Item 8. Financial Statements

DALRADA FINANCIAL CORPORATION

Consolidated Financial Statements

For the Years Ended June 30, 2020 and 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Dalrada Financial Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Dalrada Financial Corporation and subsidiaries (collectively the "Company") as of June 30, 2020 and 2019, the related consolidated statements of operations, stockholders' deficit and cash flows, for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has had recurring losses, used cash flows from operating activities and has a significant working capital deficit, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ dbb*mckennon*
We have served as the Company's auditor since 2019.
San Diego, California
October 15, 2020

DALRADA FINANCIAL CORPORATION
Consolidated Balance Sheets

	June 30, 2020	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 75,165	$ 963
Accounts receivable, net	229,167	27,959
Accounts receivable, net - related parties	99,357	–
Other receivables	76,013	–
Inventories	650,422	18,768
Prepaid expenses and other current assets	121,413	–
Total current assets	1,251,537	47,690
Property and equipment, net	240,508	5,500
Other assets	30,000	–
Goodwill	143,152	–
Right of use asset, net	1,118,474	–
Total assets	$ 2,783,671	$ 53,190
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 297,720	$ 25,250
Accrued liabilities	231,865	23,522
Accrued payroll taxes, penalties and interest	10,519,440	10,980,278
Accounts payable and accrued liabilities – related parties	556,317	479,512
Deferred revenue	176,291	–
Notes payable	93,217	–
Notes payable – related parties	3,053,782	305,272
Convertible notes payable – related party	1,875,000	1,875,000
Right of use liability	225,611	–
Total current liabilities	17,029,243	13,688,834
Right of use liability	892,863	–
Total liabilities	17,922,106	13,688,834
Commitments and contingencies (Note 12)		
Stockholders' deficit:		
Preferred stock, $0.01 par value, 100,000 shares authorized, 5,000 and no shares issued and outstanding at June 30, 2020 and 2019, respectively	50	–
Common stock, $0.005 par value, 1,000,000,000 shares authorized, 68,464,742 shares and 48,281,128 shares issued and outstanding at June 30, 2020 and 2019, respectively	342,324	241,406
Additional paid-in capital	91,904,874	91,086,179
Noncontrolling interests	51,821	–
Accumulated deficit	(107,429,607)	(104,963,229)
Accumulated other comprehensive loss	(7,897)	–
Total stockholders' deficit	(15,138,435)	(13,635,644)
Total liabilities and stockholders' deficit	$ 2,783,671	$ 53,190

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

DALRADA FINANCIAL CORPORATION
Consolidated Statements of Operations

	Year Ended June 30, 2020		Year Ended June 30, 2019	
Revenues	$	954,588	$	72,155
Revenues - related party		223,566		
Total revenues		1,178,154		72,155
Cost of revenue		625,916		74,996
Gross profit (loss)		552,238		(2,841)
Operating expenses:				
Selling, general and administrative		2,769,122		721,847
Research and development		471,963		50,050
Expenses incurred on terminated acquisition		250		270,577
Total operating expenses		3,241,335		1,042,474
Loss from operations		(2,689,097)		(1,045,315)
Other income (expense):				
Interest expense		(1,041,732)		(853,175)
Interest income		8,769		–
Gain on expiration of accrued tax liability		1,229,199		2,264,340
Gain (loss) on foreign exchange		15,304		–
Total other income (expenses)		211,540		1,411,165
Net income (loss) before taxes		(2,477,557)		365,850
Income taxes		–		–
Net income (loss)		(2,477,557)		365,850
Net income (loss) attributable to noncontrolling interests		(11,179)		–
Net income (loss) attributable to Dalrada Financial Corporation stockholders	$	(2,466,378)	$	365,850
Foreign currency translation		(7,897)		–
Comprehensive income (loss)	$	(2,485,454)	$	365,850
Net income (loss) per common share to Dalrada stockholders - basic	$	(0.04)	$	0.01
Net income (loss) per common share to Dalrada stockholders - diluted	$	(0.04)	$	0.00
Weighted average common shares outstanding — basic		56,801,796		47,429,073
Weighted average common shares outstanding — diluted		56,801,796		102,576,132

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

DALRADA FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders' Deficit

	Preferred Stock		Common Stock		Additional Paid-in Capital	Noncontrolling Interests	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount					
Balance at June 30, 2018	–	$ –	47,281,128	$236,406	$91,052,594	$ –	$(105,329,079)	$ –	$ (14,040,078)
Common stock issued pursuant to related party - reimburse expenses	–	–	1,000,000	5,000	33,585	–	–	–	38,585
Net income	–	–	–	–	–	–	365,850	–	365,850
Balance at June 30, 2019	–	–	48,281,128	241,406	91,086,179	–	(104,963,229)	–	(13,635,643)
Conversion of related party payable to preferred stock	5,000	50	–	–	120	–	–	–	170
Conversion of related party note payable to common stock	–	–	3,965,614	19,828	175,279	–	–	–	195,107
Common stock issued pursuant to acquisitions	–	–	12,718,000	63,590	465,496	63,000	–	–	592,086
Common stock issued for services	–	–	3,500,000	17,500	177,800	–	–	–	195,300
Net loss	–	–	–	–	–	(11,179)	(2,466,378)	–	(2,477,557)
Foreign currency translation	–	–	–	–	–	–	–	(7,897)	(7,897)
Balance at June 30, 2020	5,000	$ 50	68,464,742	$342,324	$91,904,874	$ 51,821	$(107,429,607)	$ (7,897)	$ (15,138,435)

