
INFRA X SYSTEMS, INC.
Quarterly Financial Information
(UNAUDITED)

For the three months ended December 31, 2017

INFRA X SYSTEMS, INC.
(Exact name of Registrant as specified in its charter)

Commission File Number: 3829

Nevada
(State or other jurisdiction of
incorporation or organization)

20-2583185
(I.R.S. Employer
Identification No.)

10901 Roosevelt Blvd
Suite 1000c
Saint Petersburg, FL
(Address of principal executive offices)

33716
(Zip Code)

(727) 498-8514
Registrant's telephone number, including area code

As of December 31, 2017, the registrant had 1,983,328,083 shares of common stock outstanding.

FOR THE SIX MONTHS ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

	Page
Item 1. Financial Statements	
Balance Sheets at December 31, 2017 and June 30, 2017 (Unaudited)	F-1
Statements of Operations for the six months ended December 31, 2017 and 2016 (Unaudited)	F-2
Statements of Cash Flows for the six months ended December 31, 2017 and 2016 (Unaudited)	F-3
Notes to Unaudited Financial Statements	F-4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	6

INFRAX SYSTEMS, INC.
BALANCE SHEETS
(Unaudited)

	December 31, 2017 (Unaudited)	June 30, 2017 (Unaudited)
ASSETS		
Current assets		
Cash	\$ 63	\$ 63
Inventory	6,200	6,200
Total current assets	6,263	6,263
Marketable securities	752,595	752,595
Total assets	<u>\$ 758,858</u>	<u>\$ 758,858</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	\$ 172,924	\$ 172,924
Accrued expenses	227,142	227,142
Convertible notes payable, net	64,789	111,948
Notes payable, affiliates	20,687	20,687
Total current liabilities	227,268	532,701
Notes payable to shareholder	342,852	342,852
Total liabilities	828,394	875,553
Stockholders' equity (deficit)		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized; Series A Convertible: 5,000,000 shares designated; 2,523,624 and 2,523,624 issued and outstanding as of December 31, 2017 and June 30, 2017, respectively; Series A1 Convertible: 33,000,000 and 33,000,000 issued and outstanding as of December 31, 2017 and June 30, 2017, respectively	2,525	2,525
Common stock, \$0.001 par value; 6,990,000,000 shares authorized, 1,983,328,083 and 1,411,911,416 shares issued and outstanding at December 31, 2017 and June 30, 2017, respectively	1,983,328	1,411,911
Additional paid-in capital	12,501,507	12,987,213
Accumulated deficit	(14,556,896)	(14,518,344)
Total stockholders' (deficit)	(69,536)	(116,695)
Total liabilities and stockholders' equity (deficit)	<u>\$ 758,858</u>	<u>\$ 758,858</u>

The accompanying notes are an integral part of these financial statements
F-1

INFRAX SYSTEMS, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	For the Six Months Ended December 31,	
	2017 (Unaudited)	2016 (Unaudited)
Revenues	\$ -	\$ -
Operating expenses:		
General and administrative	-	1,310
Amortization and depreciation	17,052	29,162
Total expenses	17,052	30,472
Net (loss)	\$ (17,052)	\$ (30,472)
Weighted number of common shares outstanding, basic and fully diluted	1,098,105,263	985,548,741
Net loss per common share, basic and fully diluted	\$ (0.00)	\$ (0.00)

The accompanying notes are an integral part of these financial statements

INFRA X SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended December 31,	
	2017 (Unaudited)	2016 (Unaudited)
Cash flows from operations		
Net (loss)	\$ (38,552)	\$ (35,246)
Adjustment to reconcile net loss to net cash:		
Amortization of debt discount	17,052	29,162
Interest expense	21,500	4,774
Changes in working capital components:		
Accounts payable	-	1,259
Net cash provided by (used in) operating activities	<u>-</u>	<u>(51)</u>
Net increase (decrease) in cash		
Cash, beginning of period	-	(51)
Cash, end of period	<u>63</u>	<u>1,259</u>
	<u>\$ 63</u>	<u>\$ 63</u>

