

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 **September 30, 2023**

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

(state or other jurisdiction of incorporation or organization)

38-3713274

(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

Non-accelerated filer

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 November 13, 2023, the registrant's outstanding stock consisted of 89,933,776 common shares.

DALRADA FINANCIAL CORPORATION.

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PART I - FINANCIAL INFORMATION

Item 1. Unaudited Interim Condensed Consolidated Financial Statements.

DALRADA FINANCIAL CORPORATION

Consolidated Balance Sheets

	September 30, 2023 <i>(Unaudited)</i>	June 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 335,653	\$ 812,806
Accounts receivable, net	4,688,826	4,453,104
Accounts receivable, net - related parties	1,185,305	752,348
Other receivables	758,236	376,604
Inventories	2,264,712	2,078,692
Prepaid expenses and other current assets	966,421	1,343,491
Total current assets	10,199,153	9,817,045
Long-term receivables	19,893	41,722
Long-term receivables - related parties	1,164,756	1,173,893
Property and equipment, net	1,504,483	1,476,082
Goodwill	3,803,147	3,803,147
Intangible assets, net	3,749,194	3,858,086
Right-of-use asset, net	2,886,281	2,771,854
Right-of-use asset, net - related party	2,094,373	2,227,286
Total assets	<u>\$ 25,421,280</u>	<u>\$ 25,169,115</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,593,796	\$ 5,178,897
Accrued liabilities	1,032,555	1,084,008
Accounts payable and accrued liabilities – related parties	2,778,553	547,949
Deferred revenue	805,184	1,337,259
Notes payable, current portion	439,562	439,562
Notes payable, current portion – related parties	–	251,605
Right-of-use liability	764,432	660,394
Right-of-use liability - related party	527,998	519,791
Total current liabilities	11,942,080	10,019,465
Long-term payables	33,893	48,888
Notes payable	1,908,014	1,011,395
Notes payable – related parties	3,113,679	1,648,478
Contingent consideration	3,961,584	4,285,389
Right-of-use liability	2,181,600	2,160,834
Right-of-use liability - related party	1,605,133	1,741,830
Total liabilities	<u>24,745,983</u>	<u>20,916,279</u>
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Series I preferred stock, \$0.01 par value, 100,000 shares authorized, 35,108 shares issued and outstanding as of September 30, 2023 and June 30, 2023, respectively	351	351
Series H preferred stock, \$0.01 par value, 15,002 shares authorized, issued and outstanding as of September 30, 2023 and June 30, 2023, respectively	150	150
Series G preferred stock, \$0.01 par value, 100,000 shares authorized, 10,002 shares issued and outstanding as of both September 30, 2023 and June 30, 2023, respectively	100	100
Series F preferred stock, \$0.01 par value, 5,000 shares authorized, issued and outstanding as of both September 30, 2023 and June 30, 2023, respectively	50	50
Common stock, \$0.005 par value, 1,000,000,000 shares authorized, 89,433,776 and 88,699,139 shares issued and outstanding at September 30, 2023 and June 30, 2023, respectively	444,651	443,478
Common stock to be issued	155,425	192,925
Additional paid-in capital	146,463,538	145,251,822
Accumulated deficit	(146,545,251)	(141,729,009)
Accumulated other comprehensive loss	34,360	(50,848)
Total Dalrada Financial Corp's stockholders' equity	553,374	4,109,019
Noncontrolling interests	121,923	143,817
Total stockholders' equity	675,297	4,252,836
Total liabilities and stockholders' equity	<u>\$ 25,421,280</u>	<u>\$ 25,169,115</u>

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

DALRADA FINANCIAL CORPORATION

Unaudited Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

	Three Months Ended September 30,	
	2023	2022
Revenues	\$ 4,121,626	\$ 4,172,249
Revenues - related party	896,454	85,518
Total revenues	5,018,080	4,257,767
Cost of revenues	4,047,222	2,356,328
Gross profit	970,858	1,901,439
Operating expenses:		
Selling, general and administrative (includes stock-based compensation of \$1,109,642 and \$467,517, respectively)	6,042,654	4,857,617
Total operating expenses	6,042,654	4,857,617
Loss from operations	(5,071,796)	(2,956,178)
Other income (expense):		
Interest expense	(113,193)	(672,127)
Interest income	19,243	19,069
Other income	334,380	338,077
Gain on expiration of accrued tax liability	—	53,266
Gain (loss) on foreign exchange	(6,770)	47,717
Total other income (expense), net	233,660	(213,998)
Net loss	(4,838,136)	(3,170,176)
Other comprehensive loss		
Foreign currency translation	85,208	63,762
Comprehensive loss	<u>\$ (4,752,928)</u>	<u>\$ (3,106,414)</u>
Net income (loss) attributable to noncontrolling interests	(21,894)	447,613
Net loss attributable to Dalrada Financial Corporation stockholders	<u>\$ (4,816,242)</u>	<u>\$ (3,617,789)</u>
Net loss per common share to Dalrada stockholders - basic	\$ (0.05)	\$ (0.05)
Net loss per common share to Dalrada stockholders - diluted	\$ (0.05)	\$ (0.05)
Weighted average common shares outstanding — basic	89,120,328	72,217,851
Weighted average common shares outstanding — diluted	89,120,328	72,217,851

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

DALRADA FINANCIAL CORPORATION

Unaudited Interim Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit)

	Preferred Stock								Common Stock	
	Series I		Series H		Series G		Series F		Shares	Amount
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		
Balance at June 30, 2022	-	\$ -	-	\$ -	10,002	\$ 100	5,000	\$ 50	72,174,620	\$ 360,855
Common stock issued for conversion of convertible notes, accrued interest, and premium	-	-	-	-	-	-	-	-	6,813,021	34,065
Common stock issues pursuant to acquisitions	-	-	-	-	-	-	-	-	833,333	4,167
Stock based compensation	-	-	-	-	-	-	-	-	500,000	2,500
Net income (loss)	-	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2022	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>10,002</u>	<u>\$ 100</u>	<u>5,000</u>	<u>\$ 50</u>	<u>80,320,974</u>	<u>\$ 401,587</u>
Balance at June 30, 2023	35,108	351	15,022	150	10,002	100	5,000	50	88,699,139	443,478
Common stock issued pursuant to acquisitions	-	-	-	-	-	-	-	-	234,637	1,173
Common stock issued pursuant to debt agreement	-	-	-	-	-	-	-	-	500,000	-
Conversion of related party notes into preferred stock	-	-	-	-	-	-	-	-	-	-
Warrants issued pursuant to acquisitions	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-	-	-	-
Net income (loss)	-	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2023	<u>35,108</u>	<u>\$ 351</u>	<u>15,022</u>	<u>\$ 150</u>	<u>10,002</u>	<u>\$ 100</u>	<u>5,000</u>	<u>\$ 50</u>	<u>89,433,776</u>	<u>\$ 444,651</u>

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

(continued)

DALRADA FINANCIAL CORPORATION

Unaudited Interim Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit)

(continued)

