

# **Perpetual Industries, Inc**

FINANCIAL STATEMENTS

For the Years ended

July 31, 2016 and July 31, 2015

**PERPETUAL INDUSTRIES, INC.**

**FOR THE YEARS ENDED JULY 31, 2016 AND JULY 31, 2015**

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**Financial Statements**

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**PERPETUAL INDUSTRIES, INC.**  
Condensed Balance Sheets

	<b>July 31, 2016 (Unaudited)</b>	<b>July 31, 2015 (Unaudited)</b>
<b>ASSETS</b>		
Current assets		
Cash	\$ 54	\$ 17,800
Accounts receivable	-	125
Prepaid expenses	-	45,000
Total current assets	54	62,925
Fixed assets		
Equipment, furniture and fixtures	56,040	56,040
Accumulated depreciation	(55,110)	(52,732)
Total fixed assets - net	930	3,308
<b>TOTAL ASSETS</b>	<b>\$ 984</b>	<b>\$ 66,233</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable (including related party balances of approximately \$157,241 and \$60,256 at July 31, 2016 and 2015, respectively)	\$ 207,507	\$ 123,203
Accrued expenses (including related party balances of approximately \$268,038 and \$94,356 at July 31, 2016 and 2015, respectively)	467,727	292,257
Convertible notes payable and accrued interest (including related party balances of \$514,234 and \$478,357 at July 31, 2016 and 2015, respectively)	2,136,856	1,987,773
Other current liabilities	61,792	73,249
Total current liabilities	2,873,882	2,476,482
<b>TOTAL LIABILITIES</b>	<b>2,873,882</b>	<b>2,476,482</b>
Stockholders' equity		
Common stock: 100,000,000 authorized; \$0.01 par value 35,491,400 and 35,491,400 shares issued and outstanding at July 31, 2016 and 2015, respectively	35,491	35,491
Common stock payable	9,390	4,800
Capital in excess of par	6,719,613	6,719,613
Accumulated deficit	(9,637,392)	(9,170,153)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>(2,872,898)</b>	<b>(2,410,249)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 984</b>	<b>\$ 66,233</b>

The accompanying notes are an integral part of these financial statements

**PERPETUAL INDUSTRIES, INC.**  
Condensed Statements of Operations

	<b>For the Year Ended July 31, 2016 (Unaudited)</b>	<b>For the Year Ended July 31, 2015 (Unaudited)</b>
Revenues	\$ -	\$ 37,691
<b>Operating Expenses</b>		
Related party expenses	255,173	455,955
Other operating expenses	71,021	910,211
<b>Total operating expenses</b>	<b>326,194</b>	<b>1,366,166</b>
Net loss from operations	(326,194)	(1,328,475)
<b>Non-operating activity</b>		
Rent from office sublet	27,089	26,989
Interest income, related party	-	5,185
Interest expense, related party	(164,416)	(136,054)
Interest expense, non-related party	(1,787)	(8,902)
Stock option issuance expense	-	(1,033,373)
Other	(1,931)	2,609
<b>Total non-operating activity</b>	<b>(141,045)</b>	<b>(1,143,546)</b>
Net loss	\$ (467,239)	\$ (2,472,021)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding	34,154,765	34,154,765