The accompanying notes are an integral part of these financial statements

INFRAx SYSTEMS, INC.
NOTES TO
FINANCIAL STATEMENTS
(UNAUDITED)

1. Nature of operations

Since its inception, the Company had been dedicated to selling and/or licensing a fiber optic management software system under the name OptiCon Network Manager, originally developed, and acquired from Corning Cable System, Inc. through a related company, FutureTech Capital, LLC. In October 2009, the Company began developing smart grid energy related products. As of June 29, 2010, the Company acquired the assets and management of Trimax Wireless Systems, Inc. ("Trimax"), in exchange for equity and a note payable. In April 2011, the Company acquired controlling interest in Lockwood Technology Corporation ("Lockwood"), a provider of advanced asset management solutions. In June of 2016, the Company sold its interest in Lockwood Technology Corporation and has accounted for its assets, liabilities and results of operations as a discontinued operation for all periods presented.

While we continue to support the OptiCon Network Management platform, the Company has shifted its focus and energies towards the "Smart Grid" energy sector. The Company believes our secure integrated platform will hasten the deployment of all Smart Grid technology for resource constrained small and mid-sized utilities. Infracx's advantage comes from our products ability to enable the creation of a secure platform scalable to deliver a broad set of intelligent Smart Grid initiatives across millions of endpoints for Utilities.

2. Summary of significant accounting policies

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of consolidated 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. The most significant assumptions and estimates relate to the valuation of equity issued for services, valuation of equity associated with convertible debt, the valuation of derivative liabilities, and the valuation of deferred tax assets. Actual results could differ from these estimates.

Fair Value Measurements and Fair Value of Financial Instruments

The Company adopted ASC Topic 820, Fair Value Measurements. ASC Topic 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2: Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3: Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The estimated fair value of certain financial instruments, including all current liabilities are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

INFRAX SYSTEMS, INC.
NOTES TO
FINANCIAL STATEMENTS
(UNAUDITED)

2. Summary of significant accounting policies (continued)

Derivative Liability

We evaluate convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging." The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liabilities at the fair value of the instrument on the reclassification date.

Deferred Taxes

The Company follows Accounting Standards Codification subtopic 740-10, Income Taxes ("ASC 740-10") for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability during each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change. Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods.

Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse and are considered immaterial.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

The Company monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, and other information. The allowance for doubtful accounts is estimated based on an assessment of the Company's ability to collect on customer accounts receivable. There is judgment involved with estimating the allowance for doubtful accounts and if the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against revenues. The Company writes-off accounts receivable against the allowance when it determines a balance is uncollectible and no longer actively pursues its collection. As of December 31, 2017, and June 30, 2017 based upon the review of the outstanding accounts receivable, the Company has determined that an allowance for doubtful accounts is not material. The allowance for doubtful accounts is created by forming a credit balance which is deducted from the total receivables balance in the balance sheet.

As of December 31, 2017 and June 30, 2017, the Company had no trade receivables, respectively.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives of 3 to 5 years. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings.

INFRAx SYSTEMS, INC.
NOTES TO
FINANCIAL STATEMENTS
(UNAUDITED)

2. Summary of significant accounting policies (continued)

Stock Based Compensation Expense

We expect to account any share-based compensation pursuant to SFAS No. 123 (revised 2004) Share-Based Payment, or SFAS No. 123R. SFAS No. 123R requires measurement of all employee share-based payments awards using a fair-value method. When a grant date for fair value is determined we will use the Black-Scholes-Merton pricing model. The Black-Scholes-Merton valuation calculation requires us to make key assumptions such as future stock price volatility, expected terms, risk-free rates and dividend yield. The weighted-average expected term for stock options granted was calculated using the simplified method in accordance with the provisions of Staff Accounting Bulletin No. 107, Share-Based Payment. The simplified method defines the expected term as the average of the contractual term and the vesting period of the stock option. We will estimate the volatility rates used as inputs to the model based on an analysis of the most similar public companies for which Infracore has data. We will use judgment in selecting these companies, as well as in evaluating the available historical volatility data for these companies.

