ENDEXX CORPORATION

FINANCIAL STATEMENTS

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ENDEXX CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2023 AND 2022

	September 30, 2023	September 30, 2022
Assets		
Current assets		
Cash	$ 7,644	$ 656,776
Accounts receivable, net of allowance of $482,901 and $621,042, respectively	175,067	570,406
Inventory, net of allowance of $1,188,335 and $1,071,469, respectively	281,960	777,912
Prepaid expenses	1,539	1,367,100
Total current assets	466,210	3,372,194
Investment in marketable securities	-	420
Property and equipment, net of accumulated depreciation of $86,709 and $77,044, respectively	38,340	48,005
Right of use asset	-	34,160
Intangible - website domains	16,250	16,250
Goodwill	9,807,361	9,807,361
Total assets	$ 10,328,161	$ 13,278,390
Liabilities, Temporary Equity and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 3,698,737	$ 2,647,533
Customer deposits	15,182	43,366
Accrued expenses	773,270	172,711
Advances, related party	22,500	-
Accrued interest	1,396,711	237,703
Payroll and taxes payable, including related party	939,209	915,230
Line of credit	996,000	-
Notes payable, current portion, net of discount of $88,377 and $4,291, respectively	9,163,987	4,623,872
Convertible notes payable, net of discount of $-0- and $1,474,338, respectively	2,273,913	799,575
Derivative liability	7,862,269	8,908,686
Lease liability right of use	-	35,656
Total current liabilities	27,141,778	18,384,332
Notes payable, net of current portion and net of discount of $7,037,038 and $7,925,926, respectively	977,352	4,587,718
Total liabilities	28,119,130	22,972,050
Commitments and contingencies (Note 8)		
Temporary equity		
Series H preferred stock, 4,878,049 issued and outstanding	2,000,000	2,000,000
Stockholders' deficit		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized		
Series A preferred stock, 1,824,000 issued and outstanding	182	182
Series Z preferred stock, -0- issued and outstanding	-	-
Common stock, $0.0001 par value, 1,000,000,000 shares authorized, 506,357,952 and 501,376,264 issued and outstanding, respectively	50,636	50,138
Additional paid-in capital	33,290,481	32,914,424
Accumulated deficit	(50,896,249)	(44,398,312)
Total stockholders' deficit	(17,554,950)	(11,433,568)
Non-controlling interest	(2,236,019)	(260,092)
Total liabilities, temporary equity and stockholders' deficit	$ 10,328,161	$ 13,278,390

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

ENDEXX CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	For the years ended September 30, 2023	2022
Revenues	$ 3,908,385	$ 2,138,010
Cost of revenues	3,390,364	766,558
Inventory impairment	1,397,730	178,342
Gross profit (loss)	(879,709)	1,193,110
Operating expenses		
Depreciation	9,665	20,606
Advertising and promotion	527,172	594,874
Payroll expenses	259,487	609,288
Professional fees	1,557,180	2,016,439
Research and development	5,249	27,066
General and administrative expenses	2,001,739	1,592,091
Impairment expense	-	249,560
Total operating expenses	4,360,492	5,109,924
Loss from operations	(5,240,201)	(3,916,814)
Other (income) and expense		
Change in fair value of derivative liability	(911,862)	4,397,706
Financing costs and discount amortization	2,463,362	2,957,298
Interest expenses	1,332,163	1,241,853
Other expenses	350,000	-
Default penalty	-	584,738
Gain from settlement of derivative liability	-	(7,240,799)
Gain on settlement of liabilities	-	(289,100)
Gain on disposition of assets	-	(423,950)
Total other (income) expense, net	3,233,663	1,227,746
Net loss	$ (8,473,864)	$ (5,144,560)
Net loss attributable to non-controlling interest	(1,975,927)	(260,092)
Net loss attributable to Endexx shareholders	$ (6,497,937)	$ (4,884,468)
Net loss per share attributable to Endexx shareholders - basic	$ (0.01)	$ (0.01)
Weighted average shares outstanding - basic	504,709,395	503,983,723

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

ENDEXX CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	Preferred Stock - Series A		Preferred Stock - Series Z		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Non-controlling Interest	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances at September 30, 2021	1,824,000	$ 182	719,571	$ 72	486,313,058	$ 48,631	$ 29,477,818	$ (39,513,844)	$ -	$ (9,987,141)
Shares issued for services	-	-	-	-	10,311,180	1,031	454,769	-	-	455,800
Shares issued in connection with debt	-	-	-	-	11,491,071	1,150	429,306	-	-	430,456
Warrants and options issued in connection with debt	-	-	-	-	-	-	1,511,047	-	-	1,511,047
Shares issued for conversion of interest	-	-	-	-	4,111,111	411	221,589	-	-	222,000
Shares issued for default penalty	-	-	-	-	9,761,904	976	583,762	-	-	584,738
Shares and liabilities surrendered for equity in subsidiary	-	-	(719,571)	(72)	(20,612,060)	(2,061)	236,133	-	-	234,000
Net loss	-	-	-	-	-	-	-	(4,884,468)	(260,092)	(5,144,560)
Balances at September 30, 2022	1,824,000	$ 182	-	$ -	501,376,264	$ 50,138	$ 32,914,424	$ (44,398,312)	$ (260,092)	$ (11,693,660)
Shares issued for services	-	-	-	-	1,200,000	120	54,880	-	-	55,000
Shares issued for settlement of accounts payable	-	-	-	-	1,719,100	172	102,828	-	-	103,000
Shares issued for settlement of accrued expenses	-	-	-	-	1,000,000	100	83,900	-	-	84,000
Correction of prior issuance	-	-	-	-	1,062,588	106	(106)	-	-	-
Settlement of derivative liability	-	-	-	-	-	-	134,555	-	-	134,555
Net loss	-	-	-	-	-	-	-	(6,497,937)	(1,975,927)	(8,473,864)
Balances at September 30, 2023	1,824,000	$ 182	-	$ -	506,357,952	$ 50,636	$ 33,290,481	$ (50,896,249)	$ (2,236,019)	$ (19,790,969)

