GRAZE, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2021 AND 2020

To the Board of Directors of
Graze, Inc.
Santa Monica, CA

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of Graze, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in stockholders' equity/(deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the financial statements, the Company has not generated profits since inception, has sustained net losses of $8,179,791 and $4,222,632 for the years ended December 31, 2021 and 2020, respectively, and has incurred negative cash flows from operations for years ended December 31, 2021 and 2020. As of December 31, 2021, the Company had an accumulated deficit of $13,218,306, limited liquid assets with $31,045 of cash, and a working capital deficit of $371,712. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

/s/ Artesian CPA, LLC
Denver, Colorado
May 1, 2022

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GRAZE, INC.

BALANCE SHEETS

	December 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,045	$ 1,181,196
Due from related party	15,450	-
Loan receivable, related party	342,056	678,753
Interest receivable, related party	41,874	53,937
Subscription receivable	113,448	-
Deferred offering costs	-	15,000
Total assets	$ 543,873	$ 1,928,886
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable, related party	$ 517,764	$ 1,700,012
Accounts payable	64,063	137,938
Accrued expenses, related party	-	5,000
Deferred revenue	500	-
Loan payable, related party	315,607	495,727
Interest payable, related party	17,651	15,455
Total liabilities	915,585	2,354,132
Commitments and contingencies (Note 11)		
Stockholders' equity (deficit):		
Series A Preferred stock, $0.0001 par value, 2,830,278 shares authorized, 1,888,487 and 950,295 shares issued and outstanding as of December 31, 2021 and 2020, respectively; liquidation preference of $10,953,226 as of December 31, 2021	189	95
Series A-1 Preferred stock, $0.0001 par value, 750,000 shares authorized, 736,993 and 749,977 shares issued and outstanding as of December 31, 2021 and 2020, respectively; liquidation preference of $368,497 as of December 31, 2021	74	75
Class F stock, $0.0001 par value, 3,000,000 shares authorized, 2,211,070 and 2,250,023 shares issued and outstanding as of December 31, 2021 and 2020, respectively	221	225
Common stock, $0.0001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding as of both December 31, 2021 and 2020	-	-
Additional paid-in capital	13,147,339	4,612,874
Treasury stock	(301,229)	-
Accumulated deficit	(13,218,306)	(5,038,515)
Total stockholders' equity (deficit)	(371,712)	(425,246)
Total liabilities and stockholders' equity (deficit)	$ 543,873	$ 1,928,886

See Independent Auditor’s Report and accompanying notes, which are an integral part of these financial statements.

GRAZE, INC.

STATEMENTS OF OPERATIONS

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net revenue	$ -	$ -
Operating expenses:		
Research and development	6,981,267	2,031,042
Sales and marketing	694,885	1,805,073
General and administrative	545,969	389,442
Total operating expenses	8,222,121	4,225,557
Loss from operations	(8,222,121)	(4,225,557)
Other income (expense):		
Interest income	52,054	27,788
Other income	-	9,000
Interest expense	(9,724)	(33,863)
Total other income (expense), net	42,330	2,925
Provision for income taxes	-	-
Net loss	$ (8,179,791)	$ (4,222,632)
Weighted average common shares outstanding - basic and diluted	-	-
Net loss per common share - basic and diluted	$ -	$ -

See Independent Auditor’s Report and accompanying notes, which are an integral part of these financial statements.

GRAZE, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Preferred Stock											
	Series A		Series A-1		Class F Stock		Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balances at December 31, 2019	-	$ -	-	$ -	3,000,000	$ 300	-	$ -	$ 360,648	$ -	$ (815,883)	$ (454,935)
Issuance of Series A preferred stock, net of issuance costs	670,055	67	-	-	-	-	-	-	3,440,494	-	-	3,440,561
Issuance of Series A preferred stock for services	50,000	5	-	-	-	-	-	-	289,995	-	-	290,000
Conversion of notes payable for shares of Series A preferred stock	230,240	23	-	-	-	-	-	-	494,814	-	-	494,838
Conversion of Class F stock to Series A-1 preferred stock	-	-	749,977	75	(749,977)	(75)	-	-	-	-	-	-
Stock compensation expense	-	-	-	-	-	-	-	-	26,923	-	-	26,923
Net loss	-	-	-	-	-	-	-	-	-	-	(4,222,632)	(4,222,632)
Balances at December 31, 2020	950,295	95	749,977	75	2,250,023	225	-	-	4,612,874	-	(5,038,515)	(425,246)
Issuance of Series A preferred stock	891,640	89	-	-	-	-	-	-	5,077,549	-	-	5,077,638
Offering costs	-	-	-	-	-	-	-	-	(1,161,000)	-	-	(1,161,000)
Issuance of Series A preferred stock for services	46,552	5	-	-	-	-	-	-	269,997	-	-	270,002
Repurchase of shares in settlement of notes receivable and accrued in	-	-	(12,984)	(1)	(38,953)	(4)	-	-	5	(301,229)		(301,229)
Warrants issued from settlement of accounts payable, related party	-	-	-	-	-	-	-	-	4,309,597	-	-	4,309,597
Stock compensation expense	-	-	-	-	-	-	-	-	38,316	-	-	38,316
Net loss	-	-	-	-	-	-	-	-	-	-	(8,179,791)	(8,179,791)
Balances at December 31, 2021	1,888,487	$ 189	736,993	$ 74	2,211,070	$ 221	-	$ -	$13,147,339	$ (301,229)	$ (13,218,306)	$ (371,712)