	Common Stock to be Issued	Preferred Stock to be Issued	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Dalrada Financial Corp's Stockholders' Deficit	Noncontrolling Interests	Total Stockholders' Equity (Deficit)
Balance at June 30, 2022	\$ 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 convertible notes, accrued interest, and premium	–	–	1,077,332	–	–	1,111,397	–	1,111,397
Common stock issues pursuant to acquisitions	(175,000)	–	343,183	–	–	172,350	–	172,350
Stock based compensation	(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	<u>\$ 716,925</u>	<u>–</u>	<u>\$ 106,687,564</u>	<u>\$ (125,054,279)</u>	<u>\$ 13,089</u>	<u>\$ (17,234,964)</u>	<u>\$ 926,632</u>	<u>\$ (16,308,332)</u>
Balance at June 30, 2023	192,925	–	145,251,822	(141,729,009)	(50,848)	4,109,019	143,817	4,252,836
Common stock issued pursuant to acquisitions	(37,500)	–	36,596	–	–	269	–	269
Common stock issued pursuant to debt agreement	–	–	60,000	–	–	60,000	–	60,000
Conversion of related party notes into preferred stock	–	–	–	–	–	–	–	–
Warrants issued pursuant to acquisitions	–	–	5,478	–	–	5,478	–	5,478
Stock-based compensation	–	–	1,109,642	–	–	1,109,642	–	1,109,642
Net income (loss)	–	–	–	(4,816,242)	–	(4,816,242)	(21,894)	(4,838,136)
Foreign currency translation	–	–	–	–	85,208	85,208	–	85,208
Balance at September 30, 2023	<u>\$ 155,425</u>	<u>–</u>	<u>\$ 146,463,538</u>	<u>\$ (146,545,251)</u>	<u>\$ 34,360</u>	<u>\$ 553,374</u>	<u>\$ 121,923</u>	<u>\$ 675,297</u>

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

DALRADA FINANCIAL CORPORATION

Unaudited Interim Condensed Consolidated Statements of Cash Flows

	Three Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (4,838,136)	\$ (3,170,176)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	178,958	126,753
Stock compensation	1,109,642	467,517
Stock consideration issued to vendor	60,000	–
Amortization of debt discount	–	452,865
Change in fair value of contingent consideration	(323,805)	(341,983)
Bad debt expense	4,000	49,659
Gain on expiration of accrued tax liability	–	(53,266)
Changes in operating assets and liabilities, net of amounts acquired or assumed in connection with acquisition:		
Accounts receivable	(672,410)	278,181
Other receivables	(381,632)	(263,646)
Inventories	(186,020)	(22,700)
Prepaid expenses and other current assets	391,870	156,307
Long-term receivables	30,966	9,225
Accounts payable	414,899	(236,432)
Long-term payables	(14,995)	(37,695)
Accounts payable and accrued liabilities - related parties	3,053,344	5,849
Accrued liabilities	(51,453)	1,360,199
Accrued payroll taxes, penalties and interest	–	35,242
Deferred revenue	(532,075)	(24,700)
Right of use assets and liabilities, net	–	1,125
Net cash used in operating activities	<u>(1,756,847)</u>	<u>(1,207,676)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(98,467)	(341,538)
Purchase of intangibles	–	(88,000)
Net cash used in investing activities	<u>(98,467)</u>	<u>(429,538)</u>
Cash flows from financing activities:		
Proceeds from related party notes payable	819,780	3,680,279
Repayments of related party notes payable	(428,924)	(752,256)
Repayments of convertible note payable	–	(240,000)
Net proceeds (repayments) from notes payable	902,097	(46,239)
Net cash provided by financing activities	<u>1,292,953</u>	<u>2,641,784</u>
Net change in cash and cash equivalents	<u>(562,361)</u>	<u>1,004,570</u>
Effect of exchange rate changes on cash	85,208	63,762
Cash and cash equivalents at beginning of period	812,806	772,062
Cash and cash equivalents at end of period	<u>\$ 335,653</u>	<u>\$ 1,840,394</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 21,696</u>	<u>\$ 29,766</u>
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of accounts payable-related parties to note payable-related parties	\$ 822,740	\$ –
Common stock issued pursuant to prior year business combination	\$ 269	\$ –
Conversion of convertible note payable, accrued interest and premium into common stock	\$ –	\$ 1,111,397
Increase (Decrease) in right-of-use asset and liability	\$ (18,486)	\$ 1,318,284

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

DALRADA FINANCIAL CORPORATION

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

1. Organization and Nature of Operations

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.

Dalrada has five business divisions: **Genefic**, **Dalrada Climate Technology**, **Dalrada Precision Manufacturing**, **Dalrada Technologies** and **Dalrada Corporate**. 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.

Genefic (Formerly Dalrada Health)

Genefic delivers advanced health care solutions with dedicated products, services, and systems. From virus and disease screening capabilities to pharmaceutical goods and holistic wellness clinics, When the world needs advanced health care, Genefic delivers with ingenuity, accessibility, and affordability. 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.

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

Pala Diagnostics (“Pala”)- Pala was a joint venture diagnostic laboratory entity which processed both molecular diagnostic and antibody tests to support the diagnosis of COVID-19 and the detection of immune response to the virus and is no longer an operational entity as of June 30, 2023.

Genefic Wellness Group (“Genefic Wellness”)- Genefic Wellness (formerly Solas Corp.) manages and oversees wellness clinics throughout Southern California including the Sôlas Rejuvenation + Wellness clinics (“Sôlas”). Through advanced medical techniques and modern technology, Sôlas 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, Sôlas 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.

Achieve Wellness- Achieve Wellness is a full-service consulting company which helps businesses incorporate effective weight loss and wellness programs. Achieve Wellness’ services include the integration of cutting-edge technologies, products, and services specific to weight loss strategies.

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).

Genefic Specialty Pharmacy (“Genefic Pharmacy”)- Genefic Pharmacy (formerly Watson Rx Solutions) is an Alabama-based pharmacy with more than 30 years of experience in the retail medical and pharmaceutical industries. Genefic Pharmacy specializes in providing expert care and managing disease states through comprehensive prescription management, education, nursing, and total health solutions. Genefic Pharmacy maintains pharmacy licenses in all 50 States including Washington D.C.

Dalrada Climate Technology (formerly Dalrada Energy Services)

Dalrada Climate Technology (“DCT”) is a segment which encapsulates energy services and state-of-the-art technology within the climate sustainability space. DCT employs next-generation technology and services which enhances clean energy efforts while reducing the world’s carbon footprint. As a premier industrial heat pump manufacturer, Dalrada delivers innovation and efficiency, building solutions that reduce energy consumption and minimize carbon footprints, increase operational efficiencies, meet environmental, social, and governance (ESG) goals, and lower energy costs for clients.

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 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. Likido’s products currently include the DCT One Series Heat Pumps (formerly Likido®ONE) and DCT Cryo Chiller.

During the prior year, the U.S. Government selected DCT One Series high-performance, low-carbon heat pump for real-world testing in a prestigious clean energy program. The implementation of the DCT One Series testing is still in process. The expected positive results should not only increase market acceleration and adoption within the federal government acceptance of groundbreaking eco-friendly technology but should also accelerate adoption within the commercial building industry.

Dalrada Technology Limited (“DTL”)- DTL is a holding company for all European based Dalrada Precision entities.