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

ENDEXX CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	For the years ended September 30, 2023	2022
Operating activities		
Net loss	$ (8,473,864)	$ (5,144,560)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	55,000	455,800
Depreciation and amortization	9,665	20,606
Amortization of debt discount	2,398,862	1,857,046
Change in fair value of derivative liability	(911,862)	4,397,706
Gain from settlement of liabilities	-	(289,100)
Gain from settlement of derivative liabilities	-	(7,240,799)
(Gain) loss on disposition of assets	420	(423,950)
Bad debt expense	833,894	579,560
Impairment expense	1,397,730	427,902
Financing costs	49,500	1,100,152
Default penalty	-	584,738
Loss from contingent liability	350,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(438,555)	(876,280)
Inventory	306,157	(35,442)
Prepaid expenses	157,626	(202,251)
Right of use asset and liability	(1,496)	1,496
Accounts payable	1,154,204	1,125,239
Customer deposits	(28,184)	6,661
Accrued expenses	334,559	101,429
Accrued interest	1,159,008	1,166,432
Payroll and taxes payable, including related party	23,979	299,311
Net cash used in operating activities	(1,623,357)	(2,088,304)
Investing activities:		
Proceeds from sale of investments in marketable securities	-	9,500
Issuance of note receivable	-	(1,500,000)
Cash received in acquisition	-	916,737
Net cash used in investing activities	-	(573,763)
Financing activities:		
Proceeds from sale of common stock	-	-
Proceeds from convertible notes payable	-	2,964,853
Proceeds from notes payable	1,022,000	333,123
Proceeds from line of credit, net	996,000	-
Proceeds from related party advances	22,500	-
Repayments of notes payable	(1,066,275)	-
Net cash provided by financing activities	974,225	3,297,976
Net increase (decrease) in cash	$ (649,132)	$ 635,909
Cash, beginning of year	656,776	20,867
Cash, end of year	$ 7,644	$ 656,776
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ 107,155	$ 75,061
Supplemental schedule of non-cash investing and financing activities:		
Debt discount at origination	$ 119,722	$ 387,333
Settlement of derivative liability	$ 134,555	$ -
Convertible notes and interest converted to common stock	$ -	$ 222,000
Debt discount from derivative liability	$ -	$ 8,921,808
Prepaid expenses from note payable	$ -	$ 60,000
Convertible notes, notes payable and interest settled through issuance of notes payable	$ -	$ 7,371,487
Preferred stock surrendered for equity in subsidiary	$ -	$ 72
Common stock surrendered for equity in subsidiary	$ -	$ 2,061
Related party liabilities surrendered for equity in subsidiary	$ -	$ 234,000
Discount on convertible notes from warrants and options	$ -	$ 1,511,047
Assets and liabilities from acquisition	$ -	$ 12,096,450
Discount on notes from issuances of shares	$ -	$ 430,456

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

ENDEXX CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

We were incorporated under the laws of State of Nevada on September 5, 1997, as Micron Solutions. From 2002-2005, the Company operated as Panamed Corporation, a biotech service and licensing company. Panamed Corporation merged with Visual Board Books Inc. (VBB) in February 2005 and changed the consolidated company name to Endexx Corporation (the Company).

Our primary business is the manufacturing and sale of hemp products and organic, plant-based, all-natural, zero-nicotine vape products. The Company has the following operating subsidiaries:

- CBD Unlimited, Inc. (70% owner)
- Khode, LLC (70% owner)
- Hyla US Holdco Limited (51% owner)

Basis of Presentation and Going Concern

The Company prepares its consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with the Board of Directors; however, actual results could differ from those estimates. The operating results of the above listed wholly owned subsidiaries were consolidated with the consolidated financial statements of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

Our consolidated financial statements have been presented on the basis that we are a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have sustained operating losses since inception, which raises substantial doubt about the Company's ability to continue as a going concern.

As of September 30, 2023, we have a working capital deficit of $26,675,568, and an accumulated deficit of $50,896,249. During the year ended September 30, 2023, we had a net loss of $8,473,864 and cash used in operating activities of $1,623,357. The Company's ability to continue in existence is dependent on its ability to develop additional sources of capital, and/or achieve profitable operations and positive cash flows. Management's plans with respect to operations include the sustained and aggressive marketing of hemp cannabidiol products and raising additional capital through sales of equity or debt securities as may be necessary to pursue its business plans and sustain operations until such time as the Company can achieve profitability. Management believes that aggressive marketing combined with additional financing as necessary will result in improved operations and cash flow in fiscal 2024 and beyond. However, there can be no assurance that management will be successful in obtaining additional funding or in attaining profitable operations. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Summary of Significant Accounting Policies

Use of Estimates

The Company's financial statement preparation requires that management make estimates and assumptions which affect the reporting of assets and liabilities and the related disclosure of contingent assets and liabilities in order to report these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

Cash

Cash includes all highly liquid investments that are readily convertible to known amounts of cash and have original maturities at the date of purchase of three months or less. There were no cash equivalents as of September 30, 2023 and 2022. The Company maintains its cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC provides coverage of up to $250,000 per depositor, per financial institution, for the aggregate total of depositors' interest and non-interest-bearing accounts. From time to time the Company's cash balances may be in excess of FDIC limits. The Company has not experienced any losses on these accounts and management does not believe that the Company is exposed to any significant risks.

Accounts Receivable

Accounts receivable consists of invoiced and unpaid product sales. The Company records an allowance for doubtful accounts to allow for any amounts that may not be recoverable, which is based on an analysis of the Company's prior collection experience, customer creditworthiness, and current economic trends. Accounts are considered delinquent when payments have not been received within the agreed upon terms and are written off when management determines that collection is not probable. At September 30, 2023 and 2022, the Company recorded $482,901 and $621,042, respectively, as an allowance for doubtful accounts based upon management's review of accounts receivable.

Inventory

Inventory is composed of finished goods, in-process, and raw goods inventory, valued at the lower of cost or net realizable value, and includes production cost, product freight in, and packaging costs. Slow moving and obsolete inventories are written down based on a comparison of on-hand quantities to historical and projected usages.

The Company has authorized a consignment inventory arrangement with one of its mass retail customers. After the consignment inventory has been sold by this customer, the customer notifies the Company of the sale and the Company records revenue in that accounting period. The Company authorizes the replenishment of consignment inventory based on orders placed by the customer. The Company is provided with weekly reports of consignment sales activity and balances.