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

DALRADA FINANCIAL CORPORATION
Consolidated Statements of Cash Flows

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities:		
Net income (loss)	$ (2,477,557)	$ 365,850
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	46,602	–
Research and development expenses associated with asset acquisition	93,000	–
Common stock issued for services	195,300	–
Non-cash interest expense on conversion of related party note payable	155,055	–
Changes in operating assets and liabilities:		
Accounts receivable	(143,021)	(27,959)
Other receivables	84,162	–
Inventories	(521,592)	(18,768)
Prepaid expenses and other assets	(66,742)	–
Accounts payable	146,226	10,229
Accounts payable and accrued liabilities - related parties	472,136	260,000
Accrued liabilities	84,823	–
Accrued payroll taxes	(460,838)	(1,411,744)
Net cash used in operating activities	(2,392,446)	(822,392)
Cash flows from investing activities:		
Cash acquired pursuant to business combinations	206,987	–
Purchase of property and equipment	(194,073)	(5,500)
Net cash provided by (used in) investing activities	12,914	(5,500)
Cash flows from financing activities:		
Proceeds from related party notes payable and advances	2,393,232	823,369
Net proceed from notes payable	69,824	–
Net cash provided by financing activities	2,463,056	823,369
Net increase (decrease) in cash and cash equivalents	83,524	(4,523)
Effect of exchange rate changes on cash	(9,322)	–
Cash and cash equivalents at beginning of year	963	5,486
Cash and cash equivalents at end of year	$ 75,165	$ 963
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ –	$ –
Cash paid for interest	$ –	$ –
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued pursuant to business combinations	$ 499,086	$ –
Fair value of assets acquired and liabilities assumed in acquisitions	$ 355,934	$ –
Fair value of noncontrolling interest acquired in acquisition	$ 63,000	$ –
Transfer of related party accounts payable to related party notes payable	$ 356,998	$ –
Conversion of accounts payable - related parties to preferred stock	$ 170	$ –
Conversion of accrued wages to convertible notes payable - related party	$ –	$ 1,875,000
Stock issued to related party - reimburse expenses	$ –	$ 38,585

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

1. Organization and Nature of Operations

Dalrada Financial Corporation (the "Company") was incorporated in September 1982 under the laws of the State of California, and reincorporated in May 1983 under the laws of the State of Delaware.

In June 2018, the Company created a new subsidiary, Dalrada Precision Corp. ("Dalrada Precision"), a mechanical contract provider. It extends the client's engineering and operations team by helping devise bespoke manufacturing solutions tailored to its products. Dalrada Precision can enter at any stage of the product lifecycle from concept and design to mass production and logistics. In October 2018, the Company created a new subsidiary, Dalrada Health Products Corp ("Dalrada Health"). Dalrada Health will partner with client companies for the distribution of medical disposables, hospital equipment and furniture, medical devices, laboratory and dental products, and sanitizing, disinfectant and PPE products & services. In May 2019, Dalrada Health acquired a new subsidiary, C2C Life Sciences, Inc. ("C2C"). On November 1, 2019, the acquisition was rescinded, as the Company never gained control over C2C. Such costs incurred in connection with this rescinded acquisition, have been reflected in these condensed consolidated financial statements as expenses incurred on terminated acquisition.

On December 6, 2019, Dalrada, via its wholly owned subsidiary, Dalrada Precision, acquired, by stock exchange agreement, 100% of Likido Ltd. (HQ) ("Likido") in exchange of 6,118,000 shares of the Company's common stock. Likido, a United Kingdom engineering-design company, is based in Edinburgh, Scotland. Likido is an international technology company developing advanced solutions for the harvesting and recycling of energy. Using its novel, heat pump systems (patent pending), Likido is working to revolutionize the renewable energy sector with the provision of innovative modular process technologies to maximize the capture and reuse of thermal energy for integrated heating and cooling applications. With uses across industrial, commercial and residential sectors, Likido provides cost savings and the minimized carbon emissions across global supply chains. Likido's technologies enable the effective recovery and recycling of process energy, mitigating against climate change and enhancing quality of life through the provision of low-carbon heating and cooling systems. In connection with the purchase of Likido, the Company is obligated to fund operations for a total up to $600,000 (see Note 3).

On January 9, 2020, Dalrada purchased seventy two percent (72%) of the issued and outstanding common equity shares of Prakat Solutions Inc. a Texas corporation, ("Prakat"). The purchase was made by means of a Stock Purchase Agreement ("SPA"). The consideration for the share purchase was three million six hundred thousand, (3,600,000) common equity shares of DFCO. Prakat has a wholly owned subsidiary based in India, Prakat Solutions Private Limited, which provides global customers with software and technology solutions specializing in Test Engineering, Accessibility Engineering, Product Engineering and Application Modernization. The Prakat India team provides end to end Product Engineering services across various domains, including – Banking & Financial Services, Telecom, Retail, Healthcare, Manufacturing, Legal and IT Infrastructure. Prakat India is an ISO 9001 Certified Company. The Company is still determining the impact of this transaction on the financial statements including the purchase price and the allocation of such (see Note 3).

On or about March 23, 2020 Dalrada Health Products Corporation acquired One Hundred percent (100%) of the ownership of Shark. Shark is a cleaning solutions provider using electrostatic machines to spray and deodorize residential spaces, healthcare facilities, hospitality, transportation, manufacturing, automotive, schools/education systems, and other facilities requiring cleaning services. Through the acquisition of Shark, Dalrada Health Products developed the GlanHealth Brand (dba of Dalrada Health Products Corporation) to distribute alcohol-free hand sanitizers, surface cleaners, laundry aides, antimicrobial solutions, electrostatic sprayers, face masks, gloves, kits, and delivery equipment such as dispensers, stands, and ease of use packaging for the end consumer. GlanHealth leverages an extensive supply chain of producers, resellers, distributors, vendors, and formulators for the development, sale, and marketing of its products and services.

The Company's principal executive offices are located at 600 La Terraza Blvd., Escondido, California 92025.

