

Capstone Technologies Group, Inc.

Amendment to Annual Report for 08/31/2024 originally published through the OTC Disclosure & News Service on [01/14/2025](#)

Explanatory Note:

Final audited financial statements for the company as of and for the years ending August 31, 2024 and 2023.

***This coversheet was automatically generated by OTC Markets Group based on the information provided by the Company. OTC Markets Group has not reviewed the contents of this amendment and disclaims all responsibility for the information contained herein.*



VisitIQ Corp.

(formerly Capstone Technologies Group, Inc.)

www.visitiq.io

Audited Consolidated Financial Statements

As of and for the Years Ended

August 31, 2024 and 2023

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REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors
of VisitIQ Corp. (formerly Capstone Technologies, Group, Inc) and Subsidiary

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of VisitIQ, Corp. (formerly Capstone Technologies, Group, Inc.) (a Nevada corporation) and Subsidiary (the Company) as of August 31, 2024 and 2023, and the related consolidated statements of operations, stockholders' deficit and cash flows for the two years then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of August 31, 2024 and 2023, and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Boulay PLLP

We have served as the Company's auditor since 2024.

Minneapolis, Minnesota

April 24, 2025

VISITIQ CORP. (FORMERLY CAPSTONE TECHNOLOGIES GROUP, INC.)
CONSOLIDATED BALANCE SHEETS

	August 31,	
	2024	2023
Current assets		
Cash	\$ 386,002	\$ 660,608
Restricted cash	-	188,835
Accounts receivable, net of allowance for credit losses of \$46,820 and \$0, respectively	210,800	566,869
Prepaid expenses and other current assets	19,186	25,608
Notes receivable	624,950	624,950
Total current assets	1,240,938	2,066,870
Investments		
Equity method investments	25,000	281,168
Equity investments	84,000	100,000
Total investments	109,000	381,168
Intangible assets		
Internally developed software	3,948,060	3,754,768
Less: accumulated amortization	(1,665,608)	(869,659)
Total intangible assets	2,282,452	2,885,109
Goodwill	349,312	349,312
Fixed assets, net	-	29,528
Right-of-use asset - operating lease	-	665,081
Total assets	\$ 3,981,702	\$ 6,377,068
Current liabilities		
Accounts payable	\$ 1,157,164	\$ 611,145
Accrued expenses	449,718	138,461
Deferred revenue	109,000	-
Lease liability - short term	-	45,040
Accrued interest (See Note 7)	2,223,895	960,719
Other notes payable (See Note 2)	111,894	-
Convertible notes payable	19,456,679	10,305,193
Total current liabilities	23,508,349	12,060,559
Lease liability - long term	-	627,261
Convertible notes payable - long term	-	2,656,949
Mezzanine equity - Series B Preferred Stock	4,271,157	4,271,157
Stockholders' deficit		
Common stock	5,466	5,466
Accumulated deficit	(23,509,336)	(14,127,780)
Total deficit attributable to VisitIQ Corp.	(23,503,870)	(14,122,314)
Non-controlling interest	(293,934)	883,457
Total stockholders' deficit	(23,797,804)	(13,238,857)
Total liabilities and stockholders' deficit	\$ 3,981,702	\$ 6,377,068

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

VISITIQ CORP. (FORMERLY CAPSTONE TECHNOLOGIES GROUP, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended August 31,	2024	2023
Data revenue	\$ 2,059,174	\$ 1,619,007
Media activation revenue	938,797	3,614,955
Total revenue	<u>2,997,971</u>	<u>5,233,962</u>
Data cost of sales	2,021,102	1,797,743
Media activation cost of sales	978,053	2,917,429
Total cost of sales	<u>2,999,155</u>	<u>4,715,172</u>
Gross profit (loss)	(1,184)	518,790
Expenses		
Legal and professional fees	1,493,084	1,092,474
Personnel expenses	3,938,737	4,029,462
General and administrative costs	670,723	813,588
Sales & marketing expenses	93,153	215,071
Depreciation and amortization expense	1,304,905	782,864
Credit losses expense	220,293	968,218
Impairment losses on equity investments	16,000	50,127
Loss on disposition of software assets	377,111	-
Total operating expenses	<u>8,114,006</u>	<u>7,951,804</u>
Interest expense	2,609,918	1,921,816
Interest income	(18,774)	(82,347)
Net loss before benefit from income taxes	(10,706,334)	(9,272,483)
Benefit from income taxes	-	-
Net loss	(10,706,334)	(9,272,483)
Net loss attributable to the non-controlling interest	<u>2,034,743</u>	<u>2,323,729</u>
Net loss attributable to VisitIQ Corp.	(8,671,591)	(6,948,754)
Series B preferred stock cumulative dividend	(459,900)	(425,562)
Net loss attributable to common stockholders	<u>\$ (9,131,491)</u>	<u>\$ (7,374,316)</u>
Basic net loss per share	<u>\$ (1.67)</u>	<u>\$ (1.35)</u>
Diluted net loss per share	<u>\$ (1.67)</u>	<u>\$ (1.35)</u>

