

**HALBERD CORPORATION AND  
SUBSIDIARY**

**(a development stage company)  
Southfield, Michigan**

**INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

**For the Three and Nine Months Ended  
April 30, 2014 and April 30, 2013 and  
August 2, 2007 (date of inception) to April 30, 2014**

**HALBERD CORPORATION  
AND SUBSIDIARY**  
(a development stage company)

**TABLE OF CONTENTS**

---

|   | <u>Page</u> |
|---|-------------|
| Interim Consolidated Financial Statements:  |             |
| Consolidated Balance Sheet as of April 30, 2014 (unaudited) and July 31, 2013 (unaudited)   | 2           |
| Consolidated Statement of Operations for the three and nine months ended April 30, 2014 (unaudited) and 2013 (unaudited) and August 2, 2007 (date of inception) to April 30, 2014 (unaudited) | 3           |
| Consolidated Statements of Stockholders' Equity (Deficit) for the nine months ended April 30, 2014 (unaudited) and 2013 (unaudited)   | 4           |
| Consolidated Statement of Cash Flows for the nine months ended April 30, 2014 (unaudited) and 2013 and August 2, 2007 (date of inception) of April 30, 2014 (unaudited)                       | 5           |
| Notes to the Consolidated Financial Statements  | 6-15        |

**HALBERD CORPORATION AND SUBSIDIARY**  
**(a development stage company)**  
**CONSOLIDATED BALANCE SHEET**

**ASSETS**

|                             | <u>April 30, 2014</u>   | <u>July 31, 2013</u>    |
|-----------------------------|-------------------------|-------------------------|
| Cash and cash equivalents   | \$ 86                   | \$ 171,198              |
| Accounts receivable         | 38,312                  | 200,000                 |
| Investment                  | 200,000                 | 92,998                  |
| Inventory                   | 2,213                   | 2,961                   |
| Prepaid insurance           | 1,565,729               | 1,591,606               |
| Property and equipment, net |                         |                         |
| <b>Total assets</b>         | <b><u>1,806,340</u></b> | <b><u>2,058,763</u></b> |

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

|   |                            |                            |
|---|----------------------------|----------------------------|
| <b>Liabilities</b>  |                            |                            |
| Accounts payable  | \$ 355,012                 | \$ 213,775                 |
| Accrued expenses  | 124,086                    | 203,696                    |
| Note payable  | 752,969                    | 792,561                    |
| Convertible notes payable   | 198,075                    | 170,475                    |
| Related party   | 262,251                    | 199,068                    |
| Current portion long-term debt  | <u>10,596</u>              | <u>10,596</u>              |
|   | 1,702,989                  | 1,590,171                  |
| <b>Long-term debt</b>   | 785,790                    | 769,035                    |
| <b>Total liabilities</b>  | <b><u>2,488,779</u></b>    | <b><u>2,359,206</u></b>    |
| <b>Stockholders' equity (deficit)</b>   |                            |                            |
| Common stock - \$0.001 par value; 590,000,000 and 120,00,000 shares authorized, 123,634,139 and 118,634,139 shares issued and outstanding at April 30, 2014 and July 31, 2013, respectively | 103,632                    | 98,632                     |
| Preferred stock - \$0.001 par value; 10,000,000 shares authorized, 5,000,000 and 0 shares issued and outstanding at April 30, 2014 and July 31, 2013, respectively                          | 5,000                      | -                          |
| Additional paid-in-capital  | 939,498                    | 926,248                    |
| Deficit accumulated during the development stage  | <u>(1,730,569)</u>         | <u>(1,325,323)</u>         |
| <b>Total stockholders' equity (deficit)</b>   | <b><u>(682,439)</u></b>    | <b><u>(300,443)</u></b>    |
| <b>Total liabilities and stockholders' equity (deficit)</b>   | <b><u>\$ 1,806,340</u></b> | <b><u>\$ 2,058,763</u></b> |