Going Concern

These consolidated financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. As at June 30, 2020, the Company has a working capital deficit of $15,777,706 and an accumulated deficit of $107,429,607. The continuation of the Company as a going concern is dependent upon the continued financial support from its management, and its ability to identify future investment opportunities and obtain the necessary debt or equity financing, and generating profitable operations from the Company's future operations. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company faces certain risks and uncertainties due to the ongoing COVID-19 pandemic, including restrictions on travel, declining revenue and labor shortages. The Company and its subsidiaries have international operations, all of which are affected by the pandemic.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") and are expressed in U.S. dollars. The Company's fiscal year end is June 30.

(b) Principles of Consolidation

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Dalrada Precision, a company incorporated in the State of California, since June 25, 2018 (date of incorporation), Dalrada Health, a company incorporated in the State of California, since October 2, 2018 (date of incorporation), as well as its subsidiaries Likido and Prakat since their respective acquisition dates (see Note 3). All inter-company transactions and balances have been eliminated on consolidation.

(c) Use of Estimates

The preparation of these condensed consolidated financial statements in conformity with US GAAP 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the valuation of inventory, valuation of accrued payroll tax liabilities, valuation of acquired assets and liabilities, variables used in the computation of share-based compensation, and deferred income tax asset valuation allowances.

The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

(d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

(e) 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. During the year ended June 30, 2020, two customers accounted for approximately 16% and 11% of total revenue, respectively.

(f) Fair Value Measurements

Pursuant to ASC 820, *Fair Value Measurements and Disclosures*, an entity is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 - applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 - applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash, accounts receivable, accounts payable and accrued liabilities, notes payable, and amounts due to related parties. Pursuant to ASC 820, the fair value of cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

(g) Accounts Receivable

Accounts receivable are derived from products and services delivered to customers and are stated at their net realizable value. Each month, the Company reviews its receivables on a customer-by-customer basis and evaluates whether an allowance for doubtful accounts is necessary based on any known or perceived collection issues. Any balances that are eventually deemed uncollectible are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. As of June 30, 2020, and 2019, the Company determined no allowance for doubtful accounts was necessary.

(h) Inventory

Inventory is recorded at the lower of cost or net realizable value on a first-in first-out basis. As of June 30, 2020, and 2019, inventory is comprised of raw materials purchased from suppliers, work-in-progress, and finished goods produced or purchased for resale. The Company establishes inventory reserves for estimated obsolete or unsaleable inventory equal to the difference between the cost of inventory and the estimated realizable value based upon assumptions about future market conditions.

(i) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense is recognized using the straight-line method over the estimated useful life of each asset, as follows:

	Estimated Useful Life
Computer and office equipment	3 - 5 years
Machinery and equipment	5 years
Leasehold improvements	Shorter of lease term or useful life

Estimated useful lives are periodically assessed to determine if changes are appropriate. Maintenance and repairs are charged to expense as incurred. When assets are retired or otherwise disposed of, the cost of these assets and related accumulated depreciation or amortization are eliminated from the balance sheet and any resulting gains or losses are included in the statement of operations loss in the period of disposal.

(j) Business Combinations and Acquisitions

The Company accounts for acquisitions in which it obtains control of one or more businesses as a business combination. The purchase price of the acquired businesses is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over those fair values is recognized as goodwill. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments, in the period in which they are determined, to the assets acquired and liabilities assumed with the corresponding offset to goodwill. If the assets acquired are not a business, the Company accounts for the transaction or other event as an asset acquisition. Under both methods, the Company recognizes the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity. In addition, for transactions that are business combinations, the Company evaluates the existence of goodwill or a gain from a bargain purchase.

(k) Impairment of Long-Lived Assets

The Company reviews its long-lived assets (property and equipment) for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

Goodwill is tested annually at June 30 for impairment and upon the occurrence of certain events or substantive changes in circumstances.

The annual goodwill impairment test allows for the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. An entity may choose to perform the qualitative assessment on none, some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit and proceed directly to step one of the quantitative impairment test. If it is determined, on the basis of qualitative factors, that the fair value of a reporting unit is, more likely than not, less than its carrying value, the quantitative impairment test is required. The quantitative impairment test calculates any goodwill impairment as the difference between the carrying amount of a reporting unit and its fair value, but not to exceed the carrying amount of goodwill. As of June 30, 2020, there were no qualitative factors that indicated goodwill was impaired.

(l) Revenue Recognition

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and its related amendments (collectively known as "ASC 606"), effective January 1, 2019 using the modified retrospective transition approach applied to all contracts. Therefore, the reported results for the years ended June 30, 2020 and 2019 reflect the application of ASC 606. Management determined that there were no retroactive adjustments necessary to revenue recognition upon the adoption of the ASU 2014-09. The Company determines revenue recognition through the following steps:

- Identification of a contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the performance obligations are satisfied.

Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. As a practical expedient, the Company does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the period between customer payment and the transfer of goods or services is expected to be one year or less.

The Company's revenue is derived from the sales of its products, which represents net sales recorded in the Company's condensed consolidated statements of operations. Product sales are recognized when performance obligations under the terms of the contract with the customer are satisfied. Typically, this would occur upon transfer of control, including passage of title to the customer and transfer of risk of loss related to those goods. The Company measures revenue as the amount of consideration to which it expects to be entitled in exchange for transferring goods (transaction price). The Company records reductions to revenue for estimated customer returns, allowances, markdowns and discounts. The Company bases its estimates on historical rates of customer returns and allowances as well as the specific identification of outstanding returns, markdowns and allowances that have not yet been received by the Company. The actual amount of customer returns and allowances is inherently uncertain and may differ from the Company's estimates. If the Company determines that actual or expected returns or allowances are significantly higher or lower than the reserves it established, it would record a reduction or increase, as appropriate, to net sales in the period in which it makes such a determination. Reserves for returns, and markdowns are included within accrued expenses and other liabilities. Allowance and discounts are recorded in accounts receivable, net and the value of inventory associated with reserves for sales returns are included within prepaid expenses and other current assets on the condensed consolidated balance sheets.