The accompanying notes are an integral part of these financial statements

**PERPETUAL INDUSTRIES, INC.**  
Condensed Statements of Stockholders' Equity (Deficit)  
(Unaudited)

	Number of Shares	Amount	Capital In Excess Of Par Value	Common Stock Payable	Accumulated Deficit	Total
<b>BALANCE at August 1, 2014</b>	<b>33,122,000</b>	<b>\$ 33,123</b>	<b>\$ 5,045,258</b>	<b>-</b>	<b>\$ (6,698,132)</b>	<b>\$ (1,619,751)</b>
Stock options issued			1,033,373	-		1,033,373
Stock-based compensation (non-employee)	1,459,400	1,458	293,341	-		294,799
Shares issued via warrant exercise	490,000	490	227,060	-		227,550
Shares issued in satisfaction of promissory notes	370,000	370	110,630	-		111,000
Shares issued for cash	50,000	50	9,951	-		10,001
Cash received for common stock payable	-	-	-	4,800		4,800
Net loss for the year ended July 31, 2015					(2,472,021)	(2,472,021)
<b>BALANCE at July 31, 2015</b>	<b>35,491,400</b>	<b>35,491</b>	<b>6,719,613</b>	<b>4,800</b>	<b>(9,170,153)</b>	<b>(2,410,249)</b>
Cash received for common stock payable	-	-	-	4,590		4,590
Net loss for the year ended July 31, 2016					(467,239)	(467,239)
<b>BALANCE at July 31, 2016</b>	<b>35,491,400</b>	<b>\$ 35,491</b>	<b>\$ 6,719,613</b>	<b>9,390</b>	<b>\$ (9,637,392)</b>	<b>\$ (2,872,898)</b>

The accompanying notes are an integral part of these financial statements

**PERPETUAL INDUSTRIES, INC.**  
Condensed Statements of Cash Flows

	<b>For the Year Ended July 31, 2016 (Unaudited)</b>	<b>For the Year Ended July 31, 2015 (Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (467,239)	\$ (2,472,021)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation expense	2,378	1,384
Issuance of stock options	-	1,033,373
Issuance of convertible notes payable	-	1,079,988
Interest expense from convertible notes payable	149,083	-
Stock-based compensation	-	294,800
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	45,125	(45,125)
Account payable	84,304	(137,914)
Accrued expenses	164,013	(24,181)
Deferred revenue - current	-	14,315
Net Cash Used by Operating Activities	(22,336)	(255,381)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions of computer hardware	-	(1,286)
Net Cash Used by Investing Activities	-	(1,286)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	-	10,000
Proceeds from common stock issuance payable	4,590	4,800
Proceeds from exercise of warrants	-	227,550
Net Cash Provided by Financing Activities	4,590	242,350
Net increase (decrease) in cash and cash equivalents	(17,746)	(14,317)
Cash and cash equivalents, beginning of period	17,800	32,117
Cash and cash equivalents, end of period	\$ 54	\$ 17,800

The accompanying notes are an integral part of these financial statements

**PERPETUAL INDUSTRIES, INC.**  
**NOTES TO**  
**FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Nature of operations**

Perpetual Industries Inc. (the "Company") was incorporated under the laws of Nevada in January 2005. The Company coordinates research and development activities aimed at bringing new technology to market. At present, the Company's feature technology is the internationally patented XYO mechanical balancing system ("XYO"). On January 26, 2005, the Company acquired a license from a related party for the worldwide, exclusive right to manufacture or have manufactured, sell, and use the products incorporating XYO, and to sublicense these rights to third parties.

The Company has not commenced its principal operations, and its present condition is characterized by significant expenditures on obtaining the rights to XYO, on preliminary sublicensing and marketing efforts, and on coordinating the development of products that contain XYO. The accompanying financial statements do not reflect the Company's planned principal operations, in which the focus is intended to continue to shift more heavily onto the sublicensing, manufacturing, and marketing of XYO, and to diversification into other technologies.

The Company's corporate office is located in Calgary, Alberta.

**2. Summary of significant accounting policies**

*Basis of Presentation*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant assumptions and estimates relate to the valuation of equity issued for services, valuation of equity associated with convertible debt, the valuation of derivative liabilities, and the valuation of deferred tax assets. Actual results could differ from these estimates.

Fair Value Measurements and Fair Value of Financial Instruments

The Company adopted ASC Topic 820, Fair Value Measurements. ASC Topic 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2: Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3: Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The estimated fair value of certain financial instruments, including all current liabilities are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

Derivative Liability

We evaluate convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging." The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liabilities at the fair value of the instrument on the reclassification date.

