

2020 Quarterly Report

TREP Trucept, Inc.

For the Period Ending September 30, 2020

THESE UNAUDITED FINANCIAL STATEMENTS ARE INCORPORATED BY REFERENCE INTO THE
DISCLOSURE STATEMENT PURSUANT TO THE PINK BASIC DISCLOSURE GUIDELINES

See accompanying notes to the consolidated financial statements.

Trucept, Inc.

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See accompanying notes to the consolidated financial statements.

Trucept, Inc.
Consolidated Balance Sheets
As of September 30, 2020, and December 31, 2019
Restated

| | September 30, 2020 | December 31, 2019 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 195,648 | \$ 583 |
| Accounts receivable, net | 7,084,471 | 6,254,291 |
| Notes Receivable | 1,160,429 | 996,796 |
| Prepaid expenses and deposits | 24,777 | 24,777 |
| Total current assets | 8,465,325 | 7,267,448 |
| Prepaid workers compensation | 19,927,316 | 19,927,316 |
| Deposits | 215,000 | - |
| Goodwill | 556,606 | - |
| Total Assets | \$ 29,164,247 | \$ 27,203,764 |
| Liabilities and Stockholders' Deficit | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 4,396,670 | \$ 1,900,340 |
| Accrued payroll taxes | 783,540 | - |
| Accrued compensation expense | 158,232 | - |
| Interest payable | 301,818 | 219,833 |
| Trust – 3 rd party | 4,610,490 | 6,803,745 |
| Other Liabilities | 70,239 | 44,667 |
| Notes payable related party | 2,935,653 | 3,335,653 |
| Notes payable | 950,010 | 570,000 |
| Total current liabilities | 14,206,652 | 12,847,238 |
| Other long-term liabilities | - | - |
| Total liabilities | 14,206,652 | 12,847,238 |
| Stockholders' Equity (Deficit) | | |
| Preferred stock: \$0.001 par value, 5,000,000 shares authorized, zero shares issued and outstanding at September 30, 2020 and December 31, 2019 | - | - |
| Common stock: \$0.001 par value, 500,000,000 shares authorized, 52,912,123 and 52,762,123 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively | 52,777 | 52,762 |
| Additional paid in capital | 7,277,705 | 7,274,645 |
| Accumulated deficit | 7,627,114 | 7,002,119 |
| Total stockholders' equity (deficit) | 14,957,596 | 14,329,526 |
| Total liabilities and stockholders' equity (deficit) | \$ 29,164,247 | \$ 27,203,764 |

See accompanying notes to the consolidated financial statements.

Trucept, Inc.
Consolidated Statements of Operations and Comprehensive Income
For the Three Months Ended September 30, 2020 and 2019
Restated

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Revenue | \$ 3,124,071 | \$ 2,092,567 |
| Cost of revenue and service delivery | <u>1,091,367</u> | <u>758,776</u> |
| Gross profit | 2,032,704 | 1,333,791 |
| Selling, general and administrative expenses | <u>1,228,881</u> | <u>1,175,105</u> |
| Total operating expense | 1,228,881 | 1,175,105 |
| Operating Income (loss) | 803,823 | 158,686 |
| Other income (expense) | | |
| Interest expense | (6,198) | (17,902) |
| Tax and Tax penalties | (5,560) | - |
| Tax Variance | <u>(3,563,814)</u> | <u>(4,726,735)</u> |
| Total other (expense)/income | (3,575,572) | (4,744,637) |
| Net Income (Loss) | <u>(2,771,749)</u> | <u>(4,585,951)</u> |
| Comprehensive Income (Loss) | <u>\$ (2,771,749)</u> | <u>\$ (4,585,951)</u> |
| Net income per share of common stock, basic and diluted | <u>\$ (0.05)</u> | <u>\$ (0.09)</u> |
| Weighted average shares of common stock outstanding, basic and diluted | <u>52,912,123</u> | <u>52,762,123</u> |

See accompanying notes to the consolidated financial statements.