The Company also earns revenue from information technology and consulting services from its Prakat subsidiary. These services are recognized when performance obligations have been satisfied and the services are complete. This is generally at a point of time upon written completion and client acceptance of the project, which represents transfer of control to the customer.

Disaggregation of Revenue

The following table presents the Company's revenue disaggregated by revenue source:

	Year Ended June 30, 2020	Year Ended June 30, 2019
Product sales - third parties	$ 466,946	$ 72,155
Product sales - related party	124,427	–
Information technology and consulting services - third parties	487,642	–
Information technology and consulting services - related party	99,139	–
Total revenue	$ 1,178,154	$ 72,155

Contract Balances

The following table provides information about receivables and contract liabilities from contracts with customers:

	June 30, 2020	June 30, 2019
Accounts receivable, net	$ 229,167	$ 27,959
Accounts receivable, net - related parties	99,357	–
Deferred revenue	176,291	–

The Company invoices customers based upon contractual billing schedules, and accounts receivable are recorded when the right to consideration becomes unconditional. Contract liabilities represent a set-up fee prepayment received from a customer in advance of performance obligations met.

(m) Cost of Revenue

Cost of revenue consists primarily of inventory sold for product sales and direct labor for information technology and consulting services. The following table is a breakdown of cost of revenue:

	Year Ended June 30, 2020	Year Ended June 30, 2019
Product sales	$ 268,526	$ 74,996
Information technology and consulting services	357,390	–
Total cost of revenue	$ 625,916	$ 74,996

(n) Stock-based Compensation

The Company records stock-based compensation in accordance with ASC 718, *Compensation – Stock Compensation* using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

(o) Foreign Currency Translation

The functional currency of the Company is the United States dollar. The functional currency of the Likido subsidiary is the British pound. The functional currency of Prakat is the Indian rupee. The financial statements of the Company's subsidiaries were translated to United States dollars in accordance with ASC 830, *Foreign Currency Translation Matters*, using period-end rates of exchange for assets and liabilities, and average rates of exchange for the year for revenues and expenses. Gains and losses arising on foreign currency denominated transactions are included in condensed consolidated statements of operations.

(p) Comprehensive Loss

ASC 220, *Comprehensive Income*, establishes standards for the reporting and display of comprehensive loss and its components in the condensed consolidated financial statements. During the year ended June 30, 2020, the Company's only component of comprehensive income was foreign currency translation adjustments.

(q) Basic and Diluted Net Loss per Share

The Company computes net income (loss) per share in accordance with ASC 260, *Earnings per Share*. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the periods using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the periods is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants.

The weighted average number of common stock equivalents related to convertible notes payable of 56,801,471 shares was not included in diluted loss per share, because the effects are antidilutive, for the year ended June 30, 2020. In accordance with ASC 260, "Earnings Per Share", the following table reconciles basic shares outstanding to fully diluted shares outstanding for the year ended June 30, 2019:

	Year Ended June 30, 2019
Weighted average number of common shares outstanding - Basic	47,429,073
Potentially dilutive common stock equivalents (convertible note payable - related party and accrued interest)	55,147,059
Weighted average number of common shares outstanding - Diluted	102,576,132

There were no adjustments to the numerator during the years ended June 30, 2020 and 2019.

(r) Income Taxes

The Company accounts for income taxes using the asset and liability method in accordance with ASC 740, *Accounting for Income Taxes*. The asset and liability method provides that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

(s) Recent Accounting Pronouncements

In August 2018, the FASB issued guidance to improve the effectiveness of fair value measurement disclosures by removing or modifying certain disclosure requirements and adding other requirements. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Certain amendments should be applied prospectively, while all other amendments should be applied retrospectively to all periods presented. The Company is currently evaluating the impact of the new guidance.

In June 2016, the FASB issued a new credit loss standard that replaces the incurred loss impairment methodology in current GAAP. The new impairment model requires immediate recognition of estimated credit losses expected to occur for most financial assets and certain other instruments. It is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first effective reporting period. The Company is currently evaluating the impact of the new guidance.

In February 2016, the FASB issued new lease accounting guidance in ASU No. 2016-02, "*Leases*". This new guidance was initiated as a joint project with the International Accounting Standards Board to simplify lease accounting and improve the quality of and comparability of financial information for users. This new guidance would eliminate the concept of off-balance sheet treatment for "operating leases" for lessees for the vast majority of lease contracts. Under ASU No. 2016-02, at inception, a lessee must classify all leases with a term of over one year as either finance or operating, with both classifications resulting in the recognition of a defined "right-of-use" asset and a lease liability on the balance sheet. Lessor accounting under ASU No. 2016-02 would be substantially unchanged from the previous lease requirements under GAAP. ASU No. 2016-02 will take effect for public companies in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. The company adopted this standard in fiscal year 2020 and it had a material impact on the Company's condensed consolidated financial statements due to lease agreement discussed in Note 7. The lease commenced October 1, 2019.

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

3. Business Combinations and Acquisition

Likido

Effective December 6, 2019, the Company acquired 100% of the interests of Likido. In consideration for the acquisition, the Company issued 6,118,000 shares of its common stock at $0.0448 per share, or a total fair value of $274,086.

The Likido transaction was accounted for as a business combination in accordance with *Accounting Standards Codification (“ASC”) Topic 805, Business Combinations* (“ASC 805”). The Company has determined preliminary fair values of the assets acquired and liabilities assumed. These values are subject to change as we perform additional reviews of our assumptions utilized. Goodwill is primarily attributable to the go-to-market synergies that are expected to arise as a result of the acquisition. The goodwill is not deductible for tax purposes.

