

QUALIS INNOVATIONS, INC.

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QUALIS INNOVATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>June 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
Current assets:		
Cash	\$ 1,061,908	\$ 72,915
Deposits	81,000	90,000
Other current assets	18,447	5,000
Total current assets	1,161,355	167,915
Property and equipment, net	64,911	71,526
Intangible assets, net	358,065	572,903
Total assets	\$ 1,584,331	\$ 812,344
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,500	\$ -
Other current liabilities	53,678	-
Total current liabilities	58,178	-
Total liabilities	58,178	-
Stockholders' equity		
Preferred stock, \$0.001 par value, 20,000,000 shares authorized, no shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	-	-
Common stock, \$0.001 par value, 750,000,000 shares authorized; 7,984,950 and 4,058,300 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	7,985	4,058
Additional paid-in-capital	3,367,632	1,780,942
Accumulated deficit	(1,849,464)	(972,656)
Total stockholders' equity	1,526,153	812,344
Total liabilities and stockholders' equity	\$ 1,584,331	\$ 812,344

See accompanying notes to consolidated financial statements

QUALIS INNOVATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	<u>For the Six Months Ended June 30,</u>		<u>For the Three Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net revenues	\$ -	\$ -	\$ -	\$ -
Gross Profit	-	-	-	-
Operating expenses:				
Research and development	36,560	-	18,560	-
Stock based compensation - related party	165,378	-	165,378	-
General and administrative	674,870	260,640	488,839	134,593
Total operating expenses	<u>876,808</u>	<u>260,640</u>	<u>672,777</u>	<u>134,593</u>
Loss from operations	<u>(876,808)</u>	<u>(260,640)</u>	<u>(672,777)</u>	<u>(134,593)</u>
Loss before income taxes	(876,808)	(260,640)	(672,777)	(134,593)
Income taxes	-	-	-	-
Net loss	<u>\$ (876,808)</u>	<u>\$ (260,640)</u>	<u>\$ (672,777)</u>	<u>\$ (134,593)</u>
Net loss per share, basic and diluted	<u>\$ (0.16)</u>	<u>\$ (0.07)</u>	<u>\$ (0.11)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding				
Basic and diluted	<u>5,632,186</u>	<u>3,851,157</u>	<u>6,118,996</u>	<u>3,994,014</u>

See accompanying notes to consolidated financial statements

QUALIS INNOVATIONS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of January 1, 2020	396,650	\$ 397	\$ (397)	\$ -	\$ -
None	-	-	-	-	-
Balance as of June 30, 2020	396,650	\$ 397	\$ (397)	\$ -	\$ -
Balance as of January 1, 2021	396,650	\$ 397	\$ (397)	\$ -	\$ -
Issuance of common stock for cash	300,000	300	149,700	-	150,000
Issuance of common stock for cash - related party	200,000	200	99,800	-	100,000
Warrants issued to third parties in conjunction with services	-	-	110,239	-	110,239
Warrants issued in conjunction with employment agreement	-	-	165,378	-	165,378
Common stock issued in conjunction with share agreement	7,088,300	7,088	2,842,912	(972,656)	1,877,344
Net loss	-	-	-	(876,808)	(876,808)
Balance as of June 30, 2021	7,984,950	\$ 7,985	\$ 3,367,632	\$ (1,849,464)	\$ 1,526,153