**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                  | Three Months Ended<br>April 30 |                    | Nine Months Ended<br>April 30 |                     | Cumulative<br>Period From<br>August 2, 2007<br>(date of inception)<br>to April 30 |
|----------------------------------|--------------------------------|--------------------|-------------------------------|---------------------|---|
|                                  | 2014                           | 2013               | 2014                          | 2013                | 2014  |
| Net sales                        | \$ 56,841                      | \$ 54,495          | \$ 170,809                    | \$ 145,192          | \$ 797,447  |
| Cost of sales                    |                                |                    | 0                             | 1,267               | 12,845  |
| Gross margin                     | <u>56,841</u>                  | <u>54,495</u>      | <u>170,809</u>                | <u>143,925</u>      | <u>784,602</u>  |
| Operating expenses               | <u>94,038</u>                  | <u>122,600</u>     | <u>302,278</u>                | <u>232,015</u>      | <u>2,321,940</u>  |
| Operating loss                   | <u>(37,197)</u>                | <u>(68,105)</u>    | <u>(131,469)</u>              | <u>(88,090)</u>     | <u>(1,537,338)</u>  |
| Other income (expense)           |                                |                    |                               |                     |   |
| Debt forgiveness                 |                                |                    |                               |                     | 223,262   |
| Other income                     | 3,940                          |                    | 3,940                         | 175                 | 4,336   |
| Bad debt                         | (132,790)                      |                    | (132,790)                     |                     | (132,790)   |
| Obsolete inventory               | (92,998)                       |                    | (92,998)                      |                     | (92,998)  |
| Loss on asset sale               |                                |                    |                               |                     | (4,617)   |
| Interest income                  |                                |                    |                               |                     | 1,253   |
| Interest expense                 | <u>(17,344)</u>                | <u>(18,066)</u>    | <u>(51,929)</u>               | <u>(53,930)</u>     | <u>(460,660)</u>  |
|                                  | <u>(239,192)</u>               | <u>(18,066)</u>    | <u>(273,777)</u>              | <u>(53,755)</u>     | <u>(462,214)</u>  |
| Loss before income tax benefit   | (276,389)                      | (86,171)           | (405,246)                     | (141,845)           | (1,999,552)   |
| Sellmybusiness.com, Inc spin out |                                |                    |                               |                     | 268,983   |
| Net Income (Loss)                | <u>\$ (276,389)</u>            | <u>\$ (86,171)</u> | <u>\$ (405,246)</u>           | <u>\$ (141,845)</u> | <u>\$ (1,730,569)</u>   |

HALBERD CORPORATION AND SUBSIDIARY  
(a development stage company)  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

|  | Common Stock       |                   | Preferred Stock  |                 | Additional<br>Paid-in<br>Capital | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Stockholders'<br>Deficit |
|--|--------------------|-------------------|------------------|-----------------|----------------------------------|--|-----------------------------------|
|  | Shares             | Amount            | Shares           | Amount          |                                  |  |                                   |
| Balances - August 1, 2012                    | 65,387,104         | \$ 45,385         |                  | \$              | \$ 793,247                       | \$ (1,114,155)   | \$ (275,523)                      |
| Conversion of note to stock                  | 9,615,315          | 9,615             |                  |                 | 43,750                           |  | 53,365                            |
| Repayment of shareholder loan                | 43,631,720         | 43,632            |                  |                 | 89,251                           |  | 132,883                           |
| Net income                                   | -                  | -                 | -                | -               | -                                | (141,845)  | (141,845)                         |
| Balances - April 30, 2013                    | <u>118,634,139</u> | <u>\$ 98,632</u>  | <u>-</u>         | <u>\$ -</u>     | <u>\$ 926,248</u>                | <u>\$ (1,256,000)</u>  | <u>\$ (231,120)</u>               |
|  | Common Stock       |                   | Preferred Stock  |                 | Additional<br>Paid-in<br>Capital | Deficit<br>Accumulated<br>During the<br>Development<br>Stage | Total<br>Stockholders'<br>Deficit |
|  | Shares             | Amount            | Shares           | Amount          |                                  |  |                                   |
| Balances - August 1, 2013                    | 118,634,139        | \$ 98,632         |                  | \$              | \$ 926,248                       | \$ (1,325,323)   | \$ (300,443)                      |
| Preferred stock issued to controlling member |                    |                   | 5,000,000        | 5,000           |                                  |  | 5,000                             |
| Issue shares for acquisition                 | 5,000,000          | 5,000             |                  |                 | 13,250                           |  | 18,250                            |
| Net Income                                   | -                  | -                 | -                | -               | -                                | (405,246)  | (405,246)                         |
| Balances - April 30, 2014                    | <u>123,634,139</u> | <u>\$ 103,632</u> | <u>5,000,000</u> | <u>\$ 5,000</u> | <u>\$ 939,498</u>                | <u>\$ (1,730,569)</u>  | <u>\$ (682,439)</u>               |