SFAS No. 123R requires us to develop an estimate of the number of share-based awards which will be forfeited due to employee turnover. Annual changes in the estimated forfeiture rate may have a significant effect on share-based payments expense, as the effect of adjusting the rate for all expense amortization after January 1, 2006 is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. We have never paid cash dividends, and do not currently intend to pay cash dividends, and thus have assumed a 0% dividend yield.

Infracore will continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to its stock-based awards on a prospective basis, and in incorporating these factors into the model. If our actual experience differs significantly from the assumptions used to compute its stock-based compensation cost, or if different assumptions had been used, we may record too much or too little share-based compensation cost.

Revenue Recognition

Revenue includes product sales. The Company recognizes revenue from product sales in accordance with Topic 605 "Revenue Recognition in Financial Statements" which considers revenue realized or realizable and earned when all of the following criteria are met:

- (i) persuasive evidence of an arrangement exists,
- (ii) the services have been rendered and all required milestones achieved,
- (iii) the sales price is fixed or determinable, and
- (iv) Collectability is reasonably assured.

Recent Accounting Pronouncements

Since the year ended June 30, 2017 and through December 31, 2017, there were several new accounting pronouncements issued by the FASB. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's financial statements.

Convertible Debentures

If the conversion features of conventional convertible debt provide for a rate of conversion that is below market value at issuance, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 "Debt with Conversion and Other Options." In those circumstances, the convertible debt is recorded net of the discount related to the BCF, and the Company amortizes the discount to interest expense, over the life of the debt.

INFRAx SYSTEMS, INC.
NOTES TO
FINANCIAL STATEMENTS
(UNAUDITED)

2. Summary of significant accounting policies (continued)

Fair Value of Financial Instruments

Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts payable and accrued liabilities as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

The Company follows Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10") and Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10"), which permits entities to choose to measure many financial instruments and certain other items at fair value.

Beneficial Conversion Feature

For conventional convertible debt where the rate of conversion is below market value, the Company records a "beneficial conversion feature" ("BCF") and related debt discount.

When the Company records a BCF, the relative fair value of the BCF is recorded as a debt discount against the face amount of the respective debt instrument (offset to additional paid in capital) and amortized to interest expense over the life of the debt.

Advertising, Marketing and Public Relations

The Company follows the policy of charging the costs of advertising, marketing, and public relations to expense as incurred.

Offering Costs

Costs incurred in connection with raising capital by the issuance of common stock are recorded as contra equity and deducted from the capital raised.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss, capital loss and tax credit carryforwards. 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 in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of general and administrative expenses. Our consolidated federal tax return and any state tax returns are not currently under examination.

The Company has adopted FASB ASC 740-10, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually from differences between the financial statement and tax basis 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.

INFRAx SYSTEMS, INC.
NOTES TO
FINANCIAL STATEMENTS
(UNAUDITED)

2. Summary of significant accounting policies (continued)

Net Income (loss) Per Common Share

The Company computes loss per common share, in accordance with FASB ASC Topic 260, *Earnings Per Share*, which requires dual presentation of basic and diluted earnings per share. Basic income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding, plus the issuance of common shares, if dilutive, that could result from the exercise of outstanding stock options and warrants.

Recent Accounting Pronouncements

ASU 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements". ASU 2014-10 eliminates the distinction of a development stage entity and certain related disclosure requirements, including the elimination of inception-to-date information on the statements of operations, cash flows and stockholders' equity. The amendments in ASU 2014-10 will be effective prospectively for annual reporting periods beginning after December 15, 2014, and interim periods within those annual periods, however early adoption is permitted. The Company evaluated and adopted ASU 2014-10 during the year ended December 31, 2015.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern." The provisions of ASU No. 2014-15 require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company is currently assessing the impact of this ASU on the Company's consolidated financial statements.

Other accounting standards are not expected to have a material impact on the Company's consolidated financial position or results of operations.

