

**RAPID THERAPEUTIC SCIENCE LABORATORIES, INC.**

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(Unaudited)

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**RAPID THERAPEUTIC SCIENCE LABORATORIES, INC.**  
**Consolidated Balance Sheets**  
**(Unaudited)**

	<b>September 30,</b> <b><u>2024</u></b>	<b>December 31,</b> <b><u>2023</u></b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 10,154
Inventory	175,047	175,047
Prepaid expenses	-	53,121
Total current assets	175,047	238,322
Property and equipment	723,912	1,354,072
Accumulated depreciation	(95,278)	(77,299)
Net property and equipment	628,634	1,276,773
Other long-term assets		
Operating lease right-of-use asset, net	-	255,102
License agreement	170,075	170,075
Total assets	\$ 973,756	\$ 1,940,272
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 208,931	\$ 804,481
Notes payable - related party	830,560	830,560
Notes payable - other	2,616,718	2,466,718
Accrued interest payable	299,219	224,304
Current portion of operating lease obligation	-	102,792
Warrant liability	55,920	55,920
Derivative liability	12,755	12,755
Total current liabilities	4,024,103	4,497,530
Long-term liabilities		
Convertible notes payable	-	150,000
Long-term portion of operating lease obligation	-	194,331
Total liabilities	4,024,103	4,841,861
Commitments and contingencies (Note 11)		
Stockholders' deficit:		
Preferred stock, no par value per share, 16,500,000 shares authorized (Series A), 2,000,000 shares authorized (Series B), 8,500,000 shares authorized (Series C), no shares issued and outstanding	-	-
Common stock, \$0.001 par value per share, 800,000,000 shares authorized, 18,986,917 and 20,910,251 shares issued and outstanding	18,987	20,910
Additional paid in capital	7,703,036	7,701,113
Accumulated deficit	(10,435,031)	(10,286,273)
Treasury stock	(337,339)	(337,339)
Total stockholders' deficit	(3,050,347)	(2,901,589)
Total liabilities and stockholders' deficit	\$ 973,756	\$ 1,940,272

See accompanying notes to unaudited consolidated financial statements.

**RAPID THERAPEUTIC SCIENCE LABORATORIES, INC.**  
**Consolidated Statements of Operations**  
**(Unaudited)**

	<b>Three Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Revenues	\$ -	\$ -
Cost of goods sold	-	-
Gross profit	-	-
Operating expenses:		
General and administrative	5,479	55,200
Depreciation expense	5,993	5,993
Total operating expenses	11,472	61,193
Other income (expense):		
Gain on valuation of derivatives	-	187,041
Interest expense	(25,156)	(261,637)
Total other income (expense)	(25,156)	(74,596)
Net income (loss) before income taxes	(36,628)	(135,789)
Income taxes	-	-
Net income (loss)	\$ (36,628)	\$ (135,789)
Net income (loss) per share, basic and diluted	\$ (0.00)	\$ (0.01)
Weighted average shares outstanding, basic and diluted	18,986,917	9,595,852

See accompanying notes to unaudited consolidated financial statements.

**RAPID THERAPEUTIC SCIENCE LABORATORIES, INC.**  
**Consolidated Statements of Operations**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Revenues	\$ -	\$ -
Cost of goods sold	-	-
Gross profit	-	-
Operating expenses:		
General and administrative	55,863	245,240
Depreciation expense	17,979	17,979
Total operating expenses	73,842	263,219
Other income (expense):		
Gain on valuation of derivatives	-	716,088
Interest expense	(74,916)	(433,494)
Refund of prior year employer taxes	-	82,529
Total other income (expense)	(74,916)	365,123
Net income (loss) before income taxes	(148,758)	101,904
Income taxes	-	-
Net income (loss)	\$ (148,758)	\$ 101,904
Net income (loss) per share, basic and diluted	\$ (0.01)	\$ 0.01
Weighted average shares outstanding, basic and diluted	19,401,066	9,143,357

See accompanying notes to unaudited consolidated financial statements.

**RAPID THERAPEUTIC SCIENCE LABORATORIES, INC.**  
**Consolidated Statements of Stockholders' Equity (Deficit)**  
**(Unaudited)**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2023	20,910,251	\$ 20,910	\$ 7,701,113	\$ (10,286,273)	\$ (337,339)	\$ (2,901,589)
Stock surrendered by a stockholder	(1,923,334)	(1,923)	1,923	-	-	-
Net loss	-	-	-	(76,740)	-	(76,740)
Balance at March 31, 2024	18,986,917	18,987	7,703,036	(10,363,013)	(337,339)	(2,978,329)
Net loss	-	-	-	(35,390)	-	(35,390)
Balance at June 30, 2024	18,986,917	18,987	7,703,036	(10,398,403)	(337,339)	(3,013,719)
Net loss	-	-	-	(36,628)	-	(36,628)
Balance at September 30, 2024	<u>18,986,917</u>	<u>\$ 18,987</u>	<u>\$ 7,703,036</u>	<u>\$ (10,435,031)</u>	<u>\$ (337,339)</u>	<u>\$ (3,050,347)</u>

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2022	7,764,594	\$ 7,763	\$ 7,504,242	\$ (10,316,149)	\$ (337,339)	\$ (3,141,483)
Stock issued for conversion of notes payable	317,803	319	112,337	-	-	112,656
Net income	-	-	-	191,271	-	191,271
Balance at March 31, 2023	8,082,397	8,082	7,616,579	(10,124,878)	(337,339)	(2,837,556)
Stock issued for conversion of notes payable	349,854	350	11,650	-	-	12,000
Private sale of stock	400,000	400	39,600	-	-	40,000
Net income	-	-	-	46,422	-	46,422
Balance at June 30, 2023	8,832,251	8,832	7,667,829	(10,078,456)	(337,339)	(2,739,134)
Stock issued for conversion of notes payable	9,303,000	9,303	28,589	-	-	37,892
Net loss	-	-	-	(135,789)	-	(135,789)
Balance at September 30, 2023	<u>18,135,251</u>	<u>\$ 18,135</u>	<u>\$ 7,696,418</u>	<u>\$ (10,214,245)</u>	<u>\$ (337,339)</u>	<u>\$ (2,837,031)</u>

See accompanying notes to unaudited consolidated financial statements.

