



INVITRO INTERNATIONAL, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2021)
with

INDEPENDENT AUDITOR'S REPORT THEREON



CERTIFIED PUBLIC ACCOUNTANTS

INVITRO INTERNATIONAL, INC.

INDEX

	<u>Page</u>
Independent Auditor's Report	1 - 3
Balance Sheet	4
Statement of Comprehensive Income	5
Statement of Changes in Shareholders' Equity	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 21



Independent Auditor's Report

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

Opinion

We have audited the financial statements of InVitro International (the "Company"), which comprise the balance sheets as of September 30, 2022, and the related statements of comprehensive income, changes in shareholders' equity, and cash flows for the year ended September 30, 2022, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.



Report on Comparative Information

We have previously audited the Company's September 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 3, 2021. In our opinion, the summarized comparative information presented herein for the year ended September 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Torrance, California
December 8, 2022

INVITRO INTERNATIONAL, INC.

BALANCE SHEET
SEPTEMBER 30, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	1,232,474
Accounts receivable, net of allowance of \$3,500		51,441
Inventories		157,516
Prepaid expenses		<u>38,126</u>
		1,479,557

PROPERTY AND EQUIPMENT, net 14,914

DEPOSITS AND OTHER ASSETS 15,575

\$ 1,510,046

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$	5,221
Accrued payroll and employee benefits		36,227
Income taxes payable		800
Other accrued liabilities		<u>25,989</u>
		<u>68,237</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; 22,659,809 shares issued and outstanding		654,081
Additional paid in capital		9,275
Accumulated other comprehensive income		63,996
Retained earnings		<u>714,457</u>
		<u>1,441,809</u>
	\$	<u>1,510,046</u>

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

INVITRO INTERNATIONAL, INC.

STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED SEPTEMBER 30, 2022

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2021)

	<u>2022</u>	<u>2021</u>
REVENUES	\$ 853,511	\$ 1,003,403
EXPENSES		
Cost of revenues	173,319	199,196
Selling, general, and administrative	708,879	719,453
Research and development	88,081	111,540
	<u>970,279</u>	<u>1,030,189</u>
OPERATING LOSS	<u>(116,768)</u>	<u>(26,786)</u>
OTHER INCOME		
Forgiveness CARES Act PPP loans No.1 & No. 2	101,015	106,665
Employee retention credits, net	107,108	-
Interest and dividend income	11,501	11,090
Realized gain (loss) on securities	(90,290)	7,128
Unrealized gain (loss) on securities	-	7,405
	<u>129,334</u>	<u>132,288</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	12,566	105,502
PROVISION FOR (BENEFIT FROM) INCOME TAXES	<u>(8,710)</u>	<u>9,510</u>
NET INCOME	<u>\$ 21,276</u>	<u>\$ 95,992</u>
OTHER COMPREHENSIVE INCOME		
Currency translation adjustment	-	(2,470)
COMPREHENSIVE INCOME	<u>\$ 21,276</u>	<u>\$ 93,522</u>
NET INCOME PER COMMON SHARE:		
Basic	<u>\$ 0.001</u>	<u>\$ 0.004</u>
Diluted	<u>\$ 0.001</u>	<u>\$ 0.004</u>
Weighted average common shares outstanding - basic	<u>22,659,809</u>	<u>22,759,809</u>
Weighted average common shares outstanding - diluted	<u>23,300,083</u>	<u>23,100,083</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, 2022 (WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2021)

	Common Stock		Restricted Stock Issued	Additional Paid in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	<u>Shares</u>	<u>Amount</u>					
BALANCE, September 30, 2020	22,759,809	\$ 669,080	\$ (6,250)	\$ 390	\$ 66,466	\$ 597,189	\$ 1,326,875
Amortization of restricted stock	-	-	6,250	-	-	-	6,250
Share based compensation	-	-	-	3,629	-	-	3,629
Net income	-	-	-	-	-	95,992	95,992
Other comprehensive income	-	-	-	-	(2,470)	-	(2,470)
BALANCE, September 30, 2021	22,759,809	669,080	-	4,019	63,996	693,181	1,430,276
Repurchase of common stock	(100,000)	(14,999)	-	-	-	-	(14,999)
Share based compensation	-	-	-	5,256	-	-	5,256
Net income	-	-	-	-	-	21,276	21,276
BALANCE, September 30, 2022	<u>22,659,809</u>	<u>\$ 654,081</u>	<u>\$ -</u>	<u>\$ 9,275</u>	<u>\$ 63,996</u>	<u>\$ 714,457</u>	<u>\$ 1,441,809</u>

The accompanying notes are an integral part of these financial statements

INVITRO INTERNATIONAL, INC.

STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2022 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2021)

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 21,276	\$ 95,992
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,894	2,713
Share-based compensation	5,256	9,879
Loss (gain) on securities	90,290	(14,533)
CARES Act PPP Loans No. 1 & No. 2 forgiveness income	(101,015)	(106,665)
Changes in operating assets and liabilities:		
Accounts receivable, net	70,818	24,340
Inventories	(17,137)	25,272
Prepaid expenses	(1,900)	3,892
Other assets	1,500	(4,000)
Accounts payable	2,395	(6,789)
Accrued payroll and employee benefits	(26,467)	3,014
Income taxes payable	(8,710)	(119)
Other accrued liabilities	424	(1,009)
Net cash flows from operating activities	<u>40,624</u>	<u>31,987</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(9,375)	(3,096)
Purchases of investments	(98,610)	(482,285)
Proceeds from the sale of investments	<u>793,288</u>	<u>497,458</u>
Net cash flows from investing activities	<u>685,303</u>	<u>12,077</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of common stock	(14,999)	-
Borrowings on CARES Act forgivable note payable No. 2	<u>-</u>	<u>101,015</u>
Net cash flows from financing activities	<u>(14,999)</u>	<u>101,015</u>
Effect of foreign exchange rate on cash	<u>-</u>	<u>(2,470)</u>
Net change in cash and cash equivalents	710,928	142,609
Cash and cash equivalents, beginning of year	<u>521,546</u>	<u>378,937</u>
Cash and cash equivalents, end of year	<u>\$ 1,232,474</u>	<u>\$ 521,546</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 8,500</u>

The accompanying notes are an integral part of these financial statements

NOTE 1 - NATURE OF OPERATIONS

InVitro International, Inc. (“IVRO”, 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. Our technologies are 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 the 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 more than 35 member countries, including the U.S., and covers more than 80% of the world of commerce.

IVRO’s reorganization began in 2000 with a concept of establishing strategic alliances with other laboratories around the world. They lacked the resources to replace “Animal” testing without their help. IVRO entered a strategic alliance with INTEGRA in Italy naming them their 1st European “partner laboratory”. In addition, the Company asked them to be their training center in Europe and their permanent agent/distributor. They also asked INTEGRA to help them learn the Regulatory landscape for in vitro test technologies with the OECD.

IVRO completed the restructure of its organization while it won OECD adoption of Corrositex® (OECD 435) and Ocular Irritation® (OECD 496). These technologies deliver test results scientifically and legally accepted as full replacements for animal test results. Such results are Global Harmonization System (GHS) recognized in all the aforementioned OECD member countries. All three of IVRO’s technologies are now capable of delivering GHS level test results.

Today, IVRO is building its base of partner laboratories globally. Their primary function is to aid in furthering awareness among clients and prospects within their respective geographies. The message is that NON-Animal test technologies now have the same Regulatory and Legal standing as animal testing. In addition, IVRO’s test methods save companies both time and money; clearly they eliminate unnecessary sacrifice of animals and finally they allow new products to get to market faster. Our strategic direction will emphasize collaboration with laboratories around the world while continuing to research and develop replacement tests for animals in more areas as well.

As described in Note 8, 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.

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 by applying the following five step approach: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to performance obligations in the contract, and (5) recognize revenue when or as a performance obligation is satisfied.

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. The combined foreign operations generated approximately 27% and 31% of the Company's total revenues during fiscal 2022 and 2021, 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 11% of the Company's total revenues during fiscal 2022, whereas one of its top customers generated 11% during fiscal 2021. The largest customer had an outstanding balance of \$11,173 owed to the Company as of September 30, 2022.

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

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, 2022 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, 2022, management has recorded a reserve for potentially bad debts of \$3,500.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 \$251,258, totaled \$1,497 at September 30, 2022 and are included in deposits and other assets. Amortization expense related to patents was \$500 during the years ended September 30, 2022 and 2021.

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 \$110,702, totaled \$7,521 at September 30, 2022 and are included in deposits and other assets. Amortization expense related to software totaled \$950 during the years ended September 30, 2022 and 2021.