**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

|   | Nine Months Ended April 30 |              | Cumulative<br>Period From<br>August 2, 2007<br>(date of inception)<br>to April 30<br>2014 |
|---|----------------------------|--------------|---|
|   | 2014                       | 2013         | 2014  |
| <b>Cash flows provided to operating activities:</b>                                       |                            |              |   |
| Net Income (loss)   | \$ (405,246)               | \$ (141,845) | \$ (1,730,569)  |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                            |              |   |
| Depreciation, amortization and loss on disposition  |                            | 93           | 5,545   |
| Equity based expenses, net of filing costs  |                            |              | 307,373   |
| Changes in operating assets and liabilities that provided (used) cash:                    |                            |              |   |
| Accounts receivable   | 132,790                    | 18,754       | 13,512  |
| Inventory   | 92,998                     |              | -   |
| Prepaid expenses  |                            |              |   |
| Accounts payable and accrued expenses   | 151,076                    | 122,070      | 529,689   |
| <b>Net cash provided by (used in) operating activities</b>                                | <b>(28,382)</b>            | <b>(928)</b> | <b>(874,450)</b>  |
| <b>Cash flows from investing activities:</b>  |                            |              |   |
| Trademark costs   |                            | -            |   |
| Purchase of property and equipment  |                            | -            | (6,655)   |
| <b>Net cash used in investing activities</b>  | <b>-</b>                   | <b>-</b>     | <b>(6,655)</b>  |
| <b>Cash flows provided by financing activities:</b>                                       |                            |              |   |
| Repayment of long-term debt   |                            | 48           | 187,116   |
| Issuance of related party notes payable   | 868                        |              | 613,075   |
| Issuance of convertible notes payable   | 27,600                     |              | 81,000  |
| Issuance of private placement, net of offering cost of \$12,500                           | -                          | -            |   |
| <b>Net cash provided by financing activities</b>  | <b>28,468</b>              | <b>48</b>    | <b>881,191</b>  |
| <b>Net increase in cash and cash equivalents</b>  | <b>86</b>                  | <b>(880)</b> | <b>86</b>   |
| Cash and cash equivalent, beginning of period   | -                          | 880          | -   |
| <b>Cash and cash equivalent, end of period</b>  | <b>\$ 86</b>               | <b>\$ -</b>  | <b>\$ 86</b>  |
| <b>Supplemental disclosure of noncash financing activities:</b>                           |                            |              |   |
| Issuance of shares of common stock in exchange for consulting services                    | \$                         | \$           | \$ 330,500  |
| Issuance of 70,000 shares of common stock in exchange for Board services                  | \$ -                       | \$ -         | \$ 17,500   |
| Issuance of 39,019,104 shares of common stock in exchange for notes and interest          | \$ -                       | \$ -         | \$ 150,259  |
| Conversion of notes payable and accrued interest  | \$ -                       | \$ 186,248   | \$ 509,248  |
| Acquisition of commercial building  | \$                         | \$ -         | \$ 869,893  |
| Direct filing costs associated with registration of common shares                         | \$ -                       | \$ -         | \$ 76,127   |
| Interest paid   | \$                         | \$           | \$ 8,849  |
| Taxes paid  | \$ -                       | \$ -         | \$ -  |

**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The consolidated financial statements include the accounts of *Halberd Corporation* and its wholly owned subsidiary *Sellmybusinessnow.com, Inc.* through January 31, 2011. All intercompany balances and transactions have been eliminated in consolidation.