## 2. Summary of significant accounting policies (continued):

### Deferred Taxes

The Company follows Accounting Standards Codification subtopic 740-10, Income Taxes ("ASC 740-10") for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability during each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change. Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods.

Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse and are considered immaterial.

### Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

### Accounts Receivable and Allowance for Doubtful Accounts

The Company monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, and other information. The allowance for doubtful accounts is estimated based on an assessment of the Company's ability to collect on customer accounts receivable. There is judgment involved with estimating the allowance for doubtful accounts and if the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against revenues. The Company writes-off accounts receivable against the allowance when it determines a balance is uncollectible and no longer actively pursues its collection. The allowance for doubtful accounts is created by forming a credit balance which is deducted from the total receivables balance in the balance sheet.

### Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives of 3 to 5 years. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. Depreciation expense for the years ended July 31, 2016, and 2015, amounted to \$2,378 and \$1,384, respectively.

### Stock Based Compensation Expense

We expect to account any share-based compensation pursuant to SFAS No. 123 (revised 2004) Share-Based Payment, or SFAS No. 123R. SFAS No. 123R requires measurement of all employee share-based payments awards using a fair-value method. When a grant date for fair value is determined we will use the Black-Scholes-Merton pricing model. The Black-Scholes-Merton valuation calculation requires us to make key assumptions such as future stock price volatility, expected terms, risk-free rates and dividend yield. The weighted-average expected term for stock options granted was calculated using the simplified method in accordance with the provisions of Staff Accounting Bulletin No. 107, Share-Based Payment. The simplified method defines the expected term as the average of the contractual term and the vesting period of the stock option. We will estimate the volatility rates used as inputs to the model based on an analysis of the most similar public companies for which Perpetual Industries, Inc. has data. We will use judgment in selecting these companies, as well as in evaluating the available historical volatility data for these companies.

SFAS No. 123R requires us to develop an estimate of the number of share-based awards which will be forfeited due to employee turnover. Annual changes in the estimated forfeiture rate may have a significant effect on share-based payments expense, as the effect of adjusting the rate for all expense amortization after January 1, 2006 is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. We have never paid cash dividends, and do not currently intend to pay cash dividends, and thus have assumed a 0% dividend yield.



## 2. Summary of significant accounting policies (continued):

Perpetual Industries, Inc. will continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to its stock-based awards on a prospective basis, and in incorporating these factors into the model. If our actual experience differs significantly from the assumptions used to compute its stock-based compensation cost, or if different assumptions had been used, we may record too much or too little share-based compensation cost.

### Revenue Recognition

Revenue includes product sales. The Company recognizes revenue from product sales in accordance with Topic 605 "Revenue Recognition in Financial Statements" which considers revenue realized or realizable and earned when all of the following criteria are met:

- (i) persuasive evidence of an arrangement exists,
- (ii) the services have been rendered and all required milestones achieved,
- (iii) the sales price is fixed or determinable, and
- (iv) Collectability is reasonably assured.

### Convertible Debentures

If the conversion features of conventional convertible debt provide for a rate of conversion that is below market value at issuance, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 "Debt with Conversion and Other Options." In those circumstances, the convertible debt is recorded net of the discount related to the BCF, and the Company amortizes the discount to interest expense, over the life of the debt.

### Fair Value of Financial Instruments

Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts payable and accrued liabilities as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

The Company follows Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10") and Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10"), which permits entities to choose to measure many financial instruments and certain other items at fair value.

### Beneficial Conversion Feature

For conventional convertible debt where the rate of conversion is below market value, the Company records a "beneficial conversion feature" ("BCF") and related debt discount.

When the Company records a BCF, the relative fair value of the BCF is recorded as a debt discount against the face amount of the respective debt instrument (offset to additional paid in capital) and amortized to interest expense over the life of the debt.