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

VISITIQ CORP. (FORMERLY CAPSTONE TECHNOLOGIES GROUP, INC.)
STATEMENTS OF STOCKHOLDERS' DEFICIT

	Common Stock		Additional	Accumulated	Non-Controlling	Total
	Shares	Amount	Paid-in	Deficit	Interest	Stockholders'
			Capital			Deficit
Balance at August 31, 2022	5,466,569	\$ 5,466	\$ -	\$ (5,599,975)	\$ 1,521,160	\$ (4,073,349)
Issuance of common stock warrants with convertible notes payable		-	106,975	-	-	106,975
Change in non-controlling interest due to additional investment in DrivenIQ		-	(106,975)	(1,579,051)	1,686,026	-
Net loss for the year ended August 31, 2023		-	-	(6,948,754)	(2,323,729)	(9,272,483)
Balance at August 31, 2023	<u>5,466,569</u>	<u>\$ 5,466</u>	<u>\$ -</u>	<u>\$ (14,127,780)</u>	<u>\$ 883,457</u>	<u>\$ (13,238,857)</u>
Issuance of common stock warrants with convertible notes payable		-	147,387	-	-	147,387
Change in non-controlling interest due to additional investment in DrivenIQ		-	(147,387)	(709,965)	857,352	-
Net loss for the year ended August 31, 2024		-	-	(8,671,591)	(2,034,743)	(10,706,334)
Balance at August 31, 2024	<u>5,466,569</u>	<u>\$ 5,466</u>	<u>\$ -</u>	<u>\$ (23,509,336)</u>	<u>\$ (293,934)</u>	<u>\$ (23,797,804)</u>

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

VISITIQ CORP. (FORMERLY CAPSTONE TECHNOLOGIES GROUP, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended August 31,	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Net loss	\$ (10,706,334)	\$ (9,272,483)
Adjustments to reconcile net loss to net cash used in operating activities:		
Increase (decrease) in operating assets and liabilities:		
Depreciation and amortization expense	1,304,905	782,864
Amortization of debt discount	1,317,470	1,021,900
Provision for credit losses	46,820	-
Loss on disposal of fixed assets	16,193	-
Realized and unrealized loss on equity investments	16,000	50,127
Settlement of lease liability with equity method investment	256,168	-
Write-off of notes receivable	30,571	882,133
Loss on disposition of software asset	377,111	-
(Increase) decrease in accounts receivable	309,249	(215,454)
(Increase) decrease in prepaid expenses and other current assets	6,422	(10,399)
Increase in accounts payable and accrued liabilities	969,169	197,457
Increase in accrued interest	1,263,176	596,171
Increase in deferred revenue	109,000	-
Net cash used in operating activities	<u>(4,684,082)</u>	<u>(5,967,684)</u>
Cash flows from investing activities		
Software development costs	(1,073,242)	(2,477,347)
Acquisition of fixed assets	-	(24,300)
Acquisition of equity investments	-	(406,295)
Issuance of notes receivable	(30,571)	(1,474,031)
Payments received on notes receivable	-	517,000
Net cash used in investing activities	<u>(1,103,813)</u>	<u>(3,864,973)</u>
Cash flows from financing activities		
Issuance of convertible notes payable with common stock warrants	5,324,453	2,205,375
Net cash provided by financing activities	<u>5,324,453</u>	<u>2,205,375</u>
Net decrease in cash	(463,441)	(7,627,282)
Cash and restricted cash at beginning of the year	849,443	8,476,725
Cash and restricted cash at end of the year	<u>\$ 386,002</u>	<u>\$ 849,443</u>
Non-cash investing activities:		
Equity method investment used to settle lease liability	<u>\$ 256,168</u>	<u>\$ -</u>
Non-cash financing activities:		
Issuance of notes payable to settle accounts payable	<u>\$ 111,894</u>	<u>\$ -</u>
Reconciliation of cash from balance sheet to statements of cash flows:		
Cash on the consolidated balance sheet	\$ 386,002	\$ 660,608
Restricted cash on the consolidated balance sheet	-	188,835
Total cash and restricted cash per the consolidated statements of cash flows	<u>\$ 386,002</u>	<u>\$ 849,443</u>

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

VISITIQ CORP. (formerly CAPSTONE TECHNOLOGIES GROUP, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2024 and 2023

Note 1 – Description of Business

VisitIQ Corp. (formerly Capstone Technologies Group, Inc., or “Capstone”), a Nevada corporation, historically invested in early-stage companies that were deemed to have the potential for high growth. VisitIQ Corp.’s primary investment is in its consolidated subsidiary, DrivenIQ Corporation (“DrivenIQ”), which provides an identity intelligence and activation solution for audience data that enables marketing campaign personalization, higher sales conversions, and increased ROI of digital marketing initiatives. The Company’s proprietary AI-driven platform includes solutions for audience identification, enrichment, expansion, and attribution, and is used by marketing agencies, major brands and enterprises across the globe to curb rising data costs, overcome restrictive data monopolies, and meet demand for personalization of marketing content and messaging across marketing channels. VisitIQ Corp’s primary focus going forward will be on continued development of its proprietary audience management platform and uncovering new ways to incorporate AI-driven efficiencies into the marketing workflow.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The accompanying consolidated financial statements include the accounts of VisitIQ, Corp. (formerly Capstone Technologies Group, Inc.) and DrivenIQ (collectively “the Company”). The Company’s fiscal year is September 1 to August 31.