See accompanying notes to consolidated financial statements

QUALIS INNOVATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (876,808)	\$ (260,640)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	8,402	2,751
Amortization expense	214,838	214,839
Stock based compensation	110,239	-
Stock based compensation - related parties	165,378	-
Issuance of common stock for services - related parties	15,000	-
Expenses paid on behalf of company – related party	50,000	-
Changes in operating assets and liabilities:		
Deposits	9,000	(90,000)
Other current assets	(13,447)	-
Accounts payable and accrued expenses	4,500	(10,000)
Other current liabilities	53,678	-
Net cash used in operating activities	(259,220)	(143,050)
Cash flows from investing activities:		
Purchase of property and equipment	(1,787)	(82,530)
Net cash used in investing activities	(1,787)	(82,530)
Cash flows from financing activities:		
Issuance of common stock for cash	1,150,000	175,000
Issuance of common stock for cash - related party	100,000	-
Net cash provided by financing activities	1,250,000	175,000
Net increase (decrease) in cash	988,993	(50,580)
Cash at beginning of period	72,915	161,940
Cash at end of period	\$ 1,061,908	\$ 111,360
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Non-cash investing and financing activities:		
Common stock issued in conjunction with share agreement	\$ 1,397	\$ -

See accompanying notes to consolidated financial statements

QUALIS INNOVATIONS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

NOTE 1 – ORGANIZATION AND PRINCIPAL ACTIVITIES

Corporate History and Background

Qualis Innovations, Inc. (the “Company” or “Qualis”), formerly known as Hoopsoft Development Corp., Yellowstone Mining, Inc. and Sky Digital Holding Corp. was incorporated in the state of Nevada on March 23, 2006 under the name Hoopsoft Development Corp (“Hoopsoft”). On January 12, 2007, the Company entered into an agreement and plan of merger (“Agreement and Plan of Merger”) with Yellowcake Mining, Inc. (“Yellowcake”), a Nevada corporation and wholly-owned subsidiary of Hoopsoft Development Corp., incorporated for the sole purpose of effecting the merger. Pursuant to the terms of the Agreement and Plan of Merger, Yellowcake merged with and into Hoopsoft, with Hoopsoft carrying on as the surviving corporation under the name “Yellowcake Mining, Inc.”

April 6, 2011, Yellowcake restated its articles of incorporation and changed its name to Sky Digital Stores Corp (“SKYC”). On May 5, 2011, the Company entered into a Share Exchange Agreement (“Exchange Agreement”) by and among SKYC and Hong Kong First Digital Holding Ltd. (“First Digital”), and the shareholders of First Digital (the “FDH Shareholders”) entered into a Share “FDH”), and the shareholders of FDH (the “FDH Shareholders”). The closing of the transaction (the “Closing”) took place on May 5, 2011 (the “Closing Date”). On the Closing Date, pursuant to the terms of the Exchange Agreement, the Company acquired all of the outstanding shares (the “Shares”) of FDH from the FDH Shareholders; and FDH Shareholders transferred and contributed all of their Shares to us. In exchange, the Company issued to the FDH Shareholders, their designees or assigns, an aggregate of 23,716,035 shares (the “Shares Component”) or 97.56% of the shares of common stock of the Company issued and outstanding after the Closing (the “Share Exchange”), at \$0.20 per share.

Mr. Lin Xiangfeng planned, organized and executed the Share Exchange. Prior to the Share Exchange, Mr. Lin Xiangfeng was the largest shareholder and sole officer of FDH. He was also the CEO of SKYC but did not own any shares of the Company. The parties involved in the Share Exchange Agreement are SKYC, FDH and all FDH Shareholders. Mr. Lin Jinshui, an FDH Shareholder, is the father of Mr. Lin Xiangfeng and Mr. Lin Xiuzi, an FDH Shareholder, is the brother of Mr. Lin Xiangfeng. Other than Mr. Lin Xiangfeng, no third party played a substantial role in the agreement.