***Organization, Nature of Business (including development stage), and Basis of Presentation***

*Sellmybusinessnow.com, Inc.*, is a development stage company that was incorporated under the laws of the state of Michigan on August 2, 2007. The Company began operating under the name "*Sellmybusiness.com®*" on December 3, 2007. To date, the Company's activities have been limited to raising capital, obtaining financing, constructing its website and administrative functions. *Sellmybusiness.com®* intends to provide a single web portal for interested parties to find, buy and sell businesses, real estate and equipment and all the related services needed to support the transaction, including financing, incorporation, professional help and additional business resources. *Sellmybusiness.com®* intends to support businesses of all sizes and types, including start-ups, well-established companies, home-based businesses, closely-held companies, multinational public corporations and franchises. *Sellmybusiness.com®*'s real estate listing service will assist business people to buy, sell, lease or sublease commercial land and property. *Sellmybusiness.com®*'s equipment listing service will provide a portal to buy, sell or lease excess inventory, capital equipment, raw materials, vehicles, aircraft, ships and rail equipment.

On January 26, 2009, *Halberd Corporation*, a Nevada corporation, was formed by *Sellmybusinessnow.com, Inc.*'s founders in conjunction with a legal reorganization of the Company. *Halberd Corporation* is structured to act as the parent company of *Sellmybusinessnow.com, Inc.* As part of this action, and effective on January 28, 2009, all of the issued and outstanding shares of *Sellmybusinessnow.com, Inc.* common stock were exchanged on a 2,000-to-1 basis for *Halberd Corporation* common stock. As a result, the accompanying consolidated financial statements reflect this reorganization and are presented on a consolidated basis and are labeled as those of the parent company. *Halberd Corporation and Subsidiary* are collectively referred to as the "Company".

Effective February 1, 2011, Halberd Corporation entered into an agreement to spin off *Sellmbusinessnow.com, Inc.* in exchange for amounts due its largest related party debt holder.

**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

Also on February 1, 2011, the Company purchased all the assets of Precision Aviation, Inc. a privately held Nevada Corporation. This purchase is a change in the direction of Halberd Corporation to a manufacturer of both short and long-range Unmanned Aircraft (UAV's). Halberd's UAV's are intended for both private and governmental use in such diverse industries as military, oil and gas, municipal, meteorological, forestry, agriculture and coastal/border surveillance.

Halberd Corporation acquired the domain SPYDRONES.COM to start developing a stronger brand recognition for Halberd Corporation's drones for retail markets comprised of but not limited to gaming, news reporting agencies, military, agriculture and cattle ranching both domestic and abroad. The Company will use the newly acquired domain to offer all levels of the company's drones as well as launch new platforms currently being developed for release in the near future.

Effective April 30, 2014, the Company disposed of its Unmanned Aircrafts business due to Halberd's inability to execute its business plan in that business segment.

Effective August 1, 2011, the Company purchased the commercial building and related assets and liabilities of APM of the Carolinas, LLC. The acquisition will bring the company the proper facilities it needs to manufacture its short and long-range Unmanned Aircrafts.

Halberd Corporation has changed its business model to a holding company and incubator of early stage high growth companies. Halberd Corporation's new business plan is to help early stage companies get funded and eventually spin them off into their own public vehicles. Halberd will retain a significant investment in the spun off business and distribute shares directly to their shareholders.