Dalrada Technology Spain L.T. (“DTS”)- DTS was established as a Spanish subsidiary of DTL for the expansion of the manufacturing and sale of the DCT One Series and DCT Cryo Chiller throughout Europe.

Dalrada Energy Services (“DES”)- DES provides end-to-end comprehensive energy service solutions in a robust commercial capacity. DES helps organizations meet 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 can provide a myriad of additional services to its private and public works customers.

Dalrada Precision Manufacturing

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.

Deposition Technologies ("DepTec")- DepTec designs, develops, manufactures, and services chemical vapor and physical vapor deposition systems for the microchip and semiconductor industries.

DepTec has built an impressive catalogue of precision OEM parts for PVD (Physical vapor deposition) systems and the Company's refurbished systems which allows clients the option of purchasing the same model of system they've been using for decades –but with significant upgrades and improved efficiencies. Older systems can now operate more reliably with additional control and monitoring plus longer lifespans. 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.

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 meets or exceed the most stringent industry-testing specifications.

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.

Dalrada Corporate

Dalrada Corporate covers the activities which support the entire suite of Dalrada subsidiaries. Dalrada Corporate includes the areas of administration, finance, human resources, legal advice, information technology, and marketing. It also contains executive management and shareholder-related services.

Liquidity and Going Concern

These unaudited interim 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. The continuation of the Company as a going concern is dependent upon the continued financial support from related parties, its ability to identify future investment opportunities, obtain the necessary debt or equity financing, and generate profitable 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 unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, certain information and disclosures required by US GAAP for annual financial statements have been omitted. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Unless otherwise indicated, balances are expressed in U.S. dollars. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as of and for the year ended June 30, 2023 (the "2023 Annual Audited Financials"), included in the Company's Annual Report on Form 10-K filed with the SEC on October 19, 2023 (the "Form 10-K"). The results of operations as of and for the three months ended September 30, 2023 are not necessarily indicative of the results to be expected for the 2024 full year or any future periods. The accompanying consolidated balance sheet as of June 30, 2023 has been derived from the audited consolidated balance sheet as of June 30, 2023 contained in the 2023 Annual Audited Financials included in the Form 10-K.

(b) Principles of Consolidation

The unaudited interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries, as well as the accounts of any entities over which the Company has a controlling financial interest in accordance with Accounting Standards Codification ("ASC") 810 Consolidation. All transactions and balances between these entities have been eliminated upon 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 Comprehensive Loss 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 unaudited interim 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 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 revenue, valuation of inventory, valuation of acquired assets and liabilities, variables used in the computation of share-based compensation, litigation, contingent consideration, and evaluation of goodwill and intangible assets for impairment.

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) Concentrations of Credit Risk

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

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. Management considers various historical collection factors for assessing collectability and determining net revenues and accounts receivable from our customers which include the period that the receivables have been outstanding, history of payment amounts, status of collections due, and applicable statutes of limitations.

During the three months ended September 30, 2023 and September 30, 2022, healthcare insurers and government payers accounted for over 24% and 38% of total revenues, respectively. Also, healthcare insurers and government payers amounted to total revenues of \$1,218,109 and \$1,620,281 for the quarter ended September 30, 2023 and September 30, 2022, respectively. The accounts receivable related to both healthcare insurers and government payers is \$2,721,810 and \$1,499,415 as of September 30, 2023 and June 30, 2023, respectively.

As of September 30, 2023 and June 30, 2023, \$592,357 and \$829,239 is owed by customers from the sale of Likido units, respectively.

(e) Fair Value Measurements

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

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

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

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

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

The fair value of the contingent consideration obligations was based on a probability weighted approach derived from the estimates of earn-out criteria and the probability assessment with respect to the likelihood of achieving those criteria. The measurement was based on significant inputs that were not observable in the market, therefore, the Company classified this liability as Level 3 in the following tables:

Fair Value Measurements as of September 30, 2023 Using:				
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration	\$ -	\$ -	\$ 3,961,584	\$ 3,961,584
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,961,584</u>	<u>\$ 3,961,584</u>

Fair Value Measurements as of June 30, 2023 Using:				
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration	\$ -	\$ -	\$ 4,285,389	\$ 4,285,389
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,285,389</u>	<u>\$ 4,285,389</u>

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 3 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 (see "Note 4. Business Combinations and Asset Acquisition"). 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 13. Commitments and Contingencies").

(f) 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.

(g) 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 the quarter ended September 30, 2023, and year ended June 30, 2023, the Company had an allowance of doubtful accounts \$2,430,615.

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. Adjustments to our estimated contractual allowances and implicit patient price concessions are recorded in the current period as changes in estimates.

(h) Inventory

Inventory is recorded at the lower of cost or net realizable value on a first-in first-out basis. As of the quarter ended September 30, 2023, and year ended June 30 2023, inventory is comprised of raw materials purchased from suppliers, 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.

(i) Property and Equipment

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

	<u>Estimated Useful Life</u>
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 Consolidated Balance Sheet and any resulting gains or losses are included in the Consolidated Statement of Operations in the period of disposal.

(j) Business Combinations and Acquisitions

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

(k) Contingent Consideration

Certain acquisitions include contingent consideration as part of the purchase price. The fair value of the contingent consideration is estimated as of the acquisition date based on the present value of the contingent payments to be made using a weighted probability of possible payments. The unobservable inputs used in the determination of the fair value of the contingent consideration include managements assumptions about the likelihood of payment based on the established benchmarks and discount rates based on internal rate of return analysis. The fair value measurement includes inputs that are Level 3 measurement as discussed in Note 4 to our consolidated financial statements included in this quarterly report on Form 10-Q. Should actual results increase or decrease as compared to the assumption used in our analysis, the fair value of the contingent consideration obligations will increase or decrease, up to the contracted limit, as applicable. Changes in the fair value of the contingent earn-out consideration could cause a material impact and volatility in our operating results. The fair value of the contingent consideration decreased by \$323,805 to a balance of \$3,961,584 during the quarter ended September 30, 2023.

(l) Impairment of Long-Lived Assets

The Company reviews its long-lived assets (property and equipment and amortizable intangible assets) 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, 2023, there were quantitative factors that indicated goodwill was impaired in the amounts \$433,556. During the quarter ended September 30, 2023, 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 a result of the qualitative impairment assessment performed, the Company did not recognize goodwill impairment.

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 determines revenue recognition in accordance with ASU 2014-09, *Revenue from Contracts with Customers*, and its related amendments (collectively known as "ASC 606") 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 in the Company's Consolidated Balance Sheets. 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 in 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 the quarter ended September 30, 2023, or the year ended June 30, 2023.

Net revenues from COVID-19 testing accounted for over 24% and 34% of the Company's total net revenues for the three months ended September 30, 2023 and year ended June 30, 2023, respectively, 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. DES recognizes revenue through two performance obligations: 1) the Energy Savings Report (point in time); and 2) functional IP license (point in time with a significant financing component and royalty and variable consideration constraint). Up to and upon completion of an energy savings project, DES calculates the monthly energy savings based on prior and current energy consumption totals. Upon completion of a project, the customer pays monthly fixed payments which represents a financing component. DES recognized monthly interest income and "royalty" revenue when the constraint from the energy savings percentage is known. DES records revenue as it provides additional management, consulting, and other services as they are incurred.