FDH owned (i) 100% of the issued and outstanding capital stock of Shenzhen Dong Sen Mobile Communication Technology Co., Ltd (also known and doing business as Shenzhen *Donxon* Mobile Communication Technology Co., Ltd, “Donxon”), a company organized under the laws of the People’s Republic of China (“China” or the “PRC”); and (ii) 100% of the issued and outstanding capital stock of Shenzhen Xing Tian Kong Digital Company Limited (“XTK”), a PRC company. XTK was the holder of 100% of the issued and outstanding capital stock of Shenzhen Da Sheng Communication Technology Company Limited (also known and do business as Shenzhen *Dasen* Communication Technology Company Limited, “Dasen”), a PRC company. Dasen is the holder of 70% of the issued and outstanding capital stock of Foshan Da Sheng Communication Chain Service Company Limited (also known and do business as Foshan *Dasen* Communication Chain Service Co. Ltd, “FDSC”), a PRC company. Pursuant to the Exchange Agreement, FDH became a wholly-owned subsidiary of the Company, and the Company owned 100% of Donxon, 100% of XKT, 100% of Dasen and 70% of FDSC indirectly through FDH.

On February 13, 2018, a change of control occurred, and new officers and directors of the Company were appointed. The name change of ‘Sky Digital Stores Corp.’ (SKYC) to Qualis Innovations, Inc. and the 1 – 1,000 reverse split was announced on FINRA’s Daily List. Echo Resources LLLP took over control of Qualis owning 232,689 of the 396,650 common shares outstanding. Since that event Qualis did not have any business operations or any assets or liabilities.

On June 29, 2021, the Company entered into a Share Exchange Agreement (“Exchange Agreement”) by and among mPathix Health, Inc. (formerly EMF Medical Devices, Inc., a Delaware corporation) (“mPathix”) and Qualis. The closing of the transaction (the “Closing”) took place on June 30, 2021 (the “Closing Date”). On the Closing Date, pursuant to the terms of the Exchange Agreement, the Company acquired all of the outstanding shares (the “Shares”) of mPathix. In exchange, the Company issued to the mPathix shareholders, their designees or assigns, an aggregate of 6,988,300 shares of Company common stock (the “Shares Component”) or 93.36% of the shares of common stock of the Company issued and outstanding after the Closing (the “Share Exchange”), at a valuation of \$0.50 per share, and the Company issued warrants to purchase an additional 1,098,830 shares of Company common stock, exercisable for 10 years at a \$0.50/share exercise price, subject to adjustment. In connection with the closing of the mPathix acquisition, the officers and directors of mPathix were appointed as the officers and directors of the Company.

The Company has begun its planned principal operations, and accordingly, the Company has prepared its consolidated financial statements in accordance with US GAAP.

NOTE 2 – BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include all adjustments necessary for the fair presentation of the Company’s financial position and results of operations for the periods presented.

The Company currently operates in one business segment. The Company is not organized by market and is managed and operated as one business. A single management team reports to the chief operating decision maker, the Chief Executive Officer, who comprehensively manages the entire business. The Company does not currently operate any separate lines of businesses or separate business entities.

Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business.

While the Company is attempting to expand operations and increase revenues, the Company’s cash position may not be significant enough to support the Company’s daily operations. Management intends to raise additional funds by way of a private offering or an asset sale transaction. Management believes that the actions presently being taken to further implement its business plan and generate revenues provide the opportunity for the Company to continue as a going concern. While management believes in the viability of its strategy to generate revenues and in its ability to raise additional funds or transact an asset sale, there can be no assurances to that effect or on terms acceptable to the Company. The ability of the Company to continue as a going concern is dependent upon the Company’s ability to further implement its business plan and generate revenues.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Company is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s

management, which is responsible for their integrity and objectivity. These accounting policies conform to GAAP and have been consistently applied in the preparation of the financial statements.

Use of Estimates

The preparation of these financial statements in accordance 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 disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the reported periods. Actual results may differ from those estimates and such differences may be material to the financial statements. The more significant estimates and assumptions by management include among others: common stock valuation, and the recoverability of intangibles. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

Cash

The Company's cash is held in bank accounts in the United States and is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Company has not experienced any cash losses.

Related Parties

The Company follows ASC 850, "Related Party Disclosures," for the identification of related parties and disclosure of related party transactions. Related parties are any entities or individuals that, through employment, ownership or other means, possess the ability to direct or cause the direction of the management and policies of the Company.