**RAPID THERAPEUTIC SCIENCE LABORATORIES, INC.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (148,758)	\$ 101,904
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:		
(Gain) on valuation of derivatives	-	(716,088)
Amortization of debt discount	-	76,170
Non-cash interest	-	264,756
Depreciation expense	17,979	17,979
Other non-cash expenses - related party	-	58,659
Changes in operating assets and liabilities		
Other current assets	-	5,025
Right of use asset	-	63,776
Accounts payable and accrued liabilities	45,710	30,773
Accrued interest payable	74,915	74,344
Net cash flows used in operating activities	(10,154)	(22,702)
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	-	-
Net cash flows used in investing activities	-	-
<b>Cash flows from financing activities:</b>		
Issuance of common stock	-	40,000
Issuance of notes payable - related party	-	-
Issuance of notes payable - other	-	50,000
Payment of notes payable - other	-	(48,701)
Net cash flows provided by financing activities	-	41,299
Net increase (decrease) in cash and cash equivalents	(10,154)	18,597
Cash and cash equivalents at beginning of period	10,154	-
Cash and cash equivalents at end of period	\$ -	\$ 18,597
<b>Supplemental cash flow data:</b>		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	-	-
<b>Supplemental Non-cash financing activities:</b>		
Convertible notes payable and accrued interest converted to common stock	\$ -	\$ 162,548
Accounts payable for additions to property and equipment	-	(210,431)

See accompanying notes to unaudited consolidated financial statements.

**RAPID THERAPEUTIC SCIENCE LABORATORIES, INC.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**(1) Consolidated Financial Statements**

*The Company* – Rapid Therapeutic Science Laboratories, Inc. (“we”, “our” or the “Company”) was incorporated in the State of Nevada on February 22, 2013, originally under the name of PowerMedChairs. On June 2, 2017, the Company changed its name to Holly Brothers Pictures, Inc. On February 1, 2018, the Company acquired 100% of the equity interests in Power Blockchain, LLC through an exchange agreement in a transaction that resulted in the transition to a planned new business of mining crypto-currency. Effective November 15, 2019, the Company exited from that business and adopted a new business strategy focused on developing potential commercial opportunities which involve the rapid application of therapeutics using inhaler technology that the Company licensed from a third party as a result of the execution of a license agreement with the licensor (see Note 4). In conjunction with the adoption of that new business strategy, the Company changed its name to Rapid Therapeutic Science Laboratories, Inc., effective January 13, 2020. At that time, the Company also commenced limited initial sales of its inhaler products. However, due to the subsequent impact of the COVID-19 pandemic, as well as other contributing factors, the Company has currently suspended such activity.

*Consolidated Financial Information* – The accompanying consolidated financial statements as of and for the three and nine month periods ended September 30, 2024 and 2023 have been prepared by the Company, without audit, in accordance with accounting principles generally accepted in the United States of America for financial information. In the opinion of management, these consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position of the Company as of September 30, 2024 and December 31, 2023, the results of its operations for the three and nine month periods ended September 30, 2024 and 2023, the changes in its stockholders’ deficit for the nine month periods ended September 30, 2024 and 2023, and cash flows for the nine month periods ended September 30, 2024 and 2023.

**(2) Summary of Significant Accounting Policies**

*Basis of Accounting* - The basis is United States generally accepted accounting principles. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Rxoid Health Solutions, LLC and Power Blockchain, LLC (which is presently inactive).

*Principles of Consolidation* - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

*Cash and Cash Equivalents* - The Company considers all short-term investments with original maturities of three months or less at the date of purchase to be cash equivalents.

*Inventory* – Inventory consists of inhalers and related products and supplies delivered to a secured location near the Company’s offices, and held for ultimate sale to wholesale or retail customers. Inventory is stated at the lower of weighted average cost or market. The Company periodically reviews the value of items in inventory and records an allowance to reduce the carrying value of inventory to the lower of cost or net realizable value based on its assessment of market conditions, inventory turnover and current stock levels.

*Property and Equipment* – Property and equipment, consisting of office furniture and fixtures, laboratory equipment and leasehold improvements, is depreciated on a straight-line basis over their useful lives ranging from two to five years.

*Intangible Assets* – The Company amortizes the costs of any renewable license or sub-license agreements over the contractual terms of such renewable agreements. For any license or sub-license agreements which do not require any renewal payments to be made, the Company performs periodic assessments in order to determine whether there has been any impairment in the carrying value of such intangible assets (see Note 4).

*Revenue recognition* - We account for revenue from contracts with customers in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The unit of account in Topic 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods or services) or a series of distinct goods or services provided at a point in time or over a period of time. Topic 606 requires that a contract’s transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, is to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

*Earnings per Share* - Basic income (loss) per share is calculated by dividing the Company’s net income (loss) available to common shareholders by the weighted average number of common shares issued and outstanding during the period. Diluted income (loss) per share is calculated by dividing the Company’s net income (loss) available to common shareholders by the diluted weighted average number of shares outstanding during the period. The diluted weighted average number of shares outstanding is the basic weighted number of shares adjusted as of the first year for any potentially dilutive debt or equity.

*Income Taxes* – The provision for income taxes is the total of the current taxes payable and the net of the change in the deferred income taxes. Provision is made for the deferred income taxes where differences exist between the period in which transactions affect current taxable income and the period in which they enter into the determination of net income in the financial statements. A valuation allowance is provided for the amount of deferred assets that, based on available evidence, is not expected to be realized.

*Use of Estimates* - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from estimates.

*Fair Value of Financial Instruments* - Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as further noted below.