See Independent Auditor's Report and accompanying notes, which are an integral part of these financial statements.

GRAZE, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash flows from operating activities:		
Net loss	$ (8,179,791)	$ (4,222,632)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	38,316	26,923
Shares issued for services	270,002	290,000
Non-cash advertising expenses	-	14,400
Changes in operating assets and liabilities:		
Interest receivable, related party	(51,870)	(27,788)
Accounts payable, related party	6,818,785	1,160,471
Accounts payable	(73,875)	121,480
Accrued expenses, related party	(5,000)	(60,000)
Deferred revenue	500	-
Interest payable, related party	9,660	33,862
Net cash used in operating activities	(1,173,273)	(2,663,284)
Cash flows from investing activities:		
Advance to related party	(15,450)	-
Isssuance of loans to related parties	(4,447,500)	(103,600)
Repayments of loans from related parties	3,500	72,000
Net cash used in investing activities	(4,459,450)	(31,600)
Cash flows from financing activities:		
Proceeds from related party loans	673,000	275,967
Repayments of related party loans	(8,620)	(20,000)
Proceeds from issuance of preferred stock	4,964,190	3,556,040
Offering costs	(1,145,999)	-
Net cash provided by financing activities	4,482,571	3,812,007
Net change in cash and cash equivalents	(1,150,151)	1,117,123
Cash and cash equivalents at beginning of year	1,181,196	64,073
Cash and cash equivalents at end of year	$ 31,045	$ 1,181,196
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ -	$ -
Supplemental disclosure of non-cash financing activities:		
Warrants issued from settlement of accounts payable, related party	$ 4,309,597	$ -
Loans and interest receivable offset to accounts payable, related party	$ 3,691,437	$ -
Loans and interest receivable offset to notes and interest payable, related party	$ 851,964	$ -
Repurchase of shares in settlement of notes receivable and accrued interest receivable	$ 301,229	$ -
Issuance of related party loan payable for advertising costs incurred	$ -	$ 14,400
Offering costs included in accounts payable	$ -	$ 15,000
Conversion of notes payable and accrued interest into preferred stock	$ -	$ 494,838

See Independent Auditor's Report and accompanying notes, which are an integral part of these financial statements.

GRAZE, INC.

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Graze, Inc. (the "Company") is a corporation formed on December 4, 2017 under the laws of Delaware as Future Labs III, Inc. On March 25, 2021, the Company changed its name to Graze, Inc. The Company was formed to sell autonomous farming robots. The Company is headquartered in Santa Monica, California.

As of December 31, 2021, the Company has not commenced planned principal operations nor generated revenue. The Company's activities since inception have consisted of formation activities, product development efforts, and preparations to raise capital. Once the Company commences its planned principal operations, it will incur significant additional expenses. The Company is dependent upon additional capital resources for the commencement of its planned principal operations and is subject to significant risks and uncertainties; including failing to secure funding to operationalize the Company's planned operations or failing to profitably operate the business.