The consolidated financial statements include the accounts of a variable interest entity (“VIE”), DrivenIQ, in which the Company has determined that as of October 2021 it is the primary beneficiary of this VIE under the provisions of FASB ASC 810 – *Consolidation*. The operations of DrivenIQ are the primary operations of the Company. The non-controlling interest in DrivenIQ was 42% as of September 1, 2022, 37% as of August 31, 2023 and 33% as of August 31, 2024. All intercompany accounts and transactions have been eliminated in consolidation.

The condensed standalone balance sheets of DrivenIQ, inclusive of inter-company balances, as of August 31, 2024 and 2023 are presented below.

	August 31, 2024	August 31, 2023
Current assets	\$ 593,322	\$ 728,549
Other assets	2,631,764	3,234,421
Total assets	\$ 3,225,086	\$ 3,962,970
Current liabilities	\$ 4,138,676	\$ 1,518,943
Stockholders' equity (deficit)	(913,589)	2,444,027
Total liabilities and stockholders' deficit	\$ 3,225,086	\$ 3,962,970

Additionally, DrivenIQ had total revenues of approximately \$2,998,000 and \$5,234,000 for the years ended August 31, 2024 and 2023, respectively, and incurred net losses of approximately \$5,958,000 and \$5,853,000 for the years ended August 31, 2024 and 2023, respectively.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include, allowance for credit losses, valuation of equity investments, valuation of warrants issued with convertible notes and Series B preferred stock, valuation allowance on deferred tax assets, and estimates and forecasts utilized in the Company's going concern analysis (see Note 3). Estimates are based on management judgment and the best available information, as such actual results could differ from those estimates.

Net income (loss) per share attributable to common stockholders

Basic net income (loss) per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, without consideration of potentially dilutive securities. Diluted net income (loss) per share available to common stockholders is calculated using the weighted average number of common shares outstanding plus the number of dilutive potential common shares outstanding for the applicable period. The dilutive common shares for warrants is determined using the treasury stock method. The dilutive effect for convertible notes payable is determined using the if-converted method. The Series B convertible preferred stock is considered a participating security pursuant to the two-class method. For periods in which the Company has reported net losses, diluted net loss per common share is the same as basic net loss per common share, since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

The following potential common shares equivalents were excluded from the calculation of diluted net loss per share available to common stockholders because their effect would have been anti-dilutive:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Warrants	876,974	1,075,000
Convertible notes payable	19,722,815	13,858,750
Total	<u>20,599,789</u>	<u>14,933,750</u>

The common share equivalents presented in the above table excludes approximately 8,552,000 and 6,692,000 warrants where the strike price of the warrants is above the per share fair value of the common stock during the years ended August 31, 2024 and 2023, respectively. Additionally, the basic and diluted weighted average number of common shares outstanding for each of the years ended August 31, 2024 and 2023 was 5,466,569.

Revenue recognition

Revenues arise primarily from the Company's proprietary AI-driven technology platform, which is named VisitIQ, via subscription fees, volume-based utilization fees, and fees for media activation services designed to maximize the customers' use of its proprietary technology platform. Revenues are recognized when control of these services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer.
- Identification of the performance obligations in the contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligations in the contract.
- Recognition of revenue when performance obligations have been satisfied.

At contract inception, the Company assesses the services promised in the contracts with customers and identifies a performance obligation for each promise to transfer to the customer a service (or bundle of services) that is distinct. To identify the performance obligations, the Company considers all the services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices.

The transaction price is the amount of consideration that the Company is entitled to in exchange for transferring services to a customer. Further, for the contracts having multiple performance obligations, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The relative standalone selling price (“SSP”) is determined based on the terms of the contract and requires judgment. The transaction price for a contract excludes any amounts collected on behalf of third parties, in cases where the Company acts as an agent. Payment terms are typically 30 days. As such, the Company does not have any significant financing components.

When the Company enters into multiple contracts with a single counterparty, the Company will combine contracts and account for them as a single contract when one or more of the following criteria are met: (i) the contracts are negotiated with a single commercial objective, (ii) consideration to be paid in one contract depends on the terms of the other contract, and (iii) services promised are a single performance obligation.

Data revenue relates to fees paid for use of the Company’s proprietary platform and includes subscription-based and usage-based service offerings. Subscriptions are recognized as revenue ratably during the period that the customer has access to use the Company’s platform. Fees charged to customers based on usage of the Company’s platform are based on per-record charges and are recognized as revenue over time based on usage in the period.

Media activation revenue relates to the fees charged for the Company’s management of media campaigns for customers, and the activation of the data to the related media campaign and are recognized at the point of delivery of the related performance obligation.

When customers pay fees in advance of the specified period of use of the platform, those fees paid in advance are recorded as deferred revenue in the Company’s consolidated balance sheets and recognized as revenue when the performance obligation is satisfied. The opening balance of deferred revenue as of September 1, 2022 was \$0.

Cash and restricted cash

The Company maintains its cash accounts at financial institutions without any restrictions. At times throughout the year, the Company’s cash balance may exceed amounts insured by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk.

Restricted cash has a balance of \$0 and \$188,835 as of August 31, 2024 and 2023, respectively, and relates to a certificate of deposit held at a bank, as part of a partnership with Hedgemore Investors, LLC (“Hedgemore”). Details of that partnership are discussed in Note 5. The Company includes restricted cash in cash as reported in the consolidated statements of cash flows.