3. Convertible notes payable

On December 18, 2014, the Company issued a convertible note to KBM Worldwide in the original amount of \$43,000. The note has a coupon rate of 8% and the maturity date is September 21, 2016. The note is convertible at 40% of the market price. As of December 31, 2017 and June 30, 2017 the carrying value of the note is \$28,920 and \$40,230, respectively. During the six months ended December 31, 2017, the holder converted \$11,310 of principal into 94,250,000 shares of common stock.

On April 21, 2015, the Company issued a convertible note to KBM Worldwide in the original amount of \$68,948. The note has a coupon rate of 8% and the maturity date is September 21, 2016. The note is convertible at 40% of the market price. As of December 31, 2017 and June 30, 2017 the carrying value of the note is \$35,870 and \$68,948, respectively. During the six months ended December 31, 2017, the holder converted \$28,630 of principal into 477,166,667 shares of common stock.

INFRAX SYSTEMS, INC.
NOTES TO
FINANCIAL STATEMENTS
(UNAUDITED)

4. Related-party transactions

Line of Credit, Master Agreement

On September 1, 2005, Mr. Sam Talari, one of the Company's directors, agreed to make advances to the Company as an interim unsecured loan for operational capital up to a maximum of \$350,000, evidenced by a non-interest bearing master promissory note, based on amounts advanced from time to time, payable annually. Mr. Talari has pledged additional funding for operating capital, up to \$500,000, under the same terms as the original Master Note. Mr. Talari, from time to time, has converted advances and accrued interest in exchange for equity shares. Mr. Talari continued making advances to the Company on the loan, of which \$342,852 and \$342,862 remains outstanding at December 31, 2017 and June 30, 2017, respectively.

5. Capital stock

Common Stock

During the six months ended December 31, 2017, the company increased its authorized shares to 6,990,000,000.

During the six months ended December 31, 2017, the Company issued 617,583,334 shares of common stock in exchange for the conversion of \$39,940 of convertible debt.

6. Commitments and contingencies

Our executive office, located in an office complex under an annual five year lease through the discontinued operations of Lockwood Technology Corporation, began June 1, 2012 at a rent of \$ 4,729 per month in St. Petersburg, Florida with Kalyvas Group II, LLC. The lease provides approximately 4,100 square feet of: reception area, nine offices, a lab/production area, inventory room, server room, kitchenette and one conference rooms.

Rent expense for the six months ended December 31, 2017 and 2016 for continuing operations amounted to \$0 and \$0 respectively.

7. Going Concern

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. At December 31, 2017 and June 30, 2017, the Company had \$63 and \$63 in cash, respectively, and \$485,542 and \$532,701 in negative working capital, respectively. For the six months ended December 31, 2017 and 2016, the Company had a net loss of \$38,552 and \$35,246. Continued losses may adversely affect the liquidity of the Company in the future. In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to raise additional capital, obtain financing and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern. Management devoted considerable effort during the periods ended December 31, 2017 and June 30, 2017 toward (i) obtaining additional equity capital (ii) controlling salaries and general and administrative expenses, (iii) management of accounts payable, (iv) evaluation of its distribution and marketing methods, and (v) increasing marketing and sales. In order to control general and administrative expenses, the Company has established internal financial controls in all areas, specifically in hiring and overhead cost. The Company has also established a hiring policy under which the Company will refrain from hiring additional employees unless approved by the Chief Executive Officer and Chief Financial Officer. Accounts payable are reviewed and approved or challenged on a daily basis. Senior management reviews the annual budget to ascertain and question any variance from plan, on a quarterly basis, and to anticipate and make adjustments as may be feasible. The accompanying financial statements have been prepared assuming that the entity will continue as a going concern.