Income Taxes

Income taxes are accounted for under an asset and liability approach. This process involves calculating the temporary and permanent differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The temporary differences result in deferred tax assets and liabilities, which would be recorded on the Balance Sheets in accordance with ASC 740, which established financial accounting and reporting standards for the effect of income taxes. The likelihood that its deferred tax assets will be recovered from future taxable income must be assessed and, to the extent that recovery is not likely, a valuation allowance is established. Changes in the valuation allowance in a period are recorded through the income tax provision in the consolidated Statements of Operations.

ASC 740-10-30 was adopted from the date of its inception. ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740-10, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740-10 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of ASC 740-10, and currently, the Company does not have a liability for unrecognized income tax benefits.

Advertising and Marketing Costs

Advertising and marketing expenses are recorded as marketing expenses when they are incurred. The Company had no advertising and marketing expense for the three and six months ended June 30, 2021 and 2020, respectively.

Deposits

Deposits consist of amounts paid to a vendor in advance to manufacture pain treatment products. Deposits as of June 30, 2021 and December 31, 2020 were \$81,000 and \$90,000, respectively. Deposits are included in current assets in the accompanying Balance Sheets.

Property and Equipment

Property and equipment are carried at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets, generally five years. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition. Fixed assets are examined for the possibility of decreases in value when events or changes in circumstances reflect the fact that their recorded value may not be recoverable.

Intangible Assets

Intangible assets consist primarily of intellectual property licensing costs. The intangible assets are being amortized on a straight-line basis thru the end of the licensing agreement of April 2022.

Impairment of Long-lived Assets

The Company periodically evaluates whether the carrying value of property, equipment and intangible assets has been impaired when circumstances indicate the carrying value of those assets may not be recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is not recoverable, the impairment loss is measured as the excess of the asset's carrying value over its fair value.

The Company's impairment analyses require management to apply judgment in estimating future cash flows as well as asset fair values, including forecasting useful lives of the assets, assessing the probability of different outcomes, and selecting the discount rate that reflects the risk inherent in future cash flows. If the carrying value is not recoverable, we assess the fair value of long-lived assets using commonly accepted techniques, and may use more than one method, including, but not limited to, recent third-party comparable sales and discounted cash flow models. If actual results are not consistent with the Company's assumptions and estimates, or the assumptions and estimates change due to new information, the Company may be exposed to an impairment charge in the future. For the three and six months ended June 30, 2021 and 2020, the Company had not experienced impairment losses on its long-lived assets.

Fair Value of Financial Instruments

The provisions of accounting guidance, FASB Topic ASC 825 requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value, and defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. As of June 30, 2021, there were no financial instruments requiring fair value.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities

The carrying value of financial assets and liabilities recorded at fair value are measured on a recurring or nonrecurring basis. Financial assets and liabilities measured on a non-recurring basis are those that are adjusted to fair value when a significant event occurs. There were no financial assets or liabilities carried and measured on a nonrecurring basis during the reporting periods. Financial assets and liabilities measured on a recurring basis are those that are adjusted to fair value each time a financial statement is prepared. There have been no transfers between levels.

Basic and diluted earnings per share

The computation of net profit (loss) per share included in the Statements of Operations, represents the net profit (loss) per share that would have been reported had the Company been subject to ASC 260, “Earnings Per Share as a corporation for all periods presented.

Diluted earnings (loss) per share are computed on the basis of the weighted average number of common shares (including common stock subject to redemption) plus dilutive potential common shares outstanding for the reporting period. In periods where losses are reported, the weighted-average number of common stock outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

Basic net loss per common share is based on the weighted average number of shares of common stock outstanding at June 30, 2021 and December 31, 2020, respectively. As of June 30, 2021 and December 31, 2020, the Company had no common stock equivalents.

There were no potential dilutive securities outstanding for the three and six months ended June 30, 2021 and 2020.