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, management services for Genefic Wellness Group, and custom parts manufacturing for Dalrada Precision Parts. For Prakat, Genefic Wellness Group and Dalrada Precision Parts, 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 or product, 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	
	September 30,	
	2023	2022
Product sales - third parties	\$ 3,047,711	\$ 996,479
Product sales - related party	140	64,423
Service revenue - third parties	1,073,915	3,175,770
Service revenue - related party	896,314	21,095
Total revenue	<u>\$ 5,018,080</u>	<u>\$ 4,257,767</u>

Accounts Receivable and Deferred Revenue

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

	September 30, 2023	June 30, 2023
Accounts receivable, net	\$ 4,688,826	\$ 4,453,104
Accounts receivable, net - related parties	1,185,305	752,348
Long-term receivables	19,893	41,722
Long-term receivables - related parties	1,164,756	1,173,893
Deferred revenue	805,184	1,337,259

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 September 30,	
	2023	2022
Product sales	\$ 2,117,136	\$ 775,077
Service revenue	1,930,086	1,581,251
Total cost of revenue	\$ 4,047,222	\$ 2,356,328

(o) Advertising

Advertising costs are expensed as incurred. During the three months ended September 30, 2023 and 2022, advertising expenses were approximately \$40,524 and \$109,000, 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 September 30, 2023, and 2022, stock-based compensation expense was \$1,109,642 and \$467,517, respectively.

(q) Foreign Currency Translation

The functional currency of the Company is the United States dollar. The functional currency of the Likido, DepTec, and Dalrada Technology subsidiaries is the Great British Pound. The functional currency of Prakat is the Indian Rupee. The functional currency of Dalrada Technology Spain is the Euro. 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 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 consolidated financial statements. During the three months ended September 30, 2023, and 2022, the Company's only component of comprehensive loss 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 (Deficit). 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 (Deficit). 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 September 30, 2023, and 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 cashless warrants of 61,312,134 and 14,225,000, was not included in diluted loss per share, because the effects are antidilutive, for the three months ended September 30, 2023 and 2022, respectively.

There were no adjustments to the numerator during the three months ended September 30, 2023 and 2022.

(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. The Company had a full valuation allowance at September 30, and June 30, 2023

(v) Recent Accounting Pronouncements

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

3. Investment in Pala Diagnostics

In August 2021, Dalrada, through its subsidiary Dalrada Health, entered 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 included in 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 September 30, 2023. The fair value was recorded as a loss on impairment in full for the fiscal year ending June 30, 2023.

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. See Note 13 for legal proceedings.)

4. Business Combinations and Asset 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 considerations 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 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 value of the Warrant Consideration to the selling shareholder is \$3,482,550. The Company records the value as stock-based compensation on a straight-line basis over the vesting period of 24-months.

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 ASC 805. The Company has determined preliminary fair values of the assets acquired and liabilities assumed.

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	<u>\$ —</u>

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 was based on an analysis of the present value of future cash flows and relief from royalty method.

Dalrada Technology LTD EU (“DTL”)

On March 1, 2023, the Company acquired 100% of the common stock of DTL in an asset acquisition. In consideration for the asset acquisition, the Company issued 1,000,000 cashless warrants, at a strike price of \$0.10 per share, which shall vest quarterly over 36 months.

The value of the Warrant Consideration to the selling shareholder is \$68,975. The value was calculated using the Black-Scholes model. The Company recorded a liability for the warrants at the acquisition date as the warrants are not contingent on employment of the sellers.

The Company acquired DTL as a holding company for its European operations, including Likido Ltd. and DepTec. DTL will also be utilized to pursue certain European grants and other governmental funding opportunities. The two sellers of DTL are related parties to the Chairman and CEO of the Company.

The DTL transaction was accounted for as an asset acquisition in accordance with ASC 805. The Company has determined preliminary fair values of the assets acquired and liabilities assumed.

The Company has made a preliminary allocation of the purchase price regarding the asset 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	\$ 9,108
Deposits	13,536
Prepays	24,666
Furniture and Fixtures	64,533
Trade name	206,336
Loan Payable	(249,204)
Purchase price consideration	<u>\$ 68,975</u>

Trade name is amortized on a straight-line basis over two years.

5. Selected Balance Sheet Elements

Inventories

Inventories consisted of the following as of September 30, 2023 and June 30, 2023:

	September 30, 2023	June 30, 2023
Raw materials	\$ 993,671	\$ 658,175
Work-in-progress	439,832	708,007
Finished goods	831,209	712,510
	<u>\$ 2,264,712</u>	<u>\$ 2,078,692</u>

Property and Equipment, Net

Property and equipment, net consisted of the following as of September 30, 2023 and June 30, 2023:

	September 30 2023	June 30, 2023
Machinery and equipment	\$ 1,834,202	\$ 1,448,556
Leasehold improvements	218,024	208,689
Computer and office equipment	379,261	426,162
Construction in progress	–	249,613
	<u>2,431,487</u>	<u>2,333,020</u>
Less: Accumulated depreciation	(927,004)	(856,938)
	<u>\$ 1,504,483</u>	<u>\$ 1,476,082</u>

Depreciation expense of \$70,066 and \$43,659 for the three months ended, September 30, 2023, and 2022, respectively, were included in selling, general and administrative expenses in the unaudited interim condensed consolidated statements of operations and comprehensive loss.

Intangible Assets, Net

Intangible assets, net consisted of the following as of September 30, 2023:

	Curriculum development	Licenses	Customer relationships	Trademarks	Developed technology, software, and other	Totals
Balance: June 30, 2023	\$ 693,385	\$ 1,064,000	\$ 1,244,480	\$ 535,547	\$ 813,479	\$ 4,350,891
Additions	–	–	–	–	–	–
Balance: September 30, 2023	<u>693,385</u>	<u>1,064,000</u>	<u>1,244,480</u>	<u>535,547</u>	<u>813,479</u>	<u>4,350,891</u>
Less: Accumulated amortization						
Balance: June 30, 2023	(172,230)	(55,378)	(153,770)	(54,595)	(56,832)	(492,805)
Additions	(17,335)	(12,779)	(30,754)	(29,058)	(18,966)	(108,892)
Balance: September 30, 2023	<u>(189,565)</u>	<u>(68,157)</u>	<u>(184,524)</u>	<u>(83,653)</u>	<u>(75,798)</u>	<u>(601,697)</u>
Net book value: September 30, 2023	<u>\$ 503,820</u>	<u>\$ 995,843</u>	<u>\$ 1,059,956</u>	<u>\$ 451,894</u>	<u>\$ 737,681</u>	<u>\$ 3,749,194</u>

Amortization expense of \$108,892 and \$83,093 for the three months ended, September 30, 2023, and 2022, respectively, were included in selling, general and administrative expenses in the unaudited interim condensed consolidated statements of operations and comprehensive loss. The Company's intangible assets are subject to amortization and are amortized over the straight-line methods over their estimated period of benefit.