INFRA X SYSTEMS, INC.
NOTES TO
FINANCIAL STATEMENTS
(UNAUDITED)

7. Subsequent events

Subsequent to December 31, 2017 the Company agreed to issue to 3,428,520,000 shares of common stock to Mr. Talari, the Company's CEO, in exchange for the conversion of loans due to Mr. Talari in the amount of \$342,852.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This section of this annual report includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this report. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

Overview

INFRAx is a pioneer designer, developer, systems integrator and manufacturer of turnkey secure solutions for the utility industry. We are a provider of unique secure, cost-efficient solutions that provide everything required to bring the utility's technological platform into the 21st. century. Our SIEP™ platform provides: 1) Network Transport and Management (secure 2 way communications), 2) Secure Smart Devices (Smart Meters), and 3) Asset management, Grid Optimization and Security, all in an integrated state-of-the-art Smart Grid solution that truly provides our customers with end to end grid management capability.

We believe our Secure Integrated Platform will facilitate and hasten the deployment of Smart Grid technology among resource constrained small and mid-sized utilities. INFRAx' advantage comes from our advanced patented technologies, which provide a highly secure, reliable platform that allows two-way communication with our Secure Intelligent Endpoint Devices for Advanced Metering Infrastructure and Substations applications.

Based on our review of the Smart Grid related products against which the Secure Intelligent Energy Platform now competes, we believe that none of them provide the required encryption and threat detection capabilities required to secure the energy grid.

The Utility industry's aggressive deployment of Advanced Metering Infrastructure (AMI) and data management devices has led to the accelerated reliance on fiber optic communications to many of the key substations. However, the existing utility networks cannot provide the security, reliability and connectivity to extend the reach to the consumer locations.

Today's evolution of Smart Grid design and implementations actually began several years prior to the current initiatives. The same applies to the products designed by most of the major players including Itron, Silver Spring and GridPoint. Although the current security initiatives and elected officials have good intentions, they have missed the window of opportunity to truly integrate security from the beginning by several years. Similar to the credit card industry, banking, health care, and most other industries that conduct business online, the next electrical infrastructure will need to feature security as an add-on that is applied after the Smart Grid is implemented.

Recently discovered vulnerabilities in smart meters have been identified that could allow an attacker to obtain complete control of the meters. Specifically, an attacker could exploit these vulnerabilities to turn off electricity to hundreds of thousands of homes. Thus, an attacker could execute a wide-scale Denial of Service ("DoS") attack against homes and businesses.

The Advantage of Our Technology

By entering the market without the burden of legacy products and technology, Infrac is able to focus on future technologies and will be poised to provide advanced solutions for companies that are yet to deploy AMI and harden previously installed networks and devices.

While the current use of RF technology is inherently less reliable, Infrac is focused on using highly encrypted data over secure tunnels using a variety of communications medium including WiFi, Cellular or other public communication media. Infrac's secure smart grid platform incorporates a communications transport known as GridMesh™, and a device and data security management tool known as GRiM. Secure management of the "last mile" backhaul is necessary for utilities to implement Smart Grid applications such as AMI, and substation and distribution automation.

We believe that our Secure Intelligent Energy Platform will give us a competitive advantage in the emerging and evolving Smart Grid environment. By utilizing our solution, Utilities can secure their networks and prolong the lifecycle of previously deployed components by eliminating the security concerns that would necessitate replacement.

Infrax Strategy

We intend to generate revenues from the design, sales, installation, and support of the hardware, software and technology, associated with our integrated solution, Infrax Secure Intelligent Energy Platform (SIEP) TM. Additionally, revenues may be generated from licensing our Security, GRiM and, Infrax Networks wireless communications and future products.

Our Product Portfolio

(a) SNIC

Over the last several quarters, Infrax has been developing the company's flagship product - Secure Network Interface Card (SNIC) for electric meters. While the initial focus will be to develop the card for one of the largest meter manufactures in the world, the final objective is to have a universal card that can be used in any meter in the world. The wireless part of the first prototype has been completed and successfully tested. With the development and improvements continuing, we will have a complete working prototype by the end of this summer. Although details of the card cannot be disclosed for obvious reasons, our emphasis has been to address the security of the data to and from a meter as well as to provide a robust communication platform that can be used not only for meter data but also in Distribution Automation projects such as capacitor bank and volt/var controllers. The Company believes that the SNIC along with newly created Professional Services division will hasten the deployment of all Smart Grid technology for resource constrained small and mid-sized utilities.