Level 1: The preferred inputs to valuation efforts are “quoted prices in active markets for identical assets or liabilities,” with the caveat that the reporting entity must have access to that market. Information at this level is based on direct observations of transactions involving the same assets and liabilities, not assumptions, and thus offers superior reliability. However, relatively few items, especially physical assets, actually trade in active markets.

Level 2: FASB acknowledged that active markets for identical assets and liabilities are relatively uncommon and, even when they do exist, they may be too thin to provide reliable information. To deal with



this shortage of direct data, the board provided a second level of inputs that can be applied in three situations.

Level 3: If inputs from levels 1 and 2 are not available, FASB acknowledges that fair value measures of many assets and liabilities are less precise. The board describes Level 3 inputs as “unobservable,” and limits their use by saying they “shall be used to measure fair value to the extent that observable inputs are not available.” This category allows “for situations in which there is little, if any, market activity for the asset or liability at the measurement date”. Earlier in the standard, FASB explains that “observable inputs” are gathered from sources other than the reporting company and that they are expected to reflect assumptions made by market participants.

The Company’s financial instruments consist of cash, accounts payable and accrued liabilities, notes payable, due to related parties, warrant liabilities and derivative liabilities. Except for cash, warrant liabilities, and derivative liabilities, the Company’s financial instruments’ carrying amounts, excluding unamortized discounts, approximate their fair values due to their short term to maturity. Cash is measured and recognized at fair value based on level 1 inputs for all periods presented. Warrant liabilities and Derivative liabilities are measured and recognized at fair value based on level 3 inputs.

*Recently Issued Accounting Pronouncements* – During the three month period ended September 30, 2024, the Financial Accounting Standards Board issued several new Accounting Standards Updates which the Company believes will have no material impact to the Company.

*Subsequent Events* – Management has evaluated any subsequent events occurring in the period from September 30, 2024 through the date the financial statements were issued, to determine if disclosure in this report is warranted.

### **(3) Going Concern**

The Company's consolidated financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has generated minimal revenues and has suffered recurring losses totaling \$10,435,031 since inception and has a working capital deficit as of September 30, 2024 of \$3,849,056. These factors, among others, indicate that there is substantial doubt about the Company’s ability to continue as a going concern within one year from the issuance date of this filing.

In order to obtain the necessary capital to sustain operations, management’s plans include, among other things, the possibility of pursuing new equity sales and/or making additional debt borrowings. There can be no assurances, however, that the Company will be successful in obtaining such additional financing, or that such financing will be available on favorable terms, if at all. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might result from the outcome of this uncertainty.

### **(4) License Agreement**

The Company has acquired certain intangible asset rights to use the metered dose inhaler (MDI) developed by EM3 Methodologies, LLC (“EM3”) under a perpetual license agreement, dated February 9, 2021 (the “EM3 Exclusive License”). Prior to February 9, 2021, we held essentially the same rights, but on a more costly basis, under a renewable sublicense agreement reached with an affiliated company in November 2019 that had a license agreement with EM3, as further described below.

Effective November 15, 2019, we entered into a sublicense agreement (the “TMDI Agreement”) with Texas MDI, Inc., a Texas corporation, which is controlled by Donal R. Schmidt, Jr., the Chief

Executive Officer and Director of the Company (“TMDI”), whereby we acquired a sublicense from TMDI to use certain technology regarding MDI’s that TMDI had licensed from EM3 and the right to use the Rxoid™ brand name owned by TMDI. At that time, TMDI had exclusive rights to research, develop, make, have made, use, offer to sell, sell, export and/or import and commercialize, the ‘Desirick Procedure’, which is a proprietary process owned by EM3 for producing MDI using hemp (and other) derivatives in the States of Texas, California, Florida and Nevada, pursuant to an Exclusive License Agreement dated October 1, 2019, by and between TMDI and EM3 (the “Original EM3 Exclusive License”). Pursuant to the TMDI Agreement, we obtained substantially the same rights that TMDI had under the Original EM3 Exclusive License, as to the use of the ‘Desirick Procedure’ for the manufacturing of pressured MDI’s (pMDI) containing cannabis, hemp or a combination thereof in any legal jurisdiction, in consideration for the issuance of 5,600,000 shares of the Company’s common stock. Such rights were recorded as the acquisition of an intangible asset in the amount of \$140,000, based on the then fair value of the shares issued.

Effective February 9, 2021, both the TMDI Agreement and the Original EM3 Exclusive License were effectively terminated by mutual agreement of all parties with no additional consideration beyond the original shares issued and EM3 agreed to provide the Company with a royalty-free, perpetual license to use the Desirick Procedure or any derivation thereof and its application and use on an exclusive basis in the states of Texas, California, Florida and Nevada (subject to pre-existing licensing rights which have been provided by EM3 in such jurisdictions), and on a non-exclusive basis throughout the rest of the world.

During the term of the TMDI Agreement, we were required to reimburse TMDI for the initial two year license fee owed by TMDI to EM3 in the amount of \$200,000. We partially satisfied this obligation by making an equipment purchase on behalf of EM3 in the amount of \$135,000, and agreed to pay the remaining license fee of \$65,000, either by making cash fee payments or by making cash purchases of certain supplies from EM3, within a 24-month period (for which, we had recorded a liability of \$44,925 for the unpaid portion of this amount in accounts payable as of December 31, 2020). We had recorded the entire \$200,000 license fee as an intangible asset and were amortizing such expense on a straight-line basis over a 24-month period at the rate of \$25,000 per quarter. Pursuant to the termination of the two agreements on February 9, 2021, we no longer owe TMDI (or EM3) any license fees under either agreement (including, the accrued liability of \$44,925). Effective as of February 2021, the Company is accounting for the licenses as an indefinite life asset not subject to amortization, resulting in the remaining balance of \$170,075 being subjected to impairment testing at least annually, or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

## **(5) Prior Asset Acquisition**

On November 16, 2020, the Company closed an Asset Purchase and Sales Agreement with Razor Jacket, LLC (“Razor Jacket”), an Oregon based supplier of isolate and related products and its owners, with an effective date of November 1, 2020 (the “RJ Agreement”). Pursuant to the terms of the RJ Agreement, we purchased the intellectual property owned by Razor Jacket and the related equipment owned by the two members of Razor Jacket for a total purchase price of: (a) \$300,000 in cash, paid at closing; (b) 25,000 shares of restricted common stock, issued at closing; and (c) the right for the sellers to earn up to 16,500,000 shares of our Series A of preferred stock, which are convertible into common stock on a one-for-25 basis, subject to certain conditions. The acquired equipment has been shipped to a secure location in Texas, where it is awaiting installation in a new location in that area (see Note 6).

