UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **December 31, 2022**

☐ TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from _________ to _________

Commission File Number: **000-12641**

DALRADA FINANCIAL CORPORATION

(Name of Small Business Issuer in its charter)

Wyoming	**38-3713274**
(state or other jurisdiction of incorporation or organization)	(I.R.S. Employer ID. No.)

600 La Terraza Blvd., Escondido, California 92025
(Address of principal executive offices)

858-283-1253
Issuer's telephone number

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.005 par value per share	DFCO	None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of February 14, 2023, the registrant's outstanding stock consisted of 85,657,473 common shares.

DALRADA FINANCIAL CORPORATION.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

DALRADA FINANCIAL CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)

	December 31, 2022	June 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 1,110,034	$ 772,062
Restricted cash	426,920	–
Accounts receivable, net	5,491,884	6,406,555
Accounts receivable, net - related parties	93,516	41,603
Other receivables	507,412	288,655
Inventories	2,509,920	1,624,621
Prepaid expenses and other current assets	200,645	430,070
Total current assets	10,340,331	9,563,566
Long-term receivables	41,589	42,395
Long-term receivables - related parties	1,191,760	1,209,103
Property and equipment, net	1,527,687	1,076,412
Goodwill	4,253,424	4,253,424
Intangible assets, net	3,740,363	3,524,888
Right of use asset, net	1,458,502	1,665,436
Right of use asset, net - related party	2,507,484	1,087,256
Total assets	$ 25,061,140	$ 22,422,480
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 2,551,612	$ 2,331,919
Accrued liabilities	3,476,961	1,799,404
Accrued payroll taxes, penalties and interest	–	2,055,736
Accounts payable and accrued liabilities – related parties	1,016,424	1,270,133
Deferred revenue	1,530,301	720,923
Notes payable, current portion	687,202	669,028
Notes payable – related parties	16,500,347	9,269,377
Convertible notes payable, net of debt discount	666,577	1,495,528
Right of use liability	378,496	435,647
Right of use liability - related party	503,812	369,050
Total current liabilities	27,311,732	20,416,745
Long-term payables	90,701	120,534
Notes payable	479,001	479,001
Notes payable – related parties	8,875,783	9,538,685
Contingent consideration	4,731,600	4,870,800
Right of use liability	1,080,005	1,231,691
Right of use liability - related party	2,003,673	718,206
Total liabilities	44,572,495	37,375,662
Commitments and contingencies (Note 14)		
Stockholders' deficit:		
Series G preferred stock, $0.01 par value, 100,000 shares authorized, 10,002 shares issued and outstanding as of both December 31, 2022 and June 30, 2022	100	100
Series F preferred stock, $0.01 par value, 5,000 and 5,000 shares authorized, issued and outstanding as of both September 30, 2022 and June 30, 2022	50	50
Common stock, $0.005 par value, 1,000,000,000 shares authorized, 85,657,474 and 72,174,620 shares issued and outstanding at September 30, 2022 and June 30, 2022, respectively	428,270	360,855
Common stock to be issued	430,275	1,066,925
Additional paid-in capital	108,260,802	104,627,032
Accumulated deficit	(129,467,297)	(121,436,490)
Accumulated other comprehensive income (loss)	(21,040)	(50,673)
Total Dalrada Financial Corp's stockholders' deficit	(20,368,840)	(15,432,201)
Noncontrolling interests	857,485	479,019
Total stockholders' deficit	(19,511,355)	(14,953,182)
Total liabilities and stockholders' deficit	$ 25,061,140	$ 22,422,480

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

DALRADA FINANCIAL CORPORATION
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Revenues	$ 4,603,878	$ 5,370,449	$ 8,776,127	$ 9,957,493
Revenues - related party	649,242	76,815	734,760	92,124
Total revenues	5,253,120	5,447,264	9,510,887	10,049,617
Cost of revenue	2,955,132	2,056,343	5,311,460	3,260,678
Gross profit	2,297,988	3,390,921	4,199,427	6,788,939
Operating expenses:				
Selling, general and administrative (includes stock-based compensation of $901,721 and $1,105,587 for the three months and $1,369,238 and $1,783,094 for the six months ended 2022 and 2021 respectively)	7,080,077	5,293,040	11,937,694	9,542,739
Research and development	–	–	–	1,596
Total operating expenses	7,080,077	5,293,040	11,937,694	9,544,335
Loss from operations	(4,782,089)	(1,902,119)	(7,738,267)	(2,755,396)
Other income (expense):				
Interest expense	(1,220,603)	(135,070)	(1,892,730)	(258,874)
Interest income	22,826	521	41,895	1,048
Other income (expense)	(444,699)	(1,464)	(106,622)	13,244
Gain on expiration of accrued tax liability	2,037,712	–	2,090,978	–
Gain (loss) on foreign exchange	(95,312)	(88,084)	(47,595)	(44,333)
Total other income (expenses)	299,924	(224,097)	85,926	(288,915)
Net loss	(4,482,165)	(2,126,216)	(7,652,341)	(3,044,311)
Other comprehensive (loss) income				
Foreign currency translation	(34,129)	325	29,633	39,669
Comprehensive (loss) income	$ (4,516,294)	$ (2,125,891)	$ (7,622,708)	$ (3,004,642)
Net income (loss) attributable to noncontrolling interests	(69,147)	1,317,538	378,466	2,606,707
Net loss attributable to Dalrada Financial Corporation stockholders	$ (4,413,018)	$ (3,443,754)	$ (8,030,807)	$ (5,651,018)
Net loss per common share to Dalrada stockholders - basic	$ (0.05)	$ (0.05)	$ (0.10)	$ (0.08)
Net loss per common share to Dalrada stockholders - diluted	$ (0.05)	$ (0.05)	$ (0.10)	$ (0.08)
Weighted average common shares outstanding - basic	84,437,801	73,903,689	80,721,783	73,939,348
Weighted average common shares outstanding - diluted	84,437,801	73,903,689	80,721,783	73,909,348

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

DALRADA FINANCIAL CORPORATION

Condensed Consolidated Statements of Stockholders' Deficit

(unaudited)

	Preferred Stock Series G Shares	Preferred Stock Series G Amount	Preferred Stock Series F Shares	Preferred Stock Series F Amount	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Preferred Stock to be Issued	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Dalrada Financial Corp's Stockholders' Deficit	Noncontrolling Interests	Total Stockholders' Deficit
Balance at June 30, 2021	–	$ –	5,000	$ 50	73,838,662	$ 369,194	$ 601,825	$ –	$ 92,965,821	$ (107,338,174)	$ 32,287	$ (13,368,997)	$ (38,391)	$ (13,407,388)
Conversion of related party notes into preferred stock	–	–	–	–	–	–	–	6,532,206	–	–	–	6,532,206	–	6,532,206
Common stock issued pursuant to acquisitions	–	–	–	–	212,500	1,063	(85,975)	–	84,913	–	–	1	–	1
Joint ventures	–	–	–	–	–	–	58,560	–	–	–	–	58,560	111,185	169,745
Repurchase of common shares from subsidiary	–	–	–	–	(329,478)	(1,647)	–	–	(13,179)	–	–	(14,826)	–	(14,826)
Stock-based compensation	–	–	–	–	2,000,000	10,000	–	–	667,507	–	–	677,507	–	677,507
Net income (loss)	–	–	–	–	–	–	–	–	–	(2,265,842)	–	(2,265,842)	1,289,169	(976,673)
Foreign currency translation	–	–	–	–	–	–	–	–	–	–	39,344	39,344	–	39,344
Balance at September 30, 2021	–	–	5,000	50	75,721,684	378,610	574,410	6,532,206	93,705,062	(109,604,016)	71,631	(8,342,047)	1,361,963	(6,980,084)
Issuance of preferred stock	10,002	100	–	–	–	–	–	(6,532,206)	6,532,106	–	–	–	–	–
Common stock issued pursuant to acquisitions	–	–	–	–	212,500	1,063	(85,975)	–	84,913	–	–	1	–	1
Joint venture	–	–	–	–	250,000	1,250	(58,560)	–	57,310	–	–	–	(1,874,244)	(1,874,244)
Reversal of shares previously issued to directors	–	–	–	–	(6,500,000)	(32,500)	–	–	32,500	–	–	–	–	–
Stock-based compensation	–	–	–	–	500,000	2,500	–	–	1,103,087	–	–	1,105,587	–	1,105,587
Net income (loss)	–	–	–	–	–	–	–	–	–	(3,385,175)	–	(3,385,175)	1,317,537	(2,067,638)
Foreign currency translation	–	–	–	–	–	–	–	–	–	–	325	325	–	325
Balance at December 31, 2021	10,002	$ 100	5,000	$ 50	70,184,184	$ 350,923	$ 429,875	$ –	$ 101,514,978	$ (112,989,191)	$ 71,956	$ (10,621,311)	$ 805,256	$ (9,816,055)

	Preferred Stock Series G Shares	Preferred Stock Series G Amount	Preferred Stock Series F Shares	Preferred Stock Series F Amount	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Preferred Stock to be Issued	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Dalrada Financial Corp's Stockholders' Deficit	Noncontrolling Interests	Total Stockholders' Deficit
Balance at June 30, 2022	10,002	$ 100	5,000	$ 50	72,174,620	$ 360,855	$ 1,066,925	$ –	$ 104,627,032	$ (121,436,490)	$ (50,673)	$ (15,432,201)	$ 479,019	$ (14,953,182)
Common stock issued for conversion of convertibles notes, accrued interest and premium	–	–	–	–	6,813,021	34,065	–	–	1,077,332	–	–	1,111,397	–	1,111,397
Common stock issued pursuant to acquisitions	–	–	–	–	833,333	4,167	(175,000)	–	343,183	–	–	172,350	–	172,350
Stock-based compensation	–	–	–	–	500,000	2,500	(175,000)	–	640,017	–	–	467,517	–	467,517
Net income (loss)	–	–	–	–	–	–	–	–	–	(3,617,789)	–	(3,617,789)	447,613	(3,170,176)
Foreign currency translation	–	–	–	–	–	–	–	–	–	–	63,762	63,762	–	63,762
Balance at September 30, 2022	10,002	100	5,000	50	80,320,974	401,587	716,925	–	106,687,564	(125,054,279)	13,089	(17,234,964)	926,632	(16,308,332)
Common stock issued for conversion of convertibles notes, accrued interest and premium	–	–	–	–	4,161,500	20,808	–	–	315,283	–	–	336,091	–	336,091
Common stock issued pursuant to acquisitions	–	–	–	–	1,175,000	5,875	(286,650)	–	356,234	–	–	75,459	–	75,459
Stock-based compensation	–	–	–	–	–	–	–	–	901,721	–	–	901,721	–	901,721
Net income (loss)	–	–	–	–	–	–	–	–	–	(4,413,018)	–	(4,413,018)	(69,147)	(4,482,165)
Foreign currency translation	–	–	–	–	–	–	–	–	–	–	(34,129)	(34,129)	–	(34,129)
Balance at December 31, 2022	10,002	$ 100	5,000	$ 50	85,657,474	$ 428,270	$ 430,275	$ –	$ 108,260,802	$ (129,467,297)	$ (21,040)	$ (20,368,840)	$ 857,485	$ (19,511,355)