(b) SPIDer – Secure Perimeter Intrusion Detection

Building on our expertise in network and physical security platforms, the company has introduced the first active and secure intrusion detection network. The SPIDer Network initial offering is directed to the electrical energy company concerns with copper and material theft and its related impact to safety and homeland security. Infrax Systems is committed to change the present paradigm in the electric utility industry as to how physical and data security processes are deployed to protect electrical substations, remote critical infrastructure facilities, communications networks, advanced distributed controls and intelligent meter networks. Copper theft and its potential threat to safety and homeland security has been estimated by the Department of Energy and other sources as approaching a Billion dollar cost annually in the US alone. Attacks on critical infrastructure such as electric and water resources can cause wide scale economic devastation which would greatly amplify these costs. Most of these assets have little to no security or intrusion detection and what little exists is forensic in nature as it helps to identify what happens but does not detect the threat at the moment it occurs. Infrax Systems' vision is based on a trusted network of intelligent devices which detect intrusion at any level and quickly determines friend or foe thus taking action when necessary to secure critical infrastructure and intelligent property.

Infrax Systems has recently started a marketing campaign for the SPIDer product line. Currently we have demonstrated the basic SPIDer system to three utilities and are scheduled for another two demonstrations. Five additional utilities have expressed interest in the product. Most are for the image based level although one has shown initial interest in the first level coaxial based system. One customer utility has requested a proposal for a complete network linking 12 facilities. Initial projections indicate a strong market and revenue. Revenues are expected to grow logarithmically as utilities finish their pilot stages and budget for next year.

(c) Professional Services

Infrax Systems has introduced a new division which provides engineering and professional services to its energy customers. This division is charged with packaging Infrax Systems products into engineered solutions that are marketed to their customers. Professional services provides engineering, construction and project managements services to the smaller utilities such as local municipalities, Rural Electric Cooperatives and Investor Owned Utilities who may not have the manpower or expertise to accomplish their goals. By leveraging our over 100 years of combined experience in the electric utility and telecommunications industries, Infrax Systems is well placed in an industry which is becoming the newest high tech phenomenon. The Smart Grid vision relies on vast networks of intelligent devices which sources in the Data and Enterprise Network industry indicate will surpass by several orders of magnitude of any know data network of today. Even a relatively small utility will have upwards of a million devices operating on thousands of individual domains. These networks not only will control instant and real time power flow but will also be the cash register for the Utility industry. Security, scalability and authenticity as well as day to day maintainability are the utmost concerns in providing an intelligent power grid that is safe and secure. Infrax Systems will be a leader in designing, building and securing these networks and solutions.

Initial marketing campaigns have been targeting the municipalities and Electrical Cooperatives. Currently we have responded to one major RFP for Capacitor Bank networks and Smart Grid infrastructure worth in excess of 1.5 million dollars. We are also working on a pilot project for our AMI product with the availability of the SNIC, with a major utility. If the pilot project is accepted and successful, we may be asked to provide AMI to all their customers. The revenue from such project, for only one utility, will be overwhelmingly substantial. We are also in the process of negotiations for a contract to provide customer engineer expertise for a fiber optic construction project and we have installed several radios for one of our initial customers. We have started to communicate with few utilities in Florida to become qualified bidders for the coming projects. We will continue this process with utilities all along the east coast of USA.

Our Market

INFRA market opportunity exists in one of the largest industries in the world. Globally, according to the International Energy Agency (IEA), this industry is expected to spend close to \$10 trillion dollars by 2030 to upgrade electrical infrastructure. Technology innovations in power delivery have been fermenting for years, but only now is the confluence of physical need and social expectations creating an environment in which real and sustained monetary commitments are being made to create a "Smart Grid" built on information-based devices, digital communication and advanced analytics. Networking giant Cisco has estimated that the market for smart grid communications will grow into a \$20 billion-a-year opportunity as the infrastructure is built out over the next five years. Researchers at Specialists in Business Information (SBI) forecast the market will grow to \$17 billion-per-year by 2014 from today's \$6 billion. Globally, SBI expects the market for smart grid technologies to grow to about \$171 by 2014 up from approximately \$70 billion in 2009.