The Company has accounted for this transaction as an acquisition of assets at fair value, pursuant to the provisions of Accounting Standards Codification (ASC) 805-50. Accordingly, we have accounted for each component of the purchase price as follows:

- We have charged the \$300,000 in cash paid to the sellers at closing, which reflects an underlying cost that was a prepaid asset at closing and has no continuing benefit to the Company, to general and administrative expense in the nine-month transition period ended December 31, 2020.

- We have allocated the 25,000 shares of restricted common stock issued to the sellers at closing as an addition to property and equipment in the amount of \$500,000, based on an agreed upon price of \$0.80 per share, which approximated the then current quoted price of the Company's common stock, in accordance with the terms of the RJ Agreement.
- We have treated the right for the sellers to earn up to 16,500,000 shares of Series A preferred stock of the Company, consisting of three tranches of 5,500,000 shares each, as performance based contingent consideration, which potentially could be earned over a three-year period. Therefore, the Company will account for the issuance of any such shares of Series A preferred stock as compensation expense, when (and if) each tranche is earned and the shares are issued, pursuant to the terms of the RJ Agreement.

Razor Jacket was originally formed in July 2019 for the sole purpose of researching techniques for the extraction of isolates from raw hemp.

## (6) Property and Equipment

As of September 30, 2024, and December 31, 2023, the Company had the following balances of property and equipment:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Equipment purchased from Razor Jacket, LLC and awaiting installation in the Company's offsite facilities near Dallas, Texas	\$ 500,000	\$ 500,000
Equipment located in the Company's offsite facilities near Dallas, Texas	221,412	221,412
Leasehold improvements in progress at the Company's formerly proposed facilities in Addison, Texas	-	630,160
Leasehold improvements in the Company's existing facilities	<u>2,500</u>	<u>2,500</u>
Total property and equipment	723,912	1,354,072
Less: Accumulated depreciation	<u>(95,278)</u>	<u>(77,299)</u>
Net property and equipment	<u>\$ 628,634</u>	<u>\$ 1,276,773</u>

Effective October 1, 2021, the Company entered into a lease agreement with a landlord to lease 8,566 square feet of commercial office building space located in Addison, Texas (see Note 8). As of December 31, 2022, the Company was in the process of building out this space, while obtaining any necessary governmental approvals, with the intention of utilizing it as its corporate office as well as its aerosol filling laboratory and isolate manufacturing facility, however, the Company subsequently suspended such activities pending a determination of the feasibility of continuing the project. As of December 31, 2023, the Company had capitalized leasehold improvements in progress at the proposed new location in the amount of \$630,160.

Effective January 1, 2024, the Company reached a decision to abandon the suspended construction project. Accordingly, the Company fully impaired the capitalized asset for leasehold improvements with an offsetting charge to the liabilities for the capitalized lease obligation and other related liabilities.

The equipment purchased from Razor Jacket, LLC in November 2020 has been shipped to an offsite, secure location in Texas, where it is currently available for ultimate installation and use in the Company's business (see Note 5).

(7) **Notes Payable**

As of September 30, 2024 and December 31, 2023, the Company had the following note payable obligations:

	<u>September 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
<b><u>Non-Related Parties</u></b>		
Convertible debentures issued to an accredited investor on August 4, 2021 in principal amount of \$1,941,176 and on May 31, 2022 in principal amount of \$411,764, both at original issue discounts of 15%, convertible at option of investor into shares of the Company's common stock at conversion price, as amended on August 22, 2023, to be equal to 65% of the lowest volume weighted average price of the Company's common stock during the ten (10) day consecutive trading period ending and including the trading day of any conversion, payable upon earlier of a (i) qualified offering, (ii) listing on a national exchange, or (iii) December 31, 2023. Net of partial conversions of \$33,494.	\$ 2,319,446	\$ 2,319,446
Convertible promissory notes issued to an accredited investor on November 15, 2019, maturing in 5 years, accruing interest at 5% per annum, convertible into common stock at \$1.25 per share	150,000	150,000
Other short term notes issued to various affiliates of the former owners of Power Blockchain for acquisition of Treasury Stock, computers and equipment, and working capital financing, at stated interest rates of 10%. Amended on November 15, 2019, to be convertible into common stock at \$1.25 per share. Of this amount, \$23,700 pertains to a related party.	48,386	48,386
Convertible note issued to an accredited investor on July 25, 2022 in the original principal amount of \$74,250, plus default interest of \$36,681, net of partial conversions of \$23,868, in default (see further discussion below)	87,063	87,063
Convertible note issued to an accredited investor on February 3, 2023, in original principal amount of \$54,250, net of unamortized debt discount of \$18,727 (see further discussion below)	35,523	35,523
<b><u>Related Parties</u></b>		
Unsecured advances received from two officers beginning in May 2021 and continuing through September 2023, accruing interest at 1% per annum, payable on demand	406,860	406,860
Promissory note issued to an independent director on January 28, 2022, accruing interest at approximately 18% per annum, currently past due nominal maturity	400,000	400,000
Total notes payable	3,447,278	3,447,278
Current portion of notes payable	(3,447,278)	(3,297,278)
Long term portion of notes payable	\$ -	\$ 150,000