Accounts receivable

Credit terms are extended to customers in the normal course of business and the Company performs ongoing credit evaluations of its customers’ financial condition and generally requires no collateral. The Company maintains an allowance for expected credit losses on accounts receivable, which is recorded as an offset to accounts receivable. Changes in the allowance for credit losses are included as a component of operating expenses in the consolidated statements of operations. The Company assesses credit losses on a collective basis where similar risk characteristics exist. Risk characteristics considered by the Company include customer type and size, credit risk, and the age of outstanding receivable. Receivables that do not share risk characteristics with other receivables, or where known collectability issues exist, are evaluated on an individual basis. In determining the allowance for credit losses, the Company considers historical loss rates, adjusted for current market conditions, and reasonable and supportable forecasts of future economic conditions, when applicable. Accounts considered to be uncollectible are written off against the allowance for credit losses. Credit losses were approximately \$190,000 and \$86,000 for the years ended August 31, 2024, and 2023, respectively. The allowance for credit losses on accounts receivable was approximately \$47,000 and \$0 as of August 31, 2024 and 2023, respectively. The opening balance of accounts receivable and the allowance for credit losses on accounts receivable was \$351,415 and \$0 at September 1, 2022, respectively.

Prepaid expenses and other current assets

Prepaid expenses are largely comprised of prepaid insurance policies and subscriptions for software licenses.

Notes receivable

Notes receivable are reviewed periodically for impairment based on the note holder's financial situation, ability to pay amounts timely, and the likelihood of future collections. During the years ended August 31, 2024 and 2023, the Company recorded credit losses on these notes receivable of approximately \$31,000 and \$882,000, respectively, and these notes receivable were written off in the respective periods. Subsequent to the write-off of uncollectible notes receivable, the allowance for credit losses on notes receivable was \$0 as of September 1, 2022, August 31, 2023 and August 31, 2024, respectively.

Equity investments and equity method investments

The Company has elected the measurement alternative for non-marketable equity securities under ASC Topic 321 – *Investments – Equity Securities*. In accordance with ASC 321, these investments are initially measured at cost and reviewed at year end for impairment and fair value changes. During the year ended August 31, 2024 the Company recorded an unrealized loss on its equity investment in Issuance Inc. of approximately \$16,000.

The Company's equity method investments accounted for under ASC Topic 323 – *Investments – Equity Method and Joint Ventures* consist primarily of amounts paid to Hedgemore to acquire an ownership stake in a building. See further discussion in Note 5 related to this investment. In accordance with ASC Topic 323 the Company recorded an impairment loss of approximately \$25,000 during the year ended August 31, 2023. The determination of the impairment loss is a level 2 non-recurring fair value measurement and was determined using observable inputs other than quoted prices in active markets. During the year ended August 31, 2024, the Hedgemore investment was assigned to another member of the Hedgemore investment group as part of a lease modification and termination. See Operating leases section below for further discussion.

Internally developed software

The Company capitalizes certain costs incurred during the development of internal-use software in accordance with GAAP. Costs are capitalized once the primary stage is complete and it is probable that the project will be completed and will be used to perform the function intended. Capitalized costs are amortized on a straight-line basis over their estimated useful life, which the Company has determined to be three years. These costs are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company recorded no impairments of internally developed software for the years ended August 31, 2024 and 2023, although the Company recorded a loss of approximately \$377,000 during the year ended August 31, 2024 related to the disposition of capitalized software that was no longer being used by the Company.

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net assets acquired. The Company's recorded Goodwill relates to the original VIE consolidation of DrivenIQ in October 2021. Goodwill is not amortized but rather tested for impairment at least annually or more often if and when circumstances indicate that goodwill may not be recoverable. The Company performs an annual goodwill impairment test each year by assessing qualitative factors to determine whether it is necessary to perform a more detailed quantitative impairment test for goodwill. Qualitative factors that are considered as part of this assessment include a change in the Company's equity valuation and its implied impact on the fair value of the Company's single reporting unit, a change in its weighted average cost of capital, industry and market conditions, macroeconomic conditions, trends in product costs and financial performance of the businesses. For the quantitative test, the Company generally uses a discounted cash flow method to estimate fair value.

For the years ended August 31, 2024 and 2023, the Company concluded, based on its annual goodwill impairment tests, that there was no impairment loss because the fair value of the Company's single reporting unit exceeded the negative carrying value of the Company as of each of the dates.

Fixed assets

Fixed assets in the Company's consolidated balance sheets as of August 31, 2023 include furniture and leasehold improvements at an office space leased from Hedgemore. During the year ended August 31, 2024, the interest in the

lease, as well as the furniture and leasehold improvements, were released to another party as part of a lease modification and termination agreement and a loss was recorded. See further discussion in Note 5.

Operating leases

In accordance with ASC Topic 842 – *Leases*, the Company determines if an arrangement is, or contains, a lease at inception, and whether lease and non-lease components are combined or not. A contract is or contains a lease when; (1) the contract contains an identified asset and (2) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract in exchange for consideration.

Right-of-use assets and lease liabilities are initially recorded based on the present value of lease payments over the lease term, which includes the minimum unconditional term of the lease, and may include options to extend or terminate the lease when it is reasonably certain at the commencement date that such options will be exercised. The Company uses its incremental borrowing rate at the commencement date of the lease in determining the present value of lease payments. Right-of-use assets also include any initial direct costs and any lease payments made prior to the lease commencement date and are reduced by any lease incentives received. Lease expense is recognized on a straight-line basis over the term of the lease. The Company has elected to not apply the requirements of Topic 842 for short-term leases. Short-term leases are defined as leases that at the commencement date have lease terms of twelve months or less.

