

VELTEX CORPORATION
FINANCIAL STATEMENTS
YEARS ENDED
DECEMBER 31, 2016 AND 2015
(A COMPILATION)



To the Board of Directors
Veltex Corporation
Chicago, Illinois

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

Management is responsible for the accompanying financial statements of Veltex Corporation (a Utah corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, stockholders' equity/(deficit) and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 4 to the financial statements the Company has an accumulated deficit and no current operations which raises substantial doubt about the ability to continue as a going concern. Management's plans regarding these matters are also described in note 4 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Sassetti LLC

March 3, 2017
Oak Park, Illinois

VELTEX CORPORATION
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(A COMPILATION)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 25,371	\$ 30,509
Prepaid legal fees	50,000	-
Legal judgements (note 5)	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 75,371</u>	<u>\$ 30,509</u>
LIABILITIES		
Due to management company (note 3)	\$ 29,108	\$ 207,760
Accounts payable	<u>153,200</u>	<u>14,941</u>
TOTAL LIABILITIES	182,308	222,701
STOCKHOLDERS' EQUITY (DEFICIT)		
Capital stock-voting, \$.001 par value; 200,000,000 shares authorized; 67,451,677 in 2016 and 61,776,677 in 2015 shares issued and outstanding of which 3,205,534 shares are held as treasury stock	67,452	61,777
Additional paid-in capital	2,677,722	1,593,147
Accumulated deficit	(2,848,905)	(1,843,910)
Less treasury stock, at cost	<u>(3,206)</u>	<u>(3,206)</u>
Total Stockholders' Deficit	<u>(106,937)</u>	<u>(192,192)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 75,371</u>	<u>\$ 30,509</u>

See accompanying notes and independent accountants' compilation report.

VELTEX CORPORATION
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(A COMPILATION)

	<u>2016</u>	<u>2015</u>
REVENUE	<u>\$ -</u>	<u>\$ -</u>
EXPENSES		
Bad debt	1,300	-
Management fees (note 3)	82,500	70,500
Professional fees	254,749	77,944
Press releases	9,838	-
Rent (note 2)	16,204	14,469
Stock option expense (note 6)	532,750	9,000
Office expense	13,339	14,668
OTC compliance	21,295	12,214
Meals and entertainment	24,087	10,583
Transfer agent fees	14,936	16,162
Travel	19,519	3,890
Taxes and licenses	1,233	981
Various expenses	<u>13,245</u>	<u>15,538</u>
Total Expenses	<u>1,004,995</u>	<u>245,949</u>
LOSS FROM OPERATIONS	<u>(1,004,995)</u>	<u>(245,949)</u>
INCOME TAXES	<u>-</u>	<u>-</u>
NET LOSS	<u><u>\$ (1,004,995)</u></u>	<u><u>\$ (245,949)</u></u>

See accompanying notes and independent accountants' compilation report.

VELTEX CORPORATION
STATEMENT OF STOCKHOLDERS' EQUITY / (DEFICIT)
YEARS ENDED DECEMBER 31, 2016 AND 2015
(A COMPILATION)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity / (Deficit)
Balances at January 1, 2015	60,176,677	\$ 60,177	\$ 1,465,747	\$ (1,597,961)	3,205,534	\$ (3,206)	\$ (75,243)
Stock option exercised (note 6)	100,000	100	8,900	-	-	-	9,000
Restricted shares issued for cash	1,500,000	1,500	118,500	-	-	-	120,000
Net loss for year	-	-	-	(245,949)	-	-	(245,949)
Balances at December 31, 2015	61,776,677	61,777	1,593,147	(1,843,910)	3,205,534	(3,206)	(192,192)
Stock option exercised (note 6)	100,000	100	12,900	-	-	-	13,000
Restricted shares issued to directors for cash	2,150,000	2,150	212,850	-	-	-	215,000
Restricted shares issued for cash	3,425,000	3,425	339,075	-	-	-	342,500
Stock-based compensation expense	-	-	519,750	-	-	-	519,750
Net loss for year	-	-	-	(1,004,995)	-	-	(1,004,995)
Balances at December 31, 2016	67,451,677	\$ 67,452	\$ 2,677,722	\$ (2,848,905)	3,205,534	\$ (3,206)	\$ (106,937)

See accompanying notes and independent accountants' compilation report.

VELTEX CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(A COMPILATION)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,004,995)	\$ (245,949)
Adjustments to reconcile net loss to net cash used in operating activities -		
Stock option expense	532,750	9,000
Changes in:		
Prepaid expenses	(50,000)	-
Due to management company	(178,652)	139,104
Accounts payable and accrued expenses	<u>138,259</u>	<u>(4,094)</u>
Net Cash Used in Operating Activities	<u>(562,638)</u>	<u>(101,939)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	<u>557,500</u>	<u>120,000</u>
Net Cash Provided by Financing Activities	<u>557,500</u>	<u>120,000</u>
NET (DECREASE) INCREASE IN CASH	(5,138)	18,061
CASH AND CASH EQUIVALENTS:		
Beginning of period	<u>30,509</u>	<u>12,448</u>
End of period	<u><u>\$ 25,371</u></u>	<u><u>\$ 30,509</u></u>
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income Taxes	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes and independent accountants' compilation report.