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

DALRADA FINANCIAL CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Cash flows from operating activities:		
Net loss	$ (7,652,341)	$ (3,044,311)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	348,512	94,253
Stock compensation	1,369,238	1,783,094
Change in fair value of contingent consideration	108,609	–
Bad debt expense	593,664	–
Gain on expiration of accrued tax liability	(2,090,978)	–
Changes in operating assets and liabilities, net of amounts acquired or assumed in connection with acquisition:		
Accounts receivable	269,094	(5,828,903)
Other receivables	(191,468)	(74,325)
Inventories	(885,299)	(535,387)
Prepaid expenses and other current assets	227,523	30,252
Long-term receivables	18,149	–
Accounts payable	195,528	384,424
Long-term payables	(29,833)	–
Accounts payable and accrued liabilities - related parties	(253,709)	1,046,334
Accrued liabilities	2,277,287	928,960
Accrued payroll taxes, penalties and interest	35,242	49,528
Deferred revenue	749,378	437,160
Net cash used in operating activities	(4,911,404)	(4,728,921)
Cash flows from investing activities:		
Purchase of property and equipment	(605,515)	(232,988)
Purchase of intangibles	(385,792)	(104,740)
Acquisition of business, net of cash	70,979	–
Net cash used in investing activities	(920,328)	(337,728)
Cash flows from financing activities:		
Proceeds from related party notes payable	7,320,324	6,999,445
Repayments of related party notes payable	(752,256)	(12,923)
Distributions to noncontrolling interest	–	(1,874,245)
Net proceeds (repayments) from notes payable	(1,077)	–
Repurchase of common shares from subsidiary	–	(14,826)
Net cash provided by financing activities	6,566,991	5,097,451
Net change in cash and cash equivalents	735,259	30,802
Effect of exchange rate changes on cash	29,633	39,699
Cash and cash equivalents at beginning of period	772,062	110,285
Cash and cash equivalents at end of period	$ 1,536,954	$ 180,786
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of related party notes and interest into preferred stock	$ –	$ 6,532,206
Contribution of property and equipment into joint venture	$ –	$ 111,185
Issuance of shares to joint venture partner	$ –	$ 58,560
Conversion of accounts payable-related parties to note payable-related parties	$ –	$ 181,744
Conversion of convertible note payable, accrued interest and premium into common stock	$ 1,447,488	$ –
Increase in right of use asset and liability	$ 1,192,774	$ –
Net liabilities assumed in acquisition:		
Assets acquired in acquisitions, net of cash	$ 69,862	$ –
Less Liabilities assumed	(140,841)	–
	$ (70,979)	$ –

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

1. Organization and Nature of Operations

Dalrada Financial Corporation, (“Dalrada”), was incorporated in September 1982 under the laws of the State of California. It was reincorporated in May 1983 under the laws of the State of Delaware and reincorporated again on May 5, 2020, under the laws of the state of Wyoming. Dalrada Financial Corporation trades under the symbol, OTCQB: DFCO.

Since Dalrada’s inception, the Company has grown its footprint to include the unique business divisions: **Dalrada Health**, **Dalrada Energy Services**, **Dalrada Precision Manufacturing**, and **Dalrada Technologies**. Dalrada’s global solutions directly address climate change, gaps in the health care industry, and technology needs that facilitate a new era of human behavior and interaction and ensure a bright future for the world around us.

Dalrada Health

Dalrada Health delivers advanced health care solutions with dedicated products, services, and systems. From virus and disease screening capabilities to pharmaceutical goods and holistic wellness clinics, This specialized division is committed to developing key health products, lifesaving medications and building comprehensive systems to increase capability, strive to keep people healthy with the goals of improving their quality of life and increasing their longevity– on a global level.

Empower Genomics (“Empower”)- Empower is Dalrada’s wholly owned diagnostic laboratory which processes molecular diagnostic and antibody tests to support the diagnosis of COVID-19 and the detection of immune response to the virus. Empower has built up and maintained the testing capacity to handle surges in COVID-19 testing demands. Empower also offers genetic testing capabilities including Pharmacogenomics, Nutraceutical, Nutrition/Diet DNA and Exercise/Fitness DNA tests.

Pala Diagnostics (“Pala”)- Pala is a joint venture diagnostic laboratory which processes both molecular diagnostic and antibody tests to support the diagnosis of COVID-19 and the detection of immune response to the virus.

Solas Corp. (“Solas”)- Solas manages and oversees wellness clinics throughout Southern California including the Sòlas Rejuvenation + Wellness clinics (“Sòlas”). Through advanced medical techniques and modern technology, Sòlas delivers a clinical experience that helps men and woman live their best life, whether it’s through simple cosmetic procedures, pain-reducing practices, or anti-aging therapies. Through its three locations, Sòlas prides itself on its dedicated service-focused, health-first approach. Its wellness & rejuvenation clinics deliver with a focus on regenerative therapies, IV and injection services, cosmetic enhancements amongst a myriad of additional health centric services.

International Health Group (“IHG”)- IHG provides highly trained nursing and medical assistants for hospitals and home health facilities since 2006. IHG Medical Assistant programs include Certified Nursing Assistant (“CNA") and Home Health Aide (“HHA”) training and the fast-track 22-Day CNA Certification Program at its state-approved testing facility.

Pacific Stem Cells (“PSC”)- PSC markets and sells traditional biologics and human cells, tissues, and cellular and tissue-based products (HCT/Ps).

Watson Rx Solutions (“Watson”)- In June 2022, Dalrada Health acquired Watson, an Alabama-based pharmacy with more than 30 years of experience in the retail medical and pharmaceutical industries. Watson helps manage disease states through education and prescription management while offering generic as well as specialty medications. Watson maintains pharmacy licenses in all 50 States including Washington D.C.

GlanHealth (“GlanHealth”)- Dalrada Health Products launched GlanHealth in 2020 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.

<u>Dalrada Energy Services</u>

Dalrada Energy Services (‘DES’) employs next-generation technology that enhances clean energy efforts while reducing the world’s carbon footprint. Through innovative products and commercial services, DES facilitates energy transition for universities, businesses, government buildings, and more.

Dalrada Energy Services (“DES”)- DES provides end-to-end comprehensive energy service solutions in a robust commercial capacity, DES helps organizations meet environmental, social, and governance (“ESG”) goals and standards while mitigating negative environmental impacts.

Bothof Brothers Construction (“Bothof”)- Bothof is a licensed general contractor which provides a wide range of development, construction and design capabilities and expertise throughout the United States. Through Bothof’s extensive experience in construction and contracting, the DES division is able to provide a myriad of additional services to its private and public works customers.

<u>Dalrada Precision Manufacturing</u>

Dalrada Precision Manufacturing creates total manufacturing solutions that start with the design and development of high-quality machine parts and components, and end with an efficient global supply chain. This specialized business division can meet today’s high demands and solves industry challenges. Dalrada Precision Manufacturing is confident that it redefines the critical quality of the world’s top components and responds with in-house research, design, engineering, and distribution through a highly reliable global supply chain and improved time-to-market capabilities.

Dalrada Precision Parts (“Precision”)- Precision extends the client its engineering and operations team by helping devise unique manufacturing solutions tailored to their products. Dalrada Precision can enter at any stage of the product lifecycle from concept and design to mass production and logistics.

Likido Ltd. (“Likido”)- Likido is an international engineering 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 expected enhancement of quality of life through the provision of low-carbon heating and cooling systems.

Ignite I.T. (“Ignite”)- Ignite is a manufacturer and seller of eco-friendly deep cleaners, parts washers and degreasers that are specially formulated to lift hydrocarbon-based dirt and grease from virtually all surfaces with minimal effort. Ignite products are non-flammable, non-corrosive, non-toxic, butyl-free, water-based, and leave a light citrus scent. Ignite is developed for all surfaces suitable for water and meet or exceed the most stringent industry-testing specifications. Ignites products are effective and available solutions to the increased demand for protecting employees from hazardous chemicals currently used and highlighted in recent federal and state regulations.

Deposition Technologies (“DepTec”)- Dalrada Precision Manufacturing acquired DepTec in April 2022. DepTec designs, develops, manufactures, and services chemical vapor and physical vapor deposition systems for the microchip and semiconductor industries.

DepTec has built a multitude of precision OEM parts for PVD (Physical vapor deposition) and refurbished systems which allow clients the option of purchasing the same model of system they've been using for decades – but with upgrades and improved efficiencies. DepTec also has its own PVD and CVD (Chemical Vapor Deposition) systems, EVOS-PVD and EVOS -CVD, which deposits metals and non-metals for microchips used in almost every standard and specialized microdevices made today and in the future. These systems can produce a superior film layer utilized in rugged high-stress environment designs and expect to meet the increased US market demand driven by the CHIPS and Science Act of 2022.

Dalrada Technologies

Dalrada Technologies has worked with some of the world's most recognizable companies, providing digital engineering for cutting-edge software systems and offering a host of robust digital services. This business division connects the world with integrated technology and innovative solutions, delivering advanced capabilities and error-free results. Dalrada Technologies creates digital products with expert computer information technology and software engineering services for a variety of technical industries and clients in both B2B and B2C environments.

Prakat ("Prakat")- Prakat is an ISO 9001-certified company that provides end-to-end technology services across various industries, improving the value chain. The Company specializes in test engineering, accessibility engineering, product engineering, application modernization, billing and revenue management, CRM, and block chain. Prakat provides global customers with software and technology solutions specializing in Test Engineering, Accessibility Engineering, Product Engineering and Application Modernization.

Liquidity and Going Concern

These condensed 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 of December 31, 2022, the Company has an accumulated deficit of $129,467,297. The Company closed a convertible debenture funding on February 4, 2022 for a total principal amount of $3,000,000. The continuation of the Company as a going concern is dependent upon the continued financial support from related parties, 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 condensed 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.

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.

We have prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting, and the instructions to Form 10-Q and Article 10 of Regulation S-X. These condensed consolidated financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for fiscal year 2023. Certain information and footnote disclosures normally included in condensed consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted in accordance with the rules and regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended June 30, 2022, as filed with the United States Securities and Exchange Commission ("SEC").