### Advertising, Marketing and Public Relations

The Company expenses advertising and marketing costs as they are incurred. Advertising and marketing expenses for the years ended July 31, 2016, and 2015, were approximately \$45,064 and \$521,932, respectively. The following table summarizes the breakdown of included expenses in the Advertising and Marketing expense account:

### Offering Costs

Costs incurred in connection with raising capital by the issuance of common stock are recorded as contra equity and deducted from the capital raised.

## 2. Summary of significant accounting policies (continued):

### Foreign Currencies

The Company determined that its functional currency is the United States dollar since the U.S. dollar is the currency of the environment in which the Company primarily generates and expends cash. Foreign currency transaction gains and losses represent gains and losses resulting from transactions entered into in a currency other than the functional currency of the Company. These transaction gains and losses are included in results of operations. For the year ended July 31, 2016, the Company had foreign currency transaction losses of \$1,931 and foreign currency transaction gains of \$2,608 for the year ended July 31, 2015.

### Income Taxes

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of general and administrative expenses. Our consolidated federal tax return and any state tax returns are not currently under examination.

The Company has adopted FASB ASC 740-10, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually from differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company has not filed any U.S. or Canadian income or other tax returns. Had the returns been filed there would be taxable losses and tax losses available to offset future taxable income. The Company has not determined the amount of the potential benefits for these tax losses, because at this time it is more likely than not that the benefits will not be realized. For more information, see *Note 14 - Income Taxes*.

### Net Income (loss) Per Common Share

The Company computes loss per common share, in accordance with FASB ASC Topic 260, *Earnings Per Share*, which requires dual presentation of basic and diluted earnings per share. Basic income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding, plus the issuance of common shares, if dilutive, that could result from the exercise of outstanding stock options and warrants.

### Recent Accounting Pronouncements

ASU 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements". ASU 2014-10 eliminates the distinction of a development stage entity and certain related disclosure requirements, including the elimination of inception-to-date information on the statements of operations, cash flows and stockholders' equity. The amendments in ASU 2014-10 will be effective prospectively for annual reporting periods beginning after December 15, 2014, and interim periods within those annual periods, however early adoption is permitted. The Company evaluated and adopted ASU 2014-10 during the year ended December 31, 2015.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern." The provisions of ASU No. 2014-15 require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company is currently assessing the impact of this ASU on the Company's consolidated financial statements.

Other accounting standards which were not effective until after December 31, 2017 are not expected to have a material impact on the Company's consolidated financial position or results of operations.

### 3. Prepaid expenses

On October 2014, the Company entered into a twelve-month non-exclusive public relations campaign agreement with a non-affiliated entity for a total value of \$190,500 consisting of monthly cash payments of \$2,500 and the issuance of 254,000 shares of common stock in the Company at a value of \$0.75 per share. \$5,000 of the stock issuance was applied toward initial setup fees, and the remainder was recorded as prepaid expense to be applied against monthly fees of \$15,000 per month commencing November 1, 2014. At July 31, 2015, the balance was \$45,000. As of July 31, 2016, the balance was \$0 as it was fully expensed.

### 4. Fixed assets

Fixed assets consist of the following at July 31, 2016 and 2015:

	July 31, 2016	July 31, 2015
Computer hardware	\$ 29,016	\$ 29,016
Computer software	17,288	17,288
Computers and peripherals	9,736	9,736
	<u>56,040</u>	<u>56,040</u>
Less: Accumulated depreciation	(55,110)	(52,732)
Fixed Assets - net	<u>\$ 930</u>	<u>\$ 3,308</u>

Depreciation expense was \$2,378 and \$1,384 for the years ended July 31, 2016 and 2015, respectively.

