



INVITRO INTERNATIONAL, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019)
with

INDEPENDENT AUDITOR'S REPORT THEREON



CERTIFIED PUBLIC ACCOUNTANTS

INVITRO INTERNATIONAL, INC.

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Independent Auditor's Report

To the Board of Directors and Shareholders
InVitro International, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of InVitro International, Inc. (the "Company"), which comprise the balance sheet as of September 30, 2020, and the related statements of comprehensive income, changes in shareholders' equity, and cash flows for the year ended September 30, 2020, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of InVitro International, Inc. as of September 30, 2020, and the results of its operations and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

We have previously audited the Company's September 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 4, 2019. In our opinion, the summarized comparative information presented herein for the year ended September 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PDM, LLP

Torrance, California
December 2, 2020

INVITRO INTERNATIONAL, INC.

BALANCE SHEET
SEPTEMBER 30, 2020

ASSETS

CURRENT ASSETS

| | | |
|--|----|------------------|
| Cash and cash equivalents | \$ | 378,937 |
| Investments | | 785,608 |
| Accounts receivable, net of allowance of \$3,500 | | 146,599 |
| Inventories | | 165,651 |
| Prepaid expenses | | 40,118 |
| | | <u>1,516,913</u> |

PROPERTY AND EQUIPMENT, net 6,148

DEPOSITS AND OTHER ASSETS 15,977
\$ 1,539,038

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

| | | |
|---------------------------------------|----|----------------|
| Accounts payable | \$ | 9,615 |
| Accrued payroll and employee benefits | | 59,680 |
| Income taxes payable | | 9,629 |
| Other accrued liabilities | | 26,574 |
| CARES Act forgivable note payable | | 106,665 |
| | | <u>212,163</u> |

SHAREHOLDERS' EQUITY

| | | |
|---|----|------------------|
| Preferred stock, no par value; 1,000,000 shares authorized; no shares issued or outstanding | | - |
| Common stock, no par value; 40,000,000 shares authorized; 22,759,809 shares issued and outstanding | | 669,080 |
| Restricted stock | | (6,250) |
| Additional paid in capital | | 390 |
| Accumulated other comprehensive income | | 66,466 |
| Retained earnings | | 597,189 |
| | | <u>1,326,875</u> |
| | \$ | <u>1,539,038</u> |

*The accompanying notes are an
integral part of these financial statements*

INVITRO INTERNATIONAL, INC.

STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED SEPTEMBER 30, 2020 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019)

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| REVENUES | \$ 1,104,816 | \$ 1,052,737 |
| EXPENSES | | |
| Cost of revenues | 207,277 | 189,083 |
| Selling, general, and administrative | 799,237 | 791,908 |
| Research and development | <u>67,008</u> | <u>10,362</u> |
| | <u>1,073,522</u> | <u>991,353</u> |
| OPERATING INCOME | <u>31,294</u> | <u>61,384</u> |
| OTHER INCOME | | |
| Interest and dividend income | 18,252 | 20,579 |
| Realized gain on securities | 2,736 | 315 |
| Unrealized gain on securities | <u>9,158</u> | <u>-</u> |
| | <u>30,146</u> | <u>20,894</u> |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 61,440 | 82,278 |
| PROVISION FOR INCOME TAXES | <u>11,546</u> | <u>11,605</u> |
| NET INCOME | <u>49,894</u> | <u>70,673</u> |
| OTHER COMPREHENSIVE INCOME | | |
| Unrealized holding gain on securities | - | 18,805 |
| Currency translation adjustment | <u>74</u> | <u>102</u> |
| | <u>74</u> | <u>18,907</u> |
| COMPREHENSIVE INCOME | <u>\$ 49,968</u> | <u>\$ 89,580</u> |
| NET INCOME PER COMMON SHARE: | | |
| Basic | <u>\$ 0.002</u> | <u>\$ 0.003</u> |
| Diluted | <u>\$ 0.002</u> | <u>\$ 0.003</u> |
| Weighted average common shares outstanding - basic | <u>22,624,552</u> | <u>21,985,613</u> |
| Weighted average common shares outstanding - diluted | <u>22,624,552</u> | <u>21,985,613</u> |