(b) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Dalrada Precision Corp., a company incorporated in the State of California, since June 25, 2018 (date of incorporation), Dalrada Health Products, a company incorporated in the State of California, since October 2, 2018 (date of incorporation), Dalrada Technologies, LLC, a company incorporated in the State of Wyoming, since January 1, 2020 (date of incorporation), Dalrada Energy Services, Inc., a company incorporated in the State of Wyoming, since March 17, 2022 (date of incorporation), since their respective acquisition dates. All inter-company transactions and balances have been eliminated in consolidation.

The consolidated financial statements include the accounts of Dalrada Financial Corp., Dalrada Health Products Inc., Solas Corp., Empower Genomics, Inc., International Health Group, Inc., Pala Diagnostics, LLC, Pacific Stem Cells, LLC, Watson Rx Solutions, Inc., Dalrada Precision Corp., Dalrada Energy Services, Inc., Likido Corp., Ignite I.T., Bothof Brothers Inc., Prakat Solutions, Inc., Prakat Solutions Private Limited, Likido Ltd., and Deposition Technologies Ltd., controlled by the Company through its direct or indirect ownership of a majority voting interest. Additionally, the consolidated financial statements include the accounts of variable interest entities (“VIEs”) in which the Company has a variable interest and for which the Company is the “primary beneficiary” as it has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb losses of the VIE that potentially could be significant to the VIE or the right to receive benefits from the VIE that potentially could be significant to the VIE. All significant intercompany accounts and transactions are eliminated in consolidation.

Income attributable to the minority interest in the Company's majority owned and controlled consolidated subsidiaries is recorded as net income attributable to noncontrolling interests in the consolidated statements of operations and the noncontrolling interest is reflected as a separate component of the statement of stockholders' equity, consolidated balance sheet, and statement of cash flows.

(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 six months or less at the time of issuance to be cash equivalents. Restricted cash includes the cash restricted to withdrawal or usage.

(e) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. 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.

When estimating its allowance for credit losses related to revenues from Covid Testing, the Company differentiates its receivables based on the following customer types: healthcare insurers, government payers, and cash payers. Additionally, the Company applies assumptions and judgments for assessing collectability and determining net revenues and accounts receivable from its customers. Historical collection factors we considered for assessing collectability and determining net revenues and accounts receivable from our customers include the period of time that the receivables have been outstanding, history of payment amounts, status of collections due, and applicable statutes of limitations.

During the six months ended December 31, 2022, healthcare insurers accounted for over 25% of total revenues. Also, healthcare insurers and government payers amounted to total revenue of $2,372,415 for the six months ended December 31, 2022. The accounts receivable related to both healthcare insurers and government payers is $2,791,579 as of December 31, 2022.

(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 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.

The Company records a contingent consideration liability relating to stock price guarantees included in its acquisition and consulting agreements. The estimated fair value of the contingent consideration is recorded using a significant observable measure and is therefore classified as a Level 2 financial instrument.

The fair value of the contingent consideration liability related to the Company's business combinations is valued based on a forward contract and the guaranteed equity value at settlement as defined in the acquisition agreement. The fair value of the contingent consideration is then calculated based on the guaranteed equity value at settlement as defined in the acquisition agreement. (See "Note 14. Commitments and Contingencies").

(g) Convertible Instruments

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

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

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

(h) Accounts Receivable

Accounts receivables 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 December 31, 2022, and June 30, 2022, the Company had an allowance of doubtful accounts of $210,945 and $119,791, respectively.

Pala and Empower have a standardized approach to estimate the amount of consideration that we expect to be entitled to for its COVID-19 testing revenue, including the impact of contractual allowances (including payer denials), and patient price concessions. The Company principally estimates the allowance for credit losses by pool based on historical collection experience, the current credit worthiness of the customers, current economic conditions, expectations of future economic conditions and the period of time that the receivables have been outstanding. Although we believe that our estimates for contractual allowances and patient price concessions are appropriate, actual results could differ from those estimates.

(i) Inventory

Inventory is recorded at the lower of cost or net realizable value on a first-in first-out basis. As of December 31, 2022 and June 30, 2022, 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 selling price in the ordinary course of business, less estimated costs to sell.

(j) 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.

(k) 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, indefinite life intangible assets, or a gain from a bargain purchase.

(l) 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 tests. 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, 2022, there were quantitative factors that indicated goodwill was impaired in the amount of $218,308. During the second quarter ended December 31, 2022, the Company performed a qualitative assessment of its reporting units to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. As part of that evaluation, the Company considered the relevant events and circumstances including macroeconomic conditions, industry and market consideration, cost factors and relevant entity specific conditions. As a result of the qualitative goodwill impairment assessment performed, the Company did not recognize any goodwill impairment charges.

An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when it is separable, or when it arises from contractual or other legal rights. Separable assets can be sold, transferred, licensed, etc. Examples of intangible assets include computer software, licenses, trademarks, patents, films, and copyrights. The Company's intangible assets are finite lived assets and are amortized on a straight-line basis over the estimated useful lives of the assets.

(m) 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. 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 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 will 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 consolidated balance sheets.

The Company estimates warranty claims reserves based on historical results and research and determined that a warranty reserve was not necessary as of December 31, 2022, or 2021.

Net revenues from COVID-19 testing accounted for over 25% of the Company's total net revenues for the six months ended December 31, 2022, and primarily comprised of a high volume of relatively low-dollar transactions. Pala and Empower, which provides clinical testing services and other services, satisfies its performance obligations and recognizes revenues primarily upon completion of the testing process (when results are reported) or when services have been rendered. Pala and Empower do not invoice the patients themselves for testing but relies on healthcare insurers and government payers for reimbursement for COVID-19 testing. Pala has a standardized approach to estimate the amount of consideration that we expect to be entitled to, including the impact of contractual allowances (including payer denials), and patient price concessions. We regularly assess the state of our billing operations in order to identify issues which may impact the collectability of receivables or revenue estimates. We believe that the collectability of our receivables is directly linked to the quality of our billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services we provide. As such, we strive to implement "best practices" and work with our third-party billing company to reduce the number of requisitions that we receive from healthcare providers with missing or incorrect billing information. We believe that our collection and revenue estimation processes, along with our close monitoring of our billing operations, help to reduce the risk associated with material adjustments to reserve estimates. However, changes to our estimate of the impact of contractual allowances (including payer denials) and patient price concessions could have a material impact on our results of operations and financial condition in the period that the estimates are adjusted. Adjustments to our estimated contractual allowances and implicit patient price concessions are recorded in the current period as changes in estimates. Although we have limited track record, further adjustments to the allowances, based on actual receipts, may be recorded upon settlement.

DES recognizes revenue on energy savings contracts where it provides design, engineering and equipment upgrades to obtain energy savings through Environmental, Social, and Governance ("ESG") targets. Up to and upon completion of an energy savings project, DES calculates the monthly energy savings based on prior and current energy consumption totals. The monthly energy savings total is split between the customer and DES where DES recognizes revenue on a certain negotiated percentage of the total savings. Upon completion of an energy savings contract, the customer will then retain 100% of such energy savings. DES records revenue as it provides additional management, consulting and other services as they are incurred.

DES records a sales-type lease where the Company is the lessor. The Company records its investment in the plant and equipment, used to upgrade a customer's real property, leased to franchisees on a net basis, which is comprised of the present value of fixed lease payments not yet received over the course of the energy savings agreements. The current and long-term portions of our net investment in sales-type leases are included in "Accounts Receivable, net – related parties" and "Long-term receivables – related parties" respectively. Unearned income is recognized as interest income over the lease term. Sales-type leases result in the recognition of gain or loss at the commencement of the lease, which is recorded to "Revenues – related party."

DepTec and Bothof recognize revenues using a cost-based input method, by which we use actual costs incurred relative to the total estimated contract costs to determine, as a percentage, progress toward contract completion. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The Company also earns service revenue from its other subsidiaries, including information technology and consulting services via Prakat, educational programs, and courses via IHG, and management services for Solas. For Prakat and Solas, revenues 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. For IHG, revenues are recognized over the course of a semester while services are performed.

Disaggregation of Revenue

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Product sales - third parties	$ 1,516,285	$ 301,693	$ 2,512,764	$ 343,643
Product sales - related party	9,576	14,575	73,999	29,884
Service revenue - third parties	3,087,593	5,062,756	6,263,363	9,613,850
Service revenue - related party	639,666	62,240	660,761	62,240
Total revenue	$ 5,253,120	$ 5,447,264	$ 9,510,887	$ 10,049,617

Accounts Receivable and Deferred Revenue

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

	December 31, 2022	June 30, 2022
Accounts receivable, net	$ 5,491,884	$ 6,406,555
Accounts receivable, net - related parties	93,516	41,603
Long-term receivables	41,589	42,395
Long-term receivables - related parties	1,191,760	1,209,103
Deferred revenue	1,530,301	720,923

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.

(n) 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:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Product sales	$ 928,237	$ 526,063	$ 1,703,314	$ 590,096
Service revenue	2,026,895	1,530,280	3,608,146	2,670,582
Total cost of revenue	$ 2,955,132	$ 2,056,343	$ 5,311,460	$ 3,260,678

(o) Advertising

Advertising costs are expensed as incurred. During the three months ended December 31, 2022 and 2021, advertising expenses were approximately $92,000 and $135,000, respectively. During the six months ended December 31, 2022 and 2021, advertising expenses were approximately $201,000 and $228,000, respectively.

(p) 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. During the three months ended December 31, 2022 and 2021, stock-based compensation was $901,721 and $1,105,587, respectively. During the six months ended December 31, 2022 and 2021, stock-based compensation expense was $1,369,238 and $1,783,094, respectively.

(q) 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.

(r) 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 three and six months ended December 31, 2022, the Company's only component of comprehensive income was foreign currency translation adjustments.

(s) Non-controlling Interests

Non-controlling interests are classified as a separate component of equity in the Company's consolidated balance sheets and statements of changes in stockholders' equity. Net loss attributable to non-controlling interests are reflected separately from consolidated net loss in the consolidated statements of comprehensive loss and statements of changes in stockholders' equity. Any change in ownership of a subsidiary while the controlling financial interest is retained is accounted for as an equity transaction between the controlling and non-controlling interests. In addition, when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary will be initially measured at fair value and the difference between the carrying value and fair value of the retained interest will be recorded as a gain or loss.

As of December 31, 2022, non-controlling interests pertained to the Company's Prakat and Pala subsidiaries.

(t) 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 790,976 shares and 0 shares, and cashless warrants of 17,225,000 and 1,000,000, was not included in diluted loss per share, because the effects are antidilutive, for the six months ended December 31, 2022 and 2021, respectively.