As of September 30, 2024, the Company has two outstanding Convertible Debentures that were issued to an accredited investor group in August 2021 and May 2022 in the original amounts of \$1,941,176 and \$411,764, respectively, for a combined total of \$2,352,940. Each of these Convertible Debentures was issued at an original discount of 15% and was due on September 1, 2022, however, it was contemplated that they would be converted prior to that date based on a planned public offering of common stock that the Company was pursuing at the time. Due to unforeseen circumstances, the Company was unable to complete the public offering and has been unable to subsequently repay the debentures. Accordingly, the Company and the accredited investor reached an agreement on August 22, 2023, to amend and extend the Convertible Debentures as follows:

- Amend the conversion price of the two Convertible Debentures to provide for an “alternative” conversion price equal to 65% of the lowest volume weighted average price of the Company’s

common stock during the ten (10) day consecutive trading period ending and including the trading day of any conversion;

- Extend the maturity of the two Convertible Debentures to the earlier of: (i) a qualified offering of the Company's common stock; (ii) listing of the Company's common stock on a "national securities exchange" as defined in the Exchange Act; and (iii) December 31, 2023;
- Amend the exercise price of the Common Stock Purchase Warrants to purchase a total of 582,354 shares of the Company's common stock, which were granted in conjunction with the Convertible Debentures, from an exercise price of \$10.00 per share (subject to certain adjustments) to an exercise price of \$0.01 per share (subject to certain adjustments) and extend the expiration of such Common Stock Purchase Warrants to August 16, 2028; and
- Issue new Common Stock Purchase Warrants, to purchase a total of 5,000,000 shares of the Company's common stock at an exercise price of \$0.01 per share (subject to certain adjustments) with an expiration date of February 22, 2029.

Pursuant to the amendment above, there were a number of conversions of the Convertible Debentures that took place at the "alternative" conversion price in late August and September 2023 resulting in the conversion of \$33,494 of the Convertible Debentures into a total of 7,783,000 shares of our common stock, thus reducing the outstanding balance of the Convertible Debentures as of December 31, 2023 and September 30, 2024 to a combined total of \$2,319,446.

The Company early adopted the provisions of ASU 2020-06, "Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity," in accounting for the issuance of the Convertible Debentures. We elected to apply this new accounting principle to the subject convertible borrowings using the modified retrospective method. In accordance with the provisions of ASU 2020-06, we made no adjustment to the Convertible Debentures for the amendment and extension of such Debentures that was entered into in August 2023, notwithstanding that the "alternative" conversion price noted above represents a compelling incentive for the accredited investor group to ultimately convert the Convertible Debentures into shares of the Company's common stock.

The two tranches of Common Stock Purchase Warrants that we have granted to the investor in August 2021 and May 2022, as well as a grant of warrants that we made in August 2021 to the placement agent for the bridge loan to purchase a total of 9,706 shares of our common stock at an exercise price of \$10.00 per share, with substantially similar terms, are subject to certain ownership limitations and adjustment provisions. These warrants also require the Company, at the holder's option, following a Fundamental Transaction (as defined in the agreement), to purchase the warrants from the holder in cash, based on the Black Scholes value (as calculated pursuant to the terms of the warrant). As a result of this provision, the Company accounted for the issuance of the initial tranche of 203,824 warrants in August 2021 (including 9,706 shares to the placement agent) as a liability recorded at fair value in accordance with ASC 480-10. Using the Black Scholes model, the warrant liability was valued at issuance in the amount of \$1,717,213 and has been subsequently adjusted to its current fair value as of each quarterly reporting date. As of December 31, 2023, we determined that the lowering of the exercise price of the warrants on August 22, 2023 had only a de minimis impact on the fair value of the warrant liability, therefore, we adjusted the warrant liability to its current fair value of \$2,038, based on the lower exercise price, resulting in a gain on warrant liability of \$138,577 that was recorded in our statement of operations for the year ended December 31, 2023, and the calculated warrant liability remains the same amount as of September 30, 2024.

The Company has also accounted for the issuance of the additional tranche of 388,236 warrants in May 2022 as a liability recorded at fair value in accordance with ASC 480-10. Using the Black Scholes model, such warrant liability was valued at issuance in the amount of \$756,285 and has been subsequently adjusted to its current fair value as of each quarterly reporting date. As of December 31, 2023, we determined that the lowering of the exercise price of the warrants on August 22, 2023 had only a de minimis impact on the fair value of the warrant liability, therefore, we adjusted the warrant liability to its current fair value of \$3,882, based on the lower exercise price, resulting in a gain on warrant liability of \$364,096

that was recorded in our statement of operations for the year ended December 31, 2023, and the calculated warrant liability remains the same amount as of September 30, 2024.

Lastly, the Company has also accounted for the new Common Stock Purchase Warrants issued on August 22, 2023, to purchase a total of 5,000,000 shares at an exercise price of \$0.01 per share as a liability recorded at fair value in accordance with ASC 480-10. Using the Black Scholes model, such warrant liability was valued at issuance in the amount of \$200,000, via a charge to interest expense. As of December 31, 2023, we adjusted such warrant liability to its current fair value of \$50,000, based on the Black Scholes model, resulting in a gain on warrant liability of \$150,000 that was recorded in our statement of operations for the year ended December 31, 2023, and the calculated warrant liability remains the same amount as of September 30, 2024.

Prior to obtaining the bridge loan noted above, the Company received a series of unsecured cash advances from two of its officers beginning in May 2021 through September 2023, in the net amount of \$406,860. These related party advances accrue interest at the rate of 1% per annum and are payable on demand. Such advances were originally expected to be repaid out of the proceeds of a planned public or private offering of the Company's equity, however, no assurance can be given that the Company will be successful in achieving a closing of such an offering.