*The accompanying notes are an
integral part of these financial statements*

INVITRO INTERNATIONAL, INC.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY YEAR ENDED SEPTEMBER 30, 2020 (WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2019)

| | Common Stock | | Restricted Stock | Additional Paid | Accumulated Other Comprehensive | Retained | Total |
|---|----------------------|----------------------|-------------------------|--------------------------|--|------------------------|---------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Issued</u> | <u>in Capital</u> | <u>Income</u> | <u>Earnings</u> | |
| BALANCE, September 30, 2018 | 22,016,059 | \$ 612,080 | \$ - | \$ - | \$ 64,860 | \$ 459,247 | \$ 1,136,187 |
| Net income | - | - | - | - | - | 70,673 | 70,673 |
| Other comprehensive income | - | - | - | - | 18,907 | - | 18,907 |
| BALANCE, September 30, 2019 | 22,016,059 | 612,080 | - | - | 83,767 | 529,920 | 1,225,767 |
| Adoption of new accounting pronouncement | - | - | - | - | (17,375) | 17,375 | - |
| Common stock issued for services previously accrued | 243,750 | 19,500 | - | - | - | - | 19,500 |
| Restricted common stock issued for compensation | 500,000 | 37,500 | (37,500) | - | - | - | - |
| Amortization of restricted stock | - | - | 31,250 | - | - | - | 31,250 |
| Share based compensation | - | - | - | 390 | - | - | 390 |
| Net income | - | - | - | - | - | 49,894 | 49,894 |
| Other comprehensive income | - | - | - | - | 74 | - | 74 |
| BALANCE, September 30, 2020 | <u>22,759,809</u> | <u>\$ 669,080</u> | <u>\$ (6,250)</u> | <u>\$ 390</u> | <u>\$ 66,466</u> | <u>\$ 597,189</u> | <u>\$ 1,326,875</u> |

The accompanying notes are an integral part of these financial statements

INVITRO INTERNATIONAL, INC.

STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2020 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019)

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 49,894 | \$ 70,673 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 3,585 | 9,813 |
| Stock-based compensation | 31,640 | - |
| Gain on securities | (11,894) | (315) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (46,653) | (13,550) |
| Income taxes receivable | 30 | - |
| Inventories | (11,432) | (20,097) |
| Prepaid expenses | (1,199) | 5,287 |
| Other assets | (7,245) | 3,530 |
| Accounts payable | (6,516) | 28,643 |
| Accrued payroll and employee benefits | (27,479) | 62,060 |
| Income taxes payable | 1,629 | 8,000 |
| Other accrued liabilities | 3,292 | (16,321) |
| Net cash flows from operating activities | <u>(22,348)</u> | <u>137,723</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (289,440) | (340,787) |
| Proceeds from the sale of investments | <u>253,729</u> | <u>253,729</u> |
| Net cash flows from investing activities | <u>(35,711)</u> | <u>(87,058)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings on CARES Act forgivable note payable | <u>106,665</u> | - |
| Net cash flows from financing activities | <u>106,665</u> | - |
| Effect of foreign exchange rate on cash | <u>74</u> | <u>102</u> |
| Net change in cash and cash equivalents | 48,680 | 50,767 |
| Cash and cash equivalents, beginning of year | <u>330,257</u> | <u>279,490</u> |
| Cash and cash equivalents, end of year | <u>\$ 378,937</u> | <u>\$ 330,257</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for income taxes | <u>\$ 9,887</u> | <u>\$ 3,605</u> |
| Noncash investment transactions | | |
| Net unrealized gain (loss) on securities | <u>\$ 9,158</u> | <u>\$ 18,805</u> |
| Stock compensation to settle accrued liability | <u>\$ 19,500</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements

NOTE 1 - NATURE OF OPERATIONS

InVitro International, Inc. (the “Company”), headquartered in Placentia, California, was founded in 1985 and is a customer and technology-driven provider of non-animal testing methods. The Company’s testing technologies are designed to produce data regarding corrosivity, or ocular/dermal irritation, which correlate with animal and human test results. This technology is commercialized through test kits and laboratory services globally.