Prepaid Expenses

The Company considers all items incurred for future services to be prepaid expenses. At September 30, 2023 and 2022, the Company had prepaid expenses totaling $1,539 and $1,367,100, respectively.

During March 2020, the Company entered into a barter agreement whereby it delivered $249,560 of its inventory in exchange for future advertising credits. The credits, which expired in March 2023, were valued at the lower of the Company's cost or market value of the inventory transferred. Under the terms of the barter agreement, the Company is required to pay cash equal to a negotiated amount of the bartered advertising and use the barter credits to pay the balance. These credits are charged to expense as they are used. During the year ended September 30, 2022, the Company impaired the credits, resulting in an impairment expense of $249,560.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to operations as incurred. Depreciation and amortization are based on the straight-line method over the estimated useful lives of the related assets. When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in operations in the period realized.

Depreciation is computed on the straight-line method net of salvage value with useful lives as follows:

Computer equipment and software	5 years
Business equipment and fixtures	7 years
Property and buildings	39 years

Intangible Assets

Intangible assets are amortized over their estimated useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Management tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Impairment Assessment

The Company evaluates intangible assets and other long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. This includes but is not limited to significant adverse changes in business climate, market conditions or other events that indicate an asset's carrying amount may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of each asset to the future cash flows the asset is expected to generate. If the cash flows used in the test for recoverability are less than the carrying amount of these assets, the carrying amount of such assets is reduced to fair value.

The Company evaluates and tests the recoverability of its goodwill for impairment at least annually during its fourth quarter of each fiscal year or more often if and when circumstances indicate that goodwill may not be recoverable.

Customer Deposits

From time-to-time the Company receives payment from customers in advance of delivering products to the customer. All such deposits are short term in nature as the Company delivers the product, unfulfilled portions, or engineering services to the customer before the end of its next annual fiscal period. These deposits are credited to the customer against product deliveries or at the completion of the customer's order.

Revenue Recognition

Revenue is recognized from the sale of hemp products when our performance obligation is satisfied. Our primary performance obligation (the distribution and sales of hemp products) is satisfied upon the shipment of products to our customers, which is also when control is transferred. The transfer of control of products to our customers is typically based on written sales terms that do not allow for a right of return after 30 days from the date of purchase. Revenue is recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities.

The following table presents the Company's revenues disaggregated by customer type:

	2023	2022
Wholesale	$ 3,722,605	$ 1,984,574
Retail	185,780	153,436
	$ 3,908,385	$ 2,138,010

The following table presents the Company's revenues disaggregated by location:

	2023	2022
Italy	48%	*
United States	29%	83%
Russia	18%	10%
Other	*	*

* = Less than 10%

The following table presents the Company's revenues from significant customers:

	2023	2022
Customer A	48%	*
Customer B	18%	10%
Customer C	11%	*
Customer D	11%	32%
Customer E	*	26%
Customer F	*	11%

* = Less than 10%

Financial Instruments

In accordance with the reporting requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this standard and includes this additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of those financial instruments. The Company does not have assets or liabilities measured at fair value on a recurring basis except its derivative liability.

Consequently, the Company did not have any fair value adjustments for assets and liabilities measured at fair value at the consolidated balance sheet dates, nor gains or losses reported in the consolidated statements of operations that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held during the years ended September 30, 2023 and 2022, except as disclosed.

Fair Value Measurement

ASC 820, *Fair Value Measurements*, provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, ASC 820 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. ASC 820 defines the hierarchy as follows:

> Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices, such as equities listed on the New York Stock Exchange.

Level 2 - Pricing inputs are other than quoted prices in active markets but are either directly or indirectly observable as of the reported date. The types of assets and liabilities in Level 2 are typically either comparable to actively traded securities or contracts or priced with models using highly observable inputs.

Level 3 - Significant inputs to pricing that are unobservable as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as complex and subjective models and forecasts used to determine the fair value.

The following tables present the Company's assets and liabilities that were measured and recognized at fair value as of September 30, 2023 and 2022:

	September 30, 2023			
	Level 1	Level 2	Level 3	Total
Derivative liability	-	-	7,862,269	7,862,269

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
Derivative liability	-	-	8,908,686	8,908,686

Under the Company's contract ordering policy, the Company first considers common shares issued and outstanding as well as reserved but unissued equity awards, such as under an equity award program. All remaining equity linked instruments such as, but not limited to, options, warrants, and debt and equity with conversion features are evaluated based on the date of issuance. If the number of shares which may be issued under the Company's agreements exceed the authorized number of shares or are unable to be determined, equity linked instruments from that date forward are considered to be derivative liabilities until such time as the number of shares which may be issued under the Company's agreements no longer exceed the authorized number of shares and are able to be determined.

During prior years, the Company issued convertible note payable agreements whose conversion features meet the definition of a derivative liability which requires bifurcation. The convertible notes had a variable conversion rate equal to 50% of the lowest trading price of the preceding ten days from the date of conversion. Further, pursuant to the Company's contract ordering policy, the convertible debt and warrant issuances resulted in derivative liabilities until the convertible note agreements were settled on August 15, 2022, as detailed in Note 5. As a result of the settlement of the convertible notes, the Company recorded a gain on the settlement of derivative liabilities totaling $7,240,799.

At September 30, 2022, the Company estimated the fair value of the conversion feature derivatives embedded in the promissory note based on assumptions used in the Cox-Ross-Rubinstein binomial pricing model using the following weighted-average inputs: the price of the Company's common stock of $0.10; a risk-free interest rate of 3.83%; expected volatility of the Company's common stock of 400%; estimated exercise price of $0.0898; and term of approximately nine years.

At September 30, 2023, the Company estimated the fair value of the conversion feature derivatives embedded in the promissory note based on assumptions used in the Cox-Ross-Rubinstein binomial pricing model using the following weighted-average inputs: the price of the Company's common stock of $0.038; a risk-free interest rate of 4.59%; expected volatility of the Company's common stock of 254%; estimated exercise price of $0.0380; and term of approximately eight years.

