares issued for services | 206,250 | 170,750 |
| Fair value of common stock issued in connection with shareholder loans | 353,000 | - |
| Fair value of common stock issued for consulting services | 50,000 | - |
| Fair value of stock options issued for services | - | 21,764 |
| Gain on settlement of debt | (4,914) | - |
| Changes in Assets and Liabilities | | |
| (Increase) Decrease in: | | |
| Accounts receivable | - | - |
| Inventories | (50,202) | (129,370) |
| Prepaid expenses and other assets | - | 500 |
| (Decrease) Increase in: | | |
| Accounts payable and accrued expenses | 171,956 | 216,040 |
| Payroll taxes payable | (18,000) | (16,500) |
| Lease abandonment liability | (125,000) | - |
| Lease liability | - | (6,961) |
| **Net cash used in operating activities** | (864,523) | (925,191) |
| | | |
| **Cash Flows from Financing Activities** | | |
| Proceeds from loans payable from officers and shareholders | 781,000 | 905,950 |
| Repayments of loans payable from officers and shareholders | (190,000) | - |
| Proceeds from SBA loan payable | 304,600 | - |
| **Net cash provided by financing activities** | 895,600 | 905,950 |
| | | |
| Net increase (decrease) in cash | 31,077 | (19,241) |
| | | |
| Cash beginning of year | 32,079 | 51,320 |
| Cash end of year | $ 63,156 | $ 32,079 |
| | | |
| **Supplemental cash flows disclosures:** | | |
| Interest paid | $ - | $ - |
| Taxes paid | $ - | $ - |
| | | |
| **Supplemental non-cash disclosures:** | | |
| Debt discount on issuance of convertible note payable | $ - | $ 17,500 |

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

## NOTE 1 – BASIS OF PRESENTATION

### Organization and Operations

Wellness Center USA, Inc. ("WCUI" or the "Company") was incorporated in June 2010 under the laws of the State of Nevada. The Company initially engaged in online sports and nutrition supplements marketing and distribution. The Company subsequently expanded into additional businesses within the healthcare and medical sectors through acquisitions, including Psoria-Shield Inc. ("PSI") and StealthCo Inc. ("SCI"), d/b/a Stealth Mark, Inc.

The Company currently operates in the following business segments: (i) distribution of targeted Ultraviolet ("UV") phototherapy devices for dermatology and sanitation purposes; and (ii) authentication and encryption products and services. The segments are operated, respectively, through PSI and SCI.

### COVID-19 Considerations

During the year ended September 30, 2022, the COVID-19 pandemic did not have a material net impact on our operating results. In the future, the pandemic may cause reduced demand for our products if, for example, the pandemic results in a recessionary economic environment which negatively effects the customers who purchase our products.

Our ability to operate without significant negative operational impact from the COVID-19 pandemic will in part depend on our ability to protect our employees and our supply chain. The Company has endeavored to follow the recommended actions of government and health authorities to protect our employees. Since the onset of the COVID-19 pandemic, we maintained the consistency of our operations. However, the uncertainty resulting from the pandemic could result in an unforeseen disruption to our workforce and supply chain (for example an inability of a key supplier or transportation supplier to source and transport materials) that could negatively impact our operations.

Through September 30, 2022, the COVID-19 pandemic has not negatively impacted the Company's liquidity position as of such date. Through September 30, 2022, the Company continues to generate cash flows through financing activities to meet its short-term liquidity needs, and it expects to maintain access to those shareholder loans. The Company has not observed any material impairments of its assets or a significant change in the fair value of its assets due to the COVID-19 pandemic.