The Company has made a provisional allocation of the purchase price in regard to the acquisition related to the assets acquired and the liabilities assumed as of the purchase date. The following table summarizes the preliminary purchase price allocation:

	Preliminary Purchase Price Allocation
Cash and cash equivalents	$ 172,362
Other receivables	37,984
Prepaid expenses and other current assets	10,000
Inventories	110,062
Property and equipment, net	80,348
Goodwill	143,152
Accounts payable	(92,799)
Accrued liabilities	(9,308)
Deferred revenue	(177,715)
	$ 274,086

The Company has not completed the valuations necessary to finalize the acquisition fair values of the assets acquired and liabilities assumed and related allocation of purchase price of the Likido acquisition. Once the valuation process is finalized, there could be changes to the reported values of the assets acquired and liabilities assumed, including goodwill and identifiable intangible assets and those changes could differ materially from what is presented above.

Prakat

Effective January 9, 2020, the Company acquired 72% of the common equity shares of Prakat. In consideration for the acquisition, the Company issued 3,600,000 shares of its common stock at $0.0450 per share, or a total fair value of $162,000.

The Prakat transaction was accounted for as a business combination in accordance with *Accounting Standards Codification (“ASC”) Topic 805, Business Combinations* (“ASC 805”). The Company has determined preliminary fair values of the assets acquired, liabilities assumed and the fair value of the noncontrolling interests. These values are subject to change as we perform additional reviews of our assumptions utilized. Goodwill is primarily attributable to the go-to-market synergies that are expected to arise as a result of the acquisition. The goodwill is not deductible for tax purposes.

The Company has made a provisional allocation of the purchase price in regard to the acquisition related to the assets acquired, liabilities assumed and noncontrolling interests as of the purchase date. The following table summarizes the preliminary purchase price allocation:

	Preliminary Purchase Price Allocation
Cash and cash equivalents	$ 34,625
Accounts receivable, net	157,544
Other receivables	122,190
Prepaid expenses and other current assets	74,671
Property and equipment, net	7,189

Accounts payable		(33,614)
Accrued liabilities		(114,212)
Notes payable		(23,393)
Noncontrolling interests		(63,000)
Purchase price consideration	$	162,000

The Company has not completed the valuations necessary to finalize the acquisition fair values of the assets acquired and liabilities assumed and related allocation of purchase price of the Prakat acquisition. Once the valuation process is finalized, there could be changes to the reported values of the assets acquired and liabilities assumed, including goodwill and identifiable intangible assets and those changes could differ materially from what is presented above.

Shark

On March 23, 2020, the Company entered into a Stock Purchase Agreement to acquire Shark Innovative Technologies Corp. ("Shark"). The Company acquired all of the issued and outstanding common shares, including business plans and access to contacts of Shark. In consideration for the acquisition, the Company issued 3,000,000 shares of its common stock at $0.0310 per share, or a total fair value of $93,000.

The Company evaluated the acquisition of the purchased assets under ASC 805 and concluded that as substantially all of the fair value of the gross assets acquired is concentrated in an identifiable group of similar assets, the transaction did not meet the requirements to be accounted for as a business combination and therefore was accounted for as an asset acquisition. The purchase price of the Shark assets are as follows:

Cash and cash equivalents	$	917
Research and development		92,083
Purchase price consideration	$	93,000

The acquired research and development was recorded as an expense in the consolidated statements of operations.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information presents the Company's financial results as if the Likido and Prakat's acquisitions had occurred as of July 1, 2018. The unaudited pro forma financial information is not necessarily indicative of what the financial results actually would have been had the acquisition been completed on this date. In addition, the unaudited pro forma financial information is not indicative of, nor does it purport to project the Company's future financial results. The pro forma information does not give effect to any estimated and potential cost savings or other operating efficiencies that could result from the acquisitions:

	Year Ended June 30,			
		2020		2019
Revenues	$	2,177,084	$	1,461,086
Net income (loss) attributable to Dalrada	$	(2,507,115)	$	748,242
Net income (loss) per common share	$	(0.04)	$	0.02

4. Selected Balance Sheet Elements

Inventories

Inventories consisted of the following as of June 30, 2020 and 2019:

	June 30,			
		2020		2019
Raw materials	$	140,477	$	–
Work-in-progress		120,689		
Finished goods		389,256		18,768
	$	650,422	$	18,768

Property and Equipment, Net

Property and equipment, net consisted of the following as of June 30, 2020 and 2019:

		June 30,			
		2020		2019	
Machinery and equipment	$	143,930	$	–	
Leasehold improvements		112,366		–	
Computer and office equipment		52,665		5,500	
		308,961		5,500	
Less: Accumulated depreciation		(68,453)		–	
	$	240,508	$	5,500	

Depreciation and amortization expense of $46,602 and $0 for the years ended June 30, 2020 and 2019, respectively, were included in selling, general and administrative expenses in the statements of operations.

5. Accrued Payroll Taxes

As of June 30, 2020, and 2019, the Company had $10,519,440 and $10,980,278, respectively, of accrued payroll taxes, penalties and interest relating to calendar years 2004 - 2007. The total balance for accrued payroll taxes has accumulated on a quarterly basis beginning on their respective quarterly filing dates. Accrued interest is compounded daily at an estimated effective interest rate of 7.33%. The quarterly sub-totals that make up the $10,519,440 balance have a calculated expiration date of 10 years according to the Internal Revenue Service statute of limitations. As the tax periods surpass their estimated expiration date, the Company removes the liability from the consolidated balance sheets, and an equivalent amount is recognized as “Gain on expiration of accrued payroll taxes” within other income on the consolidated statements of operations. For fiscal years ended June 30, 2020 and 2019, the Company recognized $768,361 and $852,595, respectively, of penalties and interest within interest expense on the consolidated statements of operations. For fiscal years ended June 30, 2020 and 2019, the Company recognized $1,229,199 and $2,264,340 respectively, within “Gain on expiration of accrued payroll taxes” as a result of quarterly tax liabilities that expired during the fiscal years. The amount owing may be subject to additional late filing fees and penalties that are not quantifiable as at the date of these consolidated financial statements. In addition, the Company periodically reviews the historical filings in determining if the statute has been paused or extended by the Internal Revenue Service.