### 5. Accrued expenses

Accrued expenses as of July 31, 2016, and 2015, consisted of the following:

	July 31, 2016	July 31, 2015
Accrued license fees	\$ 116,667	\$ 49,167
Accrued royalties	134,100	43,250
Accrued interest	32,893	15,773
Accrued legal fees	125,000	125,000
Accrued audit fees	59,067	59,067
	<u>\$ 467,727</u>	<u>\$ 292,257</u>

### 6. Convertible notes

On September 30, 2014, the Board authorized the Company's Chairman, President and CEO to enter the Company into various convertible notes (the "Convertible Notes") for the purposes of (1) retiring existing debts and (2) taking on new debts for services rendered. Pursuant to the terms of the Convertible Notes, the Convertible Notes are unsecured demand notes, accrue interest at 8% per annum, have a conversion price set at \$0.30 per share and a total potential value of \$2,400,000. The convertible notes have been entered into with various parties for a total principal value convertible into 6,216,000 shares of the Company's common stock before accrued but unpaid interest (rounded up to the nearest 1,000 shares for each holder). Convertible Notes for the remaining authorized 1,784,000 shares have not been entered into.

In connection with the issuance of the Convertible Notes the Company recognized approximately \$1,079,989 in non-cash expenses during the fiscal year ended July 31, 2015, related to management services, royalty and license fees, and various marketing, engineering and administrative services.

## 6. Convertible notes (continued)

At July 31, 2016, the total amount outstanding with respect to the Convertible Notes was:

<u>Holder's Relationship to Company</u>	<u>Nature of Services</u>	<u>Convertible Principal</u>	<u>Convertible Interest</u>
Chairman, President and CEO	Management services	\$ 328,960	\$ 48,247
	Subtotal, Executive Officers (as defined in Rule 501(f) of Reg D)	328,960	48,247
Licensor of XYO Technology	Royalty and license fees accrued including accrued interest	997,826	146,348
All others: consultants and/or independent contractors	Various marketing, engineering and administrative services	536,751	78,724
	Subtotal, Non- Executive Officers	1,534,577	225,072
	Total	<u>\$ 1,863,537</u>	<u>\$ 273,319</u>

## 7. Other current liabilities

At July 31, 2016, the Company had \$61,796 in amounts owed on credit cards. At July 31, 2015, the Company had \$58,934 in amounts owed on credit cards and \$14,315 in prepaid rent by a sublessor related to the Company subletting a portion of its office space.

## 8. Lease obligation

Total rent expense for the years ended July 31, 2016, and 2015, was \$16,807 and \$71,638, respectively. From Aug 1, 2014 to March 31, 2015, the Company sub-leased its offices and rent obligations were met by recording the amount of rent expense as interest income on an outstanding customer loan in lieu of cash outlay. This arrangement ceased March 31, 2015 when the Company entered into a direct lease agreement with the building's landlord. Part of the new lease agreement, included the issuance of 50,400 shares with a value of \$37,800.

## 9. Related party transactions and commitments

### *Management Services*

Brent Bedford, Chairman, President and CEO, has an oral agreement under which he provides management services through an entity that he owns, Pulseman Inc. Under this agreement, he accrued at monthly intervals the total of approximately \$74,390 and \$178,379 in the years ended July 31, 2016 and 2015, respectively, and as of July 31, 2016 was expected to accrue at monthly intervals a total of approximately \$59,165 in the year ended July 31, 2017. He is also a shareholder.

### *Administration and R & D Services*

During the year ended July 31, 2015, the Company was provided part-time administrative services through an employee hired directly in Pulseman Inc, the entity owned by President and CEO, Brent Bedford. There was approximately \$0 due to this entity at July 31, 2016, and \$6,440 at July 31, 2015. Total administrative services provided by the employee of Pulseman Inc. during the years ended July 31, 2016 and 2015 were approximately \$0 and \$15,603, respectively.

### *Marketing, Advertising and Website Services*

During the fiscal years ended July 31, 2016, and 2015, the Company was provided multi-media marketing, advertising, leased computer equipment and website maintenance services from a related entity. The owner of the entity is a small shareholder of the Company, and a relative of the Company's president. There was \$1,801 due to this entity at July 31, 2016, and \$348 at July 31, 2015. Total services provided from this entity to the Company during the years ended July 31, 2016, and 2015, were approximately \$2,628 and \$4,434, respectively.