2. GOING CONCERN

The Company has evaluated whether there are certain conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has not generated profits since inception, has sustained net losses of $8,179,791 and $4,222,632 for the years ended December 31, 2021 and 2020, respectively, and has incurred negative cash flows from operations for the years ended December 31, 2021 and 2020. As of December 31, 2021, the Company had an accumulated deficit of $13,218,306, limited liquid assets with $31,045 of cash, and a working capital deficit of $371,712. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern for the next twelve months is dependent upon its ability to generate sufficient cash flows from operations to meet its obligations, which it has not been able to accomplish to date, and/or to obtain additional capital financing. No assurance can be given that the Company will be successful in these efforts. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP"). The Company's fiscal year is December 31.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions reflected in these financial statements include, but are not limited to, the valuations of common stock, warrants and stock options. The Company bases its estimates on historical experience, known trends and other market-specific or other relevant factors that it believes to be reasonable under the circumstances. On an ongoing basis, management evaluates its estimates when there are changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company generally maintains balances in various operating accounts at financial institutions that management believes to be of high credit quality, in amounts that may exceed federally insured limits. The Company has not experienced any losses related to its cash and cash equivalents and does not believe that it is subject to unusual credit risk beyond the normal credit risk associated with commercial banking relationships. At December 31, 2021 and 2020, all of the Company's cash and cash equivalents were held at one accredited financial institution.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents.

Fair Value Measurements

Certain assets and liabilities of the Company are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities.

- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

- Level 3—Unobservable inputs that are supported by little or no market activity that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying values of the Company’s assets and liabilities approximate their fair values.

Subscription Receivable

The Company records stock issuances at the effective date. If the contribution is not funded upon issuance, the Company records a subscription receivable as an asset on a balance sheet. When subscription receivables are not received prior to the issuance of financial statements at a reporting date in satisfaction of the requirements under FASB ASC 505-10-45-2, the contributed capital is reclassified as a contra account to stockholders’ equity (deficit) on the balance sheet.

Revenue Recognition

ASC Topic 606, “Revenue from Contracts with Customers” establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts to provide goods or services to customers.

Revenues are recognized when control of the promised goods or services are transferred to a customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. The Company applies the following five steps in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its agreements: 1) identify the contract with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to performance obligations in the contract; and 5) recognize revenue as the performance obligation is satisfied. To date, no revenue has been recognized. As of December 31, 2021, the Company had $500 in deferred revenue pertaining to a customer deposit.

Advertising and Promotion

Advertising and promotional costs are expensed as incurred.

Research and Development Costs

Costs incurred in the research and development of the Company's products are expensed as incurred.

Concentrations

The Company is dependent on third-party vendors to supply inventory and products for research and development activities and parts for building products. In particular, the Company relies and expects to continue to rely on a small number of vendors. The loss of one of these vendors may have a negative short-term impact on the Company's operations; however, the Company believes there are acceptable substitute vendors that can be utilized longer-term.

Convertible Instruments

U.S. 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 otherwise applicable generally accepted accounting principles 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. An exception to this rule is when the host instrument is deemed to be conventional as that term is described under applicable U.S. GAAP.

When the Company has determined that the embedded conversion options should not be bifurcated from their host instruments, 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. The Company also records, when necessary, deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the transaction and the effective conversion price embedded in the preferred shares.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation.* The Company measures all stock-based awards granted to employees, directors and non-employee consultants based on the fair value on the date of the grant and recognizes compensation expense for those awards, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. For awards with service-based vesting conditions, the Company records the expense for using the straight-line method. For awards with performance-based vesting conditions, the Company records the expense if and when the Company concludes that it is probable that the performance condition will be achieved.

The Company classifies stock-based compensation expense in its statement of operations in the same manner in which the award recipient's payroll costs are classified or in which the award recipient's service payments are classified.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Company historically has been a private company and lacks company-specific historical and implied volatility information for its stock. Therefore, it estimates its expected stock price volatility based on the historical volatility of publicly traded peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The expected term of the Company's stock options has been determined utilizing the "simplified" method for awards that qualify as "plain-vanilla" options. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is based on the fact that the Company has never paid cash dividends on common stock and does not expect to pay any cash dividends in the foreseeable future. Determining the appropriate fair value of stock-based awards requires the input of subjective assumptions. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards.

Deferred Offering Costs

The Company complies with the requirements of FASB ASC 340-10-S99-1 with regards to offering costs. Prior to the completion of an offering, offering costs are capitalized. The deferred offering costs are charged to additional paid-in capital or as a discount to debt, as applicable, upon the completion of an offering or to expense if the offering is not completed. As of December 31, 2020, the Company had capitalized deferred offering costs of $15,000, which was charged to additional paid-in capital in 2021.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, *Income Taxes*. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is unlikely that the deferred tax assets will not be realized. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy will be to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements.