Trucept, Inc.
Consolidated Statements of Operations and Comprehensive Income
For the Nine Months Ended September 30, 2020 and 2019
Restated

| | 2020 | 2019 |
|---|-------------------|---------------------|
| Revenue | \$ 7,966,698 | \$ 6,449,551 |
| Cost of revenue and service delivery | <u>3,079,879</u> | <u>2,862,126</u> |
| Gross profit | 4,916,819 | 3,587,425 |
| Selling, general and administrative expenses | <u>4,091,909</u> | <u>2,729,360</u> |
| Total operating expense | 4,091,909 | 2,729,360 |
| Operating Income (loss) | 824,910 | (37,635) |
| Other income (expense) | | |
| Interest expense | (126,985) | (155,942) |
| Tax and Tax penalties | (9,116) | (16,054) |
| Tax Variance | <u>(63,814)</u> | <u>(126,735)</u> |
| Total other (expense)/income | (199,915) | (298,730) |
| Net Income (Loss) | <u>624,995</u> | <u>(336,366)</u> |
| Comprehensive Income (Loss) | <u>\$ 624,995</u> | <u>\$ (336,366)</u> |
| Net income per share of common stock, basic and diluted | <u>\$ 0.01</u> | <u>\$ (0.01)</u> |
| Weighted average shares of common stock outstanding, basic and diluted | <u>52,884,751</u> | <u>52,762,123</u> |

See accompanying notes to the consolidated financial statements.

Trucept, Inc.
Consolidated Statements of Changes in Stockholders' Deficit
For the Period Ended September 30, 2020
Restated

| | Common Stock | | Additional Paid in Capital | Accumulated Deficit | Total |
|---|--------------|-----------|----------------------------------|------------------------|---------------|
| | Shares | Amount | | | |
| Balance - December 31, 2017 | 52,762,123 | \$ 52,762 | \$ 7,274,645 | \$ 6,899,847 | \$ 14,227,254 |
| Net Income - December 31, 2018 - year end | | | | (274,645) | (274,645) |
| Balance - December 31, 2018 | 52,762,123 | \$ 52,762 | \$ 7,274,645 | \$ 6,625,202 | \$ 13,952,609 |
| Net Income - December 31, 2019 - year end | | | | 376,917 | 376,917 |
| Balance - December 31, 2019 | 52,762,123 | \$ 52,762 | \$ 7,274,645 | \$ 7,002,119 | \$ 14,329,526 |
| Shares issued for acquisitions | 150,000 | 15 | 3,060 | | 3,075 |
| Net Income - September 30, 2020 - nine months | | | | 624,995 | 624,995 |
| Balance - September 30, 2020 | 52,912,123 | \$ 52,777 | \$ 7,277,705 | \$ 7,627,114 | \$ 14,957,596 |

See accompanying notes to the consolidated financial statements.

Trucept, Inc.
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2020 and 2019
Restated

| | 2020 | 2019 |
|--|-------------|--------------|
| Operating Activities | | |
| Net Income | \$ 624,995 | \$ (336,366) |
| Changes in operating assets and liabilities | | |
| Accounts receivable – decrease (increase) | (676,532) | (369,960) |
| Notes Receivable | (127,412) | - |
| Accrued interest | 81,985 | 138,040 |
| Prepaid expenses and deposits – decrease, (increase) | - | (13,396) |
| Accounts payable and accrued liabilities - increase | 2,505,608 | 502,822 |
| Net cash provided by operating activities | 2,408,644 | (78,860) |
| Investing activities | | |
| Cash received in acquisitions | 56,698 | - |
| Deposits | (215,000) | - |
| Net cash provided by (used in) investing activities | (158,302) | - |
| Financing activities | | |
| Notes Payable – related party | - | 363,142 |
| Trust – third party | (2,844,399) | 4,558,952 |
| Payroll taxes payable (decrease) | 783,540 | (4,790,459) |
| Proceeds from Cares Act loan | 405,582 | - |
| Payments from TIPP Investment | - | (53,380) |
| Net cash provided by (used in) financing activities | (2,055,277) | 78,255 |
| Net increase (decrease) in cash | 195,065 | (605) |
| Cash and cash equivalents, beginning of the period | 583 | 605 |
| Cash and cash equivalents, end of the period | 195,648 | 0 |
| Supplemental cash flow information | | |
| Interest paid | - | - |
| Income taxes paid | - | - |
| Non cash supplemental information | - | - |

See accompanying notes to the consolidated financial statements.