### Going Concern

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying condensed consolidated financial statements, the Company has not yet generated significant revenues and has incurred recurring net losses. During the year ended September 30, 2022, the Company incurred a net loss of $1,463,435 and used cash in operations of $864,524 and had a shareholders' deficit of $4,200,533 as of September 30, 2022. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its strategies. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

At September 30, 2022, the Company had cash on hand in the amount of $63,155. The ability to continue as a going concern is dependent on the Company attaining and maintaining profitable operations in the future and raising additional capital soon to meet its obligations and repay its liabilities arising from normal business operations when they come due. Since inception, we have funded our operations primarily through equity and debt financings and we expect to continue to rely on these sources of capital in the future. During the year ended September 30, 2022, the Company received $781,000 through short-term loans from officers and shareholders and $304,600 through a U.S. SBA loan payable.

No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stockholders, in case of equity financing.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Consolidation

The consolidated financial statements include the Company's subsidiaries and the accounts of its subsidiaries for which it was determined that Company has operational and management control. The Company's subsidiaries that are consolidated are Psoria-Shield Inc. ("PSI"), StealthCo Inc. ("SCI"), d/b/a Stealth Mark, Inc., and Protec Scientific, Inc ("Protec")."

### Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. Significant estimates are used in the valuation of accounts receivable and allowance for uncollectible amounts, inventory and obsolescence reserves, accruals for potential liabilities, valuations of stock-based compensation, and realization of deferred tax assets, among others. Actual results could differ from these estimates.

### Income (Loss) Per Share

Basic loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of outstanding common shares during the period. Diluted loss per share is computed by dividing the net loss applicable to common stockholders by the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued. For the year ended September 30, 2022 and 2021, the basic and diluted shares outstanding were the same, as potentially dilutive shares were considered anti-dilutive. At September 30, 2022 and 2021, the dilutive impact of outstanding stock options of 3,907,738 and 5,2777,738 shares, respectively, and outstanding warrants for 23,570,942 and 32,032,075 shares, respectively, have been excluded because their impact on the loss per share is anti-dilutive.

### Revenue Recognition

The company records revenue under the guidance of Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers (Topic 606)* which requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services.

For trade sales, the Company generates its revenue from sales contracts with customers with revenues being generated upon the shipment of merchandise, or for **c**onsulting services, revenue is recognized in the period services are rendered and earned under service arrangements with clients.

The Company sells its products through two main sales channels: 1) directly to customers who use its products (the "Direct Channel") and 2) to distribution partners who resell its products (the "Indirect Channel").

Under the Direct Channel, the Company sells its products to and receives payment directly from customers who purchase its products. Under the Indirect Channel, the Company has entered into distribution agreements that allow the distributors to sell its products and fulfill performance obligations under the agreements. During the years ended September 30, 2022 and 2021, all of the Company's products were sold through its Direct Channel.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract

- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation.

Revenue is generally recognized upon shipment or when a service has been completed, unless we have significant performance obligations for services still to be completed. We recognize revenue when a material reversal is no longer probable. Payments received before the relevant criteria for revenue recognition are satisfied are recorded as deferred revenue. There was no deferred revenue at September 30, 2022 and 2021.

**Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is computed on a first-in, first-out basis. At September 30, 2022 and 2021, primarily all of the inventories consisted of raw materials or work-in-progress. The Company provides inventory reserves based on excess and obsolete inventories determined primarily by future demand forecasts. The write down amount, if any, is measured as the difference between the cost of the inventory and net realizable value based upon assumptions about future demand and charged to the provision for inventory, which is a component of cost of sales. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. At September 30, 2022 and 2021, the Company recorded a reserve of $173,930, respectively, for excess and slow-moving inventories.

**Income Taxes**

Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. The Company recorded a valuation allowance against its deferred tax assets as of September 30, 2022 and 2021.

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized in the provision for income taxes.

**Fair Value measurements**

The Company determines the fair value of its assets and liabilities based on the exchange price in U.S. dollars that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- *Level 1* — Quoted prices in active markets for identical assets or liabilities.
- *Level 2* — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments such as cash, and accounts payable and accrued liabilities, approximate the related fair values due to the short-term maturities of these instruments. The carrying value of the loans payable from officers and shareholders approximate their fair value based on the fair market interest rates of these obligations.