Long-lived assets - The Company assesses, using a qualitative then a quantitative approach, the recoverability of long lived assets, including property and equipment, whenever triggering 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, the Company has not identified any impairment of long-lived assets. As of and for the year ended September 30, 2022, no triggering events were deemed present and therefore no impairment charges related to long lived assets were recognized. However, there can be no assurance that market conditions will not change, 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, 2022 and 2021 amounted to \$74,214 and \$84,741, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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, 2022, 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, 2022, the Company has a stock-based employee compensation plan, which is described more fully in Note 8. 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. No stock options were granted during the year ended September 30, 2022.

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 2022 and 2021, 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 8, 2022, which is the date these financial statements were issued, and no subsequent material events have arisen, other than those described in these financial statements, that would require disclosure.

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.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 3 - FAIR VALUE MEASUREMENTS, continued

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.

As of September 30, 2022, the Company liquidated its investment accounts and transferred \$784,968 of its proceeds to a savings account.

NOTE 4 - INVENTORIES

Inventories consist of the following at September 30, 2022:

Raw materials and powder	\$	40,796
Components		69,150
Finished goods		<u>47,570</u>
	\$	<u><u>157,516</u></u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of September 30, 2022 consist of:

Equipment	\$	312,281
Leasehold improvements		<u>34,539</u>
		346,820
Less accumulated depreciation and amortization		<u>(331,906)</u>
	\$	<u><u>14,914</u></u>

Depreciation and amortization expense on property and equipment was \$2,442 and \$1,263 during the years ended September 30, 2022 and 2021, respectively.

NOTE 6 - CARES ACT PPP LOAN NO. 2 FORGIVENESS INCOME

COVID-19 impact - 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 2023 operations resulting in a decline in revenue, additional bad debts and other additional, unanticipated costs. Management believes the Company is taking appropriate actions to mitigate the negative financial impact, including participation in the Payroll Protection Program (or "PPP"). However, the full financial impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

Forgiveness income - On April 4, 2021, the Company obtained a low-interest loan in the amount of \$101,015 from a financial institution in connection with the U.S Small Business Administration's ("SBA") Paycheck Protection Program (the "PPP Loan No. 2"). In December 2021, the PPP Loan No. 2 was fully forgiven by the SBA based on the Company's use of the proceeds for its payroll costs and other expenses in accordance with the requirements of the CARES Act. The amount forgiven for \$101,015 is included in Other Income in the Statement of Comprehensive Income for the year ended September 30, 2022.

NOTE 7 - EMPLOYEE RETENTION CREDITS

In August 2022, the Company claimed Employee Retention Credits ("ERC") of \$107,108 on qualified wages paid in the fourth quarter of fiscal year 2022. This amount is net of an \$11,900 administration filing fee. The Company has accounted for the ERC by analogizing to International Accounting Standard ("IAS") 20, which provides a model for the accounting of different forms of government assistance. Under the IAS 20 model, government assistance is not recognized until there is reasonable assurance (similar to the probable threshold in U.S. GAAP) that any conditions attached to the assistance will be met and the assistance will be received. Once there is reasonable assurance that the conditions will be met, the earnings impact of the grant is recorded on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

The Company determined through internal calculations, that all criteria for the ERC have been met as of September 30, 2022. In analogizing to IAS 20, the Company recorded ERC receivable of \$107,108 in the accompanying income statement for the credits received and recognized a corresponding amount as other income within the accompanying statement of comprehensive income and retained earnings.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 8 - 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. During the year ended September 30, 2022, the Company did not amortize restricted stock compensation.

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.

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. At September 30, 2022, this plan had 1,800,000 options outstanding.

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

	<u>Number of Shares</u>	<u>Exercise price per Share</u>
Options outstanding at September 30, 2021	1,800,000	\$ 0.10
Granted	<u>-</u>	0.10
Options outstanding at September 30, 2022	<u><u>1,800,000</u></u>	\$ 0.10

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 8 - SHAREHOLDERS' EQUITY, continued

The following table summarized information about stock options outstanding at September 30, 2022:

Price	Options outstanding		Options exercisable
	Number of Shares	Contractual life (in years)	Number of Shares
\$ 0.10	1,800,000	8.89	600,000
0.10	1,800,000	8.89	600,000

The Company recorded stock-based compensation expense of \$5,256 and \$3,629 in connection with the Plans for the years ended September 30, 2022 and 2021, respectively. 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)		9
Stock price	\$	0.10
Exercise price	\$	0.10

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, 2022, no preferred stock determinations or issuances have been authorized by the Board of Directors.