Employee Stock Based Compensation

Stock based compensation issued to employees and members of our board of directors is measured at the date of grant based on the estimated fair value of the award, net of estimated forfeitures. The grant date fair value of a stock based award is recognized as an expense over the requisite service period of the award on a straight-line basis.

For purposes of determining the variables used in the calculation of stock based compensation issued to employees, the Company performs an analysis of current market data and historical data to calculate an estimate of implied volatility, the expected term of the option and the expected forfeiture rate. With the exception of the expected forfeiture rate, which is not an input, we use these estimates as variables in the Black-Scholes option pricing model. Depending upon the number of stock options granted any fluctuations in these calculations could have a material effect on the results presented in our consolidated statements of operations. In addition, any differences between estimated forfeitures and actual forfeitures could also have a material impact on our consolidated financial statements.

Non-Employee Stock Based Compensation

Issuances of the Company's common stock or warrants for acquiring goods or services are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for the fair value of the equity instruments issued to consultants or vendors is determined at the earlier of (i) the date at which a commitment for performance to earn the equity instruments is reached (a "performance commitment" which would include a penalty considered to be of a magnitude that is a sufficiently large disincentive for nonperformance) or (ii) the date at which performance is complete. Although situations may arise in which counter performance may be required over a period of time, the equity award granted to the party performing the service is fully vested and non-forfeitable on the date of the agreement. As a result, in this situation in which vesting periods do not exist as the instruments fully vested on the date of agreement, the Company determines such date to be the measurement date and will record the estimated fair market value of the instruments granted as a prepaid expense and amortize such amount to general and administrative expense in the accompanying statement of operations over the contract period. When it is appropriate for the Company to recognize the cost of a transaction during financial reporting periods prior to the measurement date, for purposes of recognition of costs during those periods, the equity instrument is measured at the then-current fair values at each of those interim financial reporting dates.

Non-Cash Equity Transactions

Shares of equity instruments issued for non-cash consideration are recorded at the fair value of the consideration received based on the market value of services to be rendered, or at the value of the stock given, considered in reference to contemporaneous cash sale of stock.

Concentrations, Risks, and Uncertainties

Business Risk

Substantial business risks and uncertainties are inherent to an entity, including the potential risk of business failure.

The Company is headquartered and operates in the United States. To date, the Company has generated no revenues from operations. There can be no assurance that the Company will be able to raise additional capital and failure to do so would have a material adverse effect on the Company's financial position, results of operations and cash flows. Also, the success of the Company's operations is subject to numerous contingencies, some of which are beyond management's control. Currently, these contingencies include general economic conditions, price of components, competition, and governmental and political conditions.

Interest rate risk

Financial assets and liabilities do not have material interest rate risk.

Credit risk

The Company is not exposed to credit risk.

Seasonality

The business is not subject to substantial seasonal fluctuations.

Major Suppliers

The Company has not entered into any contracts that obligate it to purchase a minimum quantity or exclusively from any supplier.

Recent Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurements (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This standard removes, modifies, and adds certain disclosure requirements for fair value measurements. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company adopted ASU No. 2018-13 in the first quarter of fiscal 2020, coinciding with the standard's effective date, and had an immaterial impact from this standard.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company's accounting for the service element of a hosting arrangement that is a service contract is not affected by the proposed amendments and will continue to be expensed as incurred in accordance with existing guidance. This standard does not expand on existing disclosure requirements except to require a description of the nature of hosting arrangements that are service contracts. This standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted, including adoption in any interim period for which financial statements have not been issued. Entities can choose to adopt the new guidance prospectively or retrospectively. The Company adopted the updated disclosure requirements of ASU No. 2018-15 prospectively in the first quarter of fiscal 2020, coinciding with the standard's effective date, and had an immaterial impact from this standard.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*. This standard simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740, *Income Taxes*, while also clarifying and amending existing guidance, including interim-period accounting for enacted changes in tax law. This standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company plans to adopt ASU No. 2019-12 in the first quarter of fiscal 2021, coinciding with the standard's effective date, and expects the impact from this standard to be immaterial.