Effective April 11, 2014, the Company purchased the controlling interest in Stop Smoking Clinics of New York (SSC of NY). SSC of NY licenses FDA approved stop smoking products and partners with local physicians to administer them in the tri-state area.

The Company has adopted a fiscal year end of July 31.



**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

***Basis of Accounting***

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for the nine months ended April 30, 2014 are not necessarily indicative of the results that may be expected for the year ended July 31, 2014.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 income and expenses during the reporting period. Actual results could differ from those estimates.

***Segment Reporting***

The Company has determined that it does not have any separately reportable business segments at April 30, 2014.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand and demand deposits in banks. The Company considers all highly liquid investments purchased with original maturities of six months or less to be cash equivalents.

***Revenue Recognition***

The Company utilizes the guidance in Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, to recognize revenue. Under SAB No. 104, revenue is recognized only when persuasive evidence of an agreement exists, delivery of the service has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Payments received in advance of services being rendered are recorded as deferred revenue and recognized on a straight-line basis over the service period.

**HALBERD CORPORATION AND SUBSIDIARY**  
**(a development stage company)**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

As the Company is in the development stage, it has generated limited revenues during the period ended April 30, 2014. Management believes the Company will principally derive its future revenue from management services and investments.

***Property and Equipment***

Management periodically reviews these assets to determine whether carrying values have been impaired.

***Depreciation and Amortization***

Depreciation on equipment is computed using the straight-line method over the estimated useful lives of the related assets which range from three to ten years.

***Income Taxes***

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Deferred income taxes relate principally to the Company's net operating loss carry forward.

***Concentration Risks***

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents and when they exist, trade accounts receivable. Cash and cash equivalents are deposited with high credit quality financial institutions. The Company's revenue and accounts receivable are primarily derived from sales of products and are typically settled within thirty business days.

***Fair Value of Financial Instruments***

The Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are carried at cost, which approximates their fair value because of the short-term maturity of these instruments.

**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

**2. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following assets at:

|                                    | <u>April 30,<br/>2014</u>  | <u>July 31,<br/>2013</u>   |
|------------------------------------|----------------------------|----------------------------|
| Shop Equipment                     | \$ 0                       | \$ 0                       |
| Commercial Building and Land       | <u>1,695,784</u>           | <u>1,695,784</u>           |
| Total                              | 1,695,784                  | 1,695,784                  |
| <br>Less accumulated depreciation  | <br><u>131,355</u>         | <br><u>104,178</u>         |
| <b>Property and equipment, net</b> | <b><u>\$ 1,565,729</u></b> | <b><u>\$ 1,591,606</u></b> |

**3. RELATED PARTY TRANSACTIONS (including debt and leases)**

Stock holders loaned money to the Company to cover operating expenses. Total debt as of April 30, 2014 and July 31, 2013 is \$11,568.

Precision Aviation purchased the controlling shares in Halberd Corporation from the previous majority shareholder of Halberd Corporation for \$200,000 as part of the company reorganization. \$12,500 was paid as a down payment. The balance due as of April 30, 2014 and July 31, 2013 is \$187,500. Accrued interest amounted to \$7,819 and \$43,755 for the periods ended April 30, 2014 and July 31, 2013, respectively

A related party provides accounting services and loans to the company. The balance due as of April 30, 2014 and July 31, 2013, was \$62,768 and \$52,700, respectively.

On August 1, 2011, a related party contributed a commercial building and its related operating assets and liabilities to the Company for a non-interest bearing loan. The balance as of April 30, 2014 is \$785,790.

**4. CONVERTIBLE DEBT**

On January 1, 2008, the Company issued convertible promissory notes totaling \$300,000 to eight stockholders, who own a combined 15% of the Company's common stock. The

**HALBERD CORPORATION AND SUBSIDIARY**  
**(a development stage company)**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

notes bore interest at 10% per annum and were due on the earlier of the Company registering any of its securities under the Securities Act of 1933, or eighteen months after the date of the note (April through July 2009). In addition, each of the note holders could convert the entire outstanding amount of their note including accrued interest into shares of the Company's common stock at any time up to the maturity date of the respective note.