Repurchase of common stock - The Company’s Board of Directors from time to time has authorized the repurchase of shares of the Company’s common stock, in the open market or through negotiated transactions, at such times and at such prices as management may decide. As of September 30, 2022, the Corporation agreed to acquire 100,000 shares of its common stock from a shareholder in exchange for \$14,999.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 8 - SHAREHOLDERS' EQUITY, continued

Reconciliation of outstanding shares of common stock - As a result of the Company's aforementioned repurchase of 100,000 shares of common stock, the Company's stock transfer agent confirmed outstanding shares of common stock as of September 30, 2022 are 100,000 shares higher than the outstanding shares on the accompanying financial statements of 22,659,809 as of September 30, 2022.

Subsequent stock-based compensation - On October 27, 2022 (the "Grant Date"), the Company granted stock options to its President, four employees, and one consultant. The President received 350,000 stock options and of the four employees and one consultant, one employee and one consultant each received 100,000 stock options. Also, three employees each received 50,000 options to purchase shares of common stock. These shares vest in even installments over a four year period ("Installment"). The shares price is equal to the fair market value of the shares on the Grant Date. The options shall expire, and all rights hereunder to purchase the shares shall terminate, ten years from the vesting date.

NOTE 9 - PROVISION FOR (BENEFIT FROM) INCOME TAXES

The provision for (benefit from) income taxes for the years ended September 30th is comprised of the following:

	<u>2022</u>	<u>2021</u>
Current provision (benefit) \$	(8,710)	\$ 9,510
Deferred benefit	-	-
	<u>\$ (8,710)</u>	<u>\$ 9,510</u>

As of September 30, 2022, the significant components of the Company's net deferred tax assets are as follows:

Deferred tax assets:	
Net operating loss carryforwards	\$ 41,500
Research and development tax credits	63,800
Allowances and other	<u>11,500</u>
	116,800
Valuation allowance	<u>(116,800)</u>
	<u>\$ -</u>

During fiscal 2022, the valuation allowance increased by \$43,200.

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 9 - PROVISION FOR INCOME TAXES, continued

The Company did not utilize funds in either net operating loss carryforwards (“NOLs”) nor in state research tax credits to reduce their taxable income during the year ended September 30, 2022. The Company had PPP Loan No. 2 forgiveness income of \$101,015 during the year ended September 30, 2022, which was not taxable for Federal or State tax purposes.

As of September 30, 2022, the Company had NOLs for federal reporting purposes of approximately \$213,000, of which \$142,000 expire through fiscal 2024 and \$71,000 are available indefinitely.

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, 2022, the Company has research tax credits of \$63,800 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, 2022, the Company’s federal tax returns since the 2018 tax year and state tax returns since the 2017 tax year remain open for examination by the tax jurisdictions. No tax returns are currently being examined by taxing authorities.

NOTE 10 - 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 \$45,931 for the years ended September 30, 2022 and 2021, respectively.

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

2023	\$	47,386
2024		<u>44,627</u>
	\$	<u>92,013</u>

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 11 - EMPLOYEE BENEFIT PLAN

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, 2022 and 2021 were \$15,242 and \$16,423, 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>2022</u>	<u>2021</u>
Numerator for basic and diluted income per share:		
Net income	\$ 21,276	\$ 95,992
Denominator for basic and diluted income per share:		
Weighted average shares (basic)	22,659,809	22,759,809
Common stock equivalents	640,274	340,274
Weighted average shares (diluted)	<u>23,300,083</u>	<u>23,100,083</u>
Basic and diluted income per share:		
Basic	\$ 0.001	\$ 0.004
Diluted	<u>\$ 0.001</u>	<u>\$ 0.004</u>

INVITRO INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

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, 2022 and for the years ended September 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Revenues:		
United States	\$ 622,801	\$ 675,933
Other countries	<u>230,710</u>	<u>327,470</u>
	<u>\$ 853,511</u>	<u>\$ 1,003,403</u>
Net income:		
United States	\$ 15,525	\$ 64,664
Other countries	<u>5,751</u>	<u>31,328</u>
	<u>\$ 21,276</u>	<u>\$ 95,992</u>
Identifiable assets:		
United States	\$ 1,483,782	\$ 1,576,332
Other countries	<u>26,264</u>	<u>55,554</u>
	<u>\$ 1,510,046</u>	<u>\$ 1,631,886</u>