The Company leased office space from a group, Hedgemore, a group in which the Company invested. The lease commenced in November 2022 and had an initial term of 10 years through November 2032 and was subsequently amended in January 2024 to extend the lease through November 2033. Average monthly lease payments were approximately \$9,000 and \$8,000 for the years ended August 31, 2024 and 2023, respectively. The Company signed a modification agreement with Hedgemore in August 2024 which included an early termination on September 30, 2024 and vacated the premises prior to August 31, 2024. In consideration for the early termination of the lease arrangement, the Company assigned the entirety of its membership interest in Hedgemore to one of the other existing members of Hedgemore. The carrying value of the disposed investment in Hedgemore of approximately \$256,000 has been recorded as a lease termination payment and is a component of operating lease expense for the year ended August 31, 2024. Operating lease expenses are included in general and administrative expenses in the consolidated statements of operations. As of August 31, 2024, the Company has no operating leases under Topic 842.

Other notes payable

Other notes payable represents amounts owed to vendors that were transferred to a note payable with extended terms to allow the Company to pay these amounts back over an extended period of time in exchange for agreeing to pay a market interest rate.

Warrants

When warrants are issued, the Company applies the guidance in ASC Topic 815, *Derivative and Hedging* to determine if the warrants should be classified as equity instruments or as derivative instruments. Generally, warrants are indexed to the Company's own stock and would therefore be classified as equity instruments and are not classified as derivative instruments under this guidance.

Fair value of financial instruments

The Company's accounting for fair value measurements of assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring or nonrecurring basis adheres to the Financial Accounting Standards Board ("FASB") fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 is defined as observable inputs such as quoted prices in active markets for identical assets;

- Level 2 is defined as observable inputs other than Level 1 prices such as quoted prices for similar assets; 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; and
- Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The carrying amounts of cash, accounts receivable, accounts payable, accrued expenses, and other financial working capital items approximate their fair value at August 31, 2024 and 2023, due to the short maturity nature of these items.

Income taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, which requires an asset and liability approach for the financial accounting and reporting of income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the consolidated statements of operations 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 to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. A valuation allowance is established when the Company determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has concluded that the deferred tax assets are not realizable on a more-likely-than-not basis and that a full valuation allowance is required as of August 31, 2024 and 2023.

Customer concentrations

One customer accounted for 22% and 20% of consolidated revenue for the years ended August 31, 2024 and 2023, respectively. Three customers, inclusive of the customer with the revenue concentration, accounted for 54% of accounts receivable, net as of August 31, 2024. Two customers, inclusive of the customer with the revenue concentration, accounted for 62% of accounts receivable, net as of August 31, 2023.

Reportable segments

The Company's operations consist of fees charged to customers for the use its proprietary technology platform and activation services designed to maximize the customers use of the technology platform. Because these operations have similar economic characteristics, the Company evaluates operating performance on an overall basis. Therefore, the Company's operations are classified as one reportable segment.

Subsequent events

The Company has evaluated subsequent events from the consolidated balance sheet date through April 24, 2025, the date which the consolidated financial statements were available to be issued. See further discussion in Note 13.

Recently adopted accounting pronouncements

Effective September 1, 2023, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)* using the modified retrospective approach. The guidance changes the methodology to be used to measure credit losses for certain financial instruments and financial assets, including trade receivables. The new methodology requires the recognition of an allowance that reflects the current estimate of credit losses expected to be incurred over the life of the financial asset. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recently issued accounting pronouncements

In November 2023, the FASB issued ASU 2023-07: *Improvements to Reportable Segment Disclosures*. This ASU, which amends Topic 280: *Segment Reporting*, improves disclosure requirements for reportable segments and enhances disclosures for companies with single reportable segments. This standard will be effective for the Company for the fiscal

year ending August 31, 2025. The Company does not anticipate that the standard will impact its conclusion that the Company has a single reportable segment.

Note 3 – Liquidity

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern which contemplates continuation of operations, realization of assets and payment of liabilities in the ordinary course of business. As shown in the accompanying consolidated financial statements, the Company has incurred a net loss of approximately \$8,672,000 and negative cash flows from operations of approximately \$4,684,000 for the year ended August 31, 2024. In addition, the Company has negative working capital of approximately \$22,267,000 as of August 31, 2024, comprised mainly of approximately \$19,457,000 current convertible notes payable and related accrued interest of approximately \$2,224,000. The Company's ability to continue as a going concern is dependent on meeting various obligations as they become due with cash generated from operations and/or through raising capital and ultimately achieving sustained profitable operations. In October 2024, the Company received an investment from its majority stockholder and certain other convertible debt holders that resulted in proceeds received by the Company of approximately \$1,200,000. In November of 2024, the Company converted all outstanding convertible notes payable to shares of Series B Convertible Preferred Stock. The November 2024 converted Series B Convertible Preferred Stock had a term of two years and may not be redeemed prior to this two-year period except upon a liquidation (see further discussion of Series B Convertible Preferred Stock in Note 8). In April 2025, the term of the Series B Preferred Stock was amended to be four years (see Note 8). In April 2025, the Company received additional proceeds from its majority stockholder of approximately \$2,000,000 to fund operations via a convertible note payable agreement.