**Non-controlling Interests**

***<u>PSI</u>***

In December 2018, PSI entered into a Joint Venture Agreement with GEN2 for further development, marketing, licensing and/or sale of PSI technology and products to be conducted through NEO Phototherapy, Inc. ("NEO"). PSI and GEN2 were the members of NEO, owning 50.5% and 36.0%, respectively. As of April 30, 2020, the Company controlled 51% of the joint venture, GEN2 controlled 39% and another individual controlled the remaining 10%.

Effective April 30, 2020, the joint venture with GEN2 was reorganized. GEN2 shareholders exchanged their common shares in GEN2, and the individual exchanged his membership interests in NEO, for common shares representing 49% ownership in PSI. The Company retained its common shares in PSI, which provides the Company a 51% economic interest in the PSI technology and products developed by the joint venture. During the years ended September 30, 2022 and 2021, PSI recorded a loss of $710,610 and $746,433, respectively, relating to its operations, of which $348,199 and $365,752, respectively, was allocated to the non-controlling interest.

As of September 30, 2019, GEN2 had received $975,000 of investments to contribute to NEO. Repayment of the $975,000 investment will begin through and upon the date which PSI has realized and retained cumulative net income/distributable cash in the amount of $300,000. The minority interest of PSI ownership consists of accredited investors, and investment participation of $750,000 from several WCUI officers and directors, including Calvin R. O'Harrow and Roy M. Harsch.

***<u>Protec</u>***

In May 2020, the Company's subsidiary, PSI, agreed to become a majority shareholder in Protec Scientific, Inc. ("Protec"), a company formed in April 2020. As of September 30, 2020, PSI had contributed $191,000 to Protec with the Company's share being approximately 32%, based on its PSI ownership. The remaining 30% share is attributed to PSI's minority shareholders. During the year ended September 30, 2020, Protec received an additional $120,000 from non-affiliated investors. The additional investments gave the non-controlling interests a 68% ownership interest in Protec. During the years ended September 30, 2022 and 2021, Protec recorded a loss of $7,042 and $271,131, respectively, of which $4,815 and $185,399, respectively, was allocated to the non-controlling interests.

**Stock-Based Compensation**

The Company periodically issues stock-based compensation to officers, directors, and consultants for services rendered, and as part of financing transactions. Such issuances vest and expire according to terms established at the issuance date. Stock-based payments to officers, directors, employees, and for acquiring goods and services from non-employees, which include grants of stock options, are recognized in the financial statements based on their fair values in accordance with Topic 718. Stock option grants, which are generally time vested, will be measured at the grant date fair value and charged to operations on a straight-line basis over the vesting period. Recognition of compensation expense for non-employees is in the same period and manner as if the Company has paid cash for the services.

The fair value of the Company's common stock option and warrant grants are estimated using a Black-Scholes Merton option pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options, estimated forfeitures and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes option pricing model and based on actual experience. The assumptions used in the Black-Scholes Merton option pricing model could materially affect compensation expense recorded in future periods.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments ("ASC 326"). The standard significantly changes how entities will measure credit losses for most financial assets, including accounts and notes receivables. The standard will replace today's "incurred loss" approach with an "expected loss" model, under which companies will recognize allowances based on expected rather than incurred losses. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard is effective for interim and annual reporting periods beginning after October 1, 2023. The adoption of ASU 2016-13 is not expected to have a material impact on the Company's financial position, results of operations, and cash flows.