A reconciliation of the changes in the Company's Level 3 derivative liability at fair value is as follows:

Balance at September 30, 2021	$	1,799,354
Addition		9,952,425
Settlement of derivative liability		(7,240,799)
Change in fair value		4,397,706
Balance at September 30, 2022	$	8,908,686
Settlement of derivative liability		(134,555)
Change in fair value		(911,862)
Balance at September 30, 2023	$	7,862,269

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in convertible instruments in accordance with ASC 815, *Derivatives and Hedging Activities*.

Applicable GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free-standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

The Company accounts for convertible instruments (when it has been determined that the embedded conversion options should not be bifurcated from their host instruments) as follows: The Company records when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption.

Beneficial Conversion Features

ASC 470-20, *Debt with Conversion and Other Options*, applies to convertible securities with beneficial conversion features that must be settled in stock and to those that give the issuer a choice in settling the obligation in either stock or cash. ASC 470-20 requires that the beneficial conversion feature should be valued at the commitment date as the difference between the conversion price and the fair market value of the common stock into which the security is convertible, multiplied by the number of shares into which the security is convertible. This amount is recorded as a debt discount and amortized over the life of the debt. ASC 470-20 further limits this amount to the proceeds allocated to the convertible instrument.

Research and development costs

Research and development costs are charged to expense as incurred and are included in operating expenses. Total research and development costs were $5,249 and $27,066 for the years ended September 30, 2023 and 2022, respectively.

Advertising Costs

The costs of advertising are expensed as incurred. Advertising expenses are included in the Company’s operating expenses. Advertising expenses were $527,172 and $594,874 for the years ended September 30, 2023 and 2022, respectively.

Income Taxes

The Company accounts for income taxes utilizing the liability method of accounting. Under the liability method, deferred taxes are determined based on differences between financial statement and tax bases of assets and liabilities at enacted tax rates in effect in years in which differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are expected to be realized.

The Company follows ASC 740-10, *Accounting for Uncertainty in Income Taxes*. This interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The Company evaluates its tax positions on an annual basis, and as of September 30, 2023, no additional accrual for income taxes is necessary. The Company's policy is to recognize both interest and penalties related to unrecognized tax benefits expected to result in payment of cash within one year are classified as accrued liabilities, while those expected beyond one year are classified as other liabilities. The Company has not recorded any interest or penalties since its inception. The Company is required to file income tax returns in the U.S. federal tax jurisdiction and in various state tax jurisdictions and the prior three fiscal years remain open for examination by federal and/or state tax jurisdictions. The Company is currently not under examination by any other tax jurisdiction for any tax year.

(Loss) Income Per Share of Common Stock

FASB ASC Topic 260, *Earnings Per Share*, requires a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share (EPS) computations.

Basic earnings (loss) per share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

The Company had total potential additional dilutive securities outstanding at September 30, 2023 and 2022, as follows.

	September 30, 2023	**September 30, 2022**
Preferred H	48,780,490	48,780,490
Warrants	88,918,645	88,918,645
Options	-	22,500,000
Convertible debt	90,426,058	90,426,058
	228,125,193	250,625,193

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when management assesses that it is probably that a liability has been incurred and the amount can be reasonable estimated.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt - 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* (ASU 2020-06), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity. This ASU (a) simplifies the accounting for convertible debt instruments and convertible preferred stock by removing the existing guidance in ASC 470-20 that requires entities to account for beneficial conversion features and cash conversion features in equity, separately from the host convertible debt or preferred stock; (b) revises the scope exception from derivative accounting in ASC 815-40 for freestanding financial instruments and embedded features that are both indexed to the issuer's own stock and classified in stockholders' equity, by removing certain criteria required for equity classification; and (c) revises the guidance in ASC 260 to require entities to calculate diluted earnings per share for convertible instruments by using the "if-converted" method. In addition, entities must presume share settlement for purposes of calculating diluted earnings per share when an instrument may be settled in cash or shares. For smaller reporting companies, ASU 2020-06 is effective for fiscal years beginning after December 15, 2023. The Company is currently evaluating the impact that ASU 2020-06 may have on its consolidated financial statements and related disclosures.

As of September 30, 2023, there were several new accounting pronouncements issued by the FASB. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's consolidated financial statements.

3. Inventory

The Company's inventory consisted of the following at the respective balance sheet dates:

	September 30, 2023	September 30, 2022
Raw materials and packaging components	$ 151,188	$ 249,043
Finished goods	1,247,142	1,427,017
Consigned goods	71,965	77,135
Apparel	-	96,186
Less obsolescence allowance	(1,188,335)	(1,071,469)
	$ 281,960	$ 777,912

4. Property and Equipment

The Company's property and equipment consisted of the following at the respective balance sheet dates:

	September 30, 2023	September 30, 2022
Machinery and equipment	$ 86,264	$ 86,264
Computer/office equipment	38,785	38,785
	125,049	125,049
Less accumulated depreciation	(86,709)	(77,044)
	$ 38,340	$ 48,005

On April 1, 2022, the Company sold its land and building to Noteholder C. The land and building were carried at cost of $420,000 and accumulated depreciation of $18,950. The Company received consideration totaling $825,000 with $645,000 allocated to an October 2019 convertible note payable and $180,000 to related accrued interest. As a result of the sale, the Company recognized a $423,950 gain on disposition of assets.

5. Debt

Line of credit

On November 29, 2022, the Company entered into a 9% agreement for the purchase of inventory with a total capacity of $886,469. During March 2023, the Company replaced the November 29, 2022, agreement with an 8% inventory financing facility totaling $1,000,000 for the purchase of inventory. $500,000 is due on June 11, 2023, with the remaining balance and accrued interest due at maturity on July 11, 2023. At September 30, 2023, the line of credit, which had an outstanding balance of $996,000, was past due.