6. Notes Payable

Notes Payable - Related Parties

The following is a summary of notes payable – related parties on September 30, 2023 and June 30, 2023:

	September 30, 2023	
	Outstanding Principal	Accrued Interest
Related entity 1	\$ 1,673,372	\$ 39,096
Related entity 2	1,068,780	2,336
Related entity 3	105,000	2,100
Related entity 4	139,875	–
Related entity 5	126,652	–
Related entity 6	–	–
	<u>\$ 3,113,679</u>	<u>\$ 43,532</u>

	June 30, 2023	
	Outstanding Principal	Accrued Interest
Related entity 1	\$ 1,380,672	\$ 3,038
Related entity 2	126,864	–
Related entity 3	105,000	–
Related entity 4	50,074	–
Related entity 5	–	–
Related entity 6	237,473	11,144
	<u>\$ 1,900,083</u>	<u>\$ 14,182</u>

The following is a summary of current and long-term notes payable – related parties as of September 30, 2023 and June 30, 2023:

	September 30, 2023		
	Current Portion	Long-Term Portion	Total
Related entity 1	\$ –	\$ 1,673,372	\$ 1,673,372
Related entity 2	–	1,068,780	1,068,780
Related entity 3	–	105,000	105,000
Related entity 4	–	139,875	139,875
Related entity 5	–	126,652	126,652
Related entity 6	–	–	–
	<u>\$ –</u>	<u>\$ 3,113,679</u>	<u>\$ 3,113,679</u>

	June 30, 2023		
	Current Portion	Long-Term Portion	Total
Related entity 1	\$ –	\$ 1,380,672	\$ 1,380,672
Related entity 2	–	126,864	126,864
Related entity 3	–	105,000	105,000
Related entity 4	14,132	35,942	50,074
Related entity 5	–	–	–
Related entity 6	237,473	–	237,473
	<u>\$ 251,605</u>	<u>\$ 1,648,478</u>	<u>\$ 1,900,083</u>

All notes dated December 31, 2022, and prior are unsecured, bear interest at 3% per annum, and are due 360 days from the date of issuance, ranging from June 25, 2020, to December 30, 2022. All notes dated after December 31, 2022, are unsecured, bear interest at 8% per annum, and are due 1095 days from the date of issuance. Each related party 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 September 30, 2023 and June 30, 2023, total accrued interest for Notes Payable-Related Parties was \$64,904 and \$14,182, respectively. The Company recorded interest expense from Notes Payable-Related Party for the three months ending September 30, 2023, and 2022, of \$61,867 and \$142,415, 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.

Related entity 6 carries an annual interest rate of 30% and is collateralized by the accounts receivable of Watson Rx. Related entity 4 has multiple loans which include interest rates at 3%, 8% and 10% and are not collateralized.

Notes Payable

	September 30, 2023	June 30, 2023
Current portion	\$ 439,562	\$ 439,562
Long-term portion	1,908,014	1,011,395
Total	<u>\$ 2,347,576</u>	<u>\$ 1,450,957</u>

Pacific Stem and IHG's Economic Injury Disaster Loans ("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 balance of Pacific Stem's EIDL is \$149,900 as of September 30, 2023 and June 30, 2023, respectively. The balance of IHG's EIDL is \$145,614 and \$147,807 as of September 30, 2023 and June 30, 2023, respectively. The EIDL loans are technically in default as a result of a change in ownership without the Small Business Administration ("SBA") prior written consent. The Company has contacted the SBA regarding the transfer of ownership documentation and has not yet finalized the transfer of ownership of the EIDL loans.

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). The balance of COVID-19 Government Loan is \$32,504 and \$36,475 as of September 30, 2023 and June 30, 2023, respectively.

Watson has a loan totaling \$136,708 and \$320,709 as of September 30, 2023 and June 30, 2023, respectively, which includes an interest rate of 5% with a maturity date of April 29, 2025. The loan is collateralized by personal property and includes monthly payments in the amount of \$2,656, with a balloon payment at the maturity date in the amount of \$336,898. Watson renewed a loan on June 26, 2023, for \$176,836, which includes an interest rate equal to the Wall Street Journal Prime Rate, or X.X% and 8.25% as of September 30, 2023 and June 30, 2023, respectively, and has a maturity date of June 26, 2024. The loan is collateralized by the accounts receivable of Watson and includes four payments of \$46,838.

On July 25, 2023, Genefic Inc. entered into an agreement with OnPoint LTB, LLC, for a credit line and funding of up to \$2,000,000. The terms of the credit line include a 24-month term loan, with interest only for 6 months, then amortizing over 18 months down to 50%, with the remaining 50% of the balance due at the end of term. Interest is fixed at 20% per annum, with an origination fee of \$20,000 which is added to the loan balance. Genefic borrowed the first installment of \$1,200,000 at the time of closing. As part of the loan origination fee, the Company issued 500,000 shares of its common stock. The transaction includes a debt discount of \$80,000 which is amortized using an effective interest method over a 24-month period. The net balance of the loan is \$1,129,734 as of September 30, 2023.

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 had a fixed conversion price of \$0.9151 per share (the "Fixed Conversion Price"). The principal and interest, which accrued at a rate of 5% per annum, payable under the Debentures matures 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 had the option to convert the Debentures into the Company's common stock at the Fixed Conversion Price. Beginning on May 1, 2023, 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 was subject to monthly redemption ("Monthly Redemption"). Under Monthly Redemption, the Company redeemed 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 was adjusted from time to time pursuant to the other terms and conditions of the Debenture. At no point could the conversion price be less than \$0.01.

The Company, in its sole discretion, had the option to 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 had to 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 was accounted for as traditional convertible debt with no portion of the proceeds attributed to the conversion feature. The warrants issued with the debt were accounted for as a debt discount and 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	0.0

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 three months ended year ended September 30, 2023, and 2022, the Company amortized \$0 and \$332,865 of debt discount, incurred interest expense of \$0 and \$25,199, and accrued interest of \$0 and \$13,226, respectively.

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 three months ended year ended September 30, 2023, and 2022, the Company paid redemption premiums related to cash of \$0 and \$40,000, and stock of \$0 and \$140,000, respectively. In addition, the Company recorded accretion of \$0 and \$180,000 related to interest expense, respectively.

During the three months ended year ended September 30, 2023, and 2022, the Company redeemed cash \$0 and \$200,000, and debentures of \$0 and \$900,000, respectively.

The net balance of the convertible note was \$0 as of June 30, 2023.

7. Convertible Note Payable – Related Parties

On February 1, 2022, \$6,532,206 of related party debt principal and interest related to promissory notes issued by the Company, with the option for conversion, was converted into 10,002 shares of Series G Convertible Preferred Stock (“Series G Stock”). The Series G Stock shall convert at one share of Series G Stock to 2,177 shares of common stock (equivalent to converting the related dollars into common shares at \$0.30 per share).

On April 4, 2023, \$4,544,224 of related party debt principal and interest related to promissory notes issued by the Company, with the option for conversion, was converted into 15,002 shares of Series H Convertible Preferred Stock (“Series H Stock”). The Series H Stock shall convert at one share of Series H Stock to 3,029 shares of common stock (equivalent to converting the related dollars into common shares at \$0.10 per share).