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. ASU 2021-04 provides clarification and reduces diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (such as warrants) that remain equity classified after modification or exchange. An issuer measures the effect of a modification or exchange as the difference between the fair value of the modified or exchanged warrant and the fair value of that warrant immediately before modification or exchange. ASU 2021-04 introduces a recognition model that comprises four categories of transactions and the corresponding accounting treatment for each category (equity issuance, debt origination, debt modification, and modifications unrelated to equity issuance and debt origination or modification). ASU 2021-04 is effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the guidance provided in ASU 2021-04 prospectively to modifications or exchanges occurring on or after the effective date. Early adoption is permitted for all entities, including adoption in an interim period. If an entity elects to early adopt ASU 2021-04 in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes that interim period. The adoption of ASU 2021-04 is not expected to have a material impact on the Company's financial statements or disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

## NOTE 3 – LOANS PAYABLE FROM OFFICERS AND SHAREHOLDERS

As of September 30, 2020, loans payable from officers and shareholders of $1,165,250 were outstanding. During the year ended September 30, 2021, the Company and its subsidiary, PSI, borrowed $905,950 from its officers and shareholders. All of the loans are unsecured, have an interest rate of eight percent and are due one year from the date of issuance. In connection with a loan in the amount of $25,000, the Company awarded the lender 350,000 shares of its common stock, valued at $17,500 on the date of grant. The Company recorded the fair value of the shares as a discount to the debt, which will be amortized over the life of the loan. During the year ended September 30, 2021, the Company amortized $1,678 of the debt discount and the balance of the unamortized discount at September 30, 2021 was $15,822. As of September 30, 2021, loans payable to officers and shareholders of $2,071,200 were outstanding.

During the year ended September 30, 2022, the Company and its subsidiary, PSI, borrowed $781,000 from its officers and shareholders and repaid $190,000. All of the loans are unsecured, have an interest rate of eight percent and are due one year from the date of issuance. As of September 30, 2022, loans payable to officers and shareholders of $2,662,200 were outstanding.

At September 30, 2021, the balance of the unamortized discount related to loans payable to officers and shareholders was $15,822. During the year ended September 30, 2022, the Company amortized the $15,822 of the debt discount and there was no balance of the unamortized discount at September 30, 2022.

## NOTE 4 – U.S. SMALL BUSINESS ADMINISTRATION LOAN PAYABLE

During the year ended September 30, 2022, the Company entered into a loan agreement with the U.S. Small Business Administration (SBA) under which the Company borrowed $304,600. The note accrues interest at 3.75% per annum and calls for monthly payments of $1,569 beginning in February 2024 and maturing in February 2052. The loan is secured by all of the assets of the Company and is personally guaranteed by the Company's Chief Executive Officer. The balance of $304,600 was due as of September 30, 2022, plus $6,854 of accrued and unpaid interest.

## NOTE 5 – LEASE LIABILITIES

***Lease settlement liability***

The Company leased its corporate office facility in Hoffman Estates, Illinois pursuant to a non-cancellable lease initiated in July 2016 and expiring February 28, 2024. The lease terms require a monthly payment of approximately $11,000. The

Company vacated the facility in April 2020, in favor of its present facilities in Tucson AZ, which are provided by a shareholder on a rent-free basis. At the date of vacation, the Company had a remaining lease obligation of $631,587.

On or about June 29, 2020, the Company received notice that Hanover Hoffman Estates, LLC ("HHE"), filed case number 2020L006092 in the Circuit Court of Cook County alleging a failure to pay Base Rent and abandonment of certain office space in Hoffman Estates, Illinois subject to a Commercial Lease dated May 26, 2016 (the "HHE Litigation"). HHE sought at least $672,878 in base rent and other amounts under the lease, as well as treble damages from the Company's ex-CEO and two past Directors who were serving on our Board as of the date of the lease. As of September 30, 2022, the Company has recorded the full amount of the judgement due.