6. Notes Payable

Notes Payable – Related Parties

1) During the year ended June 30, 2019, the Company issued a $38,615 promissory note to a related party for compensation paid by the related party on behalf of the Company. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal and accrued interest was converted into 3,965,614 shares of common stock at a conversion price of $0.0492.

2) During the year ended June 30, 2019, the Company issued a $37,469 promissory note to a related party for legal services and other expenses incurred to reinstate the Company to a current status with the state of Delaware. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $37,469 and the accrued interest is $1,124.

3) As of June 30, 2019, the Company owed $2,250 to a related party company controlled by the Chief Executive Officer of the Company for management fees, which consists of accounting and administrative services. The Company is charged $4,500 on a monthly basis, $1,125 of which is allocated each month to Dalrada Health Products. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $2,250 and the accrued interest is $68.

4) As of June 30, 2019, the Company owed $1,630 to a related party for reimbursement of expenses paid by the related party on behalf of the Company related to the proposed C2C acquisition which did not occur. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $1,630 and the accrued interest is $49.

5) As of June 30, 2019, the Company owed $262,197 to a related party for reimbursement of compensation to employees and payroll services paid by the related party on behalf of the Company. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $262,197 and the accrued interest is $7,866.

6) On September 30, 2019, the Company issued a $131,265 promissory note to a related party for reimbursement of compensation to employees and payroll services paid by the related party on behalf of the Company. Under the terms of the

note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $131,265 and the accrued interest is $2,953.

7) On September 30, 2019, the Company issued a $2,075 promissory note to a related party for reimbursement of expenses paid by the related party on behalf of the Company related to the proposed C2C acquisition which did not occur. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $2,075 and the accrued interest is $47.

8) On September 30, 2019, the Company issued a $3,375 promissory note to a related party company controlled by the Chief Executive Officer of the Company for management fees, which consists of accounting and administrative services for which the Company is charged $1,125 on a monthly basis. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $3,375 and the accrued interest is $76.

9) On September 30, 2019, the Company issued a $36,370 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $36,370 and the accrued interest is $818.

10) On September 30, 2019, the Company issued a $1,865 promissory note to a related party for reimbursement of expenses paid by the related party on behalf of the Company related to the proposed C2C acquisition which did not occur. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $1,865 and the accrued interest is $42.

11) On September 30, 2019, the Company issued a $93,137 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $93,137 and the accrued interest is $2,096.

12) On December 31, 2019, the Company issued a $18,669 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $18,669 and the accrued interest is $280.

13) On December 31, 2019, the Company issued a $16,165 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $16,165 and the accrued interest is $242.

14) On December 31, 2019, the Company issued a $1,125 promissory note to a related party company controlled by the Chief Executive Officer of the Company for management fees, which consists of accounting and administrative services. The Company is charged $4,500 on a monthly basis, $1,125 of which is allocated each month to Dalrada Health Products. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $1,125 and the accrued interest is $17.

15) On December 31, 2019, the Company issued a $152,282 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for medical device listing fees, computer software, travel expenses, and professional consultant services Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $152,282 and the accrued interest is $2,284.

16) On December 31, 2019, the Company issued a $5,270 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $5,270 and the accrued interest is $79.

17) On December 31, 2019, the Company issued a $720,914 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $720,914 and the accrued interest is $10,814.

18) On March 31, 2020, the Company issued a $233,886 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $233,886 and the accrued interest is $1,754.

19) On March 31, 2020, the Company issued a $1,120 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $1,120 and the accrued interest is $8.

20) On March 31, 2020, the Company issued a $175,742 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $175,742 and the accrued interest is $1,318.

21) On March 31, 2020, the Company issued a $14,655 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $14,655 and the accrued interest is $110.

22) On March 31, 2020, the Company issued a $1,165 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $1,165 and the accrued interest is $9.

23) On March 31, 2020, the Company issued a $417,996 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $417, 996 and the accrued interest is $3,135.

24) On March 31, 2020, the Company issued a $79,866 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $79,866 and the accrued interest is $599.

25) On March 31, 2020, the Company issued a $55,868 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $55,868 and the accrued interest is $419.

26) On June 30, 2020, the Company issued a $228,557 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $228, 557 and the accrued interest is $1,714.

27) On June 30, 2020, the Company issued a $131,477 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $131,477 and the accrued interest is $986.

28) On June 30, 2020, the Company issued a $13,500 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $13,500 and the accrued interest is $101.

29) On June 30, 2020, the Company issued a $213,887 promissory note to a related party for reimbursement of operating expenses paid by the related party on behalf of the Company. Funds were used for travel expenses, professional consultant services, software, international shipping charges, and office supplies Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 360 days from the date of issuance. As of June 30, 2020, the outstanding principal balance of the promissory note was $213,887 and the accrued interest is $1,604.

Notes Payable

Notes payable includes the following:

	June 30,	
	2020	2019
Dalrada - Payroll Protection Program	$ 21,042	$ –
Likido - COVID-19 Government loan	55,467	–
Prakat - Bank loan	16,708	–
	$ 93,217	$ –

7. Convertible Note Payable – Related Parties

As of June 30, 2019, the Company issued a convertible note for $1,875,000 to the Chief Executive Officer of the Company for compensation. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and was due 360 days from the date of issuance. On June 30, 2019, the Company issued note agreement which included a conversion feature of the outstanding balance at $0.034 per share. As the conversion price was equal to the fair value of the common shares on the date of the agreement, there was no beneficial conversion feature. As of June 30, 2020, the outstanding principal balance of the promissory note was $1,875,000 and the accrued interest is $56,250.

8. Related Party Transactions

As of June 30, 2020, and June 30, 2019, the Company owed $556,317 and $479,512 respectively to related parties for reimbursement of various operating expenses, accrued salaries, management fees, etc. which has been recorded in accounts payable and accrued liabilities – related parties. As of June 30, 2020 and 2019, this amount includes $7,650 and $27,000 of management fees, which consists of accounting and administrative services to Trucept Inc., a related party company controlled by the Chief Executive Officer of the Company. The management fee agreement calls for monthly payments of $4,500. The agreement is ongoing until terminated by either party. As of June 30, 2020, amounts included with accounts payable and accrued liabilities – related parties for which relate to advances for operating expenses were $92,422.