On June 23, 2023, \$29,315,320 of related party debt principal and interest related to promissory notes issued by the Company, with the option for conversion, was converted into 35,108 shares of Series I Convertible Preferred Stock (“Series I Stock”). The Series I Stock shall convert at one share of Series I Stock to 5,000 shares of common stock (equivalent to converting the related dollars into common shares at \$0.167 per share).

8. Related Party Transactions

During the three months ended September 30, 2023 and 2022, the Company received cash funding or expenses paid on behalf of the Company from related parties totaling \$390,856 and \$2,928,023 respectively. The expenses paid on their behalf primarily relate to operational expenditure 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. The above-referenced expenses 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 months ended September 30, 2023 and 2022, the Company’s Bothof Brothers subsidiary recognized revenue for construction services totaling \$876,626 and \$0, respectively, from corporations owned and/or operated by a related party who has a familial relationship with the Company’s CEO.

As of September 30, 2023 and June 30, 2023 amounts included within accounts payable and accrued liabilities – related parties for related party expenses was \$2,778,553 and 547,949, respectively.

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

	Three Months Ended	
	September 30	
	2023	2022
Dalrada Health	\$ –	\$ 64,423
Dalrada Energy Services	4,688	21,095
Ignite	140	–
Prakat	15,000	–
Bothof Brothers	876,626	–
	<u>\$ 896,454</u>	<u>\$ 85,518</u>

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

9. Preferred Stock

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

There were various related party debt convertible notes that occurred during 2023 and 2022 (see “Note 7. Convertible Note Payable – Related Parties” for more information).

10. Stockholders' Equity

Common Stock Transactions – Fiscal 2024

In July 2023, the Company issued 500,000 shares of common stock pursuant to a loan agreement.

In July 2023, the Company issued 109,637 shares of common stock pursuant to the Stock Purchase Agreement with Prakat Solutions Inc.

In September 2023, the Company issued 125,000 shares of common stock related to the acquisition of Watson.

Common Stock Transactions – Fiscal 2023

In July 2022, November 2022, December 2022, March 2023 and June 2023, the Company issued a total of 1,999,998 shares of common stock related to the acquisition of DepTec (SSCe).

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

In December 2022, March 2023 and April 2023, the Company issued a total of 500,000 shares of common stock related to the acquisition of Watson.

In September 2022, December 2022, and March 2023, the Company issued a total of 375,000 shares of common stock related to the acquisition of International Health Group.

In September and December 2022, the Company issued a total of 175,000 shares of common stock related to the acquisition of Pacific Stem Cells. There are 87,500 shares of common stock remaining to be issued at a future date.

During the year ended June 30, 2023, the Company issued 10,974,521 shares of common stock pursuant to the conversion of \$1,475,608 of convertible debt and its related premium and interest expense.

In April 2023, the Company issued 2,000,000 shares of common stock pursuant to a consulting agreement for management services to increase the investment community's awareness of the Company.

11. 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.

On March 1, 2023, the Company issued 1,000,000 cashless warrants to the selling shareholders of Dalrada Technology Ltd with the acquisition of Dalrada Technology Ltd. The warrants vest over a 36-month period and hold an exercise price of \$0.10 per share. The cashless warrants expire in ten years after issuance. The fair value of the cashless warrants granted was \$0.07 per share, or \$68,975, which was calculated using the Fair Value method.

On April 14, 2023, the Company authorized and issued 26,638,500 cashless warrants to various officers, employees, and consultants of the Company. A total of 5,575,000 cashless warrants vest over a 36-month period and hold an exercise price of \$0.45 per share. A total of 3,600,000 cashless warrants vest over a 24-month period and hold an exercise price of \$0.45 per share. A total of 5,000,000 cashless warrants vest over a 36-month period and hold an exercise price of \$0.33 per share. A total of 1,300,000 cashless warrants vest over a 12-month period and hold an exercise price of \$0.20 per share. A total of 500,000 cashless warrants vest over a 12-month period and hold an exercise price of \$0.12 per share. A total of 250,000 cashless warrants vest over a 12-month period and hold an exercise price of \$0.45 per share. A total of 20,000 cashless warrants vest over a 12-month period and hold an exercise price of \$0.09 per share. A total of 6,200,000 cashless warrants vest over a 36-month period and hold an exercise price of \$0.16 per share. A total of 2,250,000 cashless warrants vest over a 36-month period and hold an exercise price of \$0.25 per share. A total of 1,143,500 cashless warrants vest over a 36-month period and hold an exercise price of \$0.08 per share. The remaining 800,000 cashless warrants vest over a 24-month period and hold an exercise price of \$0.14 per share. The cashless warrants expire in ten years after issuance. The fair value of the cashless warrants granted was \$0.08 per share, or \$2,143,402, which was calculated using the Black-Scholes model.

On May 25, 2023, the Company authorized and issued 587,634 cashless warrants to various employees of the Company. A total of 537,634 cashless warrants vest over a 36-month period and hold an exercise price of \$0.45 per share, and the remaining 50,000 cashless warrants vest over a 36-month period and hold an exercise price of \$0.08 per share. The cashless warrants expire in ten years after issuance. The fair value of the cashless warrants granted was \$0.10 per share, or \$47,408, which was calculated using the Black-Scholes model.

On September 6, 2023, the Company authorized and issued 15,861,000 cashless warrants to various officers, employees, and consultants of the Company. A total of 6,000,000 cashless warrants vest over a 24-month period and hold an exercise price of \$0.10 per share. A total of 4,200,000 cashless warrants vest over a 36-month period and hold an exercise price of \$0.12 per share. A total of 5,161,000 cashless warrants vest over a 36-month period and hold an exercise price of \$0.17 per share. A total of 500,000 cashless warrants vest over a 36-month period and hold an exercise price of \$0.12 per share. The cashless warrants expire in ten years after issuance. The fair value of the cashless warrants granted was \$0.08 per share, or \$2,064,699, which was calculated using the Black-Scholes model.

	Common Stock Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding - June 30, 2022	12,025,000	–	8.82
Granted	33,426,134	\$ 0.29	
Exercised	–	–	
Forfeited	–	–	
Outstanding - June 30, 2023	45,451,134	\$ 0.33	8.83
Granted	15,861,000	\$ 0.13	
Exercised	–	–	
Forfeited	–	–	
Outstanding - September 30, 2023	61,312,134	\$ 0.28	8.89
Exercisable - September 30, 2023	28,415,839	\$ 0.36	8.37

During the three months ended September 30, 2023 and 2022, stock-based compensation was \$1,109,642 and \$467,517, respectively. Total unrecognized compensation cost of non-vested options was \$5,318,203 on September 30, 2023, which will be recognized through fiscal year ending June 30, 2027.