The Company is a pioneer in the field of non-animal testing and was first to develop and commercialize its flagship product Corrositex® in 1991. The global regulatory bodies that govern non-animal testing did not exist at the time. These regulatory bodies started to evolve in early 2000’s and then consolidated into a more robust global regulatory system in the last few years. Organization for Economic Co-operation and Development (OECD) is the foremost such regulatory body today, with 37 member countries, including the US, and covers more than 80% of the world of commerce.

In 2014, Corrositex® was adopted by OECD, with the publication of Test Guideline (TG) 435. Following this regulatory approval, Corrositex®, became Global Harmonization System (GHS) accepted as a full replacement for animal test results virtually everywhere in the world of commerce. The OECD/European Centre for the Validation of Alternative Methods (ECVAM), Transport Canada, U.S. DOT, EPA, OSHA, Consumer Product Safety Commission, FDA, and the International Air Transport Authority (IATA) all have accepted Corrositex® as an alternative as well.

In November 2019, the OECD published Test Guideline (TG) 496, the final step in the adoption of the Company’s now 30 year old core technology, Ocular Irritation® (OI). OI thus completes an eleven year effort to become the first 100% animal free ocular irritancy test method to be OECD accepted, validated and adopted for 37 countries, including the U.S.

Each of the above mentioned Regulatory Advancements are the result of many years in a strategic alliance with INT.E.G.RA in Italy. The Company partnership sells and distributes both laboratory test results and kits in Italy and several European markets. In addition, the partnership coordinates and facilitates regulatory approvals and acceptances from authorities and agencies within the OECD. The Company has over a dozen testing laboratory partnerships globally to help commercialize its technology.

As described in Note 7, quasi reorganization was implemented on October 1, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The Company prepares its financial statements based upon the accrual method of accounting, recognizing income when earned and expenses when incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that may be subject to change relate to the collectability of accounts receivable, realizability of inventories, investments, and long-lived assets, and the valuation allowance on deferred tax assets.

Revenue recognition - The Company recognizes revenue for its products upon shipment of goods to its customers, upon the reporting of results to its customers for its lab services, pervasive evidence of an arrangement exists, the sales price is fixed and determinable, and collections of the fees is reasonably assured.

Customers - The Company sells its products to independent distributors, contract laboratories, and end users in approximately ten different industries in the United States, Europe, Latin America, and Asia. Non U.S. revenues were approximately 22% and 32% of the Company's total revenues during fiscal 2020 and 2019, respectively. The Company maintains reserves for potential credit losses. Management believes that future credit losses will not be material.

The Company's two largest customers generated approximately 39% of the Company's total revenues during fiscal 2020, and 23% during fiscal 2019. The customers owe a combined \$43,310 to the Company as of September 30, 2020.

Cash and cash equivalents - The Company defines its cash and cash equivalents to include only cash on hand, demand deposits, money market fund accounts, and investments with original maturities of ninety days or less.

The Company maintains its cash and cash equivalents at financial institutions, the balances of which may, at times, exceed federally insured limits. Management believes that the risk of loss due to the concentration is minimal.

Investments - Investments in marketable securities are reported at fair value as determined by quoted market prices in an active market with unrealized and realized gains and losses included in investment income. Interest and dividend income are recorded on the accrual basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

New accounting pronouncement adopted - On October 1, 2019, the Company adopted Accounting Standards Update (“ASU”) 2016-01 “*Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities*”. Prior year financial statements were not restated. With respect to ASU 2016-01, beginning on October 1, 2019, unrealized gains and losses from the changes in the fair values determined by quoted market prices in investments during the year ended September 30, 2020 are included within investment gains (losses) in the income before provision for income taxes. For years ending prior to October 1, 2019, the Company recognized gains and losses when the investment was sold and recorded unrealized gains and losses from the changes in fair value of such securities in other comprehensive income. As of October 1, 2019, the Company reclassified net accumulated unrealized gains on investments totaling \$17,375 from accumulated other comprehensive income to retained earnings.