VELTEX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(A COMPILATION)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - Veltex Corporation (the "Company") was incorporated in Utah September 17, 1987, and is a holding corporation, which currently maintains its corporate headquarters in Chicago, Illinois. The Company's common shares trade OTC Markets under the symbol VLXC. The Company seeks to enhance shareholder value through aggressive recuperation of lost resources and assets while maximizing the worth of those recovered. The Company is also pursuing other avenues worldwide of enhancing shareholder value. Prior to 2008, the Company operated in the textile industry.

Basis of Accounting - The financial statements of the Company have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Cash Equivalents - All highly liquid investments with maturities of three months or less when purchased are considered cash equivalents.

Income Taxes - The Company accounts for income taxes under the provisions of ASC 740, "Income Taxes". Deferred tax assets and liabilities are provided for temporary differences between financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled, subject to a valuation allowance where uncertainty exists as to the ultimate recoverability of net deferred tax assets. The Company's various Federal and state tax returns are subject to examination by the IRS or other taxing authorities, generally for three years after they were filed.

The last Federal tax examination was completed in February 2015 for the years ending 2004 through 2009. The result of the examination was a no change letter. Management does not believe that the results of any future examination will have a material effect on the financial position of the Company.

The income tax accounting process for uncertainty in income taxes prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. A company must determine whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of any related appeals or litigation procedures, based on the technical merits of the position. Once it is determined that a position meets the "more-likely-than-not" recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. Management's review of the Company's possible tax positions at December 31, 2016, did not result in any positions requiring disclosure. Should the Company need to record interest and/or penalties related to uncertain tax positions, or other tax authority assessments, it would classify such expenses as part of the income tax provision.

VELTEX CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(A COMPILATION)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The Company has evaluated subsequent events through March 3, 2017, the date which the financial statements were available to be issued.

2. LEASE OBLIGATIONS

The Company leases its corporate office space and two storage units under a sub-lease agreement in downtown Chicago Illinois. The Company currently operates on a month to month basis. Total rent expense for the years ended December 31, 2016 and 2015 was \$16,204 and \$14,469, respectively.

3. RELATED PARTY TRANSACTIONS

The Company has a management contract with a related party (First Options of Chicago Inc., a Delaware corporation) to provide the Company's management services. The Company has recorded management services of \$82,500 and \$70,500 for the years ended December 31, 2016 and 2015, respectively, to First Options of Chicago Inc. At December 31, 2016 and 2015, First Options of Chicago, Inc. is owed \$29,108 and \$207,760, respectively, from Veltex related to cash advances and expenses paid by First Options of Chicago, Inc. on behalf of Veltex. These amounts include contract management fees in arrears.

During each of the years ended December 31, 2016 and 2015, First Options of Chicago, Inc. exercised stock options for 100,000 shares (no exercise price). The options were value at \$13,000 and \$9,000, respectively.

4. GOING CONCERN

As of December 31, 2016, the Company does not have sustainable sources of revenue and income, and an accumulated deficit of \$2,848,905. The Company is currently pursuing \$100,078,621 in legal judgments. Management has not been able to asses the ultimate collectability of these legal judgments.

These conditions raise substantial doubt about the ability of the Company to continue as a going concern. The Company's management plans to rely on stock issuances to generate funds for current operating costs and the potential collection of its legal judgment. See note 5.

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NOTES TO FINANCIAL STATEMENTS
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5. LEGAL JUDGMENTS

On March 26, 2012, the United States District Court for the Central District of California entered a judgment in the principal amount of \$100,078,621 in favor of Veltex in the suit entitled Veltex Corporation v. Javeed Azzia Matin, et. al., Case No. CV 10 1746 ABC (PJWs). This suit was brought against the former management of the Company and others. It arose from a scheme to fraudulently convey the shares of the Company to another entity for little or no consideration. The proceeds from the sale of the shares were converted by the defendants for their own use. The judgment was classified as a fraudulent conveyance and transfer of assets by the United States District Court.

The judgment also includes \$2,005,172 in damages to reimburse the Company for legal expenses. These amounts are not recorded in the legal judgments. In addition, all judgments are accruing interest at applicable interest rates. The State of California stipulates an interest rate of ten percent from the judgment date.

On November 7, 2011, the District Court of the Third Judicial District, Salt Lake County, Utah found in the matter of Fletcher v. Javeed Matin, Case No. 080907145 that the interim receiver which the court had appointed in July 2008 to protect the Company's assets until a new Board of Directors was elected, had breached his fiduciary duties to the Company. A judgment in the amount of \$57,167 was entered against the receiver on January 12, 2012, by the United States Federal Court in California. The Company is still pursuing collections on this judgment.

The Company currently is aggressively pursuing collection from judgment debtors in the state of Nevada. The Nevada litigation is complex and is being litigated in both state and federal court. The company has retained attorneys in the state of Nevada at both the state and federal level. The litigation is currently ongoing with no timeframe for conclusion.