## 9. Related party transactions and commitments (continued)

### *Royalties and License Fees Pertaining to Exclusive Rights*

In January 2005, the Company entered into a licensing agreement with a related party whose primary business is the ownership and maintenance of patents concerning the XYO technology, for the exclusive rights in XYO for automatic balancing systems suitable in the balancing and stabilization of rotating systems. These rights enable the Company to manufacture, or have manufactured, sell, and use, the products incorporating this technology, and to sub-license to third parties the right to manufacture or have manufactured, sell and use, the products incorporating this technology. The agreement calls for annual royalties and license fees. Royalties are calculated annually at a rate of 2.5% on any revenue derived from the use of the technology, subject to a varying minimum annual royalty fee of up to \$125,000, for a period that is equal to the life of the underlying patents, i.e., until March 7, 2023. The license fees are due annually in escalating amounts as stated in the agreement through January 2015.

The agreement also requires 6% annual interest, compounded quarterly, on any unpaid license fees, and 6% annual interest, compounded quarterly, on any unpaid royalty fees outstanding after January 2010.

The License Agreement was modified by an Amendment and Waiver of Default effective July 31, 2010, in which ETI waived any rights to terminate the Agreement in the event of non-payment by Perpetual.

On September 30, 2014, all amounts owing to this entity were combined into a convertible note. The above agreement continues with respect to license and royalty fees, and interest thereon, that accrue after the date of the convertible note. As of July 31, 2016 and 2015, the cumulative balance owed by Perpetual was \$268,038 and \$94,356.

Minimum payments are required under the aforementioned royalty and licensing agreement annually until the projected 2023 expiry date.

The amounts and terms of related party transactions are not necessarily indicative of the amounts and terms which would have been incurred had the transactions been incurred with unrelated parties.

### Reconciliation of Related Party Expenses Disclosures to Related Party Expenses Line of Statement of Operations

	Year Ended July 31, 2016	Year Ended July 31, 2015
Management and Other Expenses Outlined in Note 9:		
Management services	\$ 74,390	\$ 245,486
Administration and R&D Services	2,227	15,603
Marketing, advertising and website services	2,628	4,434
Royalties and License Fees Pertaining to Exclusive Rights, excluding interest which appears under Other Income (Expense)	161,750	118,794
Expenses outlined in Note 8:		
Rent	16,807	33,838
Total Related Party Expenses	<u>257,802</u>	<u>\$ 418,155</u>

## 10. Equity

At July 31, 2016 and 2015, the total number of shares of the Company's common stock that were issued and outstanding was 35,491,400 and 35,491,000, respectively.

### *Reg D 506(c) Offering*

On October 15, 2014, the Company began the pursuit of additional financing in the form of a private offering in accordance with Regulation D under the Securities Act and subject to the terms of an appropriate private placement memorandum. Said offering was for the sale of a maximum of 4,800,000 shares of the Company's \$0.001 par value common stock at a price per share of \$0.75, for a maximum offering amount of \$3,600,000. There was no minimum offering and no provision to return or escrow investor funds if any minimum number of shares were not sold. The minimum investment established per investor is \$15,000, unless such minimum is waived in the Company's sole discretion. This offering was restricted to Accredited Investors. No funds have been accepted in relation to said offering, which expired on March 15, 2015.

## 10. Equity (continued)

### *Common Stock*

During June 2015, in connection with the execution of a Subscription Agreement dated June 3, 2015, we issued 50,000 shares of our common stock, restricted in accordance with Rule 144, for \$10,000, to one individual.

### *Warrants Exercised*

During the fiscal year ended July 31, 2015, we issued an aggregate of 490,000 shares of our common stock pursuant to the exercise of certain warrants at \$0.40 to \$0.60 per share for an aggregate of \$227,550.