In November 2019, the Chief Executive Officer converted $170 in amounts owed from the Company into 5,000 shares of Series F Super Preferred Stock.

On July 1, 2019, the Company formalized an employment agreement with its Chief Executive Officer, which entitles him to compensation of three hundred and ninety-three thousand dollars ($393,000) per year. Annual increases will be up to 10% based performance criteria to be determined at a later date. He will be issued common stock of the Company sufficient to provide a 10% ownership position post reverse split which shares be maintained for a period of two years. In addition to all other benefits and compensation, he shall be eligible for a quarterly bonus of $47,000 based on if the Company achieves a net profit for that quarter. As of June 30, 2020, the Company had $440,000 accrued within accounts payable and accrued liabilities – related parties.

On January 6, 2020, the Directors affirmed and ratified the final agreement of the employment terms of Fawad Nisar as the Chief Operating Officer of Dalrada Financial Corp. The Company and Mr. Nisar have agreed in the Employment Terms, to, among other items, the issuance, as consideration for his accepting the position of COO of the Company, of 3,000,000 shares of the Company’s common stock. The fair value of $172,800 is included in selling, general and administrative expenses in the consolidated statements of operations.

During the year ended June 30, 2020, Dalrada Health recorded revenues of $80,844 to various related parties with common ownership. During the year ended June 30, 2020, the Company’s Prakat subsidiary recorded revenues of $142,722 for engineering and consulting services provided to Trucept.

See Notes 5, 6, 7, 9, 10 and 12 for additional related party transactions.

9. Preferred Stock

The Company has 100,000 shares authorized of Series F Super Preferred Stock, par value, $0.01, of which 5,000 shares (at a fair value of $170) were issued to the CEO as of December 31, 2019. Each share of Series F Super Preferred Stock entitles the holder to the greater of (i) one hundred thousand votes for each share of Series F Super Preferred Stock, or (ii) the number of votes equal to the number of all outstanding shares of Common Stock, plus one additional vote such that the holders of Series F Super Preferred Stock shall always constitute a majority of the voting rights of the Corporation. In any vote or action of the holders of the Series F Super Preferred Stock voting together as a separate class required by law, each share of issued and outstanding Series F Super Preferred Stock shall entitle the holder thereof to one vote per share. The holders of Series F Super Preferred Stock shall vote together with the shares of Common Stock as one class.

10. Common Stock

Effective December 6, 2019, the Company acquired 100% of the interests of Likido. In consideration for the acquisition, the Company issued 6,118,000 shares of its common stock at $0.0448 per share, or a total fair value of $274,086.

On January 6, 2020 the Company issued Fawad Nisar, the Chief Operating Officer, Three 3,000,000 shares of common stock at $0.576 per share, or a total fair value of $172,800, pursuant to his employment agreement.

Effective January 9, 2020, the Company acquired 72% of the common equity shares of Prakat. In consideration for the acquisition, the Company issued 3,600,000 shares of its common stock at $0.0450 per share, or a total fair value of $162,000.

On March 23, 2020, the Company acquired all of the issued and outstanding common shares, including business plans and access to contacts of Shark. In consideration for the acquisition, the Company issued 3,000,000 shares of its common stock at $0.0310 per share, or a total fair value of $93,000.

In June 2020, the Company converted a promissory note dated December 31, 2018 of $40,052 principal and interest owed TIPP Investments LLC at $0.01 per share, or 3,965,614 shares of common stock. Non-cash interest expense recorded as a result of the conversion was $155,055.

In June 2020, the Company issued 500,000 shares of common stock to a consultant pursuant to a consulting agreement at $0.045 per share, or a total fair value of $22,500.

On May 7, 2019, the Company issued 1,000,000 common shares to a direct relative of the Chief Executive Officer for reimbursement of expenses at $0.039 per share, or a total fair value of $38,585.

As of June 30, 2020 and 2019, the Company had 68,464,742 and 48,281,128 common shares issued and outstanding, respectively.

11. Segment Reporting

Upon the Company's acquisitions in the year ended June 30, 2020, the Company manages its business and makes its decisions based on segments. The Company classifies its operations into four segments: Engineering, Health, Information Technology and Corporate. The Company evaluates the performance of its segments primarily based on revenues, operating income (loss) and net income (loss). Segment information for the year ended June 30, 2020 is as follows:

	Year Ended June 30, 2020					
	Engineering	Health	Information Technology	Corporate	Inter-Segment Eliminations	Consolidated
Revenues	$ 753,632	$ 407,069	$ 624,198	$ –	$ (606,745)	$ 1,178,154
Loss from operations	(794,400)	128,613	(116,668)	(1,154,659)	(751,982)	(2,689,097)
Net loss	$ (808,908)	$ 122,587	$ (104,485)	$ (935,059)	$ (751,692)	$ (2,477,557)

Geographic Information

The following table presents revenue by country:

Year Ended

	June 30,	
	2020	2019
United States	$ 591,373	$ 72,155
India	586,781	–
	$ 1,178,154	$ 72,155

The following table presents inventories by country:

	June 30,	
	2020	2019
United States	$ 409,044	$ 18,768
Europe	241,378	–
India	–	–
	$ 650,422	$ 18,768

The following table presents property and equipment, net, by country:

	June 30,	
	2020	2019
United States	$ 39,507	$ 5,500
Europe	191,508	–
India	9,493	–
	$ 240,508	$ 5,500

12. Commitments and Contingencies

Lease Commitments

The Company determines if an arrangement is a lease at inception. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified fixed asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the rights to direct the use of and to obtain substantially all of the economic benefits from using the underlying asset. The Company has lease agreements which include lease and non-lease components, which the Company has elected to account for as a single lease component for all classes of underlying assets. Lease expense for variable lease components are recognized when the obligation is probable.