On October 6, 2021, HHE and the Company settled the HHE Litigation pursuant to an agreement providing, among other things, that the Company agree to the entry of a final judgment order on the complaint in the amount of $725,795, which includes $657,194 in base rent awarded HHE by the Court on HHE's Motion for Summary Judgment and the additional fees claimed by HHE and costs. HHE will forebear on the enforcement of the judgment and will provide the Company a satisfaction of the judgment upon the payment by the Company of $350,000, plus interest on the principal amount thereof outstanding from time to time at the rate of 5% per annum (the "Settlement Amount"), until the Settlement Amount is paid in full.

An initial payment of $125,000 was due January 1, 2022. The Company received a letter of default from HHE on January 20, 2022, which provided the Company 30 days to make the payment or HHE could seek collection of the Agreed Final Judgement Amount of $725,795. The Company made the payment of $125,000 on February 10, 2022. The balance of $225,000 will be paid over a five-year period beginning on January 1, 2023, as follows: January 1, 2023 – $15,000 plus accrued interest only; January 1, 2024 – $15,000 plus accrued interest only; January 1, 2025 – $45,000 plus accrued interest; January 1, 2026 – $75,000 plus accrued interest; and January 1, 2027 – $75,000 plus accrued interest.

As of September 30, 2021, the Company had recorded a lease settlement liability of $672,878. During the year ended September 30, 2022, the Company made a payment of $125,000 towards the Settlement Amount and as of September 30, 2022, the Company has recorded a lease settlement liability of $547,878. The Company will adjust any remaining balance of the liability after it has completed the payment and satisfaction of the remaining $225,000 Settlement Amount.

## NOTE 6 – SHAREHOLDERS' EQUITY

***Common Stock Issued for Services***

During the year ended September 30, 2021, the Company entered into an agreement with a consulting firm under which the firm would provide certain services for the Company. Under the agreement, the firm could earn 1,000,000 restricted shares of the Company's common stock for completing certain services. In April 2022, the Company's Board of Directors approved the issuance of the 1,000,000 shares once the services had been completed. The shares vested upon grant and had a fair value on the date of grant of $50,000.

***Restricted Stock Grants***

The following table summarizes restricted common stock activity:

| | Number of Restricted Shares | Fair Value | Weighted Average Grant Date Fair Value |
|---|---|---|---|
| Non-vested, September 30, 2020 | 10,275,000 | $ 308,250 | $ 0.03 |
| Granted | 3,750,000 | 187,500 | 0.05 |
| Vested | (5,275,000) | (170,750) | 0.03 |
| Forfeited | - | - | - |
| Non-vested, September 30, 2021 | 8,750,000 | 325,000 | 0.04 |
| Granted | 3,750,000 | 187,500 | 0.05 |
| Vested | (5,625,000) | (206,250) | 0.04 |
| Forfeited | - | - | - |
| Non-vested, September 30, 2022 | 6,875,000 | $ 306,250 | $ 0.04 |

***Restricted Stock Grants to Officers and Directors***

During the year ended September 30, 2021, the Company's Board of Directors approved the issuance of a combined total of 3,750,000 restricted shares of the Company's common stock to its Officers and Directors, all of which will vest monthly from April 2021 through March 2024. The fair value of the shares on the date of grant was $187,500.

In addition to the above grants, during the year ended September 30, 2021, the Company's Board of Directors approved the issuance of a combined total of 41,353,731 restricted shares of the Company's common stock ("Escrow Shares Account") to its Officers and Directors all of which will only be issued upon the sale or merger of the Company. No stock compensation was recorded relating to that grant as management feels it is a remote possibility that a sale or merger of the Company will happen within the next twelve months. The Company will account for the shares once they are granted to its Officers and Directors, which was done during the year ended September 30, 2022 (see below). The number of shares available to be issued under this condition is reduced by the issuance of shares from the Escrow Shares Account and by the grant of shares into the Escrow Shares Account. In relation to that grant, a total of 16,093,018 warrant shares held by the Officers and Directors were cancelled (see *Stock Warrants* below).