There were no adjustments to the numerator during the three and six months ended December 31, 2022 and 2021, respectively.

(u) 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.

(v) Recent Accounting Pronouncements

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.

(w) Contingent Consideration

The Company estimates and records the acquisition date fair value of contingent consideration as part of purchase price consideration for acquisitions. Additionally, each reporting period, the Company estimates changes in the fair value of contingent consideration and recognizes any change in fair in the consolidated statement of operations. The estimate of the fair value of contingent consideration requires very subjective assumptions to be made of future operating results, discount rates and probabilities assigned to various potential operating result scenarios. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and therefore, materially affect the Company's future financial results. The contingent consideration liability is to be settled with the issuance of shares of common stock once contingent provisions set forth in respective acquisition agreements have been achieved. Upon achievement of contingent provisions, respective liabilities are relieved and offset by increases to common stock and additional paid in capital in the stockholders' deficit section of the Company's consolidated balance sheets. The contingent consideration decreased by $139,200 to a balance of $4,731,600 during the six months ended December 31, 2022.

3. Investment in Pala Diagnostics

In August 2021, Dalrada, through its subsidiary Dalrada Health, entered into a joint venture ("JV") with Vivera Pharmaceuticals, Inc ("Vivera") for a 51% ownership and controlling interest. The JV, Pala Diagnostics, LLC ("Pala") is a CLIA-certified diagnostics lab focused on SARS-CoV-2 testing for now with additional testing capabilities to be introduced. The JV has been treated as a business combination.

We determined that Pala is a Variable Interest Entity (VIE), We believe that the Company has the power to direct the activities that most significantly impact the economic performance of Pala, and accordingly, Dalrada is considered the primary beneficiary of the VIE. The Company has consolidated the activities of the VIE.

Pursuant to the partnership agreement, Dalrada contributed equity in the amount of $500,000 for operating capital and Vivera contributed property and equipment at a fair value of $111,185. This amount was recorded to non-controlling interest equity balance in the consolidated balance sheets.

Pursuant to the JV agreement, Dalrada issued 250,000 shares of common stock to Vivera in October 2021. The fair value of $58,560 was recorded to goodwill as of December 31, 2022.

In December 2021, Dalrada Health filed suit against Vivera and Paul Edalat, Vivera's Chairman and CEO, for misappropriation of funds on behalf of the joint venture in the amount of $2,104,509, accounted for as an unauthorized distribution. In addition to filing a cross-complaint against Dalrada Health Products, Vivera filed a separate complaint against Dalrada Financial Corporation, Empower Genomics (a subsidiary of Dalrada Financial Corporation), Dalrada Financial Corporation's officers, and other unrelated parties. The proceedings are being held at the Superior Court of the State of California, for the County of Orange – Central Justice Center.

4. Business Combinations and Acquisition

Bothof Brothers Construction Inc. ("Bothof")

On October 17, 2022, the Company acquired 100% of the common stock of Bothof. The Company assumed the net liabilities of the Bothof in exchange for the employment services of the selling shareholder. All consideration in the transaction requires the continued employment of the selling shareholder and thus is not consideration transferred under ASC 805.

The Company entered into a 36-month employment agreement with the selling shareholder for $30,000 monthly and additionally issued 3,000,000 cashless warrants, at a strike price of $0.15 per share, to equal $450,000, which shall vest quarterly over a period of 24 months (the "Warrant Consideration").

If at the end of the 24-month warrant distribution period, beginning on the effective date of October 17, 2022 (the "Distribution Period"), the value of cashless warrants does not equate to $6,000,000 (the "Target Amount") in value, then the Company shall issue additional cashless warrants equal to the shortfall between the value of the Warrants Consideration and the Target Amount (the "Valuation Shortfall").

The following is a summary of the value of the Warrant Consideration to the selling shareholder. The Company records the value on a straight line basis over the vesting period of 24-months:

Warrant Consideration	$	3,482,550

The Warrant Consideration is contingent on the selling shareholder's continued employment with the Company; therefore, it is treated as stock-based compensation expense and recognized ratably over a 24-month period.

The Company acquired Bothof to facilitate the work of and expand the Dalrada Energy Services segment. Bothof's selling shareholder holds certain licenses, construction/engineering design expertise and management skills which will leverage synergies with Dalrada Energy Services.

The Bothof 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 and expect to finalize any changes to the purchase price allocation prior to filing the fiscal year 2023 year ending June 30, 2023.

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

		Preliminary Purchase Price Allocation
Cash and cash equivalents	$	70,979
Other receivables		27,289
Right of use asset, net		18,618
Property and equipment, net		17,179
Trade name		6,776
Accounts payable		(24,165)
Accrued liabilities		(18,807)
Deferred revenue		(60,000)
Right of use liability		(18,618)
Notes payable, current portion		(19,251)
Purchase price consideration	$	–

Trade name is amortized on a straight-line basis over one month. The fair value estimate of the trade name for the purchase price allocation were based on an analysis of the present value of future cash flows and relief from royalty method.

5. Selected Balance Sheet Elements

Inventories

Inventories consisted of the following As of December 31, 2022 and June 30, 2022:

		September 30, 2022		June 30, 2022
Raw materials	$	994,210	$	399,706
Finished goods		1,515,710		1,224,915
	$	2,509,920	$	1,624,621

Property and Equipment, Net

Property and equipment, net consisted of the following As of December 31, 2022 and June 30, 2022:

		December 31, 2022		June 30, 2022
Machinery and equipment	$	1,570,926	$	740,147
Leasehold improvements		296,450		314,642
Computer and office equipment		363,498		518,017
		2,230,874		1,572,806
Less: Accumulated depreciation		(703,187)		(496,394)
	$	1,527,687	$	1,076,412

Depreciation expense of $171,418 and $94,253 for the six months ended, and $127,759 and $70,721 for the three months ended, December 31, 2022, and 2021, respectively, were included in selling, general and administrative expenses in the statements of operations.

Intangible Assets, Net

Intangible assets, net consisted of the following As of December 31, 2022 and June 30, 2022

	Curriculum development	Licenses	Customer relationships	Trademarks	Developed technology, software, and other	Totals
Balance: June 30, 2022	$ 693,385	$ 1,064,000	$ 1,230,159	$ 348,100	$ 335,021	$ 3,670,665
Additions	–	–	–	–	386,999	386,999
Balance: December 31, 2022	693,385	1,064,000	1,230,159	348,100	722,020	4,057,664
Less: Accumulated amortization						
Balance: June 30, 2022	(102,891)	(4,260)	(30,754)	(380)	(7,492)	(145,777)
Additions	(34,669)	(25,560)	(61,508)	(30,250)	(19,537)	(171,524)
Balance: December 31, 2022	(137,560)	(29,820)	(92,262)	(30,630)	(27,029)	(317,301)
Net book value: December 31, 2022	$ 555,825	$ 1,034,180	$ 1,137,897	$ 317,470	$ 694,991	$ 3,740,363

	Curriculum development	Licenses	Customer relationships	Trademarks	Developed technology, software, and other	Totals
Balance: June 30, 2021	$ 693,385	$ –	$ –	$ –	$ –	$ 693,385
Additions	–	1,064,000	1,230,159	348,100	335,021	2,977,280
Balance: June 30, 2022	693,385	1,064,000	1,230,159	348,100	335,021	3,670,665
Less: Accumulated amortization						
Balance: June 30, 2021	(28,891)	–	–	–	–	(28,891)
Additions	(74,000)	(4,260)	(30,754)	(380)	(7,492)	(116,886)
Balance: June 30, 2022	(102,891)	(4,260)	(30,754)	(380)	(7,492)	(145,777)
Net book value: June 30, 2022	$ 590,494	$ 1,059,740	$ 1,199,405	$ 347,720	$ 327,529	$ 3,524,888

Amortization expense of $177,094 and $35,439 for the six months ended, and $133,435 and $11,907 for the three months ended, December 31, 2022, and 2021, respectively, were included in selling, general and administrative expenses in the statements of operations. The Company's intangible assets are subject to amortization and are amortized over the straight-line methods over their estimated period of benefit.

6. Accrued Payroll Taxes

As of December 31, 2022, and June 30, 2022, the Company had $0 and $2,055,736, 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 made up the balance had a calculated expiration date of 10 years according to the Internal Revenue Service statute of limitations. As the tax periods surpassed their estimated expiration date, the Company removed the liability from the condensed consolidated balance sheets, and an equivalent amount is recognized as "Gain on expiration of accrued payroll taxes" within other income on the condensed consolidated statements of operations.

7. Debt

Notes Payable - Related Parties

The following is a summary of notes payable – related parties on December 31, 2022 and June 30, 2022:

	December 31, 2022	
	Outstanding Principal	Accrued Interest
Related entity 1	$ 12,123,139	$ 292,292
Related entity 2	9,560,209	273,020
Related entity 3	547,387	20,141
Related entity 4	2,481,389	174,402
Related entity 5	664,006	8,554
	$ 25,376,130	$ 768,409

	June 30, 2022	
	Outstanding Principal	Accrued Interest
Related entity 1	$ 8,261,310	$ 120,050
Related entity 2	8,213,976	106,951
Related entity 3	453,052	11,072
Related entity 4	1,512,924	123,996
Related entity 5	366,800	786
	$ 18,808,062	$ 362,855

The following is a summary of current and long-term notes payable – related parties as of December 31, 2022 and June 30, 2022:

	December 31, 2022		
	Current Portion	Long-Term Portion	Total
Related entity 1	$ 7,599,025	$ 4,524,114	$ 12,123,139
Related entity 2	5,208,540	4,351,669	9,560,209
Related entity 3	547,387	–	547,387
Related entity 4	2,481,389	–	2,481,389
Related entity 5	664,006	–	664,006
	$ 16,500,347	$ 8,875,783	$ 25,376,130
	June 30, 2022		
	Current Portion	Long-Term Portion	Total
Related entity 1	$ 3,737,197	$ 4,524,113	$ 8,261,310
Related entity 2	3,206,154	5,007,822	8,213,976
Related entity 3	446,302	6,750	453,052
Related entity 4	1,512,924	–	1,512,924
Related entity 5	366,800	–	366,800
	$ 9,269,377	$ 9,538,685	$ 18,808,062

All notes are unsecured, bear interest at 3% per annum, and are due 360 days from the date of issuance, ranging from June 25, 2020, to June 25, 2022. Each entity has significant influence or common ownership with the Company's Chief Executive Officer. Several of these notes are in default. The Company has not received any notices of default or demands for payment. All notes are unsecured and those which are past-due are due on demand. As of December 31, 2022, and June 30, 2022, total accrued interest for Notes Payable-Related Parties was $768,409 and $362,855, respectively. The Company recorded interest expense from Notes Payable-Related Party for fiscal quarters ending December 31, 2022, and 2021, of $243,503 and $173,007, respectively.