Operating lease right of use ("ROU") assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Operating lease payments are recognized as lease expense on a straight-line basis over the lease term. The Company primarily leases buildings (real estate) which are classified as operating leases. ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As an implicit interest rate is not readily determinable in the Company's leases, the incremental borrowing rate is used based on the information available at commencement date in determining the present value of lease payments.

The lease term for all of the Company's leases includes the non-cancellable period of the lease plus any additional periods covered by either a Company option to extend (or not to terminate) the lease that the Company is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor. Options for lease renewals have been excluded from the lease term (and lease liability) for the majority of the Company's leases as the reasonably certain threshold is not met.

Lease payments included in the measurement of the lease liability are comprised of fixed payments, variable payments that depend on index or rate, and amounts probable to be payable under the exercise of the Company option to purchase the underlying asset if reasonably certain.

Variable lease payments not dependent on a rate or index associated with the Company's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed as probable. Variable lease payments are presented as operating expenses in the Company's income statement in the same line item as expense arising from fixed lease payments. As of and during the year ended June 30, 2020, management determined that there were no variable lease costs.

Right of Use Asset

In May 2020, the Company entered into a five-year lease agreement to lease a commercial building in Escondido, California. The building is owned by a related party. The Company recognized a right of use asset and liability of $822,389 and used an effective borrowing rate of 3.0% within the calculation. Imputed interest is $53,399. The lease agreements mature in April 2025. Total amounts expensed under the lease during the year ended June 30, 2020 were $16,245 for which is included accounts payable and accrued liabilities – related parties.

In May 2020, the Company entered into three-year lease agreement to lease a warehouse in Brownsville, Texas. The Company recognized a right of use asset and liability of $177,124 and used an effective borrowing rate of 3.0% within the calculation. Imputed interest is $8,399. The lease agreements mature in April 2025.

The Company's Prakat subsidiary entered into a lease agreement to lease office space through September 2026. The Company recognized a right of use asset and liability of $140,874 and used an effective borrowing rate of 9.2% within the calculation. Imputed interest is $86,591.

The following are the expected lease payments as of June 30, 2020, including the total amount of imputed interested related:

Fiscal Year Ended June 30,		
2021	$	264,371
2022		267,113
2023		259,215
2024		207,901
2025		194,616
Thereafter		42,237
		1,235,453
Less: imputed interest		(116,979)
Total	$	1,118,474

13 Income Taxes

We file income tax returns in the United States federal jurisdiction and in various state and local jurisdictions. In the normal course of business, we are subject to examination by taxing authorities. The tax years ending 2018 through 2020 remain subject to examination for federal tax purposes and remain subject to examination in significant state tax jurisdictions. The Company has yet to file their income tax return for the year ended June 30, 2020.

As of June 30, 2020, the Company had federal and state net operating loss carry forwards of $6,130,145 that may be offset against future taxable income which will begin to expire in 2038 through 2041.

The reconciliation of income tax expense computed at the U.S. federal statutory rate to the income tax provision for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Current:		
Federal	$ –	$ –
State	–	–
Foreign	–	–
	–	–
Deferred:		
Federal	(522,084)	(165,038)
State	(145,050)	(45,852)
	(667,134)	(210,890)
Valuation allowance	667,134	210,890
Total provision for income taxes	$ –	$ –

Deferred income taxes reflect the net tax effects of: (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes; and (b) operating loss and tax credit carry-forwards. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. Significant components of deferred tax assets as of June 30, 2020 and 2019 were as follows:

	2020	2019

	2020	2019
Depreciation & Amortization	$ 450	$ –
Reserves and Accruals	118,071	–
Net Operating Loss Carryforwards	768,085	219,472
Gross Deferred Tax Assets	886,606	219,472
Valuation Allowance	(886,606)	(219,472)
Net Deferred Tax Assets	$ –	$ –

Reconciliation of the statutory federal income tax to the Company's effective tax:

	2020	2019
Tax at Federal Statutory Rate	21.0 %	34.0 %
State, Net of Federal Benefit	5.9 %	0.2 %
Payroll Tax Interest	10.5 %	0.0 %
Gain on Expiration of Accrued Tax Liability	(6.6)%	0.0 %
Stock Based Compensation	(3.7)%	(32.7)%
Change in Tax Rate	0.0 %	(0.7)%
Change in Valuation Allowance	(27.0)%	(0.8)%
Provision for Taxes	0.0 %	(0.0)%

The difference in the effective rate and the statutory rate is due to permanent differences, primarily deductibility of penalties and interest on accrued payroll tax liabilities and the gains related to the expiration of the statute of limitations for accrued payroll tax liabilities.

14. Subsequent Events

In August 2020, the Company's Likido subsidiary entered in a new operating agreement for warehouse space. The lease matures in July 2021.

On September 10th, 2020 the Board authorized the Dalrada Financial Corp 2020 stock compensation plan to be used to compensate the company board of directors. The plan allocates the issuance of up to 3,500,000 shares.

On or about October 1, 2020, Dalrada Precision signed a manufacturing license agreement with a company based in Ormond Beach, Florida. The agreement provides Dalrada a non-exclusive perpetual irrevocable license to manufacture, use and sell a series of low-carbon highly efficient electrical power generators. The rights granted to Dalrada include all appropriate rights and licenses under the manufacturer's applicable patents, copyrights, and other intellectual property rights to have the product manufactured and to use, market, promote, lease, sell and otherwise distribute the product, including white labeling of the products. In exchange for the above rights, Dalrada paid a one-time license fee and will pay to manufacturer a royalty fee on product sales. Dalrada is currently working with the manufacturer to procure the designs and materials to assemble and build the machines.

Management has evaluated all other subsequent events through October 15, 2020, 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.