12. Segment Reporting

Segment information for the three ended September 30, 2023, and 2022 is as follows:

	Three Months Ended September 30, 2023					Consolidated
	Genetic	Dalrada Climate Technology	Dalrada Precision Manufacturing	Dalrada Technologies	Corporate	
Revenues	\$ 1,852,147	\$ 1,213,344	\$ 1,542,589	\$ 410,000	\$ –	\$ 5,018,080
Income (Loss) from Operations	(1,231,074)	(1,261,262)	313,990	(28,765)	(2,864,685)	(5,071,796)

Three Months Ended September 30, 2022

	Genetic	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Technologies	Corporate	Consolidated
Revenues	\$ 2,420,724	\$ 21,095	\$ 1,140,234	\$ 675,714	\$ –	\$ 4,257,767
Income (Loss) from Operations	(56,052)	(199,562)	(649,764)	30,104	(2,080,904)	(2,956,178)

Geographic Information

The following table presents revenue by country:

	Three Months Ended September 30,	
	2023	2022
United States	\$ 4,006,005	\$ 3,710,120
Scotland	733,343	73,738
India	278,732	473,909
	<u>\$ 5,018,080</u>	<u>\$ 4,257,767</u>

The following table presents inventories by country:

	September 30, 2023	June 30, 2023
United States	\$ 578,059	\$ 584,330
Scotland	1,686,653	1,494,362
	<u>\$ 2,264,712</u>	<u>\$ 2,078,692</u>

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

	September 30, 2023	June 30, 2023
United States	\$ 1,316,070	\$ 1,284,834
Scotland	176,640	182,657
Spain	5,281	–
India	6,492	8,591
	<u>\$ 1,504,483</u>	<u>\$ 1,476,082</u>

13. 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 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 three months ended September 30, 2023, management determined that there were no variable lease costs.

Right-of-Use Asset

In July 2022, 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 \$2,405,540 and used an effective borrowing rate of 3.0% within the calculation. Imputed interest is \$192,521. The lease agreements mature in June 2027.

In April 2023, the Company’s Prakat subsidiary entered into a lease agreement to lease office space through March 2026. The Company recognized a right of use asset and liability of \$99,060 and used an effective borrowing rate of 8% within the calculation.

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 \$919,722 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 \$146,622 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 space 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's Pala Diagnostics entered into a one-year lease agreement to lease a research and development laboratory space in San Diego, California. The Company recognized a right-of-use asset and liability of \$37,239 and used an effective borrowing rate of 8% within the calculation. Imputed interest is \$1,761. The lease agreement matures in October 2023.

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.

In January 2023, the Company's Solas subsidiary entered into a one-year lease agreement to lease an office and medical suite in Coronado, California. The company recognized a right of use asset and liability of \$47,211 and used an effective borrowing rate of 8%.

In March 2023, the Company acquired Dalrada Technology Ltd. which had an existing lease to a commercial building in Livingston, Scotland. Upon acquisition, the company recognized a right-of-use asset and liability of \$540,615 and used an effective borrowing rate of 8.0% within the calculation. Imputed interest is \$125,761. The lease agreement matures in October 2027.

In March 2023, Genefic entered into a five-year lease agreement to lease a commercial building in San Diego, California. The Company recognized a right-of-use asset and liability of \$844,242 and used an effective borrowing rate of 8.0% within the calculation. Imputed interest is \$185,976. The lease agreement matures in March 2028.

In March 2023, Dalrada Technology Spain S.L. entered into a five-year lease agreement to lease a commercial building in Bergondo, Spain. The Company recognized a right-of-use asset and liability of \$125,780 and used an effective borrowing rate of 8.0% within the calculation. Imputed interest is \$28,129. The lease agreement matures in May 2028.

In July, 2023, Bothof Brothers entered into a 3-year lease agreement to lease a warehouse in Escondido, California. The Company recognized a right-of-use asset and liability of \$342,211 and used an effective borrowing rate of 8.0% within the calculation. Imputed interest is \$39,366. The lease agreement matures in February 2026.

The following are the expected maturities of lease liabilities for operating leases as of September 30, 2023, including the total amount of imputed interest related:

Fiscal Year Ended June 30,

Remainder 2024	\$	1,142,066
2025		1,432,190
2026		1,345,662
2027		1,227,563
2028		428,638
Thereafter		32,627
Total lease payments		<u>5,608,746</u>
Less: imputed interest		<u>(529,583)</u>
Present value of lease liability	\$	<u><u>5,079,163</u></u>

Other information related to operating leases as of September 30 and June 30, 2023, respectively, were as follows:

	<u>September 30, 2023</u>	<u>June 30, 2023</u>
Weighted average remaining lease term - years	3.78	4.09
Weighted average discount rate	6.82%	6.74%

Legal Proceedings

Genefic Products (“Dalrada Health”), a subsidiary of Dalrada Financial Corporation, formed a joint venture with Vivera Pharmaceuticals, Inc. (“Vivera”), whereby Vivera is the minority member. As the managing member of the joint venture, Genefic 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 Genefic 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.

14. Subsequent Events

On October 2, 2023, Genefic borrowed the second installment of the OnPoint LTB, LLC loan of \$800,000. The second installment included a loan origination fee of \$5,000 and 500,000 of Dalrada Financial Corporation common stock. The transaction includes a debt discount of \$154,492.

On October 5, 2023, Genefic acquired Diller Pharmacy LLC for the consideration of \$135,000 in cash and assuming its lease, which includes a monthly lease cost of \$325 and expires on February 28, 2025.

On November 3, 2023, the Company cancelled the Marketing and Sales Agreement with Pando Infrastructure Inc. As a result of the cancellation, all the Intellectual Property, “know-how” and Confidential Information will revert back to the ownership of the Company.

On October 27, 2023, the Company entered into a manufacturing agreement with an outsourced manufacturer (the “Agreement”) for the purchase of “Commercial CO@ Heat Pumps” for heating and cooling with an initial quantity of 3,000 units over a period of two years. The Agreement is contingent upon the Company closing a convertible financing round with an affiliate of the outsourced manufacturer, by November 15, 2023, or the contract is null and void.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of Dalrada Financial Corporation for the Three months ended September 30, 2023, and 2022.

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.

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 \$4,838,136 during the three months ended September 30, 2023. 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.

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 September 30, 2023 and 2022

The following table sets forth the results of our operations for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30, 2023					
	Genefic	Dalrada Climate Technology	Dalrada Precision Manufacturing	Dalrada Technologies	Corporate	Consolidated
Revenues	\$ 1,852,147	\$ 1,213,344	\$ 1,542,589	\$ 410,000	\$ –	\$ 5,018,080
Income (Loss) from Operations	(1,231,074)	(1,261,262)	313,990	(28,765)	(2,864,685)	(5,071,796)

Three Months Ended September 30, 2022

	Genefic	Dalrada Energy	Dalrada Precision Manufacturing	Dalrada Technologies	Corporate	Consolidated
Revenues	\$ 2,420,724	\$ 21,095	\$ 1,140,234	\$ 675,714	\$ –	\$ 4,257,767
Income (Loss) from Operations	(56,052)	(199,562)	(649,764)	30,104	(2,080,904)	(2,956,178)

Revenues and Cost of Revenues

Revenues

Genefic:

Revenues for the three months ended September 30, 2023, was \$1,852,147 compared with revenue of \$2,420,724 during the three months ended September 30, 2022, a decrease of \$588,577, or 24%. The decrease in revenues was primarily attributable to the decline in COVID-19 testing in Empower Genomics and Pala Diagnostics. Additionally, Genefic Wellness Group (formerly Solas Corp.) moved to a cash-basis type accounting and sales was reduced during the three months ended September 30, 2023. Alternatively, the revenue for Genefic Specialty Pharmacy (formerly Watson) materially rose from \$95,117 To \$1,494,562.