Net Loss per Share

Net earnings or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the period, excluding shares subject to redemption or forfeiture. The Company presents basic and diluted net earnings or loss per share. Diluted net earnings or loss per share reflect the actual weighted average of common shares issued and outstanding during the period, adjusted for potentially dilutive securities outstanding. Potentially dilutive securities are excluded from the computation of the diluted net loss per share if their inclusion would be anti-dilutive. As all potentially dilutive securities are anti-dilutive as of December 31, 2021 and 2020, diluted net loss per share is the same as basic net loss per share for each year. Potentially dilutive items outstanding as of December 31, 2021 and 2020 are as follows:

	Year Ended December 31, 2021	2020
Series A preferred stock	1,888,487	950,295
Series A-1 preferred stock	736,993	749,977
Class F stock	2,211,070	2,250,023
Options to purchase common stock	723,840	656,140
Warrants	916,545	173,511
Total potentially dilutive shares	6,476,935	4,779,946

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. The ASU is effective for annual and interim periods beginning after December 15, 2021. Early adoption is permitted. The Company is continuing to evaluate the impact of this new standard on our financial reporting and disclosures.

In August 2020, FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity; Own Equity ("ASU 2020-06"), as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Among other changes, the new guidance removes from GAAP separation models for convertible debt that require the convertible debt to be separated into a debt and equity component, unless the conversion feature is required to be bifurcated and accounted for as a derivative or the debt is issued at a substantial premium. As a result, after adopting the guidance, entities will no longer separately present such embedded conversion features in equity, and will instead account for the convertible debt wholly as debt. The new guidance also requires use of the "if-converted" method when calculating the dilutive impact of convertible debt on earnings per share, which is consistent with the Company's current accounting treatment under the current guidance. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted, but only at the beginning of the fiscal year. The Company is currently evaluating the impact the adoption of ASU 2020-06 will have on the Company's financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, the Company will adopt those that are applicable under the circumstances.

4. LOAN RECEIVABLE, RELATED PARTY

The following is a summary of related party loan receivables as of December 31, 2021 and 2020:

Name	Outstanding Balance as of December 31, 2021	2020
Future Labs I, Inc.	$ -	$ 3,500
Future Labs III, Inc.	-	33,000
Future Labs VI, Inc.	20,500	-
Future Labs VII, Inc.	321,556	278,253
Future VC, Inc.	-	114,000
Wavemaker Partners V, LP	-	250,000
	$ 342,056	$ 678,753

During 2021, the Company netted certain loan and interest receivables totaling $4,543,402 against related party accounts payables, related party notes payable and related accrued interest payable with the corresponding related party entities.

In 2021, the Company extended all maturities on outstanding loans to varying dates in 2022. All loans bear interest at 3% per annum, except for the Wavemaker Partners V, LP note which bore interest at 6%. All outstanding loans above are unsecured.

Effective June 30, 2021, the Company forgave the outstanding note for $250,000 with Wavemaker Partners V, LP, including accrued interest of $51,229. In exchange for the note's forgiveness, the shareholders of Wavemaker Partners V contributed 12,984 shares of Series A-1 preferred stock and 38,953 shares of Class F stock to the Company's treasury. Accordingly, $301,229 was recorded to treasury stock.

In 2021, the Company issued a loan for $40,000 to Piestro, Inc. and loans for $4,407,500 to Future Labs VII, Inc., which were offset as discussed above. In 2020, the Company loaned an aggregate of $103,600 to Future Labs VII, Inc., and received repayments of $72,000.

During the years ended December 31, 2021 and 2020, the Company recognized interest income of $52,054 and $27,788, respectively. Accrued interest receivable outstanding as of December 31, 2021 and 2020 was $41,874 and $53,937, respectively.

5. LOAN PAYABLE, RELATED PARTY

The following is a summary of related party loan payables as of December 31, 2021 and 2020:

	Outstanding Balance as of December 31,	
Name	**2021**	**2020**
Future Labs III, Inc.	$ -	$ 41,620
Future Labs VI, Inc.	-	9,500
Future VC, Inc.	315,607	444,607
	$ 315,607	$ 495,727

During 2021, the Company netted certain loan and interest receivables against related party notes payable and related accrued interest payable totaling $851,964 with the corresponding related party entities.

During the year ended December 31, 2020, the Company issued a promissory note of $14,400 in exchange for marketing expenses incurred by a related party on behalf of the Company. These amounts are included in sales and marketing expense in the statements of operations.