Fair value of financial instruments - Financial instruments primarily consist of marketable securities and interest-bearing cash. The Company estimates that the fair value of its financial instruments at September 30, 2020 do not differ materially from its aggregate carrying value. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Fair value measurements - The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures fair value under a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Accounts receivable - Accounts receivable are stated at the amount that management expects to collect from balances outstanding at fiscal year-end. Management closely monitors outstanding balances and provides a reserve for probable uncollectible amounts through a charge to earnings and a credit to the receivables allowance accounts based on its assessments of the current status of individual accounts. At September 30, 2020, management has recorded a reserve for potentially bad debts of \$3,500.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories - Inventories are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. Cost includes materials, labor, and an allocable portion of direct and indirect overhead. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company regularly monitors inventories for excess or obsolete items and makes any valuation corrections when such adjustments are needed. Once established, write downs are considered permanent adjustments to the cost basis of obsolete or excess inventories.

Property and equipment - Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life. Normal repairs and maintenance are expensed as incurred. Expenditures that materially adapt, improve, or alter the nature of the underlying assets are capitalized. When property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to income.

Patents and trademarks - The costs of patents and trademarks acquired are amortized on the straight-line method over their estimated remaining lives. The identifiable costs to develop and defend the Company's patents and trademarks are capitalized and amortized on the straight-line method over their estimated remaining lives. The unidentifiable costs to develop and defend the Company's patents and trademarks are charged to expense as incurred.

The Company is not aware of any infringing uses that could materially affect its current business or any prior claim to the patents and/or trademarks that would prevent the Company from using such patents and/or trademarks in its business. The Company's policy is to pursue registration of its patents and trademarks, whenever possible, and to oppose vigorously any infringement of its patents and/or trademarks.

Aggregate patent costs, net of accumulated amortization of \$250,256, totaled \$2,499 at September 30, 2020 and are included in deposits and other assets. Amortization expense related to patents was \$500 and \$499 during the years ended September 30, 2020 and 2019, respectively.

Capitalized software - The costs of software acquired are amortized on the straight-line method over their estimated remaining lives. Aggregate software costs, net of accumulated amortization of \$108,802, totaled \$9,421 at September 30, 2020 and are included in deposits and other assets. During years ended September 30, 2020 and 2019, amortization expense related to software totaled \$594 and \$1,215, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-lived assets - Management of the Company assesses the recoverability of property and equipment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The evaluation is performed by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value and is charged to operations in the period in which such impairment is determined by management. To date, management has not identified any impairment of long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products will continue, which could result in impairment of long-lived assets in the future.

Research and development - Research and development costs consist primarily of compensation and materials associated with the research and development of the Company's technologies and are expensed as incurred.

Advertising - The Company expenses advertising costs, charged to operations under selling, general, and administrative expenses, as they are incurred. Advertising costs during the years ended September 30, 2020 and 2019 amounted to \$88,363 and \$94,859, respectively.

Income taxes - The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be recovered.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of September 30, 2020, the Company had no unrecognized tax benefits, and the Company had no positions which, in the opinion of management, would be reversed if challenged by a taxing authority.

The Company's evaluation of tax positions was performed for those tax years which remain open to audit. The Company may, from time to time, be assessed interest or penalties by the taxing authorities, although any such assessments historically have been minimal and immaterial to the Company's financial results. In the event the Company is assessed for interest and/or penalties, such amounts will be classified as income tax expense in the financial statements.

Foreign currency translation - The financial statements of the Company's foreign operations have been translated to U.S. dollars. Assets and liabilities are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the fiscal year. The translation adjustment is excluded from results of operations but is included in comprehensive income and is accumulated in a separate component of shareholders' equity. Gains and losses from foreign currency transactions denominated in a currency other than the Company or its foreign operations' local currencies are included in results of operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounting for stock-based compensation - At September 30, 2020, the Company has a stock-based employee compensation plan, which is described more fully in Note 7. The Company measures and recognizes the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value, including share-based compensation based on the grant-date fair value for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value for all share-based payments granted after October 1, 2006. For non-employee stock-based compensation, the Company values the equity securities based on the fair value of the security on the date of grant. For stock-based awards, the value is based on the market value of the stock on the date of the grant or the value of services, whichever is more readily available. Stock option awards are valued using the Black-Scholes-Merton option-pricing model. 1,800,000 stock options were granted during the year ended September 30, 2020.