1. Summary of significant accounting policies

Nature of operations, basis of financial statement presentation

The Company was incorporated in the State of Nevada on March 23, 1995 as Royce Biomedical Inc.

On September 8, 2005, the Company changed its name from Royce Biomedical Inc. to Smart-tek Solutions Inc. It changed names to “TRUCEPT INC.” on January 3, 2013 to better reflect new business activities

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the following significant accounting policies:

Liquidity

At September 30, 2020, the Company had cash and cash equivalents of \$195,648 and a working capital deficit of approximately \$5.7 million.

The Company earned a net income of \$624,995 and net loss of \$336,366 for the nine months ended September 30, 2020 and 2019.

Basis of Presentation

The Company’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Unaudited Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in The United States of America and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information necessary for a comprehensive presentation of financial position and results of operations.

It is management's opinion, however, that all material adjustments (consisting of normal and recurring adjustments) have been made which are necessary for a fair financial statement presentation.

Principles of consolidation

The consolidated financial statements include the accounts of Trucept Inc. and its subsidiaries Afinida Inc. and UWS Insurance Corp. (see Note 2). Significant inter-company transactions have been eliminated in consolidation.

Use of estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and related disclosures. Specific areas, among others, requiring the application of management’s estimates and judgment includes assumptions pertaining to credit worthiness of customers, interest rates, useful lives of assets, future cost trends, tax strategies, and other external market and economic conditions. Actual results could differ from estimates and assumptions made.

1. Summary of significant accounting policies - continued

Cash and equivalents

Cash and cash equivalents consist of cash on hand and bank deposits. For financial reporting purposes, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses related to this concentration of risk. At September 30, 2020 and December 31, 2019, the Company did not have any deposits in excess of federally insured limits.

Accounts Receivable

Accounts receivables are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible accounts, as needed. The Company uses the allowance method to account for uncollectible accounts receivable balances. Under the allowance method, if needed, an estimate of uncollectible customer balances is made based upon specific account balances that are considered uncollectible. Factors used to establish an allowance include the credit quality and payment history of the customer. The allowance for doubtful accounts was \$0 and \$0 as of September 30, 2020 and December 31, 2019, respectively.

Workers compensation insurance

The Company maintains reserves in the form of prepaid cash deposits for known workers' compensation claims which are made up of estimated collateral required to pay claims and estimated expenses to settle the claims. The collateral amounts are determined by the insurance carrier and are not recoverable by the Company until all claims related to a policy period are settled. The cash deposits will not be recoverable in the near term and accordingly, they are classified as a long-term asset with a balance of \$19,927,316 as of September 30, 2020 and December 31, 2019.

Concentration of credit risk

Credit risk arises from the potential that a counterpart will fail to perform its obligations. The Company minimized credit risk by requiring clients to wire in advance of services being provided. The Company's receivables are comprised of a number of debtors which minimizes the concentration of credit risk. It is management's opinion that the Company is not exposed to significant credit risk associated with its accounts receivable.

Equipment

Equipment is recorded at cost and depreciated on a straight-line basis using accelerated methods over the estimated useful lives of the related assets ranging from 3 to 5 years. The Company reviews the carrying value of long-term assets to be held and used when events and circumstances warrant such a review. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. The cost of normal maintenance and repairs is charged to operations as incurred. Major overhaul that extends the useful life of existing assets is capitalized. When equipment is retired or disposed, the costs and related accumulated depreciation are eliminated and the resulting profit or loss is recognized in income.

Income taxes

The Company recognizes consolidated deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

1. Summary of significant accounting policies – continued

Deferred tax assets are recognized for deductible temporary differences and for carry forwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company regularly assesses uncertain tax positions in each of the tax jurisdictions in which it has operations and accounts for the related financial statement implications. Unrecognized tax benefits are reported using the two-step approach under which tax effects of a position are recognized only if it is “more-likely-than-not” to be sustained and the amount of the tax benefit recognized is equal to the largest tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement of the tax position. Determining the appropriate level of unrecognized tax benefits requires the Company to exercise judgment regarding the uncertain application of tax law. The amount of unrecognized tax benefits is adjusted when information becomes available or when an event occurs indicating a change is appropriate. Future changes in unrecognized tax benefits requirements could have a material impact on the results of operations. The Company files U.S. federal and U.S. state tax returns.