### *Stock Based Compensation*

During the fiscal year ended July 31, 2015, we issued an aggregate of 1,459,400 shares of our common stock, restricted in accordance with Rule 144, to nine individuals and entities for services valued at \$294,800.

### *Stock Options Issuance*

On September 12, 2014, the Board of Directors adopted the Company's "2014 Stock Option Plan" (the "Plan") effective immediately. The maximum number of options issuable under the Plan is 15% of the Company's issued and outstanding shares at the time of any grant. If any shares of common stock subject to an award under the Plan are forfeited, expire, are settled for cash or are tendered by the participant, or withheld by the Company to satisfy any tax withholding obligation, then, in each case, the shares subject to the award may be used again for awards under the Plan to the extent of the forfeiture, expiration, cash settlement, or withholding. The stock option awards issuable under the Plan can be made up of non-statutory stock options only; the Plan does not contemplate incentive options. The Plan dictates that stock options will be granted for terms, prices, and quantities determined at the Board's discretion, with quantities being in multiples of 1,000 shares. Non-statutory stock options are available to independent contractors and consultants as well as to employees.

These stock options vest immediately upon grant date and have expiration periods of two, three, or five years. The exercise price is fixed at \$0.30 per share. The Company recorded \$1,033,373 in non-cash expenses associated with these stock options at the time of issuance.

Per the terms of the Plan, options vest immediately upon grant. Optionees are precluded from selling, transferring or otherwise disposing of any Optioned Shares during the six months immediately following the grant of the Options, and shall be limited to a resale volume not exceeding 1% of the Company's issued and outstanding stock in any three-month period.

At July 31, 2015, the Company had options outstanding to purchase a total of 4,800,000 shares of common stock under the Plan (the "Option Grant"). The options include options to purchase 3,375,000 shares granted to consultants and/or independent contractors of the Company that are not executive officers as defined in Rule 501(f) of Reg D).

At July 31, 2016, options outstanding were:

<u>Optionee</u>	<u>Relationship to the Company</u>	<u>Options Granted</u>
Brent Bedford	President, Chairman and CEO	1,000,000
	Subtotal, Executive Officers (as defined in Rule 501(f) of Reg D)	1,000,000
Rod Egan	Director	300,000
Thomas Ristow	Director	300,000
Carl Dilley	Director	200,000
All Others	Consultants and/or independent contractors	3,000,000
	Subtotal, Non- Executive Officers	3,800,000
	Total	4,800,000

#### **14. Income taxes**

The Company has not filed U.S. or Canadian income tax returns since its inception, as it has incurred continual losses since that time. The principles used for determining income and deductions to be recognized for income tax purposes will differ from those used in the determination of income and expenses for financial reporting purposes. As of July 31, 2016, and 2015, there are no differences between the tax basis and financial reporting basis of the Company's assets and liabilities which would give rise to deferred tax liabilities upon filing returns.

The Company has not recognized any tax benefits for the years presented, as it is more likely than not that the benefits will not be realized.

Because the Company has not begun active business, expenses have been capitalized as start-up cost and will be amortized for tax purposes beginning in the year the Company begins active business.

#### **15. Going Concern**

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. At July 31, 2016 and 2015, the Company had \$54 and \$17,800 in cash and \$2,873,882 and \$2,476,483 in negative working capital, respectively. For the year ended July 31, 2016 and 2015, the Company had a net loss of \$467,239 and \$2,472,021, respectively. Continued losses may adversely affect the liquidity of the Company in the future. In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to raise additional capital, obtain financing and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company has operating costs and expenses at the present time for development of its business activities. The Company, however, will be required to raise additional capital over the next twelve months to meet its current administrative expenses, and it may do so in connection with or in anticipation of possible acquisition transactions. This financing may take the form of additional sales of its equity securities loans from its directors and or convertible notes. There is no assurance that additional financing will be available, if required, or on terms favorable to the Company.