Net income per common share - The Company reports earnings per share (“EPS”) with a dual presentation of basic EPS and diluted EPS on the face of the statements of comprehensive income. Basic EPS is computed as net income divided by the weighted average of common shares for the period. Diluted EPS reflects the potential dilution that could occur from common shares issued through stock options, or warrants. During fiscal years 2020 and 2019, the Company had no potentially dilutive common stock equivalents. Therefore, the basic EPS and the diluted EPS are the same.

Comprehensive income - The Company reports and displays all components of comprehensive income in a full set of financial statements. Accumulated other comprehensive income as reported in the accompanying balance sheet represents foreign currency translation adjustments.

Segments of an enterprise and related information - The Company currently operates in one business segment.

Subsequent events - Subsequent events have been evaluated by the Company through December 2, 2020, which is the date these financial statements were issued, and no subsequent events have arisen, other than those described in these financial statements, that would require disclosure.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3 - FAIR VALUE MEASUREMENTS

The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Certificate of deposit - Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. As of September 30, 2020, the certificates of deposit had a maturity of twelve months from its origination date with an interest rate of 2.25%.

Exchange-traded funds and mutual funds - Valued at quoted market prices in an exchange and active market, which represent the net asset values of shares held by the Company at year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All of the Company's assets measured at fair value on a recurring basis are measured as level 1 within the fair value hierarchy. Asset categories are disaggregated as follows at September 30, 2020:

| | | |
|------------------------|----|----------------|
| Exchange-Traded Funds: | | |
| Bond Funds | \$ | 196,393 |
| Equity Funds | | 46,006 |
| Mutual Funds: | | |
| Bond Funds | | 151,361 |
| Equity Funds | | 80,965 |
| Certificate of Deposit | | <u>310,883</u> |
| | \$ | <u>785,608</u> |

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 4 - INVENTORIES

Inventories consist of the following at September 30, 2020:

| | | |
|--------------------------|----|----------------|
| Raw materials and powder | \$ | 47,086 |
| Components | | 55,480 |
| Finished goods | | <u>63,085</u> |
| | \$ | <u>165,651</u> |

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2020 consist of:

| | | |
|--|----|------------------|
| Equipment | \$ | 299,810 |
| Leasehold improvements | | <u>34,539</u> |
| | | 334,349 |
| Less accumulated depreciation and amortization | | <u>(328,201)</u> |
| | \$ | <u>6,148</u> |

Depreciation and amortization expense on property and equipment was \$2,491 and \$8,099 during the years ended September 30, 2020 and 2019, respectively.

NOTE 6 – FORGIVABLE NOTE PAYABLE

On May 5, 2020, the Company obtained a \$106,665 Paycheck Protection Program (the “PPP Loan”) funded by the U.S Small Business Administration (“SBA”) from a bank. All or a portion of the PPP Loan may be forgiven based on the Company’s use of the proceeds of the PPP Loan for its payroll costs and other expenses in accordance with the requirements of the Paycheck Protection Program. If the PPP Loan is not fully forgiven, the Company will remain liable for the full and punctual payment of the outstanding principal balance plus accrued and unpaid interest. The PPP Loan accrues interest at a rate per annum equal to 1.00%, the outstanding principal balance accrued and unpaid interest is payable in monthly installments commencing the date that the SBA remits the Company’s loan forgiveness amount to the lender. The note must be repaid within 24 months of funding, which would be May 2022, but the Company may have an option to extend the maturity date, based on approval of the lending institution, for up to a total of 60 months from the date of initial funding, which would be May 2025. The PPP Loan is unsecured, and may be prepaid at any time prior to maturity with no prepayment penalties.

NOTE 7 - SHAREHOLDERS' EQUITY

Quasi reorganization - During the year ended September 30, 2015, upon recommendation by the officers of the Company and approval by the board of directors, a corporate readjustment was implemented. The Company accumulated a deficit of \$24,556,683 prior to September 30, 2014, under previous management. The Company's prior management was replaced and reorganized from 1995 through 1999. The new management, through September 30, 2014, had modified the operational strategy successfully to enable the Company to operate in the present form which had been profitable over the six consecutive years ending September 30, 2014.

As a result, as of October 1, 2014, the Company's accumulated deficit was reduced to \$0 from \$24,556,683, and the common stock account was reduced to \$609,630 from \$25,166,313.