Notes payable

The Company's notes payable as of September 30, 2023, are summarized as follows:

Noteholder	Origination	Maturity	Interest	Principal	Discount
Noteholder A1	8/15/2022	2/15/2024	6.667%	$ 492,090	$ -
Noteholder A1	1/31/2023	3/7/2023*	2%	49,913	-
Noteholder A1	6/12/2023	6/12/2024	18%	111,111	13,018
Noteholder A2	8/15/2022	2/15/2024	6.667%	1,363,589	-
Noteholder A3	8/15/2022	2/15/2024	6.667%	2,126,541	-
Noteholder B	9/2/2021	9/2/2022*	12%	100,000	-
Noteholder B	10/7/2021	10/7/2022*	15%	50,000	-
Noteholder C	4/1/2022	4/1/2023*	10%	85,594	-
Noteholder C	8/15/2022	2/15/2024	6.667%	1,762,881	-
Noteholder C	1/31/2023	6/7/2023*	8%	-	-
Noteholder C	5/25/2023	5/25/2024	18%	111,111	18,605
Noteholder C	6/16/2023	12/16/2023**	18%	150,000	6,311
Noteholder C	7/14/2023	7/14/2024	18%	100,000	11,803
Noteholder C	7/27/2023	7/27/2024	18%	60,000	6,168
Noteholder C	8/14/2023	8/14/2024	18%	50,000	4,358
Noteholder C	9/6/2023	9/6/2024	18%	90,000	14,016
Noteholder C	9/8/2023	9/8/2024	18%	95,000	14,098
Noteholder G	6/20/2017	8/5/2017*	18%	55,353	-
Noteholder F	8/15/2022	2/15/2024	6.667%	267,120	-
Noteholder D	8/15/2022	2/15/2024	6.667%	1,173,164	-
Noteholder I	6/17/2020	6/17/2050	4%	152,690	-
Noteholder J	8/15/2022	2/15/2024	6.667%	583,989	-
Noteholder K	8/28/2021	9/1/2022*	15%	50,000	-
Noteholder K	10/6/2021	10/6/2022*	15%	66,980	-
Noteholder L	7/12/2022	-	10%	24,500	-
Noteholder M	7/12/2022	-	10%	25,000	-
Noteholder M	7/25/2022	-	5%	30,000	-
Noteholder N	7/28/2022	-	10%	50,000	-
Noteholder O	8/31/2022	8/31/2031	3.15%	7,865,000	7,037,038
Noteholder P	4/14/2023	-	-	125,129	-
				$ 17,266,755	$ 7,125,415

*In default at September 30, 2023

**In default subsequent to September 30, 2023

The Company's notes payable as of September 30, 2022, are summarized as follows:

Noteholder	Origination	Maturity	Interest	Principal	Discount
Noteholder A1	8/15/2022	2/15/2024	6.667%	$ 540,758	$ -
Noteholder A2	8/15/2022	2/15/2024	6.667%	1,498,450	-
Noteholder A3	8/15/2022	2/15/2024	6.667%	2,336,858	-
Noteholder B	9/2/2021	9/2/2022	12%	100,000	-
Noteholder B	10/7/2021	10/7/2022	15%	50,000	-
Noteholder C	4/1/2022	4/1/2023	10%	85,594	4,291
Noteholder C	8/15/2022	2/15/2024	6.667%	1,876,191	-
Noteholder G	6/20/2017	8/5/2017	18%	55,353	-
Noteholder F	8/15/2022	2/15/2024	6.667%	288,720	-
Noteholder D	8/15/2022	2/15/2024	6.667%	1,263,164	-
Noteholder I	6/17/2020	6/17/2050	4%	160,000	-
Noteholder J	8/15/2022	2/15/2024	6.667%	640,239	-
Noteholder K	8/28/2021	9/1/2022	15%	50,000	-
Noteholder K	10/6/2021	10/6/2022	15%	66,980	-
Noteholder L	7/12/2022	-	10%	24,500	-
Noteholder M	7/12/2022	-	10%	25,000	-
Noteholder M	7/25/2022	-	5%	30,000	-
Noteholder N	7/28/2022	-	10%	50,000	-
Noteholder O	8/31/2022	8/31/2031	3.15%	8,000,000	7,925,926
				$ 17,141,807	$ 7,930,217

Prior to fiscal 2022, the Company had two notes payable held by Noteholder I that were both forgiven by the Small Business Administration during the year ended September 30, 2022 in the aggregate amount of $220,388. As a result, the Company recorded a gain from settlement of liabilities of this amount in the accompanying consolidated statements of operations during fiscal 2022.

On August 15, 2022, the Company's outstanding debt, including convertible notes payable, notes payable, and accrued interest, with Noteholders A1, A2, A3, C, D, F and J, totaling $8,513,092, were consolidated into seven note payable agreements totaling 8,444,380, with the remaining $68,712 forgiven by the noteholders and recorded as a gain from settlement of liabilities. The Company accounted for the amendment as an extinguishment of existing debt and issuance of new debt pursuant to ASC 470-50-40. As a result, the derivative liabilities associated with convertible notes and warrants were also settled, resulting in a gain on settlement of derivative liabilities totaling $7,240,799 (Note 2).

At September 30, 2023 and 2022, accrued interest related to notes payable totaled $1,074,685 and $191,437, respectively.

Convertible notes payable

The Company's convertible notes payable as of September 30, 2023, are summarized as follows:

Noteholder	Origination	Maturity	Interest	Conversion	Principal	Discount
Noteholder C	8/23/2022	8/23/2023*	12%	$ 0.0245/share	1,451,087	-
Noteholder D	8/23/2022	8/23/2023*	12%	$ 0.0245/share	722,826	-
Noteholder E	11/4/2020	5/4/2021*	15%	$ 0.059/share	100,000	-
					$ 2,273,913	$ -

*In default at September 30, 2023

The Company's convertible notes payable as of September 30, 2022, are summarized as follows:

Noteholder	Origination	Maturity	Interest	Conversion	Principal	Discount
Noteholder C	8/23/2022	8/23/2023	12%	$ 0.0245/share	1,451,087	1,002,198
Noteholder D	8/23/2022	8/23/2023	12%	$ 0.0245/share	722,826	472,140
Noteholder E	11/4/2020	5/4/2021	15%	$ 0.059/share	100,000	-
					$ 2,273,913	$ 1,474,338

At September 30, 2023 and 2022, accrued interest related to convertible notes payable totaled $322,026 and $46,266, respectively.