Dalrada Climate Technology:

Revenues for the three months ended September 30, 2023, was \$1,213,344 which includes revenues related to Bothof Brothers in the amount of \$1,039,348 compared with revenue of \$21,095 during the three months ended September 30, 2022, an increase of \$1,192,249, or 5,652%. The increase in revenue was primarily attributable to the addition Bothof Brothers Construction during fiscal year 2023, as a new subsidiary of the segment, which generated \$1,039,348 in revenue. Dalrada Energy Services also generated \$173,996 of revenue during the three months ended September 30, 2023 while only \$21,095 of revenue was generated during the three months ended September 30, 2022.

Dalrada Precision Manufacturing:

Revenues for the three months ended September 30, 2023, was \$1,542,589 compared with revenue of \$1,140,234 during the three months ended September 30, 2022, an increase of \$402,355, or 35%. The increase in revenues was primarily attributable to the increased completion of the DepTec percentage of completion-based projects.

Dalrada Technologies:

Revenues for the three months ended September 30, 2023, was \$410,000 compared with revenue of \$675,714 during the three months ended September 30, 2022, a decrease of \$265,714, or 39%. The decrease in revenue was a result of completing customer contracts while not entering into larger, new contracts.

Costs and Expenses

Cost of Revenues

Genefic:

Cost of Revenues for the three months ended September 30, 2023, was \$1,799,458 compared to cost of revenues of \$1,030,419 during the three months ended September 30, 2022, an increase of \$769,039, or 75%. The increase in cost of revenues was primarily a result of an increase in lower margin pharmaceutical sales related to Genefic Specialty Pharmacy.

Dalrada Climate Technology:

Cost of Revenues for the three months ended September 30, 2023, was \$1,298,599; consisting of \$484,780 for Dalrada Climate Technology and \$813,819 for Bothof Brothers compared to cost of revenues of \$0 during the three months ended September 30, 2022. The increase in cost of revenues was primarily a result of the addition of Bothof Brothers Construction to the segment and percentage of completion related to the Averett University project.

Dalrada Precision Manufacturing:

Cost of Revenues for the three months ended September 30, 2023, was \$703,383 compared to cost of revenues of \$881,264 during the three months ended September 30, 2022, a decrease of \$177,881, or 20%. The decrease in cost of revenue is due to the increased margins for the Dalrada Precision Parts sales.

Dalrada Technologies:

Cost of Revenues for the three months ended September 30, 2023, was \$245,782 compared to cost of revenues of \$444,645 during the three months ended September 30, 2022, a decrease of \$198,863, or 45%. The decrease in cost of revenues was primarily a result of the decrease in sales volume for the period.

Operating Expenses

Genefic:

Operating expenses for the three months ended September 30, 2023, was \$1,283,763 compared to operating expenses of \$1,446,357 during the three months ended September 30, 2022, a decrease of \$162,594, or 11%. The decrease in operating expenses was the result of a decrease in workforce resulting in a reduction in salaries and wages.

Dalrada Climate Technology:

Operating expenses for the three months ended September 30, 2023, was \$1,176,007 compared to operating expenses of \$220,657 during the three months ended September 30, 2022, an increase of \$955,350, or 433%. The increase in operating expenses was a result of the integration of the Bothof Brothers segment during the three months ended September 30, 2023.

Dalrada Precision Manufacturing:

Operating expenses for the three months ended September 30, 2023 was \$525,216 compared to operating expenses of \$908,734 during the three months ended September 30, 2022, a decrease of \$383,518, or 42%. The decrease in operating expenses was a result of decreased legal and professional fees incurred.

Dalrada Technologies:

Operating expenses for the three months ended September 30, 2023 was \$192,983 compared to operating expenses of \$200,965 during the three months ended September 30, 2022, a decrease of \$7,982, or 4%. The decrease in operating expenses was primarily attributable to the decrease in salary and wages.

Corporate:

Operating expenses for the three months ended September 30, 2023 was \$2,864,685 compared to operating expenses of \$2,080,904 during the three months ended September 30, 2022, an increase of \$783,781, or 38%. During the three months ended September 30, 2023 and 2022, the Company recorded stock compensation expense of \$1,109,642 and \$467,517, respectively, 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. Interest expense was \$113,193 and \$672,127 for the three months ended September 30, 2023 and 2022, respectively.

Net Income (Loss)

Net loss for the three months ended September 30, 2023 was \$4,838,136 compared to net loss of \$3,170,176 for the three months ended September 30, 2022.

Liquidity and Capital Resources

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 September 30, 2023, we maintained a cash and cash equivalents balance of \$335,653 with a working capital deficit of \$1,742,927. The working capital deficit is primarily due to the current portion of the related party notes payable.

Working Capital

As of September 30, 2023, the Company had current assets of \$10,199,153 and current liabilities \$11,942,080 compared with current assets of \$9,817,045 and current liabilities of \$10,019,465 on June 30, 2023. The decrease in the working capital was primarily a result of increased related party loans to fund payroll and pay outstanding vendors.

Cash Flows

	Three Months Ended	
	September 30,	
	2023	2022
Net cash used in operating activities	\$ (1,756,847)	\$ (1,207,676)
Net cash used in investing activities	(98,467)	(429,538)
Net cash provided by financing activities	1,292,953	2,641,784
Net change in cash during the period, before effects of foreign currency	\$ (562,361)	\$ 1,004,570

Cash flow from Operating Activities

During the three months ended September 30, 2023, the Company used \$1,756,847 of cash for operating activities compared to \$1,207,676 used during the three months ended September 30, 2022. 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 Dalrada Climate Technology Division.

Cash flow from Investing Activities

During the three months ended September 30, 2023, the Company used \$98,467 of cash for investing activities compared to \$429,538 used during the three months ended September 30, 2022. 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 three months ended September 30, 2023, the Company received \$1,292,953 in cash from financing activities compared to \$2,641,784 during the three months ended September 30, 2022. 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 September 30, 2023 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, 2023.

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 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.

(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").

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. In March 2023, the presiding judge ordered the case stayed until a valuation could be completed for Pala Diagnostics (“Pala” the company formed as a result of the joint venture) in order to allow for a dissolution of the partnership as requested by both parties. Any remaining issues found to be unresolved through the dissolution process will be addressed once the stay is lifted after dissolution.

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.

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. Exhibits.

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: November 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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Brian Bonar</u> Brian Bonar	Chief Executive Officer and Director	November 14, 2023

**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: November 14, 2023

/s/ Brian Bonar

Brian Bonar

President, Chief Executive Officer, and Director
(Principal Executive Officer)

**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: November 14, 2023

/s/ Kyle McCollum

Kyle McCollum

Chief Financial Officer, and Director
(Principal Financial Officer
and Principal Accounting Officer)

**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 September 30, 2023 (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: November 14, 2023

/s/ Brian Bonar

Brian Bonar

President, Chief Executive Officer, and Director
(Principal Executive Officer)

**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 September 30, 2023 (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: November 14, 2023

/s/ Kyle McCollum

Kyle McCollum

Chief Financial Officer, and Director

(Principal Financial Officer and Principal Accounting Officer)