During the year ended September 30, 2022, the Company's Board of Directors approved the issuance of a combined total of 3,750,000 restricted shares of the Company's common stock to certain of its Officers and Directors for future services to be performed. The shares vest monthly from April 2022 through March 2025. The fair value of the shares on the date of grant was $187,500.

During the year ended September 30, 2022, the Board approved the issuance of a combined total of 7,060,000 restricted shares of the Company's common stock to certain of its Officers and Directors in connection with their officer and shareholder loans. The shares vested upon grant and had a fair value on the date of grant of $353,000. These shares were granted from the 41,353,731 Escrow Shares Account (see above), thus reducing the number of shares that can be issued under that account. The Board also approved the issuance of 1,250,000 shares to its CEO, which were added to the Escrow Shares Account balance. The 1,250,000 shares will only be issued upon the sale or merger of the Company, and as such, no stock compensation was recorded.

During the years ended September 30, 2022 and 2021, the Company recorded $206,250 and $170,750, respectively, of stock compensation for the value of vested restricted common stock, and as of September 30, 2022, unvested compensation of $306,250 remained that will be amortized over the remaining vesting period, through March 2025.

***Stock Options***

On December 22, 2010, effective retroactively as of June 30, 2010, the Company's Board of Directors approved the adoption of the "2010 Non-Qualified Stock Option Plan" ("2010 Option Plan") by unanimous consent. The 2010 Option Plan was initiated to encourage and enable officers, directors, consultants, advisors and key employees of the Company to acquire and retain a proprietary interest in the Company by ownership of its common stock. A total of 7,500,000 of the authorized shares of the Company's common stock may be subject to, or issued pursuant to, the terms of the plan. Effective January 1, 2018, the Board of Directors approved to increase the number of authorized shares of the Company's common stock that may be subject to, or issued pursuant to, the terms of the plan from 7,500,000 to 30,000,000.

The Company's policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. Additionally, the Company's policy is to issue new shares of common stock to satisfy stock option exercises. The Company applied fair value accounting for all share-based payments awards. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

The table below summarizes the Company's stock option activities for the year ended September 30, 2022:

| | Number of Option Shares | Exercise Price Range Per Share | Weighted Average Exercise Price |
|---|---|---|---|
| Balance, September 30, 2020 | 14,127,738 | $ 0.03 – 2.00 | $ 0.23 |
| Granted | - | - | - |
| Cancelled | (7,262,500) | 0.04 – 0.40 | 0.06 |
| Exercised | - | - | |
| Expired | (1,587,500) | 0.11 – 2.00 | 1.29 |
| Balance, September 30, 2021 | 5,277,738 | $ 0.03 - 0.26 | $ 0.15 |
| Granted | - | - | - |
| Cancelled | - | - | - |
| Exercised | - | - | - |
| Expired | (1,370,000) | 0.12 - 0.26 | 0.20 |
| Balance, September 30, 2022 | 3,907,738 | $ 0.03 - 0.19 | $ 0.13 |
| Vested and exercisable, September 30, 2022 | 3,907,738 | $ 0.03 - 0.19 | $ 0.13 |
| Unvested, September 30, 2022 | - | $ - | $ - |

The following table summarizes information concerning outstanding and exercisable options as of September 30, 2022:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | Number Exercisable | Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
| $0.03 - 0.19 | 3,907,738 | 0.77 | $ 0.13 | 3,907,738 | 0.77 | $ 0.13 |
| $0.03 - 0.19 | 3,907,738 | 0.77 | $ 0.13 | 3,907,738 | 0.77 | $ 0.13 |

***Stock Option Activity during the Fiscal Year Ended September 30, 2021***

During the year ended September 30, 2021, the Company's Board of Directors approved the cancellation of 6,050,000 option shares held the Company's Chief Executive Officer (CEO) and replaced them with a grant of 6,050,000 option shares that will only be granted upon the sale or merger of the Company. No stock compensation was recorded relating to that grant as management feels it is a remote possibility that a sale or merger of the Company will happen within the next twelve months.