Common stock – On December 10, 2019, 500,000 shares of restricted stocks were issued to an employee as executive compensation and restricted for one year. The Company amortized and recorded stock compensation expense during the year ended September 30, 2020 were \$31,250 to reflect the amortization of the restricted stock.

On December 2, 2019, the Company issued 243,750 shares of common stock at \$0.08 per share to pay for a service liability previously recorded as an accounts payable at September 30, 2019, totaling \$19,500.

Stock option plans - The Company has one stock option plan whereby incentive stock options or nonqualified stock options ("Options") may be granted to employees, directors, officers, and others to purchase shares of the Company's common stock ("Shares"). The options are exercisable at prices which equal or exceed the fair value of the Company's common stock at the date of grant. The option exercise price may be payable in cash or shares of previously owned Company common stock (if any) (valued by a committee of the Board of Directors). Options granted pursuant to the plan vest and expire according to the terms of each option agreement. At September 30, 2020, this plan had 1,800,000 outstanding options that were granted on August 12, 2020.

On August 12, 2020 (the "Grant Date") the Company granted 1,800,000 incentive stock options to the President of the Company. These options vest 300,000 shares per year over a 6 period year period ("Installment"). Installments shall vest to the 300,000 shares annually up to 1,800,000 options. The options shall expire, and all rights hereunder to purchase the Shares shall terminate, 5 years from the vesting date.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 7 - SHAREHOLDERS' EQUITY, continued

A summary of the Company's stock option activity is presented in the following table:

| | Number of Shares | Exercise price per Share |
|---|---------------------|--------------------------------|
| Options outstanding at September 30, 2019 | - | \$ - |
| Granted | 1,800,000 | 0.10 |
| Options outstanding at September 30, 2020 | 1,800,000 | \$ 0.10 |

The following table summarized information about stock options outstanding at September 30, 2020:

| | | Options outstanding | | Options exercisable |
|---------|------------------|--------------------------------|---------------------|------------------------|
| Price | Number of Shares | Contractual life (in years) | Number of Shares | Number of Shares |
| \$ 0.10 | 1,800,000 | 10.89 | - | - |
| 0.10 | 1,800,000 | 10.89 | - | - |

The Company recorded stock-based compensation expense of \$390 in connection with the Plans for the year ended September 30, 2020. The stock-based compensation expense is measured using "Black-Scholes-Merton option-pricing model", incorporating the following weighted average assumption as of the grant date on August 12, 2020:

| | | |
|----------------------------------|----|-------|
| Expected Dividend yield | | 0% |
| Expected stock-price volatility | | 40% |
| Risk-free interest rate | | 0.67% |
| Expected term of options (years) | | 11 |
| Stock price | \$ | 0.10 |
| Exercise price | \$ | 0.10 |

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 7 - SHAREHOLDERS' EQUITY, continued

Preferred stock - The Company has authorized 1,000,000 shares of preferred stock to be issued. These shares may be issued in one or more series as determined by the Board of Directors. At the time of determination, the rate of dividends (whether cumulative or non-cumulative), redemption features, and liquidation preferences will be established. At September 30, 2020, no preferred stock determinations or issuances have been authorized by the Board of Directors.

NOTE 8 - PROVISION FOR INCOME TAXES

The provision for income taxes for the years ended September 30 is comprised of the following:

| | <u>2020</u> | <u>2019</u> |
|-------------------|------------------|------------------|
| Current provision | \$ 11,546 | \$ 11,605 |
| Deferred benefit | <u>-</u> | <u>-</u> |
| | <u>\$ 11,546</u> | <u>\$ 11,605</u> |

As of September 30, 2020, the significant components of the Company's net deferred tax assets are as follows:

| | |
|--------------------------------------|-----------------|
| Deferred tax assets: | |
| Net operating loss carryforwards | \$ 9,600 |
| Research and development tax credits | 47,500 |
| CARES Act Forgivable loan | 22,500 |
| Allowances and other | <u>1,100</u> |
| | 80,700 |
| Valuation allowance | <u>(80,700)</u> |
| | <u>\$ -</u> |

During fiscal 2020 the valuation allowance decreased by \$18,400.