In connection with the August 23, 2022 convertible note agreements with Noteholder C and Noteholder D, the Company issued a total of 22,500,000 options (Note 7) exercisable at $0.01 per share. The options were fully vested at issuance and expired on August 23, 2023. Additionally, the Company issued a total of 88,731,145 warrants (Note 7) exercisable at $0.02695 per share. The warrants were fully vested at issuance and expire on August 23, 2027. The options and warrants, valued at approximately $4,413,000, represented approximately 67% of the total consideration received and resulted in an additional discount on the notes totaling $1,511,047 pursuant to FASB ASC 470-20-30. The discount is being amortized over the life of the notes.

Future maturities

Future maturities of the Company's debt as of September 30, 2023, are as follows:

September 30, 2024	$ 12,522,278
September 30, 2025	3,400
September 30, 2026	3,500
September 30, 2027	3,600
September 30, 2028	3,700
Thereafter	8,000,190
	$ 20,536,668

6. Payroll and Payroll Taxes Payable

The Company's payroll and payroll taxes payable consisted of the following at the respective balance sheet dates:

	September 30, 2023	September 30, 2022
Accrued payroll - Employee	$ 128,105	$ 128,105
Accrued payroll taxes	811,104	787,125
	$ 939,209	$ 915,230

Prior to fiscal 2022, the Company had an accrued payroll balance to officer of $95,761. During August 2022, approximately $234,000 in accrued payroll – officer was settled through an exchange agreement (Note 9).

7. Stockholders' Deficit

On January 25, 2021, the Company amended its articles of incorporation to increase its authorized shares to 1,000,000,000 shares and 10,000,000 shares of the Company's common stock and preferred stock, respectively.

The Company's common stock shares have equal voting rights, are non-assessable and have one vote per share. As of September 30, 2023 and 2022, the Company's issued and outstanding common stock totaled 506,357,952 and 501,376,264, respectively.

The Company's Series A Preferred Stock shares have voting rights in the ratio of 25 votes to 1 share held. As of September 30, 2023 and 2022, the Company's issued and outstanding Series A Preferred Stock totaled 1,824,000.

The Company's Series H Preferred Stock shares have voting rights equal to the aggregate of all other voting rights plus 1 and each share is convertible into 10 shares of the Company's common stock. As of September 30, 2023 and 2022, the Company's issued and outstanding Series H Preferred Stock totaled 4,878,049.

The Company's Series Z Preferred Stock shares have voting rights equal to the aggregate of all other voting rights plus 1 and each share is convertible into 100 shares of the Company's common stock. Additionally, the Series Z Preferred Stock carries a cumulative dividend at 4.56% of the stated value, is to be paid in kind with common stock, and is payable only at the time the shares are converted to common stock. As of September 30, 2022, the Company's issued and outstanding Series Z Preferred Stock totaled -0- and the Series Z Preferred Stock was retired by the Company during August 2022.

Issuances for financing costs and default penalty

During October 2021, the Company and Noteholder J agreed to modify the terms of the May 2021 note payable agreement. The maturity of the note was extended from November 2021 to April 2022. In return, the Company agreed to issue Noteholder J a total of 2,562,500 shares of common stock valued at $135,813. The Company accounted for the amendment as an extinguishment of existing debt and issuance of new debt pursuant to ASC 470-50-40. As a result, a discount of $135,813 was recorded in connection with the note agreement.

During May 2022, the Company and Noteholder J agreed to settle the May 2021 note agreement through the issuance of a new note. In return, the Company agreed to issue Noteholder J a total of 8,928,571 shares of common stock valued at $294,643. The Company accounted for the settlement as an extinguishment of existing debt and issuance of new debt pursuant to ASC 470-50-40. As a result, a discount of $294,643 was recorded in connection with the note agreement.

During April 2022, the Company's common stock was no longer quoted on OTC. To prevent Noteholder F from triggering default provisions under the terms of the May 2021 note agreement (Note 5), the Company and Noteholder F agreed that the Company would issue 9,761,904 common shares valued at $584,738.

Warrants

During the year ended September 30, 2022, the Company estimated the fair value of warrants issued based on assumptions used in the Cox-Ross-Rubinstein binomial pricing model using the following inputs: the price of the Company's common stock ranging from $0.0325 and $0.0538; risk-free interest rates ranging from 1.00% to 3.18%; expected volatility of the Company's common stock ranging from 120% to 310%; exercise prices ranging from $0.027 to $0.08; and terms of approximately five years.

During October 2021, in connection with two notes payable, the Company issued warrants for the purchase of 187,500 shares of common stock with a total value of $7,587. These warrants expire after five years and have an exercise price of $0.08. Pursuant to the Company's contract ordering policy, these warrants were recorded as a derivative liability and discounts totaling $7,587 were recorded.

During December 2021, in connection with a convertible note payable, the Company issued warrants for the purchase of 10,288,066 shares of common stock with a total value of $353,319. These warrants expire after five years and have an exercise price of $0.06. Pursuant to the Company's contract ordering policy, these warrants were recorded as a derivative liability and a discount totaling $353,319 was recorded. During August 2022, these warrants were cancelled.

During May 2022, in connection with a note payable, the Company issued warrants for the purchase of 5,000,000 shares of common stock with a total value of $162,332. These warrants expire after five years and have an exercise price of $0.06. Pursuant to the Company's contract ordering policy, these warrants were recorded as a derivative liability and a discount totaling $162,332 was recorded. During August 2022, these warrants were cancelled.

During August 2022, the Company issued warrants for the purchase of 88,731,145 shares of common stock in connection with a convertible note payable (Note 5). These warrants expire after five years and have an exercise price of $0.02695.

A summary of the status of the Company's warrant grants as of September 30, 2023, and the changes during the two years then ended, is presented below:

	Warrants		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
Outstanding at September 30, 2021	20,750,000	$	0.12	1.4 years
Granted	104,206,711		0.03	5.0 years
Cancelled	(36,038,066)		0.09	2.2 years
Outstanding at September 30, 2022	88,918,645	$	0.03	4.9 years
Outstanding at September 30, 2023	88,918,645	$	0.03	3.9 years
Exercisable at September 30, 2023	88,918,645	$	0.03	3.9 years

Options

During the year ended September 30, 2022, the Company estimated the fair value of options issued based on assumptions used in the Cox-Ross-Rubinstein binomial pricing model using the following inputs: the price of the Company's common stock of $0.0398; risk-free interest rates of 3.29%; expected volatility of the Company's common stock of 462%; exercise price of $0.01; and terms of approximately one year.