The Company settled, under strict confidentiality agreements, with numerous defendants in Veltex v. Javeed Azzia Matin and has begun the collection process in Los Angeles Federal Court. Additionally, the company received a judicial award from the state of Utah against former Veltex receiver Lee G. Scharf. The Company has begun the process of collection in Los Angeles County, California.

Various government agencies are pursuing seizure of assets against the defendants, and management is unable to determine whether the judgment is collectable in whole or in part. Management is unable to address with reasonable certainty the collectability of these legal judgments, but will continue to pursue them within its legal rights.

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5. LEGAL JUDGMENTS (CONTINUED)

Following is a summary of the estimated judgements by type and, if any portion of the amount is received, the anticipated account(s) in which the amount would be recorded. Legal judgements consist of the following as of December 31, 2016:

Judgment (additional paid in capital)	\$ 100,078,621
Judgment (other income)	57,167
Attorney damages (other income)	2,005,172
Estimated accrued interest (other income)	<u>48,453,733</u>
Total	<u><u>\$ 150,594,693</u></u>

6. STOCKHOLDER'S EQUITY

Stock Options

On March 10, 2009, the Company granted First Options of Chicago Inc. (related party) the right to exercise the option to purchase 100,000 shares of restricted common stock at no exercise price at the beginning of each year without expiration. At December 31, 2016, all options granted had been exercised.

On March 10, 2009 the Board of Directors granted First Options of Chicago Inc. the option to purchase 1,500,000 shares of restricted common stock at an exercise price of \$0.01 per share. The options are fully vested and are outstanding as of December 31, 2016, without an expiration date.

On July 1, 2015 the Board of Directors granted six board members the option to purchase 500,000 shares each of restricted common stock at an exercise price of \$0.25 per share. The options expired on July 1, 2016.

On July 1, 2015 the Board of Directors granted corporate counsel the option to purchase 500,000 shares of restricted common stock at an exercise price of \$0.25 per share. The options expired on July 1, 2016.

On July 1, 2016, the Board of Directors granted corporate counsel a stock option for 1,500,000 shares of restricted stock at no exercise price with an estimated value of \$150,000, of which \$100,000 relates to past legal fees, and future legal services of \$50,000. The Company has recorded a payable of \$150,000 for these services. These options are unexercised as of December 31, 2016.

During the year ended December 31, 2016, the Company granted the six board members options to purchase 750,000 shares each of restricted common stock at an exercise price of \$0.20 per share. The options vested immediately and have no expiration date. The Company recorded compensation expense of \$519,750. Fair market value using the Black-Scholes option-share model was determined using the following assumptions:

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6. STOCKHOLDER'S EQUITY (CONTINUED)

Expected life (years)	10
Risk free rate of return	1.49%
Dividend yield	-
Expected volatility	965%

Common Stock

During the year ended December 31, 2016, the Company issued 2,150,000 shares of restricted common stock to board members and directors for \$215,000. The Company also issued 3,425,000 shares of restricted common stock to current shareholders for \$342,500.

During the year ended December 31, 2015, the Company issued 1,500,000 shares of restricted common stock to a board member for \$120,000.

7. INCOME TAXES

The Company has incurred losses since its inception and, therefore, has not been subject to federal income taxes. As of December 31, 2016, the Company had domestic net operating loss ("NOL") carryforwards for income tax purposes of approximately \$1,921,000 which expire in 2022 through 2034. Under the provisions of Section 382 of the Internal Revenue Code greater than 50% ownership changes that occurred in the Company may significantly limit the Company's ability to utilize its NOL carry forwards to reduce future taxable income and related tax liabilities.

Section 382 allows an owner shift any time there is a transfer of stock by a person who directly, or indirectly, owns more than 5% of the corporation and the percentage of stock of the corporation owned by one or more five percent shareholders has increased, in the aggregate, by more than 50 percentage points over the lowest percentage of stock owned by such shareholders at any time during the "testing period." The "testing period" is generally a three-year period ending on the date of any owner or equity structure shift.

The amount of post-change income that may be offset by pre-change losses is limited each year by the "Section 382 Limitation." Generally, the Section 382 Limitation is an amount equal to the value of the old loss corporation multiplied by a long-term interest rate established monthly by the Internal Revenue Service. The Company has not yet determined the qualifying events and resulting limitation that may impact utilization of net operating losses against future periods.

At December 31, 2016 and 2015, management has recorded an allowance for the entire amount of the deferred tax asset.

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7. INCOME TAXES (CONTINUED)

Net deferred tax assets consist of the following components as of December 31:

	2016	2015
Deferred tax assets:		
Federal and operating loss carryforwards	\$ 653,000	\$ 507,000
Valuation allowance for deferred tax asset	(653,000)	(507,000)
	<u>\$ -</u>	<u>\$ -</u>

8. REVERSE STOCK SPLIT

Shareholders of Veltex Corporation approved a Recapitalization Plan proposed in the 2016 Proxy Statement which would effect a reverse split of 1 for 25 (one for twenty five) of the common shares of the corporation. The Board has not determined when the reverse split will be effectuated.