The Organization utilized approximately \$165,000 in net operating loss carryforwards ("NOLs") and \$2,100 in state research tax credits to reduce their taxable income during the year ended September 30, 2020.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 8 - PROVISION FOR INCOME TAXES, continued

As of September 30, 2020, the Company had NOLs for federal reporting purposes of approximately \$47,000 which expire in various years through fiscal 2024. The Federal tax codes provide for restrictive limitations on the annual utilization of NOLs to offset taxable income when the stock ownership of a company significantly changes, as defined. As of September 30, 2020, the Company has research tax credits of \$47,500 for Federal tax purposes and \$0 for state tax purposes. The research tax credits are available to offset future tax liabilities, if any, through 2040. Due to historical ownership changes, the utilization of the research tax credits are subject to annual limitations in future periods, which could substantially reduce the Company's ability to offset future taxable income. Utilization of these amounts could be further limited if additional ownership changes occur in the future.

As of September 30, 2020, the Company's federal tax returns since the 2016 tax year and state tax returns since the 2015 tax year remain open for examination by the tax jurisdictions. No tax returns are currently being examined by taxing authorities.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Operating leases - The Company leases its corporate headquarters under a non-cancelable operating lease agreement expiring in August 2024. Total rent expense for all locations in the United States was \$45,931 and \$36,364 for the years ended September 30, 2020 and 2019, respectively.

Future annual minimum payments under all operating leases for the year ending September 30, are:

| | | |
|------|----|----------------|
| 2021 | \$ | 44,667 |
| 2022 | | 46,003 |
| 2023 | | 47,386 |
| 2024 | | 44,627 |
| | | <u>44,627</u> |
| | \$ | <u>182,683</u> |

NOTE 10 – RISK AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the spread of Coronavirus disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. It is expected the COVID-19 could potentially impact the Company's Fiscal 2021 operations resulting in a decline in revenue, additional bad debts and other additional, unanticipated costs.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10 – RISK AND UNCERTAINTIES, continued

Management believe the Company is taking appropriate actions to mitigate the negative financial impact. However, the full financial impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

NOTE 11 - EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution plan covering full time employees. Employees may contribute up to the maximum 401(k) contribution allowed under the Internal Revenue Code each plan year. Employee contributions to the plan are withheld from wages and are vested 100% immediately.

The Company matches each employee's contribution up to the first 3% of their pay and all such contributions are vested immediately. The Company's contributions to the defined contribution plan for the years ending September 30, 2020 and 2019 were \$15,644 and \$8,339, respectively.

NOTE 12 - BASIC AND DILUTED INCOME PER SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted income per share computations:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Numerator for basic and diluted income per share: | | |
| Net income | \$ 49,894 | \$ 70,673 |
| Denominator for basic and diluted income per share: | | |
| Weighted average shares (basic) | 22,624,552 | 21,985,613 |
| Common stock equivalents | - | - |
| Weighted average shares (diluted) | <u>22,624,552</u> | <u>21,985,613</u> |
| Basic and diluted income per share: | | |
| Basic | \$ 0.002 | \$ 0.003 |
| Diluted | <u>\$ 0.002</u> | <u>\$ 0.003</u> |

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 13 - BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in multiple industry segments providing in-vitro (non-animal) consumer, product, and environmental safety test method to customers in the cosmetics, personal care, household products, textiles, pharmaceuticals, chemicals, and hazardous waste transportation industries.

Revenues, net income, and identifiable assets by geographic area as of September 30, 2020 and for the years ended September 30, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|----------------------|---------------------|---------------------|
| Revenues: | | |
| United States | \$ 889,737 | \$ 816,716 |
| Other countries | <u>215,079</u> | <u>236,021</u> |
| | <u>\$ 1,104,816</u> | <u>\$ 1,052,737</u> |
| Net income: | | |
| United States | \$ 40,181 | \$ 54,828 |
| Other countries | <u>9,713</u> | <u>15,845</u> |
| | <u>\$ 49,894</u> | <u>\$ 70,673</u> |
| Identifiable assets: | | |
| United States | \$ 1,499,759 | \$ 1,358,858 |
| Other countries | <u>39,279</u> | <u>20,981</u> |
| | <u>\$ 1,539,038</u> | <u>\$ 1,379,839</u> |