Name Changes

None.

Changes in Management

None.

Results of Operations

Six months ended December 31, 2017 compared with six months ended December 31, 2016

Results of Operations

During the six month period ended December 31, 2017 and 2016 we had no sales.

Amortization and depreciation expense was \$17,052 for the six months ended December 31, 2017 as compared to \$29,162 for the six months ended December 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2017, we had approximately \$63 in cash with which to satisfy our cash requirements for the next twelve months, along with approximately \$650,000 remaining on the line of credit from Mr. Talari to pay normal operating expenses, while we attempt to secure other sources of financing.

Since the inception of our Master Note Agreement, Mr. Talari has continued to advance funds to us as needed. Mr. Talari remains committed to continue funding the Company and has regularly converted amounts outstanding and accrued interest, under the note agreement, to our common stock, in order to have money available. At December 31, 2017, we owe Mr. Talari \$342,852 on the master promissory note plus accrued interest. Mr. Talari has pledged funding for operating capital, up to \$1,000,000, under the same terms as the original Master Note.

Seasonality Results

We do not expect to experience any seasonality in our operating results.

Off-Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements or financing activities with special purpose entities.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies

We have identified the policies outlined below as critical to our business operations and an understanding of our results of operations. The list is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management's judgment in their application. The impact and any associated risks related to these policies on our business operations is discussed throughout management's Discussion and Analysis or Plan of Operation where such policies affect our reported and expected financial results. Note that our preparation of the financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Use of Estimates

The preparation of consolidated 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. The most significant assumptions and estimates relate to the valuation of equity issued for services, valuation of equity associated with convertible debt, the valuation of derivative liabilities, and the valuation of deferred tax assets. Actual results could differ from these estimates.

Fair Value Measurements and Fair Value of Financial Instruments

The Company adopted ASC Topic 820, Fair Value Measurements. ASC Topic 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2: Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3: Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The estimated fair value of certain financial instruments, including all current liabilities are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

Derivative Liability

We evaluate convertible instruments, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for under ASC Topic 815, "Derivatives and Hedging." The result of this accounting treatment is that the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income (expense). Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under ASC Topic 815 are reclassified to liabilities at the fair value of the instrument on the reclassification date.

Deferred Taxes

The Company follows Accounting Standards Codification subtopic 740-10, Income Taxes ("ASC 740-10") for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability during each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change. Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods.

Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse and are considered immaterial.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

The Company monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, and other information. The allowance for doubtful accounts is estimated based on an assessment of the Company's ability to collect on customer accounts receivable. There is judgment involved with estimating the allowance for doubtful accounts and if the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against revenues. The Company writes-off accounts receivable against the allowance when it determines a balance is uncollectible and no longer actively pursues its collection. As of December 31, 2017 and June 30, 2017, based upon the review of the outstanding accounts receivable, the Company has determined that an allowance for doubtful accounts is not material. The allowance for doubtful accounts is created by forming a credit balance which is deducted from the total receivables balance in the balance sheet.

As of December 31, 2017 and June 30, 2017, the Company had \$0 and \$0 in trade receivables, respectively.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives of 3 to 5 years. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings.

Stock Based Compensation Expense

We expect to account any share-based compensation pursuant to SFAS No. 123 (revised 2004) Share-Based Payment, or SFAS No. 123R. SFAS No. 123R requires measurement of all employee share-based payments awards using a fair-value method. When a grant date for fair value is determined we will use the Black-Scholes-Merton pricing model. The Black-Scholes-Merton valuation calculation requires us to make key assumptions such as future stock price volatility, expected terms, risk-free rates and dividend yield. The weighted-average expected term for stock options granted was calculated using the simplified method in accordance with the provisions of Staff Accounting Bulletin No. 107, Share-Based Payment. The simplified method defines the expected term as the average of the contractual term and the vesting period of the stock option. We will estimate the volatility rates used as inputs to the model based on an analysis of the most similar public companies for which Infrax has data. We will use judgment in selecting these companies, as well as in evaluating the available historical volatility data for these companies.