In September 2021, the Company converted $4,428,589 in principal and $102,054 in accrued interest into 6,937 shares of Series G convertible preferred stock. As of December 31, 2022, the remaining outstanding amounts of the related party notes payable were extended through September 30, 2026.

Notes Payable

Pacific Stem and IHG's EIDL loans, dated June 7, 2020 and May 10, 2020, respectively, include a 3.75% interest rate for up to 30 years; the payments are deferred for the first two years (during which interest will accrue), and payments of principal and interest are made over the remaining 28 years. The EIDL loan has no penalty for prepayment. The EIDL loans attach collateral which includes the following property that EIDL borrower owns or shall acquire or create immediately upon the acquisition or creation thereof: all tangible and intangible personal property, including, but not limited to: (a) inventory, (b) equipment, (c) instruments, including promissory notes (d) chattel paper, including tangible chattel paper and electronic chattel paper, (e) documents, (f) letter of credit rights, (g) accounts, including health-care insurance receivables and credit card receivables, (h) deposit accounts, (i) commercial tort claims, (j) general intangibles, including payment intangibles and software and (k) as-extracted collateral as such terms may from time to time be defined in the Uniform Commercial Code. The security interest the EIDL borrower grants includes all accessions, attachments, accessories, parts, supplies and replacements for the collateral, all products, proceeds and collections thereof and all records and data relating thereto. The EIDL loans are technically in default as a result of a change in ownership without SBA's prior written consent. The Company has contacted the Small Business Administration regarding the transfer of ownership and has not yet finalized the transfer of ownership.

Likido's COVID-19 Government Loan includes a 2.5% interest rate for up to six years; the payments are deferred for the first year (during which interest will accrue).

Watson's outstanding loans includes an interest rate of 5% with a maturity date of April 29, 2025. The outstanding loans are collateralized by personal property and include monthly payments in the amount of $3,320 with a balloon payment at the maturity date in the amount of $466,460. Watson's Letter of Credit includes an interest rate of Prime + 1% and a maturity date of May 5, 2021.

Convertible Notes

On February 4, 2022, the Company" entered into a securities purchase agreement ("SPA") with YA II PN, Ltd. (the "Buyer") for issuance and sale of convertible debentures (the "Debentures") in the aggregate principal amount of $3,000,000, including net proceeds received of $2,880,000 from February to March 2022.

The Debentures have a fixed conversion price of $0.9151 per share (the "Fixed Conversion Price"). The principal and interest, which will accrue at a rate of 5% per annum, payable under the Debentures will mature 15 months from the issuance date (the "Maturity Date"), unless earlier converted or redeemed by the Company. At any time before the Maturity Date, the Buyer may convert the Debentures into the Company's common stock at the Fixed Conversion Price. Beginning on May 1, 2022, and continuing on the first day of each calendar month thereafter through February 1, 2023, the Principal amount plus a 20% redemption premium and plus accrued and unpaid interest will be subject to monthly redemption ("Monthly Redemption"). Under Monthly Redemption, the Company shall redeem an applicable redemption amount in accordance with the redemption schedule provided in the Debenture, which is subject to pro rata adjustment to reflect the conversion or redemption otherwise effected pursuant to the Debenture contemporaneous with or prior to the scheduled redemption date, in cash, in common stock through the Buyer's conversion of the Debenture (at any time after the applicable redemption date), or a combination of both at the Company's option. With respect to each Monthly Redemption all or partially in common stock, the conversion price shall be the lower of (1) the Fixed Conversion Price, or (2) 100% of the lowest daily VWAP during the ten consecutive trading days immediately preceding the date of conversion (the "Variable Conversion Price"). The conversion price shall be adjusted from time to time pursuant to the other terms and conditions of the Debenture. At no point will the conversion price be less than $0.01.

The Company, in its sole discretion, may redeem in cash amounts owed under the Debentures prior to the Maturity Date by providing the Buyer with advance written notice at least 10 trading days prior to such redemption, provided that the Shares are trading below the Fixed Conversion Price at the time of the redemption notice. The Company shall pay a redemption premium equal to 20% (the "Redemption Premium") of the principal amount being redeemed.

In connection with the Debenture, the Company issued to the Buyer warrants equal to 30% coverage exercisable at a strike price equal to the Fixed Conversion Price determined at the date of the initial closing, or a total of 983,499 warrants to purchase common stock. The Warrants shall be exercisable for four years and shall be exercised on a cash basis provided the Company is not in default and the shares underlying the Warrant are subject to an effective registration statement at the time of the Investor's exercise. There is a cashless provision.

The Company analyzed the conversion feature of the warrants and determined they did not need to be bifurcated under ASC 815. Based on adoption of ASU-2020-06, the debt will be accounted for as traditional convertible debt with no portion of the proceeds attributed to the conversion feature. The warrants issued with the debt will be accounted for as a debt discount and will be amortized as interest expense over the life of the note. The warrants were valued using the Monte Carlo model and the Company recognized $1,427,495 as a debt discount. Key variables used in the valuation are as follows:

Volatility	Risk Free Rate	Stock Price	Term Remaining (Yrs)
225.50%	1.16%	$0.59	3.50

In connection with the Debenture, the Company incurred $120,000 in issuance costs. Furthermore, the Company issued 192,000 shares of common stock to the Buyer and broker at a fair value of $115,200. Both the issuance costs and fair value of common stock were recorded as a debt discount.

The total debt discounts related to the convertible notes were $1,659,442 and amortized using a straight-line method over a fifteen-month period. During the quarter year ended December 31, 2022, the Company amortized $406,932 of debt discount, incurred interest expense of $13,226, and accrued interest of $4,965.

The total redemption premiums related to the convertible notes were $600,000 and amortized using a straight-line method over a 10-month period, starting in May 2022. During the quarter ended December 31, 2022, the Company paid redemption premiums related of $120,000 and $60,000 in cash and stock, respectively. In addition, the Company recorded accretion of $180,000 related to interest expense.

During the quarter ended December 31, 2022, the Company redeemed $600,000 and $300,000 of the Debentures in cash and stock, respectively. 4,161,500 shares of the Company's common stock were issued through the stock redemption.

The net balance of the convertible note was $666,577 and $1,495,528 as of December 31 and June 30, 2022, respectively.

8. Convertible Note Payable – Related Parties

On 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 December 31, 2021, the principal balance was $1,875,000 and the accrued interest was $112,500.

In September 2021, the Company converted, along with the related party notes above, principal of $1,875,000 and accrued $126,563 in interest into 3,065 shares of Series G convertible preferred stock.

9. Related Party Transactions

During the three and six months ended December 31, 2022, the Company received cash funding or expenses paid on behalf of the Company from related parties totaling $1,330,985 and $4,259,008, respectively. The expenses paid on behalf primarily relate to operation expenditures and payroll. In most cases, promissory notes were created on a quarterly basis totaling the amounts referenced above. The remaining amounts are included within accounts payable – related parties for which the related parties expect repayment. As of December 31, 2022, amounts included within accounts payable and accrued liabilities – related parties for expense and payroll advances were $913,453. The above referenced expenses and payables relate to three corporations that the Company has classified as related parties. These corporations are all owned and/or operated by an individual who has a familial relationship with the Company's CEO.

During the three and six months ended December 31, 2022, the Company incurred expenses from services provided by related parties totaling $699,419 and $1,104,956, respectively. Services provided to the Company include management services, payroll processing services, rent and chartered flight services. As of December 31, 2022, amounts included within accounts payable and accrued liabilities – related parties for expense and payroll related advances were $85,475. The corporations are either owned and/or operated by a relative of the Company's CEO, is a corporation in which the Company's CEO can exercise control, or is an individual who has a familial relationship with the Company's CEO.

During the three and six months ended December 31, 2022, the Company incurred $93,155 and $491,373, respectively in services performed by non-employee board members. As of December 31, 2022, amounts included within accounts payable and accrued liabilities for services performed by non-employee board members was $17,496.

The following is a summary of revenues recorded by the Companies from related parties with common ownership:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Dalrada Health	$ 9,576	$ 14,575	$ 73,999	$ 29,884
Solas	–	56,240	–	56,240
Dalrada Energy Services	8,397	–	29,492	–
Prakat	5,000	6,000	5,000	6,000
Bothof Brothers	626,269	–	626,269	–
	$ 649,242	$ 76,815	$ 734,760	$ 92,124

See Notes 6, 7, 8, 9, 10, and 11 for additional related party transactions.

10. Preferred Stock

The Company has 100,000 shares authorized of Series Preferred Stock, par value, $0.01, of which 5,000 shares of Series F Preferred Stock (at a fair value of $170) were issued to the CEO in December 2019 and 10,002 shares of Series G Preferred Stock were issued pursuant to the conversion of $6,532,206 in outstanding related party notes and accrued interest into preferred shares in February 2022.

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 most 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.

Each share of Series G Convertible Preferred share converts into 2,177 shares of common stock (equivalent to converting the related equity dollars into common shares at $0.30 per share). Series G Convertible Preferred shares do not have voting rights.

11. Stockholders' Equity

Common Stock Transactions - Fiscal 2022

In August 2021, December 2021, March 2022, and May 2022, the Company issued 87,500 shares of common stock related to the acquisition of Pacific Stem Business.

In October 2021, December 2021, March 2022, and May 2022, the Company issued 125,000 shares of common stock related to the acquisition International Health Group.

In September 2021, the Company repurchased 329,478 shares of common stock from a Company employee for a total fair value of $14,827, or $0.045 per share.

In September 2021, the Company issued 2,000,000 shares to the board of directors pursuant to the 2020 stock compensation plan. The 2,000,000 shares of common stock were granted on July 19, 2021, at $0.28 per share for a total fair value of $560,000.

In October 2021, the Company issued 250,000 shares to Vivera pursuant to the Pala agreement. See “Note 3. Investment in Pala Diagnostics” for additional information related to the issuance of stock related to the Pala Diagnostics joint venture.

In December 2021, the Company issued 500,000 shares of common stock pursuant to a consulting agreement for health care management services. The 500,000 shares of common stock were granted on December 20, 2021, at $0.76 per share for a total fair value of $380,000.

In December 2021, the Company cancelled 6,500,000 common shares issues to its Directors and an advisor and returned them to treasury. 6,500,000 cashless warrants were issued to the Directors and the advisor in place of the common shares that were cancelled. See “Note 12. Stock-Based Compensation” for additional information related to the issuance of the warrants.

In March 2022, the Company issued 192,000 shares of common stock pursuant to a consulting agreement for a total fair value of $115,200.