During the years ended December 31, 2021 and 2020, the Company incurred interest expense of $9,724 and $33,863, respectively. Accrued interest payable outstanding as of December 31, 2021 and 2020 was $17,651 and $15,455, respectively. All notes bear interest at 3% per annum and mature in 2022 after extensions of the original 2020 maturities.

During 2021, the Company received loans for $673,000 from Future Labs VII, Inc., which were offset as discussed above.

For all notes, upon the occurrence of a change in control of the noteholder, all outstanding indebtedness under these notes will become immediately due and payable upon the closing of the acquisition.

6. CONVERTIBLE PROMISSORY NOTE, RELATED PARTY

In August 2019, the Company issued two convertible promissory notes (the "Notes") to two related parties, Wavemaker Partners V, LP and Wavemaker Global Select, LLC, for an aggregate principal amount of $465,000. The Notes are subject to automatic conversion upon a qualified preferred stock financing in excess of $3,300,000. Upon a qualified financing, the outstanding principal and any unpaid accrued interest shall automatically convert at a conversion price equal to the lesser of (i) 80% of the price paid per share for such shares, or (ii) the price (the "valuation cap") equal to the quotient of $8,000,000 divided by the dilutive common shares outstanding (assuming full conversion and/or exercise of all convertible and/or exercisable securities then outstanding including the Company's shares reserved for future issuance under the Company's equity incentive plans). In the event that a financing that is not a qualified financing occurs prior to the notes' respective maturity dates or earlier conversion of the Notes, the noteholders have the option to convert the Notes into shares of the Company's common stock by dividing the outstanding principal and unpaid interest by a conversion price equal to the lesser of i) 80% of the price paid per share for such shares or ii) $8,000,000 divided by the dilutive common shares outstanding. If the Notes remain outstanding on or after the maturity date, the outstanding principal and accrued interest shall be convertible, at the noteholders' option, into shares of a newly created class of Series Seed Preferred Stock at price equal to $8,000,000 divided by the dilutive common shares outstanding. Upon a sale of the Company, the holder will have the option to a) be repaid the outstanding principal and accrued interest or b) convert the Notes into shares of common stock at a price equal to the lesser of i) 80% of the price paid per share in the sale of the Company or ii) a price equal to the quotient of $8,000,000 divided by the dilutive common shares outstanding.

In December 2020, upon completion of the Company's Regulation A+ financing (see Note 7), an aggregate of $494,838, consisting of the outstanding Notes' principal of $465,000 and accrued interest of $29,838, were automatically converted into 230,240 shares of Series A preferred stock. As of December 31, 2020, the Notes were no longer outstanding.

Interest expense these notes was $21,770 for the year ended December 31, 2020.

7. STOCKHOLDERS' EQUITY (DEFICIT)

As of December 31, 2021, the Company's certificate of incorporation, as amended and restated, authorized the Company to issue three classes of stock: Preferred Stock, Class F Stock and Common Stock. The Company is authorized to issue 5,000,000 shares of Preferred Stock, of which 2,830,278 shares are designated as Series A Preferred Stock and 750,000 shares are designated as Series A-1 Preferred Stock. The Company is authorized to issue 3,000,000 shares of Class F Stock and 10,000,000 shares of common stock. All classes of stock have a par value of $0.0001 per share. The Preferred Stock and Class F Stock are convertible into shares of common stock.

The holders of each class of stock shall have the following rights and preferences:

Voting

The holders of Preferred and Class F Stock are entitled to vote, together with the holders of common stock as a single class, on all matters submitted to stockholders for a vote and have the right to vote the number of shares equal to the number of shares of common stock into which each share of Preferred and Class F Stock could convert on the record date for determination of stockholders entitled to vote. The holders of Series A Preferred Stock and Series A-1 Preferred Stock shall vote together as a single class.

For so long as at least 25% of the initially issued shares of Series A Preferred remain issued and outstanding, (i) the holders of record of the shares of Series A Preferred Stock and Series A-1 Preferred Stock, voting together as a single class on an as-converted basis, shall be entitled to elect one director of the Company; the holders of record of the shares of Common Stock and Class F Stock, voting together as a single class on an as-converted basis, shall be entitled to elect two directors of the Company; and (iii) any additional directors shall be elected by the affirmative vote of a majority of the Series A Preferred, Class F Stock and Common Stock, voting together as a single class on an as-converted basis.