Other recently issued accounting updates are not expected to have a material impact on the Company's consolidated financial statements.

NOTE 4 – EQUIPMENT

Equipment consisted of the following as of:

	Estimated Life	June 30, 2021	December 31, 2020
Tooling	5 years	\$ 84,317	\$: 82,530
Accumulated depreciation		(19,406)	(11,004)
		<u>\$ 64,911</u>	<u>\$: 71,526</u>

Depreciation expense was \$4,275 and \$8,402, and \$2,751 and \$2,751 for the three and six months ended June 30, 2021 and 2020, respectively, and is classified in general and administrative expenses in the consolidated Statements of Operations.

NOTE 5 – INTELLECTUAL PROPERTY LICENSE AGREEMENT

On August 28, 2019 (“Effective Date”), the Company entered into a Preliminary Intellectual Property License Agreement with Life Care Medical Devices, Inc. (“LCMD”) under which the Company acquired the rights to certain intellectual property related to using pain treatment products. The Company entered into a Binding Letter of Agreement with LCMD on June 3., 2021, consummating the terms of the Preliminary Intellectual Property Agreement.

Under the agreement, the Company issued 2,000,000 shares of our common stock, valued at \$1,000,000 (based on the fair market value on the date of grant) restricted in accordance with Rule 144. The agreement also provides for a one-time payment of \$110,000 due at signing (the one-time payment is fully paid), and a royalty payment as follows: (a) six (6) percent of the value of the net revenues, as defined, generated from the sale of licensed products in each of the first twelve months after the Effective Date, (b) five and one-half (5 1/2) percent of the value of the net revenues, as defined, generated from the sale of licensed products in each of the following twelve months (months thirteen through twenty-four) after the Effective Date, and (c) after the twenty-fourth month, five (5) percent of the value of the net revenues, as defined, recognized in any month. The agreement provides for no minimum royalty payments. As of the date of this filing, no royalty payments have been accrued.

The Intellectual Property License Agreement will expire in April 2022 unless and until LCMD fully satisfies a \$2,400,000 judgement issued in favor of the original patent holders issued by the Court of Chancery in the state of Delaware. The Company recorded \$1,110,000 as an intangible asset and is being amortized on a straight-line basis thru the end of the licensing agreement of April 2022.

Intangible assets consisted of the following as of:

	Estimated life	June 30, 2021	December 31, 2020
License Agreement	5 years	\$ 1,110,000	\$ 1,110,000
Accumulated amortization		(751,935)	(537,097)

\$ 358,065 \$ 572,903

As of June 30, 2021, estimated future amortization expenses related to intangible assets were as follows:

	Intangible Assets
2021 (remaining 6 months)	\$ 214,839
2022 (4 months)	143,226
	\$ 358,065

The Company had amortization expense of \$107,419 and \$214,838, and \$107,419 and \$214,839 for the three and six months ended June 30, 2021 and 2020, respectively.

NOTE 6 – STOCKHOLDERS’ DEFICIT

The Company has authorized 750,000,000 shares of par value \$0.001 common stock, of which 7,984,950 and 396,650 shares are outstanding at June 30, 2021 and December 31, 2020, respectively.

Common Stock

In June 2021, the Company issued 500,000 common shares to third parties for aggregate gross proceeds of \$250,000.

On June 29, 2021, the Company entered into a Share Exchange Agreement (“Exchange Agreement”) by and among mPathix Health, Inc. (formerly EMF Medical Devices, Inc., a Delaware corporation) (“mPathix”) and Qualis. The closing of the transaction (the “Closing”) took place on June 30, 2021 (the “Closing Date”). On the Closing Date, pursuant to the terms of the Exchange Agreement, the Company acquired all of the outstanding shares (the “Shares”) of mPathix. In exchange, the Company issued to the mPathix shareholders, their designees or assigns, an aggregate of 6,988,300 shares of Company common stock (the “Shares Component”) or 93.36% of the shares of common stock of the Company issued and outstanding after the Closing (the “Share Exchange”), at a valuation of \$0.50 per share, and the Company issued warrants to purchase an additional 1,098,830 shares of Company common stock, exercisable for 10 years at a \$0.50/share exercise price, subject to adjustment. In connection with the closing of the mPathix acquisition, the officers and directors of mPathix were appointed as the officers and directors of the Company.