During January 2009, all of the convertible debt was converted to equity, resulting in the issuance of 4,508,000 shares of the Company's common stock. Related accrued interest of \$23,000 on these loans was also converted to equity, resulting in the issuance of 92,000 shares of the Company's common stock. All shares in this note have been adjusted to reflect the exchange discussed in Note 1.

During October 2009, the Company issued convertible promissory notes totaling \$115,000 to two shareholders. The notes bear interest at 12% and are due after the 12-month anniversary date or anytime after the 12-month anniversary date but not more than 36-months after the note maturity date. The notes and any unpaid accrued interest are convertible into shares of common stock at the average closing bid price of the stock over the preceding 10 trading days less a 25% discount. The notes were not converted as of April 30, 2012. These notes and accrued interest were converted during June of 2012 for 39,019,104 shares of common stock.

During January 2010, the Company issued convertible promissory notes totaling \$170,475 to two shareholders. The notes bear interest at 12% and are due after the 12-month anniversary date or anytime after the 12-month anniversary date but not more than 36-months after the note maturity date. The notes and any unpaid accrued interest are convertible into shares of common stock at the average closing bid price of the stock over the preceding 10 trading days less a 25% discount. The notes were not converted as of April 30, 2014.

The Company received \$27,600 in financing during its last two quarters to assist it with finishing its turn around. The amount will be converted into common stock at a later date.

**5. RELATED PARTY**

Stock holders loaned money to the Company to cover operating expenses. Total debt as of April 30, 2014 and July 31, 2013 is \$11,568.

**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

Precision Aviation purchased the controlling shares in Halberd Corporation from the previous majority shareholder of Halberd Corporation for \$200,000 as part of the company reorganization. \$12,500 was paid as a down payment. The balance due as of April 30, 2014 and July 31, 2013 is \$187,500. Accrued interest amounted to \$7,819 and \$43,755 for the periods ended April 30, 2014 and July 31, 2013, respectively

A related party provides accounting services and loans to the company. The balance due as of April 30, 2014 and July 31, 2013, was \$62,768 and \$52,700, respectively.

The balance of the related party payable consists of accrued expenses and accounts payable due to various shareholders

**6. NOTE PAYABLE**

On August 1, 2011, a related party contributed a commercial building and its related operating assets and liabilities to the Company for a non-interest bearing loan in the amount of \$869,893. The balance as of April 30, 2014 is \$785,790.

**7. CAPITAL STOCK**

The Company's initial common shares issued to its two founders and eight initial investors were issued for no consideration and are thus carried at a value of zero in the accompanying balance sheet as no services were performed or were required to be performed in order for any of the original investors to obtain their shares. Management determined the fair value of the initial shares to be zero given the start-up nature of the business which included a lack of operational history, lack of share liquidity and lack of corporate financing for operations at the time of issuance.

The Company has authorized 10,000,000 shares of preferred stock at a par value of \$0.001. No preferred shares are issued or outstanding as of January 31, 2009. Any preferences, rights, voting powers, restrictions, dividend limitations, qualifications, and terms and conditions of redemption shall be set forth and adopted by a board of directors' resolution prior to the issuance of any series of preferred stock.

During January 2009, the Company issued a private placement memorandum ("PPM") to increase the number of shareholders to a minimum of 35. The PPM resulted in the Company issuing 374,000 shares of common stock to 32 additional stockholders in exchange for cash consideration of \$93,500. The offering costs of \$12,500 were offset against the proceeds. In addition, during January 2009 seven vendors were owed a total of \$20,500 as of December 31, 2008 were issued 82,000 shares of common stock in settlement of amounts owed to them.