Dividends

The holders of the Series A Preferred Stock, Series A-1 Preferred Stock, Class F Stock and common stock shall be entitled to receive, on a pari passu basis, when and as declared by the Board of Directors, out of any assets of the Company legally available therefor, such dividends as may be declared from time to time by the Board of Directors.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or deemed liquidation event, the Series A stockholders shall be entitled to a liquidation preference equal to the greater of (i) the Series A Original Issue Price (defined below), plus any dividends declared but unpaid, or (ii) such amount per share as would have been payable had all shares of Series A Preferred Stock been converted into common stock. Upon this completion, the remaining assets available for distribution shall be distributed among Class F and common stockholders on a pro-rata basis (assuming conversion of Class F stock into common stock).

The Series A Original Issue Price is (i) $5.80 per share in the case of the Series A Preferred Stock and (ii) $0.50 per share in the case of the Series A-1 Preferred Stock, in each case, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to each series of Series A Preferred.

As of December 31, 2021, the liquidation preference of Series A and Series A-1 Preferred Stock was $10,953,226 and $368,497, respectively. As of December 31, 2020, the liquidation preference of Series A and Series A-1 Preferred Stock was $5,511,711 and $374,989, respectively.

Redemption

No class of stock shall have any redemption rights.

Conversion

Each share of Class F Stock shall automatically be converted into one share of common stock immediately upon the date specified by written consent or agreement of the holders of a majority of the then outstanding shares of Class F Stock. Each share of Class F Stock is convertible, at the option of the holder thereof, at any time, and without the payment of additional consideration by the holder thereof, into an equal number of shares of common stock.

Upon each applicable equity financing, 25% of the shares of Class F Stock held by each holder of Class F Stock shall automatically convert into a shadow series of shares of the series of Preferred Stock of the Company that is issued in such equity financing. Shadow series of equity financing preferred stock shall mean capital stock with identical rights, privileges, preferences, and restrictions as the equity financing preferred stock, except a 50% reduction in liquidation preference and exclusion from the stock's voting rights. Any share of Class F Stock that is sold in connection with an equity financing shall automatically convert into shares of the equity financing preferred stock at the applicable Class F Conversion Ratio, which is the inverse of the ratio at which a share of equity financing preferred stock issued in such financing is convertible into shares of common stock.

Each share of Series A Preferred Stock is convertible, at the option of the holder thereof, at any time, and without the payment of additional consideration by the holder thereof, into such number shares of common stock by dividing the Original Issue Price for the series of Series A Preferred by the Series A Conversion Price. The Series A Conversion price squall initially equally the Original Issue Price. In addition, each share of Preferred Stock will be automatically converted into shares of common stock at the applicable conversion ratio then in effect (i) upon the closing of a firm-commitment public offering or (ii) upon the written consent of the holders of a majority of the then-outstanding shares of Preferred Stock (excluding shadow series of Preferred Stock), voting together as a single class.

Stock Transactions

In 2021, the Company completed a Regulation A offering with StartEngine and initiated another Regulation A offering. Under these offerings, the Company issued an aggregate of 859,250 shares of Series A preferred stock for gross proceeds of $4,987,638, or $5.80 per share. The Company incurred $1,161,000 in offering costs pertaining to these offerings. The Company issued 16,873 shares to StartEngine as broker compensation. As of December 31, 2021, the Company had a subscription receivable of $113,448 pertaining to these offerings.

In 2021, the Company issued 15,517 shares of shares of Series A preferred stock for gross proceeds of $90,000.

In 2021, the Company issued 46,552 shares of Series A preferred stock pursuant to an agreement for services. The fair value of $270,002 was included in sales and marketing expenses in the statements of operations.

Effective June 30, 2021, the Company forgave the outstanding note for $250,000 with Wavemaker Partners V, LP, including accrued interest of $51,229. In exchange for the note's forgiveness, the shareholders of Wavemaker Partners V contributed 12,984 shares of Series A-1 preferred stock and 38,953 shares of Class F stock to the Company's treasury. Accordingly, $301,229 was recorded to treasury stock.

In 2020, the Company completed a Regulation A+ offering and issued an aggregate of 670,055 shares of Series A preferred stock for gross proceeds of $3,886,319, or $5.80 per share, which is presented net of $445,758 of offering costs. In connection with the offering, the Company's existing notes converted into 230,240 shares of Series A preferred stock (see Note 6). Furthermore, 749,977 shares of Class F stock converted into shares of Series A-1 preferred stock (i.e. Shadow Series).

In December 2020, the Company issued 50,000 shares of Series A Preferred stock pursuant to an agreement for services. The fair value of $290,000 was included in sales and marketing expenses in the statements of operations.