In June 2022, the Company issued 164,659 shares of common stock pursuant to the conversion of $68,630 of convertible debt and its related premium and interest expense.

In June 2022, the Company issued 208,777 shares of common stock pursuant to the conversion of $65,034 of convertible debt and its related premium and interest expense.

In June 2022, the Company issued 500,000 shares of common stock related to the acquisition of Watson.

Common Stock Transactions - Fiscal 2023

In July, November and December, the Company issued a total of 1,333,332 shares of common stock related to the acquisition of DepTec (SSCa).

In July 2022, the Company issued 500,000 common stock shares pursuant to a consulting agreement for management services.

In September and December, the Company issued a total of 250,000 shares of common stock related to the acquisition of Watson.

In September and December, the Company issued a total of 250,000 shares of common stock related to the acquisition of International Health Group.

In September and December, the Company issued a total of 175,000 shares of common stock related to the acquisition of Pacific Stem Business.

During the six months ended December 31, 2022, the Company issued 4,161,500 shares of common stock pursuant to the conversion of $369,479 of convertible debt and its related premium and interest expense.

12. Stock-Based Compensation

Dalrada Financial Corp 2020 Stock Compensation Plan

On July 9, 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 February 25, 2021, the Company amended the plan to issue up to 4,500,000 shares and issued an aggregate of 4,500,000 common shares, or 500,000 shares to each board member (9). 3,500,000 shares of common stock were granted on July 9, 2020, at $0.08 per share and 1,000,000 shares of common stock were granted on February 25, 2021, at $0.45 per share, for a total fair value of $730,000, which is included in the consolidated statements of operations.

On May 10, 2021, the Company granted 1,000,000 options to purchase common stock to its Chief Financial Officer with an exercise price of $0.47 per share. The options expire in ten years after issuance. The fair value of the options granted was $0.43 per share, or $430,027 which was calculated using the Black-Scholes model.

On November 10, 2021, the Company cancelled 6,500,000 shares issued to the Board of Directors and issued 6,500,000 cashless warrants. 4,500,000 cashless warrants were to vest immediately, and 2,000,000 cashless warrants were to vest over a 12-month period. All cashless warrants carry a $0.45 exercise price and a ten-year term. The Company recorded stock-based compensation related to the 6,500,000 shares in prior periods. The issuance of the warrants was treated as a modification and, as a result of the value of the stock-based compensation of the shares cancelled being greater than the stock-based compensation related to the cashless warrants issued, no additional stock-based compensation expense was recorded for the year ended June 30, 2022.

On November 30, 2021, the Company issued 2,275,000 cashless warrants to employees and consultants for services performed. 825,000 cashless warrants vested immediately and 1,450,000 cashless warrants vests over a 36-month period. The cashless warrants include an exercise price of $0.45 per share. The cashless warrants expire in ten years after issuance. The fair value of the cashless warrants granted was $0.73 per share, or $1,651,093 which was calculated using the Black-Scholes model.

On February 16, 2022, the Company issued 2,250,000 cashless warrants to new members of the Board of Directors. The cashless warrants vest over a 12-month period and hold an exercise price of $0.45 per share. The cashless warrants expire in ten years after issuance. The fair value of the cashless warrants granted was $0.59 per share, or $1,338,644 which was calculated using the Black-Scholes model.

On August 11, 2022, the Company issued 2,200,000 cashless warrants to new members of the Board of Directors and Advisors. 1,500,000 cashless warrants vest over a 12-month period and hold an exercise price of $0.45 per share. 450,000 cashless warrants vest over a 12-month period and hold an exercise price of $0.41 per share. 250,000 cashless warrants vest over a 12-month period beginning April 8, 2023 and hold an exercise price of $0.45 per share. The cashless warrants expire in ten years after issuance. The fair value of the cashless warrants granted was $0.18 per share, or $397,890 which was calculated using the Black-Scholes model.

On October 7, 2022, the Company issued 3,000,000 cashless warrants to the selling shareholder of Bothof in connection with acquisition of Bothof. The warrants vest over a 24-month period and hold an exercise price of $0.15 per share. The cashless warrants expire in ten years after issuance. The fair value of the cashless warrants granted was $1.26 per share, or $3,482,550 which was calculated using the Fair Value method. The cashless warrants are contingent on the selling shareholder's continued employment with the Company; therefore, it is treated as stock-based compensation expense and recognized ratably over a 24-month period.

	Common Stock Warrants		**Weighted Average Exercise Price**
Outstanding - June 30, 2021	1,000,000	$	–
Granted	11,025,004		0.45
Exercised	–		–
Forfeited	–		–
Outstanding - June 30, 2022	12,025,004	$	–
Granted	5,200,000		0.27
Exercised	–		–
Forfeited	–		–
Outstanding - December 31, 2022	17,225,004	$	0.40
Exercisable - December 31, 2022	11,517,877	$	0.44

During the six months ended December 31, 2022 and 2021, stock-based compensation was $1,369,238 and $1,783,094, respectively. Total unrecognized compensation cost of non-vested options was $4,020,187 on December 31, 2022, which will be recognized through fiscal year ended 2025.

13. Segment Reporting

Segment information for the six months ended December 31, 2022, and 2021 is as follows:

	Six Months Ended December 31, 2022					
	Dalrada Health	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Techhnologies	Corporate	Consolidated
Revenues	$ 4,427,618	$ 1,752,258	$ 2,174,712	$ 1,156,299	$ –	$ 9,510,887
Income (Loss) from Operations	(961,131)	427,175	(1,623,362)	(64,362)	(5,516,587)	(7,738,267)

	Six Months Ended December 31, 2021					
	Dalrada Health	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Techhnologies	Corporate	Consolidated
Revenues	$ 8,702,300	$ –	$ 257,299	$ 1,090,018	$ –	$ 10,049,617
Income (Loss) from Operations	4,218,191	–	(1,344,454)	(103,357)	(5,525,776)	(2,755,396)

Geographic Information

The following table presents revenue by country:

	Six Months Ended December 31,	
	2022	2021
United States	$ 8,378,944	$ 8,808,629
Scotland	231,369	150,970
India	900,574	1,090,018
	$ 9,510,887	$ 10,049,617

The following table presents inventories by country:

	December 31, 2022	June 30, 2022
United States	$ 1,258,000	$ 999,302
Scotland	1,251,920	625,319
	$ 2,509,920	$ 1,624,621

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

	December 31, 2022	June 30, 2022
United States	$ 1,257,913	$ 815,556
Scotland	259,658	247,283
India	10,116	13,573
	$ 1,527,687	$ 1,076,412

14. 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 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 is 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 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 six months ended December 31, 2022, 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 $1,694,843 and used an effective borrowing rate of 3.0% within the calculation. Imputed interest is $116,482. The lease agreements mature in April 2025. In July 2022, the Company modified its current lease by entering into a new five-year lease agreement to lease a commercial building in Escondido, California beginning July 1, 2022. The Company recognized a right of use asset and liability of $2,405,540, an increase of $710,697, and used an effective borrowing rate of 3.0% within the calculation. Imputed interest is $192,521, an increase of $76,039. The lease agreement matures in June 2027.

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.

In August 2020, the Company's Likido subsidiary entered in a new operating agreement for warehouse space. The lease matured in July 2021. Upon maturity, rent payments are made on a month-to-month basis.

In June 2017, the Company's IHG subsidiary entered a lease for 3 separate office suites in San Diego, California. The lease expired in January 2022.

In May 2021, the Company's PSC subsidiary entered into a three-year and 6-month lease agreement to lease a medical office space in Poway, California. The Company recognized a right of use asset and liability of $277,856 and used an effective borrowing rate of 3.0% within the calculation.

In January 2022, the Company's IHG subsidiary entered into a five-year and 5-month lease agreement to lease a medical office space in Chula Vista, California. The Company recognized a right of use asset and liability of $287,345 and used an effective borrowing rate of 3.0% within the calculation.

In May 2022, the Company's IHG subsidiary entered into a six-year and 3-month lease agreement to lease an office space in San Diego, California. The Company recognized a right of use asset and liability of $916,666 and used an effective borrowing rate of 4.0% within the calculation.

In August 2020, the Company's DepTec subsidiary entered into a five-year lease agreement to lease office space. The Company recognized a right of use asset and liability of $140,569 and used an effective borrowing rate of 3.0%

In May 2021, the Company's Watson subsidiary entered into a three-year lease agreement to lease a building in Florence, Alabama. The Company recognized a right of use asset and liability of $90,827 and used an effective borrowing rate of 3.0%

In July 2022, the Company's Empower subsidiary 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 $322,756 and used an effective borrowing rate of 3.0% within the calculation. Imputed interest is $25,838. The lease agreement matures in June 2027.

In October 2022, the Company acquired Bothof Brothers which had an existing lease to a commercial building in Escondido, California. The building is owned by a related party. Upon acquisition, the company recognized a right of use asset and liability of $33,454 and used an effective borrowing rate of 3.0% within the calculation. Imputed interest is $2,174. The lease agreement matures in December 2024.

Legal Proceedings

Dalrada Health Products ("Dalarada Health"), formed a joint venture with Vivera Pharmaceuticals, Inc. ("Vivera"), whereby Vivera is the minority member. As the managing member of the joint venture, Dalrada Health Products, in December 2021, filed suit against Vivera and Paul Edalat, Vivera's Chairman and CEO, for misappropriation of funds on behalf of the joint venture in the amount of $2,104,509. In addition to filing a cross-complaint against Dalrada Health Products, Vivera filed a separate complaint against Dalrada Financial Corporation, Empower Genomics (a subsidiary of Dalrada Financial Corporation), Dalrada Financial Corporation's officers, and other unrelated parties. The proceedings are being held at the Superior Court of the State of California, for the County of Orange – Central Justice Center.

See Note 15. Subsequent Events regarding the Likido arbitration resolution.

15. Subsequent Events

On January 10, 2023, a resolution was concluded in the dispute between Likido Ltd. and MAPtech PACKAGING LIMITED ("MAPtech") whereby Likido shall pay sum of $429,987 in damages, $42,374 in legal costs, and £19,754 as reimbursement for arbitration fees and expenses paid on account by MAPtech. Likido Ltd. shall pay interest at a rate of 8% per annum simple on all sums due pursuant to award, beginning 30 days from the date of the award. The Company has accrued a total of $496,224 related to the dispute as of December 31, 2022.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of Dalrada Financial Corporation for the Three and Six Months Ended December 31, 2022 and 2021.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and related notes to the Consolidated Financial Statements of this Quarterly Report on Form 10-Q (this "Quarterly Report") and our Annual Report on Form 10-K for the year ended June 30 2022. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in Item 1A "Risk Factors" of our Quarterly Report.