During the year ended September 30, 2021, the Company recorded $21,764 of stock compensation for the value of options vesting during the period. During the year ended September 30, 2022, no stock compensation was recorded for the value of options vesting during the period, and as of September 30, 2022, no unvested compensation remained that will be amortized over the remaining vesting period.

As of September 30, 2022, there were 26,092,262 shares of stock options remaining available for issuance under the 2010 Plan. There was no intrinsic value for option shares outstanding at September 30, 2022.

***Stock Warrants***

The table below summarizes the Company's warrants activities for the year ended September 30, 2022:

| | Number of Warrant Shares | | Exercise Price Range Per Share | | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| Balance, September 30, 2020 | 67,634,049 | $ | 0.07 - 0.40 | $ | 0.16 |
| Granted | - | | - | | - |
| Cancelled | (16,093,018) | | 0.12 - 0.18 | | 0.15 |
| Exercised | - | | - | | - |
| Expired | (19,508,956) | | 0.15 – 0.25 | | 0.18 |
| Balance, September 30, 2021 | 32,032,075 | | 0.07 - 0.40 | | 0.16 |
| Granted | - | | - | | - |
| Cancelled | - | | - | | - |
| Exercised | - | | - | | - |
| Expired | (8,461,133) | | 0.12 - 0.18 | | 0.15 |
| Balance, September 30, 2022 | 23,570,942 | $ | 0.07 - 0.40 | $ | 0.17 |
| Vested and exercisable, September 30, 2022 | 23,570,942 | $ | 0.07 - 0.40 | $ | 0.17 |

The following table summarizes information concerning outstanding and exercisable warrants as of September 30, 2022:

| | Warrants Outstanding | | | | Warrants Exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Average Remaining Contractual Life (in years) | | Weighted Average Exercise Price | Number Exercisable | Average Remaining Contractual Life (in years) | | Weighted Average Exercise Price |
| $ 0.07 – 0.20 | 22,620,942 | 1.28 | $ | 0.16 | 22,620,942 | 1.28 | $ | 0.16 |
| 0.21 – 0.40 | 950,000 | 0.56 | | 0.33 | 950,000 | 0.56 | | 0.33 |
| $ 0.07 – 0.40 | 23,570,942 | 1.25 | $ | 0.17 | 23,570,942 | 1.25 | $ | 0.17 |

During the year ended September 30, 2021, the Company's Board of Directors approved the cancellation of 16,093,018 warrant shares held by the Company's Officers and Directors. See *Restricted Stock Grants* above relating to this cancellation.

There was no aggregate intrinsic value for warrant shares outstanding at September 30, 2022.

## NOTE 7 – LEGAL MATTERS

The Company is periodically engaged in legal proceedings arising from and relating to its business operations. Except as otherwise described herein, we currently are not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our Company or any of our subsidiaries, threatened against or affecting our Company, our common stock, any of our subsidiaries or of our Company's or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect on our financial condition or results of operations.

The Company continues efforts to preserve revenue and reduce operating expenses through actions including, but not limited to, facilities consolidation and staff reductions, which it hopes to implement through negotiated transactions with lessors, employees and other third parties. Such actions may result in disputes with and claims by such parties which, if not resolved through negotiations, may impact negatively the Company's ability to continue as a going concern. To date, the Company has negotiated settlement of all ex-employee wage and benefits claims except for the claim filed with the

Illinois Department of Labor asserting a violation of the Illinois Wage Payment and Collection Act by the Company's former CEO. That claim alleges unpaid wages in the amount of $158,715 and unpaid vacation pay in the amount of $20,833 for a total amount of $179,548, as well as certain statutory damages including, but not limited to, 2% of the wages due per month plus attorneys' fees if the ex-CEO elects to file suit for a violation of the Act and is successful in obtaining a judgment on his claim. The Company has filed its response to such claim with the Department denying the substantive allegations therein and asserting certain factual and legal defenses, including breach of fiduciary duty, as a bar to all claimed compensation. The claim remains pending, but as the date hereof, no suit has been filed against the Company asserting a violation of the Act based on said claim.