During August 2022, the Company issued options for the purchase of 22,500,000 shares of common stock in connection with a convertible note payable (Note 5). The options expire after one year and have an exercise price of $0.01.

A summary of the status of the Company's option grants as of September 30, 2023 and the changes during the two years then ended is presented below:

	Options	Weighted-Average Exercise Price	Remaining Contractual Life
Outstanding at September 30, 2021	-	$ -	-
Granted	22,500,000	0.01	1.0 years
Outstanding at September 30, 2022	22,500,000	$ 0.01	0.9 years
Expired	(22,500,000)	0.01	-
Outstanding at September 30, 2023	-	$ -	-
Exercisable at September 30, 2023	-	$ -	-

8. Commitments and Contingencies

Settlement

During October 2022, the Company settled a dispute with the Company's former Chief Medical Officer. As part of the settlement, the Company paid compensation totaling $109,000, which consisted of $25,000 in cash and 1,000,000 shares of common stock. The Company recorded the settlement in accrued expenses at September 30, 2022.

Serious Promotions, Inc.

In June 2022, Serious Promotions, Inc. filed a Petition before the American Arbitration Association seeking monetary damages against Endexx And Khode, LLC, a joint venture entered into by Serious Promotions and us. Serious Promotions alleges that Endexx and Khode failed to make certain payments of fees related to the Endorsement and License Agreement entered into by Serious Promotions and its president Khaled Mohamed Khaled (p/k/a DJ Khaled). Serious Promotions seeks $6,250,000 in damages.

In July 2022, Endexx and Khode filed counterclaims against Serious Promotions, Khaled and Impact Brokers for breach of the Endorsement and License Agreement and related violations of legal duties, seeking damages in an amount no less than $100,000,000.

This arbitration is scheduled for hearing on July 19 – 26, 2024. We are confident in our position, will vigorously defend our position, and prosecute our counterclaims, and ultimately expect a ruling in our favor.

Contracts and commitments

During October 2020, the Company entered into a five-year endorsement contract with an American DJ, record executive and producer, and media personality. Pursuant to the endorsement contract, the Company is to make quarterly payments totaling $5,000,000 by July 1, 2025. During the year ended September 30, 2021, the Company paid $1,000,000 under this contract. The agreement was terminated during the year ended September 30, 2022. The Company is involved in litigation related to this agreement, as detailed above.

Noteholder dispute

During August 2021, the Company was informed a convertible note held by Noteholder B had been transferred to a third party and converted into shares of common stock. The outstanding balance of principal and interest at the time of conversion totaled approximately $265,000. Subsequently, Noteholder B informed the Company that the note had not been transferred to the third party and no common shares had been delivered to Noteholder B. Noteholder B contends that the balance of the note, and accrued interest from August 2021 to present, remain outstanding.

Noteholder B holds two notes, each of which is past due as of September 30, 2023. No default penalty has been enforced by Noteholder B. However, due to the dispute detailed above, Noteholder B's notes may incur interest at a 17% default rate.

The Company has determined it is probable that the dispute with Noteholder B will result in a negative outcome for the Company, estimated to be $350,000. Accordingly, $350,000 has been recorded as accrued expenses as of September 30, 2023.

9. Related Party Transactions

Todd Davis, CEO, employment agreement

Effective September 1, 2022, the Company and Mr. Davis entered into an employment agreement providing for a salary of $10,000 per month.

Black Mountain Botanical

During the years ended September 30, 2023 and 2022, Black Mountain Botanical (BMB), an entity owned by the wife of Mr. Davis, billed the Company $84,352 and $172,115, respectively, for procurement, payment and pricing services. At September 30, 2023, the Company had accounts payable to BMB totaling $32,932.

Contribution and Exchange Agreement

Effective August 31, 2022, in connection with the Hyla Acquisition Agreement (Note 10), Mr. Davis, RFI, and the Company entered into a Contribution and Exchange Agreement (the "Davis/Rayne Contribution Agreement"). Under the terms of the Davis/Rayne Contribution Agreement, Mr. Davis and RFI surrendered $234,000 in accrued payroll (Note 6) and 20,612,060 shares of common stock and 719,571 shares of Series Z Preferred Stock in exchange for 30% ownership in CBD Unlimited, Inc.

MB Consultancy, Inc.

During September 2022, MB Consultancy, Inc. (MBC), an entity controlled by the minority shareholder in Hyla, billed the Company $674,459 for consulting services.

HYLA UK Holdco Limited

During August 2022, the Company acquired Hyla US Holdco Limited from Hyla UK Holdco Limited, as further detailed in Note 10.

During August 2022, Hyla US Holdco Limited ("Hyla US") and Hyla UK Holdco Limited ("Hyla UK") entered into a Sales Agent Agreement ("SAA") whereby Hyla UK may act as an independent sales agent for Hyla US products at no additional expense to Hyla US. The term of the agreement is for one year and automatically renews annually unless terminated 90 days prior to expiration.

10. Acquisition

Hyla US Holdco Limited

Hyla US Holdco Limited and the Company entered into an Intercompany Services Agreement (the "Hyla ISA"), pursuant to the provisions of which, the Company agreed to provide to Hyla certain human resources, marketing, information technology, and other administrative services that are necessary to support its business. The Company will invoice Hyla on a monthly basis for performance of the services thereunder, and for which Hyla will pay the Company in accordance with the provisions of the HYLA ISA. The initial term of the Hyla ISA is nine years and it is subject to renewal for successive 12-month periods.

In connection with the Hyla ISA, Hyla issued to the Company a two-year Promissory Note in the principal amount of $1,500,000, which accrues interest at the rate of 10% per annum ("Hyla's ISA Note"). Principal and interest payments thereunder are due and payable monthly. Upon an Event of Default (as such term is defined in Hyla's ISA Note), the interest rate increases to 18% per annum until such Event of Default has been cured or the debt has been paid in full. The principal amount is due and payable on or before August 31, 2024. As a result of the Control Acquisition Agreement (below), Hyla's ISA Note has been eliminated as part of consolidation.