**HALBERD CORPORATION AND SUBSIDIARY**  
**(a development stage company)**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

During March 2009, the Company issued 1,000,000 shares of common stock to a consultant (and related party) for organizational services rendered. The shares were valued at \$250,000 and the related expense was recognized as an operating expense during the quarter ended April 30, 2009.

As detailed in our S-1/A registration statement filed April 14, 2009, 656,000 common shares held by 48 existing shareholders were registered for resale. No additional capital was raised as a result of this registration.

During April 2009 the Company entered into an equity line of credit agreement which allows the Company to sell up to \$25,000,000 of the Company's common stock over the course of 48 months at 93% of the market price. As of April 30, 2011 no such sales have been entered into under the agreement.

During July 2009 the Company issued 70,000 shares of the Company's common stock to its seven member Board of Directors. The shares were valued at \$17,500 and the related expense was recognized as an operating expense during the quarter ended July 31, 2009.

During August 2009 the Company issued 240,000 shares of the Company's common stock to a consultant. The shares were valued at \$60,000 and the related expense was recognized as an operating expense during the quarter ended October 31, 2009.

During October 2009, the Company issued convertible promissory notes totaling \$115,000 to two shareholders. The notes bear interest at 12% and are due after the 12-month anniversary date or anytime after the 12-month anniversary date but not more than 36-months after the note maturity date. The notes and any unpaid accrued interest are convertible into shares of common stock at the average closing bid price of the stock over the preceding 10 trading days less a 25% discount. These notes and accrued interest were converted during June of 2012 for 39,019,104 shares of common stock.

During the quarter end April, 2013 shareholder debt was exchanged for common stock. The total debt exchanged for common stock was \$186,248. 53,247,035 common shares were issued to repay the debt.

On August 14, 2013, the Company issued 5,000,000 shares of its Preferred A stock to John C Maddox, its only board member and officer for \$50,000 in debt owed to Mr. Maddox. The preferred stock is designated with voting rights as a function of the outstanding common shares and accordingly put Mr. Maddox in voting control of the Company.

**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

On April 11, 2014, the Company issued 5,000,000 shares of its Common stock to acquire Smoke Smoking Clinics of New York.

**8. INCOME TAXES**

The Company establishes valuation allowances in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*. The Company continually reviews the realizability of deferred tax assets and recognizes these benefits only as reassessment indicates that it is more likely than not that such tax benefits will be realized.

As of April 30, 2014, the Company has a net operating loss carryforward for federal income tax purposes of approximately \$1,286,835, which expires through 2034, available to reduce federal taxable income, if any, of future periods.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets, liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax liabilities and assets are summarized as follows as of April 30, 2014 and July 31, 2013:

|   | <u>April 30,<br/>2014</u> | <u>July 31,<br/>2013</u> |
|---|---------------------------|--------------------------|
| Deferred tax assets:                    |                           |                          |
| Net operating loss carry forward        | \$ 1,286,835              | \$ 882,144               |
|   | <u>1,286,835</u>          | <u>882,144</u>           |
| Total deferred tax assets               | 1,286,835                 | 882,144                  |
| Expected tax rate                       | <u>34%</u>                | <u>34%</u>               |
| <b>Gross deferred income tax assets</b> | <b>\$ 437,524</b>         | <b>\$ 299,929</b>        |
| Less valuation allowance                | <u>(437,524)</u>          | <u>(299,929)</u>         |
| <b>Net deferred income tax asset</b>    | <b>\$ _____</b>           | <b>\$ _____</b>          |

At April 30, 2014, the Company did not recognize any current or deferred federal or state income tax benefit because it has sustained operating losses since inception. The Company has provided a full valuation allowance on the deferred tax asset, consisting primarily of net operating loss carryforwards, because of uncertainty regarding its realizability.

**HALBERD CORPORATION AND SUBSIDIARY**  
(a development stage company)

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

---

**9. OPERATING LEASE**

The company does not currently have any operating lease commitments.

\* \* \* \* \*