On February 3, 2023, the Company closed a short-term loan with an institutional investor in the gross amount \$54,250. The closing of this loan resulted in net proceeds to the Company of approximately \$50,000, after deducting the original issue discount and transaction fees. The note has a maturity date of one year after the date of issuance and bears interest at a rate of 9% per annum, which is not due until maturity. At the option of the investor, the note may be converted into shares of the Company's common stock at a conversion price equal to the greater of (a) \$0.000075 per share; and (b) 65% of the average closing bid price of the Company's common stock, on the principal securities exchange or market where the Company's common stock is then quoted or traded, for the three (3) lowest trading prices during the fifteen (15) Trading Day period ending on the latest complete trading day prior to the conversion date. The Company determined that the conversion feature of the note required the recognition of a derivative liability upon issuance and calculated the fair value of the derivative liability, using the Black Scholes model, to be \$63,570. Accordingly, the Company has recognized a derivative liability in that amount offset by a debt discount which it is amortizing over the one year term of the note. As of December 31, 2023, we adjusted the derivative liability to its current fair value, resulting in a gain on derivative liability of \$30,138 that was recorded in our statement of operations for the year ended December 31, 2023, and the calculated derivative liability remains the same amount as of September 30, 2024.

On July 25, 2022, the Company entered into an agreement with the same accredited investor (the "Buyer") with respect to a Convertible Promissory Note (the "Note") issued by the Company to the Buyer in the amount of \$74,250. The Note had a maturity date of one year after the date of issuance and bears interest at a rate of 9% per annum, due at maturity. At the option of the Buyer, the Note may be converted into shares of the Company's common stock, beginning 180 days following the date of issuance. Under this option, the conversion price shall be subject to a discount of 35%, based on the average of the three (3) lowest closing bid prices for the Common Stock during the prior fifteen (15) trading day period. The Buyer will be limited to convert no more than 4.99% of the issued and outstanding Common Stock at time of conversion at any one time. The Company determined that the conversion feature of the Note required the recognition of a derivative liability upon issuance. As of July 25, 2022, the Company calculated the fair value of the derivative liability, using the Black Scholes model, to be \$72,020. Accordingly, the Company has recognized a derivative liability in that amount offset by a debt discount. The Company has amortized the debt discount over the one year term of the Note. As of May 26, 2023, the Buyer elected to convert \$12,000 of the note principal into 349,854 shares of our common stock at the calculated conversion rate. Upon maturity of the note on July 25, 2023, the Company was in default on repayment of the note and the Buyer assessed a default interest penalty of \$36,681. In September through November 2023, the Buyer made six separate elections to convert a total of \$11,868 of additional note principal into a total of 4,295,000 shares of our common stock at the calculated conversion rates. As of December 31, 2023, we adjusted the

derivative liability to its current fair value, resulting in a gain on derivative liability of \$64,804 that was recorded in our statement of operations for the year ended December 31, 2023, and the calculated derivative liability remains the same amount as of September 30, 2024.

In January and March 2022, the Company closed two short-term loans from two different lenders in the total amount of \$597,000. One of these loans was from an independent director of the Company in the amount of \$400,000. Both loans were in the form of unsecured promissory notes bearing interest at rates of approximately 8-18% per annum with a maturity of one year. For the larger note with an independent director, the principal amount and accrued interest are due at the maturity date, which the director has agreed to extend to a date to be determined, whereas for the smaller note with an institutional investor, monthly payments of principal and interest of \$21,276 were required beginning in May 2022. In the event of a default by the Company on the payment terms of either note, the notes would be convertible into shares of the Company's common stock at a conversion price equal to the greater of (a) \$0.001875 per share; and (b) 75% of the average closing bid price of the Company's common stock, on the principal securities exchange or market where the Company's common stock is then quoted or traded, for the five trading days immediately prior to the date of conversion. In December 2022, we defaulted on making the monthly note payment of \$21,276 to the institutional investor due to our lack of liquidity which resulted in the investor electing to convert \$15,000 of the note principal into 16,340 shares of our common stock, at the calculated conversion rate, leaving a then remaining outstanding loan balance, including default interest, of \$70,104. In January and February 2023, the investor elected to fully convert the \$70,104 balance of the note, plus an additional default penalty of \$42,552, into a total of 317,803 shares of our common stock, at the applicable conversion rates at the time of each conversion (see Note 9).

Effective March 31, 2021 and August 31, 2020, the Company reached the necessary milestones to trigger the conversion of certain notes payable issued on various dates in 2018 and 2019, as amended, into shares of the Company's common stock, at conversion prices of \$1.25 to \$3.25 per share, subject to a 4.99% ownership limitation for each beneficial owner of such notes. In conjunction with these conversions, the holders of notes with total principal and accrued interest balances in the aggregate amount of \$794,358 converted their notes into 433,203 shares of common stock, effective March 31, 2021, and the holders of notes with total principal and accrued interest balances in the aggregate amount of \$501,137 converted their notes into 400,910 shares of common stock, effective August 31, 2020. As of September 30, 2024, convertible notes payable in the amount of \$174,685, plus accrued interest in the amount of \$66,056, remain outstanding and are available to be subsequently converted into 192,593 shares of common stock, subject to the ownership limitation (see Note 9).

Effective November 15, 2019, the following transactions took place in the Company's notes payable:

- The Company entered into new promissory notes with two accredited investors under which the Company borrowed a total of \$300,000, with such notes maturing in five years, accruing interest at 5% per annum, and being convertible into common stock at the option of the holders, at a conversion price of \$1.25 per share.
- The two holders of outstanding convertible notes payable elected to exercise their existing rights to convert a portion of their notes into shares of common stock, at the stated conversion ratio of \$3.25 per share. The two holders converted a total principal amount of \$2,034,760 in notes into a total of 626,080 shares of common stock leaving the remaining total principal balance of \$165,240 unconverted at that time (it was subsequently converted effective March 31, 2021).
- The Company entered into an amendment with the holders of existing non-convertible notes in the total principal amount of \$732,835 (out of a total of \$756,535) whereby such notes will remain outstanding and continue to accrue interest with deferral of the maturity dates being extended for one year or until the Company had raised an additional \$500,000 of new equity securities, at which time, the principal and accrued interest was to be converted into common stock at a conversion price of \$1.25 per share (of the total notes amended, notes in the amount of \$708,150 have been converted into common stock through September 30, 2024, as a result of such \$500,000 equity raise threshold being met).