During its fiscal year ending August 31, 2025, management is operating to a plan that includes an increase in bookings, revenue and gross margin sufficient to allow the Company to fund operations. Management believes the Company will be able to continue to operate in its present form as a result of the additional investments from investors, and the increased gross profit and cash flows from operations. However, no assurance can be given that management's actions will result in sustained profitable operations. If management is not successful with its plan, anticipated hires can be delayed and other planned expenses can be removed from its plan to a level necessary to maintain positive cash flow. If management is not successful with its plans, there is a possibility that the Company may need to secure additional funding from its majority stockholder or other investors. The Company's majority stockholder has the intent and ability to provide additional funding if necessary to allow the Company to continue normal business operations.

Note 4 – Notes Receivable

In November 2022, the Company advanced funds under a note receivable to another entity of \$624,950. The balance outstanding was \$624,950 as of August 31, 2024 and 2023. Subsequent to August 31, 2024, the Company received payment in full of the outstanding balance due from this entity. Additional notes receivable extended to other entities were written off due to the Company deeming these amounts to be uncollectible during the years ended August 31, 2023 and 2024 (see Note 2).

Note 5 – Equity Investments and Equity Method Investments

Investments consist of the following:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Equity investments		
Issuance Inc. preferred stock (1)	\$ 84,000	\$ 100,000
Equity method investments		
Hedgemore Investors, LLC (2)	\$ -	\$ 256,168
Branded Hospitality Venture Fund 1 (3)	25,000	25,000
Total equity method investments	<u>\$ 25,000</u>	<u>\$ 281,168</u>

- 1) On November 1, 2022, the Company purchased preferred shares of Issuance Inc. for \$100,000. During the year ended August 31, 2024, the Company determined there was a partial impairment of this investment and reduced the recorded amount to \$84,000. The fair value of this investment was determined using unobservable inputs (Level 3) that was based on the underlying investment's operating results and status of funding.
- 2) Hedgemore purchased a building in Charlotte, NC, and the Company invested \$281,295 in October 2022 in exchange for a 36% ownership stake in Hedgemore, as the Company planned to relocate to this building. In conjunction with this investment, the Company entered into an operating lease with Hedgemore for space within the acquired building (see Note 2). The Company recorded an impairment of this investment of approximately \$25,000 during the year ended August 31, 2023, representing the Company's share of the net loss generated by Hedgemore during the year ended August 31, 2023. In addition to the cash invested to purchase the ownership stake in Hedgemore, the Company guaranteed the mortgage on the building and entered into an agreement to provide a certificate of deposit at a bank amounting to \$188,835 as partial backup to the Company's guarantee. This certificate of deposit is included in restricted cash on the consolidated balance sheet as of August 31, 2023. During the year ended August 31, 2024, the Company assigned its investment interest in Hedgemore to another investor in exchange for a modification and early termination of the operating lease for the space within the building. In connection with this transaction, all future guarantees and rent payments were terminated and the Company received the restricted cash from the bank.
- 3) Branded Hospitality Venture Fund 1 is a managed fund that specializes in investments related to the hospitality industry. The fund is not publicly traded, and the investment is shown at the Company's original cost.

Note 6 – Internally Developed Software

The Company's internally developed software costs relate to costs paid to an external party to develop the Company's technology platform, and consisted of the following:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Software costs	\$ 3,822,213	\$ 3,695,788
Work in progress	125,847	58,980
Capitalized software costs	3,948,060	3,754,768
Less: Accumulated amortization	(1,665,608)	(869,659)
Net capitalized software costs	<u>\$ 2,282,452</u>	<u>\$ 2,885,109</u>

Amortization expense related to capitalized software costs was approximately \$1,299,000 and \$781,000 for the years ended August 31, 2024 and 2023, respectively. The Company amortizes capitalized software costs using the straight-line method over the estimated useful life of the software, which the Company has determined is three years.

During the years ended August 31, 2024 and 2023, respectively, the Company capitalized \$1,073,000 and \$2,477,000 of software development costs, primarily consisting of costs from a third-party technology development partner.

As discussed in Note 2, during the year ended August 31, 2024, the Company disposed of software that it was no longer using, resulting in a reduction in gross capitalized software costs of approximately \$880,000, a reduction in accumulated amortization of approximately \$503,000, and the recognition of a loss of approximately \$377,000.