You should read the following discussion and analysis in conjunction with our financial statements, including the notes thereto, included in this Report. Some of the information contained in this Report may contain forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended (the "Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance, or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by the use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that the projections included in these forward-looking statements will come to pass. Our actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

Moving the world forward takes bold resolve that turns ideas into actions and builds real-time solutions that positively impact people and the planet. Dalrada accelerates positive change for current and future generations by harnessing true potential and developing products and services that become transformative innovations.

Dalrada Financial Corporation, ("Dalrada"), was incorporated in September 1982 under the laws of the State of California. It was reincorporated in May 1983 under the laws of the State of Delaware and reincorporated again on May 5, 2020, under the laws of the state of Wyoming. Dalrada Financial Corporation trades under the symbol, OTCQB: DFCO.

Since Dalrada's inception, the Company has grown its footprint to include the unique business divisions: Dalrada Health, Dalrada Energy Services, Dalrada Precision Manufacturing, and Dalrada Technologies. Within each of these divisions, the Company drives transformative innovation while creating solutions that are sustainable, accessible, and affordable. Dalrada's global solutions directly address climate change, gaps in the health care industry, and technology needs that facilitate a new era of human behavior and interaction and ensure a bright future for the world around us.

Our net loss and limited working capital raise substantial doubt about our ability to continue as a going concern. We incurred a net loss of $4,482,165 and $7,652,341 during the three and six months ended December 31, 2022, respectively. We will be required to raise substantial capital to fund our capital expenditures, working capital, and other cash requirements. We will continue to rely on related parties and seek other financing to complete our business plans. The successful outcome of future financing activities cannot be determined at this time and there are no assurances that, if achieved, we will have sufficient funds to execute our intended business plan or generate positive operational results.

In addition to our current deficit, we may incur additional losses during the foreseeable future, until we are able to successfully execute our business plan. There is no assurance that we will be able to obtain additional financing through private placements and/or public offerings necessary to support our working capital requirements. To the extent that funds generated from any private placements and/or public offerings are insufficient, we will have to raise additional working capital through other sources, such as bank loans and/or financings. No assurance can be given that additional financing will be available, or if available, will be on acceptable terms.

Macroeconomic conditions, including inflation, rising interest rates and currency fluctuations, have direct and indirect impacts on the Company's business. The Company believes these factors have impacted, and could in the future materially impact, the Company's results of operations and financial condition.

We are incurring increased costs as a result of being a publicly traded company. As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission, have required changes in corporate governance practices of public companies. These new rules and regulations have increased our legal and financial compliance costs and have made some activities more time-consuming and costly. For example, as a result of becoming a public company, we have created additional board committees and have adopted policies regarding internal controls and disclosure controls and procedures. In addition, we have incurred additional costs associated with our public company reporting requirements. As a result of the new rules, it may become more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers. We cannot predict or estimate the amount of additional costs we may incur as a result of being a public company or the timing of such costs.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2022 and 2021

The following table sets forth the results of our operations for the three months ended December 31, 2022 and 2021:

	Three Months Ended December 31, 2022					
	Dalrada Health	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Techhnologies	Corporate	Consolidated
Revenues	$ 2,006,894	$ 1,731,163	$ 1,034,478	$ 480,585	$ –	$ 5,253,120
Income (Loss) from Operations	(905,079)	626,737	(973,598)	(94,466)	(3,435,683)	(4,782,089)

	Three Months Ended December 31, 2021					
	Dalrada Health	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Techhnologies	Corporate	Consolidated
Revenues	$ 4,570,080	$ –	$ 241,758	$ 635,426	$ –	$ 5,447,264
Income (Loss) from Operations	2,005,014	–	(796,240)	(5,562)	(3,105,331)	(1,902,119)

	Increase (Decrease) for the Three Months Ended December 31, 2022					
	Dalrada Health	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Techhnologies	Corporate	Consolidated
Revenues	$ (2,563,186)	$ 1,731,163	$ 792,720	$ (154,841)	$ –	$ (194,144)
Income (Loss) from Operations	(2,910,093)	626,737	(177,358)	(88,904)	(330,352)	(2,879,970)

Revenues and Cost of Revenues

Revenues

Dalrada Health:

Revenues for the three months ended December 31, 2022, was $2,006,894 compared with revenue of $4,570,080 during the three months ended December 31, 2021, a decrease of $2,563,186, or 56%. The decrease in revenues was primarily attributable to the decrease in demand for Covid diagnostic testing.

Dalrada Energy:

Revenues for the three months ended December 31, 2022, was $1,731,163 which includes revenues related to Bothof Brothers in the amount of $722,766.

Dalrada Precision Manufacturing:

Revenues for the three months ended December 31, 2022, was $1,034,478 compared with revenue of $241,758 during the three months ended December 31, 2021, an increase of $792,720, or 328%. The increase in revenues was primarily attributable to the increased sales of the Dalrada Precision Parts sector.

Dalrada Technologies:

Revenues for the three months ended December 31, 2022, was $480,585 compared with revenue of $635,426 during the three months ended December 31, 2021, a decrease of $154,841, or 24%. The decrease in revenue was a result of completing customer contracts while not entering into larger, new contracts.

Costs and Expenses

Cost of Revenues

Dalrada Health:

Cost of Revenues for the three months ended December 31, 2022 was $1,232,690 compared to cost of revenues of $1,080,093 during the three months ended December 31, 2021, an increase of $152,597, or 14%. The increase in cost of revenues was primarily a result of rising labor costs and a decrease in demand.

Dalrada Energy:

Cost of Revenues for the three months ended December 31, 2022 was $715,180 and consisted primarily of Bothof Brothers construction costs, a newly combined subsidiary, for the three months ended December 31, 2022.

Dalrada Precision Manufacturing:

Cost of Revenues for the three months ended December 31, 2022 was $624,203 compared to cost of revenues of $438,624 during the three months ended December 31, 2021, an increase of $185,579, or 42%. The increase in cost of revenues was primarily a result of sales growth in the Precision Parts sector.

Dalrada Technologies:

Cost of Revenues for the three months ended December 31, 2022 was $383,059 compared to cost of revenues of $537,624 during the three months ended December 31, 2021, a decrease of $154,565, or 29%. The decrease in cost of revenues was primarily a result of the decrease in sales volume for the period.

Operating Expenses

Dalrada Health:

Operating expenses for the three months ended December 31, 2022 was $1,679,283 compared to operating expenses of $1,484,973 during the three months ended December 31, 2021, an increase of $194,310, or 13%. The increase in operating expenses was a result Dalrada Health’s acquisition of Watson in June 2022.

Dalrada Energy:
Operating expenses for the three months ended December 31, 2022 was $389,246 and consists of $136,495 of legal and professional fees for ongoing projects.

Dalrada Precision Manufacturing:
Operating expenses for the three months ended December 31, 2022 was $1,383,873 compared to operating expenses of $599,374 during the three months ended December 31, 2021, an increase of $784,499, or 131%. The increase in operating expenses was a result of segment expansion of Precision Parts and acquisition of DepTec.

Dalrada Technologies:
Operating expenses for the three months ended December 31, 2022 was $191,992 compared to operating expenses of $103,364 during the three months ended December 31, 2021, an increase of $88,628, or 86%. The increase in operating expenses was a result of rising labor costs.

Corporate:
Operating expenses for the three months ended December 31, 2022 was $3,435,684 compared to operating expenses of $3,046,753 during the three months ended December 31, 2021, an increase of $388,931, or 13%. During the three months ended December 31, 2022, the Company recorded stock compensation expense of $901,721 to consultants, employees, executives, and the Board of Directors, which is included in operating expenses.

Other Income (Expense)

Other income (expense) consists of penalties and interest within interest expense on the consolidated statements of operations. A gain on the expiration of accrued tax liabilities in the amount of $2,037,712 was recorded for the three months ended December 31, 2022.

Net Income (Loss)

Net loss for the three months ended December 31, 2022 was $4,482,165 compared to net loss of $2,126,216 for the three months ended December 31, 2021.

Six Months Ended December 31, 2022 and 2021

The following table sets forth the results of our operations for the six months ended December 31, 2022 and 2021:

	Six Months Ended December 31, 2022					
	Dalrada Health	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Techhnologies	Corporate	Consolidated
Revenues	$ 4,427,618	$ 1,752,258	$ 2,174,712	$ 1,156,299	$ –	$ 9,510,887
Income (Loss) from Operations	(961,131)	427,175	(1,623,362)	(64,362)	(5,516,587)	(7,738,267)

	Six Months Ended December 31, 2021					
	Dalrada Health	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Techhnologies	Corporate	Consolidated
Revenues	$ 8,702,300	$ –	$ 257,299	$ 1,090,018	$ –	$ 10,049,617
Income (Loss) from Operations	4,218,191	–	(1,344,454)	(103,357)	(5,525,776)	(2,755,396)

	Increase (Decrease) for the Six Months Ended December 31, 2022					
	Dalrada Health	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Techhnologies	Corporate	Consolidated
Revenues	$ (4,274,682)	$ 1,752,258	$ 1,917,413	$ 66,281	$ –	$ (538,730)
Income (Loss) from Operations	(5,179,322)	427,175	(278,908)	38,995	9,189	(4,982,871)

Revenues and Cost of Revenues

Revenues
Dalrada Health:
Revenues for the six months ended December 31, 2022, was $4,427,618 compared with revenue of $8,702,300 during the six months ended December 31, 2021, a decrease of $4,274,682, or 49%. The decrease in revenues was primarily attributable to the decrease in demand for Covid diagnostic testing.

Dalrada Energy:
Revenues for the six months ended December 31, 2022, was $1,752,258 consisting of $1,029,492 of Dalrada Energy Service revenue generated and $722,766 of Bothof Brothers revenue generated.

Dalrada Precision Manufacturing:
Revenues for the six months ended December 31, 2022, was $2,174,712 compared with revenue of $257,299 during the six months ended December 31, 2021, an increase of $1,917,413, or 745%. The increase in revenues was primarily attributable to the expansion of the Precision Parts and DepTec segment expansions.

Dalrada Technologies:
Revenues for the six months ended December 31, 2022, was $1,156,299 compared with revenue of $1,090,018 during the six months ended December 31, 2021, an increase of $66,281, or 6%. The increase in revenue was a result of timing differences in project completion between 2022 and 2021.