With respect to the transactions noted above, the Company performed an analysis of the newly issued convertible notes and the newly amended existing notes, which were formerly non-convertible in accordance with then applicable accounting standards. As a result, we determined that no adjustment to the amended notes was required.

**(8) Long Term Lease Obligation**

Effective October 1, 2021, the Company entered into a lease agreement with a landlord to lease 8,566 square feet of commercial office building space located in Addison, Texas (see Note 6). The lease agreement was for a total term of 63 months, beginning October 1, 2021 and ending December 31, 2026. As of December 31, 2022, the Company was in the process of building out this space, while obtaining any necessary governmental approvals, with the intention of utilizing it as its corporate office as well as its aerosol filling laboratory and isolate manufacturing facility, however, the Company subsequently suspended such activities pending a determination of the feasibility of continuing the project. We have been accounting for the lease agreement as an operating lease under ASU 2016-02, Leases (Topic 842). Accordingly, the Company capitalized the present value of the future lease obligations and began amortizing the related right-of-use asset on a straight-line basis each month over the term of the lease.

As of December 31, 2023, the operating lease right-of-use asset and operating lease liabilities were \$255,102 and \$297,231, respectively. The long-term portion of the operating lease liabilities, \$194,331, was included in long-term obligations.

Effective January 1, 2024, the Company reached a decision, in conjunction with the landlord, to exit from the lease and abandon the suspended construction project. Accordingly, the Company fully impaired the capitalized asset for leasehold improvements and other related assets with an offsetting charge to the liabilities for the capitalized lease obligation and other related liabilities.

**(9) Stockholders' Equity**

Effective January 13, 2020, the Company filed a Certificate of Amendment to its Amended and Restated Articles of Incorporation (the "Certificate of Amendment") with the Secretary of State of the State of Nevada to increase the total authorized shares of common stock of the Company from 200 million shares to 750 million shares, which was later increased to 800 million shares in conjunction with a reverse stock split on March 31, 2022, and to authorize 100 million shares of "blank check" preferred stock of the Company. Subsequently, the Company filed three separate designations of preferred stock with the Secretary of State of Nevada, beginning in November 2020, designating 16,500,000 shares of Series A preferred stock, 2,000,000 shares of Series B preferred stock, and 8,500,000 shares of Series C preferred stock, however, no shares of preferred stock have been issued to date.

In the nine months ended September 30, 2024, a stockholder who beneficially owned 1,923,334 shares of the Company's common stock elected to surrender such shares to the Company for personal reasons. This surrender had no effect on the Company's net stockholders' deficit, however, it reduced the total number of shares outstanding from 20,910,251 shares to 18,986,917 shares.

In the nine months ended September 30, 2023, the holder of a note on which we had defaulted in December 2022, elected to convert the remaining principal balance of \$70,104, plus an additional default penalty of \$42,552, into 317,803 shares of our common stock in February 2023.

Effective March 31, 2021 and August 31, 2020, the Company reached the necessary milestones to trigger the conversion of certain notes payable issued on various dates in 2018 and 2019, as amended, into shares of the Company's common stock, at conversion prices of \$1.25 to \$3.25 per share, subject to a 4.99% ownership limitation for each beneficial owner of such notes. In conjunction with these conversions, the holders of notes with total principal and accrued interest balances in the aggregate amount of \$794,358 converted their notes into 433,203 shares of common stock, effective March 31, 2021, and the holders of notes with total principal and accrued interest balances in the aggregate amount of \$501,137 converted their notes into 400,910 shares of common stock, effective August 31, 2020. As of September 30, 2024, convertible notes payable in the amount of \$174,685, plus accrued interest in the amount of \$66,056, remain



outstanding and are available to be subsequently converted into 192,593 shares of common stock, subject to the ownership limitation (see Note 7).

On December 29, 2020, the Board of Directors adopted, subject to the ratification by the majority shareholders, which ratification occurred pursuant to a majority shareholder consent, effective on December 30, 2020, the Rapid Therapeutic Science Laboratories, Inc. 2020 Equity Incentive Plan. Effective on January 7, 2022, the Board of Directors adopted, subject to the ratification by the majority shareholders, on January 11, 2022, the First Amended and Restated Rapid Therapeutic Science Laboratories, Inc. 2020 Equity Incentive Plan (the “2020 Plan”).

The 2020 Plan provides an opportunity for any employee, officer, director or consultant of the Company, subject to limitations provided by federal or state securities laws, to receive (i) incentive stock options (to eligible employees only); (ii) nonqualified stock options; (iii) restricted stock; (iv) stock awards; (v) shares in performance of services; (vi) other stock-based awards; or (vii) any combination of the foregoing. In making such determinations, the Board of Directors may take into account the nature of the services rendered by such person, his or her present and potential contribution to the Company’s success, and such other factors as the Board of Directors in its discretion shall deem relevant.

Subject to adjustment in connection with the payment of a stock dividend, a stock split or subdivision or combination of the shares of common stock, or a reorganization or reclassification of the Company’s common stock, the aggregate number of shares of common stock which may be issued pursuant to awards under the 2020 Plan is the sum of (i) 1,000,000 shares, and (ii) an annual increase on March 1st of each calendar year, beginning in 2022 and ending in 2030, in each case subject to the approval of the Board of Directors or the compensation committee of the Company (if any) on or prior to the applicable date, equal to the lesser of (A) five percent (5%) of the total shares of common stock of the Company outstanding on the last day of the immediately preceding fiscal year; (B) 1,000,000 shares of common stock; and (C) such smaller number of shares as determined by the Board of Directors or compensation committee of the of the Company (if any)(the “Share Limit”), also known as an “evergreen” provision. Notwithstanding the foregoing, shares added to the Share Limit are available for issuance as incentive stock options only to the extent that making such shares available for issuance as incentive stock options would not cause any incentive stock option to cease to qualify as such. In the event that the Board of Directors or the compensation committee (if any) does not take action to affirmatively approve an increase in the Share Limit on or prior to the applicable date provided for under the plan, the Share Limit remains at its then current level. Notwithstanding the above, no more than 10,000,000 incentive stock options may be granted pursuant to the terms of the 2020 Plan. In January 2023, the Company’s Board of Directors approved an increase in the total number of shares authorized under the Plan, effective March 1, 2023, in the amount of 388,152 shares, which is equal to 5% of the total number of shares outstanding at the beginning of the year.