Note 7 – Convertible Notes Payable

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
2021 8% Notes (1)	\$ 1,550,000	\$ 1,550,000
2022 and 2023 7.5% Notes (2)	12,308,750	12,308,750
2024 12% Notes (2)	2,150,000	-
2024 7.5% Notes (3)	<u>3,714,065</u>	<u>-</u>
	19,722,815	13,858,750
Less: discount on convertible notes (4)	<u>(266,136)</u>	<u>(896,608)</u>
Total convertible notes, net of discount	19,456,679	12,962,142
Less: current portion of convertible notes	<u>(19,456,679)</u>	<u>(10,305,193)</u>
Long term portion of convertible notes	<u>\$ -</u>	<u>\$ 2,656,949</u>

- 1) These notes were convertible into Common Stock at \$.225 per share. These notes were converted into Series B Preferred Stock subsequent to August 31, 2024. See further in Note 13.
- 2) These notes were convertible into Common Stock at \$1.00 per share. These notes were converted into Series B Preferred Stock subsequent to August 31, 2024. See further in Note 13.
- 3) These notes were convertible into Common Stock at \$.16 per share. These notes were converted into Series B Preferred Stock subsequent to August 31, 2024. See further in Note 13.
- 4) The Company records a debt discount to represent the difference between the face value of the notes and the estimated fair value at the issuance date and amortizes the discount over the term of the related debt agreement. For notes that included warrants, the relative fair value of the warrants is included within the total original issue discount assigned to the notes and that total discount is amortized over the term of the note. The unamortized discount balance as of August 31, 2024 and 2023 is approximately \$266,000 and \$897,000, respectively.

Accrued interest as of August 31, 2024 and 2023 was approximately \$2,224,000 and \$961,000, respectively. In connection with the conversion agreement described in Note 13, this accrued interest was forgiven by the holders of the convertible notes.

Note 8 – Mezzanine Equity – Preferred Stock

As of August 31, 2024 and 2023, the Company was authorized to issue 10,750,000 shares of Series B Convertible Preferred Stock. There were 5,375,000 shares issued and outstanding as of August 31, 2024 and August 31, 2023, respectively. Each share of Series B Convertible Preferred Stock had a stated value of \$1.00 and is entitled to cumulative dividends of 7.5% per annum out of available capital. No dividends have been declared or paid to date. At the option of holder, the Series B Convertible Preferred Stock is convertible into common stock at a rate of one share for each share of Series B Convertible Preferred Stock unit converted. Conversion is subject to a beneficial ownership limitation of 9.99%. Upon any liquidation, dissolution or winding-up of the Company, the holder is entitled to receive out of the assets, whether capital or surplus, an amount equal to 150% of the stated value plus then be entitled to receive the same amount that a holder of common stock would receive if the preferred stock were fully converted. The term of the Series B Convertible Preferred Stock was two years from the original issue date in May 2022. Subsequent to the year ended August 31, 2024, the Company amended this to be a four-year term from the original issue date of May 2022. If the Series B Convertible Preferred Stock is not converted prior to this term, the holder may redeem the shares for value based on the amount the holder would be entitled to upon a liquidation, as described above. No Series B Convertible Preferred Stock was redeemed during the year-ended August 31, 2024 or 2023. There are no voting rights included in the Series B Convertible Preferred Stock. Cumulative and unpaid dividends of this Series B Convertible Preferred Stock were approximately \$992,000 and \$532,000 as of August 31, 2024 and 2023, respectively.

In May 2022, the Company issued 5,375,000 of Series B Convertible Preferred Stock and 2,687,500 of common stock warrants for an aggregate purchase price of \$4,977,000. The Company determined the relative fair value of the Series B Convertible Preferred Stock on the issuance date was approximately \$4,271,000, and the remaining relative fair value was allocated to warrants.

The Series B Preferred Stock contains a redemption feature which is in the control of the holder of the Series B Preferred Stock. Due to this redemption feature, the Series B Convertible Preferred Stock is classified as mezzanine equity. The redemption price at August 31, 2024 and 2023 is below the Series B Convertible Preferred Stock's carrying value.

In April 2025, the Company created an additional class of preferred stock called Series C Preferred Stock. Series C Preferred Stock contains the same features as Series B Preferred Stock, however, its conversion price is 75% of the Series B conversion price.

Note 9 – Stockholders' Deficit

Common Stock

The Company is authorized to issue 500,000,000 shares of common stock with a par value of \$0.001 per share. As of August 31, 2024 and 2023, there were approximately 5,466,000 shares of common stock outstanding.

Warrants

As of August 31, 2024, the outstanding warrants consisted of the following:

<u>Date Issued</u>	<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
03/01/2022	1,075,000	\$.225	03/01/2027
03/03/2022	1,075,000	\$.225	03/03/2027
04/04/2022	134,375	\$ 1.00	04/04/2027
05/27/2022	5,375,000	\$ 1.00	05/27/2027
06/29/2023	268,750	\$ 1.00	06/29/2028
07/03/2023	268,750	\$ 1.00	07/03/2028
08/10/2023	268,750	\$ 1.00	08/10/2028
08/15/2023	268,750	\$ 1.00	08/15/2028
08/17/2023	107,500	\$ 1.00	08/17/2028
10/06/2023	137,500	\$ 1.00	10/06/2028
10/13/2023	137,500	\$ 1.00	10/13/2028
10/20/2023	22,000	\$ 1.00	10/20/2028
10/26/2023	412,500	\$ 1.00	10/26/2028
11/28/2023	220,000	\$ 1.00	11/28/2028
12/01/2023	220,000	\$ 1.00	12/01/2028
12/19/2023	230,000	\$ 1.00	12/19/2028
12/27/2023	230,000	\$ 1.00	12/27/2028
01/12/2024	28,750	\$ 1.00	01/12/2029
01/26/2024	86,250	\$ 1.00	01/26/2029
01/29/2024	86,250	\$ 1.00	01/29/2029
02/22/2024	14,375	\$ 1.00	02/22/2029
03/08/2024	12,500	\$ 1.00	03/08/2029
03/22/2024	10,000	\$ 1.00	03/22/2029
04/05/2024	12,500	\$ 1.00	04/05/2029
	<u>10,702,000</u>		