8. STOCK-BASED COMPENSATION

Future Labs V, Inc 2019 Stock Plan

The Company has adopted the Future Labs V, Inc 2019 Stock Plan ("2019 Plan"), as amended and restated, which provides for the grant of shares of stock options and stock appreciation rights ("SARs") and restricted common shares to employees, non-employee directors, and non-employee consultants. The number of shares authorized by the 2019 Plan was 723,840 shares as of December 31, 2021. The option exercise price generally may not be less than the underlying stock's fair market value at the date of the grant and generally have a term of ten years. The amounts granted each calendar year to an employee or non-employee is limited depending on the type of award. Stock options comprise all of the awards granted since the 2019 Plan's inception. As of December 31, 2021, there were no shares available for grant under the 2019 Plan. Stock options granted under the 2019 Plan typically vest over a four-year period, with a 1-year cliff.

A summary of information related to stock options for the years ended December 31, 2021 and 2020 is as follows:

	Options	Weighted Average Exercise Price	Intrinsic Value
Outstanding as of December 31, 2019	362,637	$ 0.50	$ -
Granted	326,470	0.54	
Exercised	-	-	
Forfeited	(32,967)	0.50	
Outstanding as of December 31, 2020	656,140	$ 0.52	$ 13,507
Granted	67,700	0.54	
Exercised	-	-	
Forfeited	-	-	
Outstanding as of December 31, 2021	723,840	$ 0.52	$ 35,222
Exercisable as of December 31, 2021	435,429	$ 0.51	$ 24,858

The fair value of common stock for options granted during the years ended December 31, 2021 and 2020 was $0.57 per share. As of December 31, 2021, the weighted average duration to expiration of outstanding options was 7.6 years.

Stock-based compensation expense for stock options of $37,063 and $26,923 were recognized under FASB ASC 718 for the years ended December 31, 2021 and 2020, respectively. Total unrecognized compensation cost related to non-vested stock option awards amounted to $79,180 as of December 31, 2021, which will be recognized over a weighted average period of 2.86 years.

The following table presents, on a weighted average basis, the assumptions used in the Black-Scholes option-pricing model to determine the grant-date fair value of stock options granted:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Risk-free interest rate	0.99% - 1.32%	0.55%
Expected term (in years)	6.19	6.08
Expected volatility	60%	32.28%
Expected dividend yield	0%	0%
Fair value per stock option	$0.33	$0.17

Warrants

In October 2019, the Company granted 173,511 warrants with an exercise price of $0.50 per share to a consultant as consideration for services. The grant-date fair value was $0.13 per share, or an aggregate fair value of $22,556. One-third of the warrants each exercise in monthly installments over a period of two years commencing on the completion of three separate milestones. In 2019, it was determined that one milestone had been achieved, and therefore stock-based compensation expense of $7,519 was recognized under ASC 718 for the year ended December 31, 2019. No additional milestones were achieved in 2020. In 2021, a second milestone had been achieved and stock-based compensation expense of $1,253 was recognized. As of December 31, 2021, 100,010 warrants were exercisable.

Refer to Note 10 for warrants issued to a related party in settlement of accounts payable.

A summary of information related to warrants for the years ended December 31, 2021 and 2020 is as follows:

	Warrants	Weighted Average Exercise Price	Intrinsic Value
Outstanding as of December 31, 2019	173,511	$ 0.50	$ 12,146
Granted	-	-	
Exercised	-	-	
Forfeited	-	-	
Outstanding as of December 31, 2020	173,511	$ 0.50	$ 12,146
Granted	743,034	0.54	
Exercised	-	-	
Forfeited	-	-	
Outstanding as of December 31, 2021	916,545	$ 0.54	$ 30,887
Exercisable as of December 31, 2021	843,044	$ 0.54	$ 25,741

As of December 31, 2021, the weighted average duration to expiration of outstanding warrants was 9 years.

Classification

Stock-based compensation expense for stock options and warrants was classified in the statements of operations as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
General and administrative expenses	$ 36,177	$ 24,980
Research and development expenses	2,139	1,943
	$ 38,316	$ 26,923

9. INCOME TAXES

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to cash to accrual differences and net operating loss carryforwards. As of December 31, 2021 and 2020, the Company had net deferred tax assets before valuation allowance of $2,348,678 and $1,350,258, respectively. The following table presents the deferred tax assets and liabilities by source:

	December 31, 2021	December 31, 2020
Deferred tax assets:		
Net operating loss carryforwards	$ 2,191,795	$ 824,291
Cash to accrual differences	156,883	525,967
Valuation allowance	(2,348,678)	(1,350,258)
Net deferred tax assets	$ -	$ -