On June 11, 2021, the Company issued 100,000 common shares to a related party valued at \$50,000 (based on the estimated fair value of the stock on the date of grant) for services rendered.

Warrants

On February 14, 2021, the Company granted 400,000 warrants to purchase 400,000 of the Company’s common stock to a third party for consulting services, valued at \$109,506 (based on the Black Scholes valuation model on the date of grant). The warrants are exercisable for a period of seven years at \$0.50 per share in whole or in part, as either a cash exercise or as a cashless exercise, and fully vest at grant date.

On March 16, 2021, the Company 698,830 warrants to purchase 698,830 of the Company’s common stock to Ahmet Demir Bingol, valued at \$225,967 (based on the Black Scholes valuation model on the date of grant), pursuant to his Employment Agreement. The warrants are exercisable for a period of ten years at

\$0.50 per share in whole or in part, as either a cash exercise or as a cashless exercise, and fully vest at grant date.

Options

On June 7, 2021, the Company granted 20,000 options to purchase 20,000 of the Company's common stock to a third party for consulting services, valued at \$5,040 (based on the Black Scholes valuation model on the date of grant). The options are exercisable for a period of five years at \$0.50 per share in whole or in part and vest 50% in six months and the remaining 50% in twelve months from the grant date.

NOTE 7 – RELATED PARTY TRANSACTIONS

Other than as set forth below, and as disclosed in Notes 4, 5, 6 and 9, there have not been any transaction entered into or been a participant in which a related person had or will have a direct or indirect material interest.

NOTE 8 – EARNINGS PER SHARE

FASB ASC Topic 260, *Earnings Per Share*, requires a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share (EPS) computations.

Basic earnings (loss) per share are computed by dividing net earnings available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. In periods where losses are reported, the weighted-average number of common stock outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

Basic and diluted earnings (loss) per share are the same since net losses for all periods presented and including the additional potential common shares would have an anti-dilutive effect.

The following table sets forth the computation of basic and diluted net income per share:

	<u>For the Six Months Ended June 30,</u>		<u>For the Three Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net loss attributable to the common stockholders	\$ (872,308)	\$ (260,640)	\$ (668,277)	\$ (134,593)
Basic weighted average outstanding shares of common stock	5,632,186	3,851,157	6,118,996	3,994,014
Dilutive effect of options and warrants	-	-	-	-
Diluted weighted average common stock and common stock equivalents	<u>5,632,186</u>	<u>3,851,157</u>	<u>6,118,996</u>	<u>3,994,014</u>
Loss per share:				
Basic and diluted	<u>\$ (0.15)</u>	<u>\$ (0.07)</u>	<u>\$ (0.11)</u>	<u>\$ (0.03)</u>

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Legal

From time to time, various lawsuits and legal proceedings may arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any legal proceedings or claims that it believes will have a material adverse effect on its business, financial condition or operating results.

Intellectual Property License Agreement

On August 28, 2019 (“Effective Date”), the Company entered into a Preliminary Intellectual Property License Agreement with LCMD, under which the Company acquired the rights to certain intellectual property related to using pain treatment products. The Company entered into a Binding Letter of Agreement with LCMD on June 3, 2021, consummating the terms of the Preliminary Intellectual Property Agreement.