Backlog

Backlog represents revenue we expect to realize for work completed by our consolidated subsidiaries. Backlog is expressed in terms of gross revenue and, therefore, may include significant estimated amounts of third party or pass-through costs to subcontractors and other parties. We record revenue as goods are delivered, services are performed or when energy savings are obtained on certain DES contracts, as described in Note 2. (m), Revenue Recognition, in the notes to our consolidated financial statements. We calculate backlog without regard to possible project reductions or expansions or potential cancellations until such changes or cancellations occur. No assurance can be given that we will ultimately realize our full backlog. Backlog fluctuates due to the timing of when contracts are awarded and contracted and when contract revenue is recognized. Our backlog by division is presented in the following table:

	As of December 31,			
	2022		2021	
Backlog by division:				
Dalrada Energy Services	27,164,000	52%	–	0%
Dalrada Precision Manufacturing	22,500,000	43%	–	0%
Dalrada Health Products	2,400,000	5%	–	0%
Total backlog	52,064,000	100%	–	0%

Dalrada Energy Services contracts' backlog is comprised of management and construction services revenue which occur over a one-year period as well as energy savings revenue which occurs over a 20-year period. Dalrada Precision Manufacturing and Dalrada Health Products backlog occur over a one-year period.

Costs and Expenses

Cost of Revenues.
Dalrada Health:
Cost of Revenues for the six months ended December 31, 2022 was $2,263,109 compared to cost of revenues of $2,014,034 during the six months ended December 31, 2021, an increase of $249,075, or 12%. The increase in cost of revenues was primarily a result of a growth in business of Watson, which incurs a higher cost of revenue than the Covid diagnostic testing that was primarily prevalent for the six months ended December 31, 2021.

Dalrada Energy:
Cost of Revenues for the six months ended December 31, 2022 was $715,180 and consisted primarily of Bothof Brothers construction costs, a newly acquired subsidiary.

Dalrada Precision Manufacturing:
Cost of Revenues for the six months ended December 31, 2022 was $1,505,467 compared to cost of revenues of $478,732 during the six months ended December 31, 2021, an increase of $1,026,735, or 214%. The increase in cost of revenues was primarily a result of sales growth in the Precision Parts sector.

Dalrada Technologies:
Cost of Revenues for the six months ended December 31, 2022 was $827,704 compared to cost of revenues of $767,910 during the six months ended December 31, 2021, an increase of $59,794, or 8%. The increase is a result of wage and salary inflation.

Operating Expenses.
Dalrada Health:
Operating expenses for the six months ended December 31, 2022 was $3,125,640 compared to operating expenses of $2,470,075 during the six months ended December 31, 2021, an increase of $655,565, or 27%. The increase in operating expenses was a result of the acquisition of Watson Rx and reallocating personnel from the Corporate division to the Dalrada Health division.

Dalrada Energy:
Operating expenses for the six months ended December 31, 2022 was $609,903 and consists of $339,044 of legal and professional fees for ongoing projects.

Dalrada Precision Manufacturing:
Operating expenses for the six months ended December 31, 2022 was $2,292,607 compared to operating expenses of $1,123,021 during the six months ended December 31, 2021, an increase of $1,169,586, or 104%. The increase in operating expenses was a result of acquiring DepTec as well as reallocating personnel from the Corporate division to the Dalrada Precision Manufacturing division.

Dalrada Technologies:
Operating expenses for the six months ended December 31, 2022 was $392,957 compared to operating expenses of $425,465 during the six months ended December 31, 2021, a decrease of $32,508, or 8%.

Corporate:
Operating expenses for the six months ended December 31, 2022 was $5,516,587 compared to operating expenses of $5,525,776 during the six months ended December 31, 2021, a decrease of 9,189. During the six months ended December 31, 2022, the Company recorded stock compensation expense of $1,369,238 to consultants, employees, executives and the Board of Directors, which is included in operating expenses.

Other Income (Expense)

Other income (expense) consists of penalties and interest within interest expense on the consolidated statements of operations. A gain on the expiration of accrued tax liabilities in the amount of $2,090,978 was recorded for the six months ended December 31, 2022.

Net Income (Loss)

Net loss for the six months ended December 31, 2022 was $7,652,341 compared to net loss of $3,044,311 for the six months ended December 31, 2021.

Liquidity and Capital Resources

As of December 31, 2022, the Company had an accumulated deficit of $128,467,297. The Company continues to incur significant losses and raises substantial doubt regarding the Company's ability to continue as a going concern. We anticipate needing additional liquidity during the next twelve months to fund operations, expand our subsidiaries, expand the growth of the COVID-19 testing segment, continue the commercialization of our Likido heating & cooling units and growing the Dalrada Energy Services subsidiary. Management is planning to support operations by raising capital, and by accelerating sales & marketing efforts of high-margin heating & cooling units, precision parts, Dalrada Energy Services, DepTec's deposition systems and COVID-19 testing. The continuation of the Company as a going concern is dependent upon the continued financial support from its management, its ability to obtain the necessary debt or equity financing and generate profitable operations from the Company's planned future operations. We will continue to rely on equity sales of our common shares in order to continue to fund our business operations. Issuances of additional shares will result in dilution to existing stockholders. There is no assurance that we will achieve any additional sales of the equity securities or arrange for debt or other financing to fund planned acquisitions and activities and there are no plans to induce conversion of existing debt. There are no assurances that our plans will be successful. These 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.

Our primary sources of liquidity are cash from operations and cash on hand from related party loans. Our primary requirements for liquidity are to fund our working capital needs, debt service, operating lease obligations, capital expenditures and general corporate needs.

As of December 31, 2022, we maintained a cash and cash equivalents balance of $1,110,034 and $426,920 of restricted cash with a working capital deficit of $16,971,401. The working capital deficit is primarily due to the current portion of the related party notes payable.

Working Capital

As of December 31, 2022, the Company had current assets of $10,340,331 and current liabilities $27,311,732 compared with current assets of $9,563,566 and current liabilities of $20,416,745 on June 30, 2022. The decrease in the working capital was primarily a result of increased related party loans.

Cash Flows

	Six Months Ended December 31,	
	2022	2021
Net cash used in operating activities	$ (4,911,404)	$ (4,728,921)
Net cash used in investing activities	(920,328)	(337,728)
Net cash provided by financing activities	6,566,991	5,097,451
Net change in cash during the period, before effects of foreign currency	$ 735,259	$ 30,802

Cash flow from Operating Activities

During the six months ended December 31, 2022, the Company used $4,911,404 of cash for operating activities compared to $4,728,921 used during the six months ended December 31, 2021. The primary increase in the use of cash for operating activities was a result of the reduction in accounts receivable related to the COVID-19 business and the purchase of inventory from the Precision Manufacturing division.

Cash flow from Investing Activities

During the six months ended December 31, 2022, the Company used $920,328 of cash for investing activities compared to $337,728 used during the six months ended December 31, 2021. The increase in the use of cash for investing activities was primarily due to the purchase of equipment used primarily for the Dalrada Precision Manufacturing segment.

Cash flow from Financing Activities

During the six months ended December 31, 2022, the Company received $6,566,991 in cash from financing activities compared to $5,097,451 during the six months ended December 31, 2021. The increase was primarily due to the increase in proceeds from related party notes payable.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, and related party transactions.

Critical Accounting Policies

Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. A complete summary of these policies is included in note (1) of the notes to our financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

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 amounts reported in the financial statements and accompanying notes for the reporting period. Significant areas requiring the use of management estimates relate to the valuation of its mineral leases and claims and our ability to obtain final government permission to complete the project. As of December 31, 2022 there have been no material changes to our critical accounting policies and estimates from those previously disclosed in our Annual Report on Form 10-K for the year ended June 30, 2022.

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.

Recently Issued Accounting Pronouncements

We have reviewed all the recently issued, but not yet effective, accounting pronouncements and we do not believe any of these pronouncements will have a material impact on the Company.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Principal Financial Officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"), concluded that as of the Evaluation Date, our disclosure controls and procedures were not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. The control weaknesses mentioned below were first identified during the six months ended December 31, 2022.

(b) Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Internal Controls

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 COSO Framework").

A material weakness is a deficiency or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Our management concluded we have a material weakness due to the following:

- Lack of Management oversight and review of the financial reporting process, including presentation of the financial statements and related disclosures;
- Lack of procedures related to recognition of revenues;
- Lack of procedures related to the calculation and allocation of the purchase price, including acquired intangibles, in connection with business acquisitions.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Dalrada Health Products ("Dalarada Health"), formed a joint venture with Vivera Pharmaceuticals, Inc. ("Vivera"), whereby Vivera is the minority member. As the managing member of the joint venture, Dalrada Health Products, in December 2021, filed suit against Vivera and Paul Edalat, Vivera's Chairman and CEO, for misappropriation of funds on behalf of the joint venture in the amount of $2,104,509. In addition to filing a cross-complaint against Dalrada Health Products, Vivera filed a separate complaint against Dalrada Financial Corporation, Empower Genomics (a subsidiary of Dalrada Financial Corporation), Dalrada Financial Corporation's officers, and other unrelated parties. The proceedings are being held at the Superior Court of the State of California, for the County of Orange – Central Justice Center.

See Note 12. Subsequent Events on Likido arbitration resolution.

Item 1A. Risk Factors

Not applicable to smaller reporting entities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Securities

None.

Item 3. Defaults Upon Senior Securities

None noted.

Item 4. Mine Safety Disclosures

Not applicable to our Company.

Item 5. Other Information

None noted.

Item 6. Exhibit

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14 or 15d-14 of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14 or 15d-14 of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Schema Document
101.CAL*	Inline XBRL Calculation Linkbase Document
101.DEF*	Inline XBRL Definition Linkbase Document
101.LAB*	Inline XBRL Label Linkbase Document
101.PRE*	Inline XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Dalrada Financial Corporation

By: /s/ *Brian Bonar*
Brian Bonar
Chief Executive Officer

Date: February 14, 2023

Pursuant to the requirements of the Exchange Act this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ *Brian Bonar* Brian Bonar	Chief Executive Officer and Director	February 14, 2023

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
18 USC, ss 1350, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Brian Bonar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dalrada Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedure to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 14, 2023

/s/ Brian Bonar
Brian Bonar
President, Chief Executive Officer, and Director
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
18 USC, ss 1350, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Kyle McCollum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dalrada Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedure to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: February 14, 2023

/s/ Kyle McCollum
Kyle McCollum
Chief Financial Officer, and Director
(Principal Financial Officer
and Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian Bonar, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q of Dalrada Financial Corporation for the period ended December 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Dalrada Financial Corporation

Dated: February 14, 2023

/s/ Brian Bonar
Brian Bonar
President, Chief Executive Officer, and Director
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kyle McCollum, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q of Dalrada Financial Corporation for the period ended December 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Dalrada Financial Corporation

Dated: February 14, 2023

/s/ Kyle McCollum
Kyle McCollum
Chief Financial Officer, and Director
(Principal Financial Officer and Principal Accounting Officer)