These warrants are classified as equity in consolidated financial statements. Assumptions used in calculating the fair value of the warrants at the issuance date in conjunction with applying the relative fair value method include the following:

	<u>FY 2024 Warrants</u>	<u>FY 2023 Warrants</u>
Fair value of common stock	\$ 0.27	\$ 0.49
Term	5 years	5 years
Expected volatility	68.7% - 83.4%	40.0% - 120.0%
Dividend yield	-	-
Risk-free interest rate	3.78% - 4.86%	1.56% - 4.42%

Subsequent to August 31, 2024, all outstanding warrants were exchanged into Series B Preferred Stock. See further discussion in Note 13.

Note 10 – Income Taxes

Significant components of the Company's deferred tax assets and liabilities are as follows:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Deferred tax assets		
Net operating losses	\$ 5,375,000	\$ 3,275,000
Charitable contributions	4,000	3,000
Amortization	<u>194,000</u>	<u>36,000</u>
Total deferred tax assets	5,573,000	3,314,000
Less: valuation allowance	<u>(5,573,000)</u>	<u>(3,314,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company incurred losses for the years ended August 31, 2024 and 2023. Accordingly, no provision for, or benefit from, income taxes has been recorded due to the uncertainty of the realization of any tax assets. As of August 31, 2024, the Company had approximately \$23,841,000 of federal and \$1,733,000 of state net operating losses. The Company's income tax benefit for the years ended August 31, 2024 and 2023 are as follows:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Income tax benefit at federal statutory rate	\$ (2,248,000)	\$ (1,947,000)
Permanent items	(3,000)	3,000
State tax benefit	<u>(8,000)</u>	<u>(65,000)</u>
Subtotal of tax benefit	(2,259,000)	(2,009,000)
Less: valuation allowance	<u>2,259,000</u>	<u>2,009,000</u>
Net income tax benefit	<u>\$ -</u>	<u>\$ -</u>

The Company has no current or deferred benefit for income taxes from operations for the years ended August 31, 2024 and 2023. The significant differences between the U. S. Federal statutory rate and the effective rate for financial reporting purposes are as follows:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Federal statutory tax rate	(21.00%)	(21.00%)
Permanent items	(0.03%)	0.03%
State tax rate	<u>(0.07%)</u>	<u>(0.70%)</u>
Tax benefit	(21.10%)	(21.67%)
Valuation allowance	<u>21.10%</u>	<u>21.67%</u>
Effective tax rate	<u>0.00%</u>	<u>0.00%</u>

Note 11 – Related Party Transactions

The Company's main outsourced technology development partner is owned by an individual that served as the Company's interim Chief Technology Officer from September 2022 to May 2023. During the years ended August 31, 2024 and 2023, the Company paid this technology development partner approximately \$1,073,000 and \$2,477,000 to develop the Company's main technology platform.

From October 2022 through August 2024, the Company leased office space from Hedgemore, an entity in which the Company had a 36% ownership stake. See Note 5 for further discussion.

Note 12 – Commitments and Contingencies

As of August 31, 2023, the Company had a commercial guaranty totaling \$1.4 million that was issued related to a real estate agreement by Hedgemore from October 2022. This agreement was sold during the year ended August 31, 2024 and the guarantee was released. See further in Note 5 for a description of the agreement with Hedgemore.

Note 13 – Subsequent Events

In October 2024, due to an event of default under a secured loan made by Capstone to DrivenIQ, the Company exercised its right under the security agreement and held a UCC Article 9 public foreclosure sale of substantially all of the assets of DrivenIQ. At the foreclosure sale, Capstone, via its newly established special purpose vehicle, VisitIQ, LLC, was the winning bidder for the assets of DrivenIQ and assumed approximately \$2,000,000 of DrivenIQ liabilities. DrivenIQ remains a corporate entity with no assets, no employees, or ongoing operations.

Capstone entered into a note purchase agreement with Arena Investors LP ("Arena"), pursuant to which Capstone issued to Arena a convertible promissory note (the "October Note") with a principal amount of \$1,333,333. The October Note was issued with an original issue discount and resulted in gross proceeds to Capstone of \$1,200,000. The October Note is secured by the assets of Capstone, other than certain excluded assets. In April 2025, the October Note was converted into Series B Preferred Stock.

In November 2024, all convertible notes and warrants as disclosed above in Notes 7 and 9 were exchanged into Series B Preferred Stock, at conversion prices as set per the underlying convertible note agreements. As part of the conversion, accrued interest of approximately \$2,554,000 on the convertible notes as of the date of conversion was forgiven by the holders of the convertible notes. In April 2025 the total number of authorized shares under the Series B Preferred Stock was increased to 150,000,000 and the total number of authorized shares under the Series C Preferred Stock was set at 150,000,000. As disclosed in Note 3, in April of 2025 the Company received additional proceeds from its majority stockholder of approximately \$2,000,000 to fund operations via a convertible note payable agreement that is secured by the assets of VisitIQ Corp. and is convertible into Series C Preferred Stock.

In March 2025, Capstone Technologies Group, Inc. changed its name to VisitIQ Corp. by filing a certificate of amendment to its articles of incorporation with the State of Nevada.