SFAS No. 123R requires us to develop an estimate of the number of share-based awards which will be forfeited due to employee turnover. Annual changes in the estimated forfeiture rate may have a significant effect on share-based payments expense, as the effect of adjusting the rate for all expense amortization after January 1, 2006 is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. We have never paid cash dividends, and do not currently intend to pay cash dividends, and thus have assumed a 0% dividend yield.

Infrax will continue to use judgment in evaluating the expected term, volatility and forfeiture rate related to its stock-based awards on a prospective basis, and in incorporating these factors into the model. If our actual experience differs significantly from the assumptions used to compute its stock-based compensation cost, or if different assumptions had been used, we may record too much or too little share-based compensation cost.

Revenue Recognition

Revenue includes product sales. The Company recognizes revenue from product sales in accordance with Topic 605 "Revenue Recognition in Financial Statements" which considers revenue realized or realizable and earned when all of the following criteria are met:

- (i) persuasive evidence of an arrangement exists,
- (ii) the services have been rendered and all required milestones achieved,
- (iii) the sales price is fixed or determinable, and
- (iv) Collectability is reasonably assured.

Recent Accounting Pronouncements

Since the year ended June 30, 2017 and through December 31, 2017, there were several new accounting pronouncements issued by the FASB. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's financial statements.

Convertible Debentures

If the conversion features of conventional convertible debt provide for a rate of conversion that is below market value at issuance, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 "Debt with Conversion and Other Options." In those circumstances, the convertible debt is recorded net of the discount related to the BCF, and the Company amortizes the discount to interest expense, over the life of the debt.

Fair Value of Financial Instruments

Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10") requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts payable and accrued liabilities as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments. All other significant financial assets, financial liabilities and equity instruments of the Company are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk. Where practicable the fair values of financial assets and financial liabilities have been determined and disclosed; otherwise only available information pertinent to fair value has been disclosed.

The Company follows Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10") and Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10"), which permits entities to choose to measure many financial instruments and certain other items at fair value.

Beneficial Conversion Feature

For conventional convertible debt where the rate of conversion is below market value, the Company records a "beneficial conversion feature" ("BCF") and related debt discount.

When the Company records a BCF, the relative fair value of the BCF is recorded as a debt discount against the face amount of the respective debt instrument (offset to additional paid in capital) and amortized to interest expense over the life of the debt.

Advertising, Marketing and Public Relations

The Company follows the policy of charging the costs of advertising, marketing, and public relations to expense as incurred.

Offering Costs

Costs incurred in connection with raising capital by the issuance of common stock are recorded as contra equity and deducted from the capital raised.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss, capital loss and tax credit carryforwards. 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 in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of general and administrative expenses. Our consolidated federal tax return and any state tax returns are not currently under examination.

The Company has adopted FASB ASC 740-10, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually from differences between the financial statement and tax basis 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.

Net Income (loss) Per Common Share

The Company computes loss per common share, in accordance with FASB ASC Topic 260, *Earnings Per Share*, which requires dual presentation of basic and diluted earnings per share. Basic income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted income or loss per common share is computed by dividing net income or loss by the weighted average number of common shares outstanding, plus the issuance of common shares, if dilutive, that could result from the exercise of outstanding stock options and warrants.

Recent Accounting Pronouncements

ASU 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements". ASU 2014-10 eliminates the distinction of a development stage entity and certain related disclosure requirements, including the elimination of inception-to-date information on the statements of operations, cash flows and stockholders' equity. The amendments in ASU 2014-10 will be effective prospectively for annual reporting periods beginning after December 15, 2014, and interim periods within those annual periods, however early adoption is permitted. The Company evaluated and adopted ASU 2014-10 during the year ended December 31, 2015.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern." The provisions of ASU No. 2014-15 require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company is currently assessing the impact of this ASU on the Company's consolidated financial statements.