Effective August 31, 2022, the Company closed the transactions (the "Hyla Transaction Closing Date") contemplated by a Control Acquisition Agreement (the "Hyla Acquisition Agreement") with HYLA UK Holdco Limited, a United Kingdom limited company (the "Seller"). Pursuant to the terms of the Hyla Acquisition Agreement, we purchased (the "Hyla Transaction") 51% of the issued and outstanding capital stock of Hyla US Holdco Limited, a Delaware corporation ("Hyla"), a wholly-owned operating subsidiary of the Seller.

The Company agreed to issue the Seller 4,878,049 shares of our newly constituted Series H Convertible Preferred Stock (the "Hyla Series H Preferred"). The Company valued those shares at an aggregate of $2,000,000, which was based upon an as-converted-into Common Stock value of $0.041 per share. The per-share price was the closing price of our Common Stock, par value $0.0001 per share (our "Common Stock"), as reported by the OTC Markets Group Inc. (the "OTCM"), on August 19, 2022, the date on which certain of the initial set of Hyla Transaction-related draft documents were circulated for signature.

Additionally, as part of the Hyla Acquisition Agreement, the Company is obligated to pay the Seller a Self-financing Promissory Note (our "Self-financing Note") with a term of up to nine years. The initial principal balance of the Self-financing Note is $8,000,000 (Note 5) and it bears interest at an annual simple interest rate of 3.15%. Upon an Event of Default, the interest rate will increase to 6.3% per annum until such Event of Default has been cured or the debt has been paid in full. Under the Note, the Company will be obligated to make payments of principal and interest on a quarterly basis, in arrears (each, a "Quarterly Payment"). The amount of principal and interest due to the Seller for each of our Quarterly Payments is calculated pursuant to a formula set forth in the Self-financing Note, the components of which are derived from a matrix that consists of Hyla's quarterly gross sales revenues and its gross sales margin. Each Quarterly Payment shall, at the option of the Seller, be paid either in cash or through the issuance of shares of our Common Stock. The pricing of those shares will be determined by the volume weighted average price of our Common Stock as of the last business day of the relevant quarter. The Self-financing Note is subject to an "ownership limitation" such that the Seller cannot request that it be issued shares of our Common Stock as payment if such issuance would result in the Seller holding more than 4.99% of the then-issued and outstanding shares of our Common Stock (a "Conversion or Exercise Blocker"). We may pre-pay our Self-financing Note in whole or in part at any time without premium or penalty. If, as of the maturity date of August 31, 2031, but absent any then-current Event of Default that has not been cured, and payments are current pursuant to the payment schedule, any remaining balance of the note is to be forgiven.

As a result of the Hyla Acquisition Agreement, on August 31, 2022, Hyla became a subsidiary of the Company. The acquisition date fair value of the consideration transferred was approximately $11,500,000, which includes Hyla's ISA Note, Hyla Series H Preferred, and the Self-financing Note.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition:

Cash	$	916,737
Accounts receivable, net		222,931
Prepaid expenses and other assets		1,062,761
Equipment		20,000
Right of use asset		34,160
Goodwill		9,807,361
Accounts payable		(501,830)
Accrued expenses		(27,960)
Lease liability right of use		(34,160)
Net assets acquired	$	11,500,000

The excess of purchase consideration over the fair value of assets acquired and liabilities assumed was recorded as goodwill. The resulting goodwill is primarily attributed to the expanded market opportunities, including integrating the Hyla offerings with existing Company offerings. The goodwill has no basis for U.S. income tax purposes.

The following pro forma financial information summarizes the combined results of operations for the Company and Hyla, as though the companies were combined as of October 1, 2021. The unaudited pro forma financial information was as follows:

	For the year ended September 30, 2022	
Total revenues	$	3,424,525
Net loss	$	(4,522,147)

The pro forma financial information for all periods presented above has been calculated after adjusting the results of Hyla to reflect the business combination accounting effects resulting from this acquisition as though the acquisition occurred as of October 1, 2021. The pro forma financial information is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at October 1, 2021.

11. Income Taxes

The Company accounts for income taxes under ASC 740-10, which provides for an asset and liability approach of accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributed to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for income tax purposes.

The components of income tax expense for the years ended September 30, 2023 and 2022 consist of the following:

	2023	2022
Federal and state tax at statutory rate	26%	26%
Temporary differences	-%	-%
Permanent differences	-12%	-5%
Valuation allowance	-14%	-23%
Effective rate	-%	-%

Significant components of the Company's deferred tax assets as of September 30, 2023 and 2022 are summarized below.

	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	$ 5,756,000	$ 4,850,000
Valuation allowance	(5,756,000)	(4,850,000)
	$ -	$ -

The Company has not filed its tax returns since 2013. As of September 30, 2023 and 2022, the Company estimated approximately $22,141,000 and $18,654,000, respectively, of federal net operating loss carry forwards. Future utilization of the net operating loss carry forwards is subject to certain limitations under Section 382 of the Internal Revenue Code. The Company believes that there has not been any transaction to warrant any limitation of any previous operating losses.

To the extent that the tax deduction is included in a net operating loss carry forward and is in excess of amounts recognized for book purposes, no benefit will be recognized until the loss carry forward is recognized. Upon utilization and realization of the carry forward, the corresponding change in the deferred asset and valuation allowance will be recorded as additional paid-in capital.

The Company provides for a valuation allowance when it is more likely than not that it will not realize a portion of the deferred tax assets. The Company has established a valuation allowance against the net deferred tax asset due to the uncertainty that enough taxable income will be generated in those taxing jurisdictions to utilize the assets. Therefore, we have not reflected any benefit of such deferred tax assets in the accompanying financial statements. Our net deferred tax asset and valuation allowance increased by $906,000 and $1,120,000 during the years ended September 30, 2023 and 2022, respectively.

The Company reviewed all income tax positions taken or that we expect to be taken for all open years and determined that our income tax positions are appropriately stated and supported for all open years. The Company is subject to U.S. federal income tax examinations by tax authorities for years after 2013 due to unexpired net operating loss carryforwards originating in and subsequent to that year. The Company may be subject to income tax examinations for the various taxing authorities which vary by jurisdiction. The Company estimates that the amount of penalties, if any, will not have a material effect on the results of operations, cash flows or financial position. No provisions have been made in the financial statements for such penalties, if any.