Under the agreement, the Company issued 2,000,000 shares of our common stock, valued at \$1,000,000 (based on the fair market value on the date of grant) restricted in accordance with Rule 144. The agreement also provides for a one-time payment of \$110,000 due at signing (the one-time payment is fully paid), and a royalty payment as follows: (a) six (6) percent of the value of the net revenues, as defined, generated from the sale of licensed products in each of the first twelve months after the Effective Date, (b) five and one-half (5 1/2) percent of the value of the net revenues, as defined, generated from the sale of licensed products in each of the following twelve months (months thirteen through twenty-four) after the Effective Date, and (c) after the twenty-fourth month, five (5) percent of the value of the net revenues, as defined, recognized in any month. The agreement provides for no minimum royalty payments. As of the date of this filing, no royalty payments have been accrued.

The Intellectual Property License Agreement will expire in April 2022 unless and until LCMD fully satisfies a \$2,400,000 judgement issued in favor of the original patent holders issued by the Court of Chancery in the state of Delaware. The Company recorded \$1,110,000 as an intangible asset and is being amortized on a straight-line basis thru the end of the licensing agreement of April 2022.

2021 Equity Incentive Plan

In June 2021, the board of directors of the Company authorized the adoption and implementation of the Company’s 2021 Equity Incentive Plan (the “2021 Plan”). The principal purpose of the 2021 Plan is to attract, retain and motivate employees, officers, directors, consultants, agents, advisors and independent contractors of the Company and its related companies by providing them the opportunity to acquire a proprietary interest in the Company and to link their interests and efforts to the long-term interests of the Company's shareholders. Under the 2021 Plan, an aggregate of 1,000,000 shares of the Company's common stock have initially been reserved for issuance pursuant to a variety of stock-based compensation awards, including stock options, stock awards, restricted stock, restricted stock units and other stock and cash-based awards. The exercise price for each option may not be less than fair market value of the common stock on the date of grant, and shall vest as determined by the Company’s board of directors but shall not exceed a ten-year period.

Employment Agreement

On March 1, 2021, Mr. Ahmet Demir Bingol, the Company’s Chief Executive Officer (“CEO”) entered into an Employment Agreement with the Company, with an effective date of March 16, 2021, in which he receives an annual base salary of \$250,000, plus bonus compensation not to exceed 80% of salary. In addition, Mr. Bingol was granted 698,830 warrants to purchase 698,830 of the Company’s common stock, valued at \$225,967 (based on the Black Scholes valuation model on the date of grant). The warrants are exercisable for a period of ten years at \$0.50 per share in whole or in part, as either a cash exercise or as a

cashless exercise, and fully vest at grant date. Mr. Bingol's employment also provides for medical insurance, disability benefits and one year of severance pay if his employment is terminated without cause or due to a change in control. Mr. Bingol's compensation was approved by the Company's Board of Directors on March 1, 2021.

Consulting Agreement

On May 1, 2021, the Company entered into a consulting agreement with a related party to provide advisory services to the Company. The consulting agreement terminates July 31, 2022. Under this consulting agreement, the related party will be entitled to a monthly consulting fee of \$10,000 and common stock totaling 300,000 based on the Company becoming publicly traded and the delivery of up to 10 of the Company's medical devices.

NOTE 10 – SUBSEQUENT EVENTS

The Company evaluated all events or transactions that occurred after June 30, 2021 up through the date the financial statements were available to be issued. During this period, the Company did not have any material recognizable subsequent events required to be disclosed as of and for the period ended June 30, 2021 except for the following:

Common Stock

In July 2021, the Company issued 250,000 common shares to a related party valued at \$125,000 (based on the estimated fair value of the stock on the date of grant) for services rendered.

In July 2021, the Company issued 5,000 common shares to a third party valued at \$2,500 (based on the estimated fair value of the stock on the date of grant) for services rendered.

Options

In July 2021, the Company granted a total of 100,000 options to purchase 100,000 of the Company's common stock to third parties for consulting services, valued at \$19,356 (based on the Black Scholes valuation model on the date of grant). The options are exercisable for a period of five years at \$0.50 per share in whole or in part and vest 50% in six months and the remaining 50% in twelve months from the grant date.