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. The Company assessed the need for a valuation allowance against its net deferred tax assets and determined a full valuation allowance is required due to taxable losses for the years ended 2021 and 2020, cumulative losses through December 31, 2021, and no history of generating taxable income. Therefore, valuation allowances of $2,348,678 and $1,350,258 were recorded as of December 31, 2021 and 2020, respectively. Valuation allowance increased by $998,420 and $1,099,791 during the years ended December 31, 2021 and 2020, respectively. Deferred tax assets were calculated using the Company's combined effective tax rate, which it estimated to be 28.0%. The effective rate is reduced to 0% for 2021 and 2020 due to the full valuation allowance on its net deferred tax assets.

The Company's ability to utilize net operating loss carryforwards will depend on its ability to generate adequate future taxable income. At December 31, 2021 and 2020, the Company had net operating loss carryforwards available to offset future taxable income in the amounts of $7,797,207 and $2,932,376, respectively.

The Company has evaluated its income tax positions and has determined that it does not have any uncertain tax positions. The Company will recognize interest and penalties related to any uncertain tax positions through its income tax expense.

The Company may in the future become subject to federal, state and local income taxation though it has not been since its inception, other than minimum state tax. The Company is not presently subject to any income tax audit in any taxing jurisdiction, though its 2018-2020 tax years remain open to examination.

10. RELATED PARTY TRANSACTIONS

Refer to Notes 4 and 5 for detail on the Company's loan receivables and loan payables with related parties, and related interest income and expense.

As of December 31, 2021 and 2020, the Company had $517,764 and $1,700,012, respectively, in accounts payable with related parties under common control.

The Company entered into agreements with Wavemaker Labs, a related party under common control, for consulting, technology, general support activities, and product development services. During 2021, the Company incurred $6,783,898 of fees under these agreements, including $894,639 remaining for which the Company intends to satisfy through the issuance of warrants in 2022. During 2020, the Company has incurred $2,301,869 in costs with Wavemaker Labs. The services incurred represent total labor costs incurred by the Company at a commercial rate less the actual labor costs of the related entity plus a 10% mark-up on materials costs. Total charges to the Company in excess of cost incurred by Wavemaker Labs was $4,982,550 in 2021, due to the markup on labor and material costs.

In 2021, the Company issued 743,034 warrants to purchase common stock to Wavemaker Labs pursuant to the agreement as noted above. The warrants have exercise prices of $0.54 - $0.57 per share and were valued using the Black-Scholes option-pricing model with the following inputs:

Risk-free interest rate	0.98% - 1.26
Expected term (in years)	5.00
Expected volatility	60.00%
Expected dividend yield	0%
Fair value per warrant	$0.29 - $0.30

The fair value of the warrants was $220,832 as determined by the Black-Scholes option pricing model. The Company recorded accounts payable totaling $4,309,597 pertaining to the fair value of the services incurred, including an excess of $4,088,765 of the fair value of the warrants. Accordingly, $4,309,597 was recognized to additional paid-in capital as settlement of the related party accounts payable owed to Wavemaker Labs. The warrants are immediately exercisable and have a term of ten years.

In 2021, The Company entered into agreements with Wax Inc., a related party under common control, for consulting, technology, general support activities, and product development services. During 2021, the Company incurred fees from Wax Inc. amounting to $50,000, which was included in accounts payable, related party as of December 31, 2021.

The following is a summary of operating expense transactions incurred with related parties during the years ended December 31, 2021 and 2020:

	Year Ended December 31,	
	2021	2020
Research and development	$ 6,742,298	$ 2,029,085
Sales and marketing	23,600	14,400
General and administrative	50,000	258,383
	$ 6,815,898	$ 2,301,869

11. COMMITMENTS AND CONTINGENCIES

The Company may be subject to pending legal proceedings and regulatory actions in the ordinary course of business. The results of such proceedings cannot be predicted with certainty, but the Company does not anticipate that the final outcome, if any, arising out of any such matters will have a material adverse effect on its business, financial condition or results of operations.

12. SUBSEQUENT EVENTS

Through the issuance date, the Company has issued 839,955 shares of Series A preferred stock for gross proceeds of $4,871,739 pursuant to tis current Regulation A offering.

Management has evaluated subsequent events through May 1, 2022, the date the financial statements were available to be issued. Based on this evaluation, no additional material events were identified which require adjustment or disclosure in these financial statements.