As discussed in Note 5, on or about June 29, 2020, HHE filed case number 2020L006092 in the Circuit Court of Cook County alleging failure to pay Base Rent and abandonment of certain office space in Hoffman Estates, Illinois subject to a Commercial Lease dated May 26, 2016 (the "HHE litigation"). HHE sought at least $672,888 in base rent and other amounts under the lease, as well as treble damages from our ex-CEO and two past Directors who were serving on our Board as of the date of the lease. On October 6, 2021, HHE and the Company agreed to a settlement on the terms discussed in Note 5 above. On February 10, 2022, the initial payment of $125,000 was paid to HHE (see Note 5).

On or about January 8, 2021, Periklis Papadopoulus, a former Director who was named as an additional Defendant in the HHE litigation, filed a counterclaim against the Company seeking indemnification for attorneys' fees he incurred in obtaining his dismissal from the HHE litigation. Subsequent to September 30, 2021, the Company settled the counterclaim by agreeing to pay $41,914, with $15,000 payable on or about January 4, 2022 and the balance in sixteen monthly installments commencing June 4, 2022, each in the amount of $1,791. The settlement amount shall be reduced to $37,000 if it is paid prior to April 1, 2022, or $39,000 if paid before July 1, 2022. The Company agreed to entry of a judgment in the amount of $41,914 to secure payments under the settlement agreement. This amount is included in Accounts payable and accrued expenses on the accompanying Balance Sheets. Upon payment of the settlement, Papadopoulos will provide the Company with a satisfaction of judgment. During the year ended September 30, 2022, but prior to April 1, 2022, the Company made payments totaling $37,000. This satisfied the judgment as of September 30, 2022, and the Company recorded a gain on settlement of debt of $4,914 during the year ended September 30, 2022.

**NOTE 9 – INCOME TAXES**

At September 30, 2022, the Company had net operating loss ("NOL") carryforwards for federal and state income tax purposes of approximately $22 million that may be offset against future taxable income through 2042. No tax benefit has been reported with respect to these net operating loss (NOL) carryforwards because the Company believes that the realization of the Company's net deferred tax assets of approximately $5,600,000 was not considered more likely than not and accordingly, the potential tax benefits of the net loss carryforwards are offset by a full valuation allowance.

The Company recognizes as income tax expense, interest and penalties on uncertain tax provisions. As of September 30, 2022 and 2021, the Company has not accrued interest or penalties related to uncertain tax positions. Tax years 2019 through 2022 remain open to examination by the major taxing jurisdictions to which the Company is subject.

The Company's effective income tax rate differs from the amount computed by applying the federal statutory income tax rate to loss before income taxes as follows:

| | September 30, 2022 | September 30, 2021 |
|---|---|---|
| Income tax benefit at federal statutory rate | (21.0)% | (21.0)% |
| State income tax benefit, net of federal benefit | (4.0)% | (4.0)% |
| Change in valuation allowance | 25.0% | 25.0% |
| Income taxes at effective income tax rate | - % | - % |

The components of deferred taxes consist of the following at September 30, 2022 and 2021:

| | September 30, 2022 | September 30, 2021 |
|---|---|---|
| Net operating loss carryforwards | $ 5,575,000 | $ 5,367,250 |
| Less: Valuation allowance | (5,575,000) | (5,367,250) |
| Net deferred tax assets | $ - | $ - |

**NOTE 9 – SUBSEQUENT EVENTS**

Subsequent to September 30, 2022, the Company borrowed a net amount of $37,455 from its officers and shareholders. All of the loans are unsecured, have an interest rate of eight percent and are due one year from the date of issuance.