The maximum number of shares subject to awards granted during a single calendar year to any non-employee director, taken together with any cash fees paid during the compensation year to the non-employee director, in respect of the director’s service as a member of the Board during such year (including service as a member or chair of any committees of the Board), will not exceed \$500,000 in total value (calculating the value of any such awards based on the grant date fair value of such awards for financial reporting purposes). Compensation will count towards this limit for the calendar year in which it was granted or earned, and not later when distributed, in the event it is deferred.

Employees, non-employee directors, and consultants of the Company and its subsidiaries are eligible to participate in the 2020 Plan. Incentive stock options may be granted under the 2020 Plan only to employees of the Company and its affiliates. Employees, directors and consultants of the Company and its affiliates are eligible to receive all other types of awards under the 2020 Plan. No awards are issuable by the Company under the 2020 Plan (a) in connection with services associated with the offer or sale of securities in a capital-raising transaction; or (b) where the services directly or indirectly promote or maintain a market for the Company’s securities.

The 2020 Plan will automatically terminate on the 10th anniversary of original approval date of the Plan (December 29, 2030). However, prior to that date, the Company's Board of Directors may amend or terminate the 2020 Plan as it deems advisable, but it cannot adopt an amendment if it would (1) without a grantee's consent, materially and adversely affect that grantee's award; or (2) without shareholder approval, increase the number of shares of the Company's common stock that can be awarded under the 2020 Plan, except as provided for therein.

The Company has made no awards under the 2020 Plan to date.

In March 2018, the Board approved the establishment of a 2018 Stock Option Plan with an authorization for the issuance of up to 800,000 shares of common stock. The Plan is designed to provide for future discretionary grants of stock options, stock awards and stock unit awards to key employees and non-employee directors. The Company has made no awards under the 2018 Stock Option Plan to date.

## **(10) Related Party Transactions**

Office services were provided without charge by our Chief Executive Officer and director, Donal R. Schmidt, Jr., from November 2019 to June 2021, at which time, the Company relocated to a new leased office location through December 2021. Pending completion of the build out of the new office and lab space in Addison, Texas (see Note 6), the Company relocated back to the office space in Dallas, Texas, provided by Mr. Schmidt, under an arrangement whereby the Company was responsible for a relatively small share of office costs during its occupancy from January 2022 to April 2023, but with no long-term financial commitment. In May 2023, the Company relocated to the residence of Mr. Schmidt in De Leon, Texas, at no incremental cost to the Company.

As indicated in Note 7, the Company has received unsecured cash advances from Mr. Schmidt and a former senior officer to cover corporate expenses beginning in May 2021. In addition, since the fourth quarter of 2022, Mr. Schmidt, has made other "in lieu" advances by paying certain corporate expenses on behalf of the Company via unreimbursed charges on his personal credit card. As of December 31, 2023 and September 30, 2024, the net amount of all such advances was \$406,860. This amount includes corporate expenses that were paid by Mr. Schmidt on behalf of the Company in the year ended December 31, 2023 in the amount of \$58,659. These related party advances accrue interest at the rate of 1% per annum and are payable on demand. Also as indicated in Note 7, the Company issued a promissory note to an independent director for an unsecured, interest-bearing loan received from him in January 2022 in the amount of \$400,000. Such note was issued to the director with a one year maturity, however, he has agreed to extend the maturity to a date to be determined.

The officers and directors of the Company are involved in other business activities and may, in the future, become involved in other business opportunities. If a specific business opportunity becomes available, such persons may face a conflict in selecting between the Company and their other business interests. The Company's Board of Directors is tasked with resolving related party conflicts.

## **(11) Commitments and Contingencies**

From time to time in the ordinary course of our business, the Company may be involved in legal proceedings, the outcomes of which may not be determinable. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. We are not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable, primarily for the following reasons: (i) many of the relevant legal proceedings are in preliminary stages, and until such proceedings develop further, there is often uncertainty regarding the relevant facts and circumstances at issue and potential liability; and (ii)

many of these proceedings involve matters of which the outcomes are inherently difficult to predict. We currently have no insurance policies covering such potential losses.

On March 14, 2002, the Securities and Exchange Commission (“SEC”) launched a confidential, private investigation of certain of the Company’s business practices. Following an investigation lasting approximately 18 months, the SEC filed a lawsuit against the Company and its Chief Executive Officer, Donal R. Schmidt, Jr., in federal district court for the Northern District of Texas on September 19, 2023.

The SEC lawsuit alleges that the Company and Mr. Schmidt made false statements regarding the origins of its laboratory certification designations, issued false press releases claiming that the Company had secured major sales contracts, and exaggerated the academic and professional credentials of a key consultant for the Company. The lawsuit also alleges that the Company and Mr. Schmidt made unwarranted claims regarding the safety of its products despite an FDA warning to the contrary. Finally, the lawsuit alleges that the Company and Mr. Schmidt made false statements regarding approval of the Company’s listing application on a national securities exchange.

Mr. Schmidt and the Company categorically deny the allegations.

In consultation with its legal counsel, the Company is currently evaluating the merits of the lawsuit filed by the SEC in order to determine its next course of action. At this time, the Company believes it is premature to estimate the potential amount of loss, if any, that may ultimately result from this matter.