Revenue recognition

In determining the pricing of the markup component of its billings, the Company takes into consideration its estimates of the costs directly associated with its worksite employees, including payroll taxes, benefits and workers’ compensation costs, plus an acceptable gross profit margin. As a result, the Company’s operating results are significantly impacted by the Company’s ability to accurately estimate, control and manage its direct costs relative to the revenues derived from the markup component of the Company’s gross billings.

Trucept provides marketing, accounting, payroll and human resources support to companies in a variety of industries.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. This ASU creates a single comprehensive new revenue recognition standard. Under the new standard and its related amendments (collectively known as Accounting Standards Codification (“ASC 606”), an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. Enhanced disclosures will be required regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017. The Company adopted the standard as of January 1, 2018, using the modified retrospective method applied to contracts which were not completed as of that date, which represent contracts for which all (or substantially all) of the revenues have not been recognized under existing standard as of the date of adoption.

The Company has assessed the impact that the new standard had on its operations, financial statements and related disclosures. This includes a review of current accounting policies and practices to identify potential differences that would result from applying ASC 606.

The Company has no incomplete contracts as of the date of adoption and therefore did not have any cumulative effect adjustment to its opening balance of retained earnings. Prior periods were not retrospectively adjusted. The impact to the Company’s future results from operations are not expected to differ based on the analysis of revenue streams and contracts under ASC 606, which supports revenue recognition over time.

The Company recognizes revenue pursuant to ASC 606. The Company’s revenue is derived from the sales of its products, which represents net sales recorded in the Company’s condensed consolidated statements of income. Product sales are recognized when performance obligations under the terms of the contract with the customer are satisfied. Typically, this would occur upon transfer of control, including passage of title to the customer and transfer of risk of loss related to those goods. Transfer of title and risk of loss takes place at the point of sale at the Company’s retail stores. The Company measures revenue as the amount of consideration to which it expects to be entitled in exchange for transferring goods (transaction price). The Company records reductions to revenue for estimated customer returns, allowances, markdowns and discounts. The Company bases its estimates on historical rates of customer returns and allowances as well as the specific identification of outstanding returns, markdowns and allowances that have not yet been received by the Company.

1. Summary of significant accounting policies - continued

Revenue recognition - continued

The actual amount of customer returns and allowances is inherently uncertain and may differ from the Company's estimates. If the Company determines that actual or expected returns or allowances are significantly higher or lower than the reserves it established, it would record a reduction or increase, as appropriate, to net sales in the period in which it makes such a determination. Reserves for returns, and markdowns are included within accrued expenses and other liabilities. Allowance and discounts are recorded in accounts receivable, net and the value of inventory associated with reserves for sales returns are included within prepaid expenses and other current assets on the consolidated balance sheet.

Revenues from multi-month training contracts are recognized over the length of the contract term rather than when the contract begins. Because a significant amount of the Company's contract sales are greater than three months in length, the Company apportions that revenue over the duration of the contract term even though either the full amount or a significant portion is collected when the contract begins. The difference between the gross cash receipts collected and the recognized revenue from those sales during the respective reporting period will appear as deferred revenue.

Business combinations

The Company accounts for acquisitions in which it obtains control of one or more businesses as a business combination. The purchase price of the acquired businesses is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the purchase price over those fair values is recognized as goodwill. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments, in the period in which they are determined, to the assets acquired and liabilities assumed with the corresponding offset to goodwill. If the assets acquired are not a business, the Company accounts for the transaction or other event as an asset acquisition. Under both methods, the Company recognizes the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity. In addition, for transactions that are business combinations, the Company evaluates the existence of goodwill or a gain from a bargain purchase.

Impairment of long-lived assets

Goodwill is tested annually at December 31 for impairment and upon the occurrence of certain events or substantive changes in circumstances.

The annual goodwill impairment test allows for the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. An entity may choose to perform the qualitative assessment on none, some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit and proceed directly to step one of the quantitative impairment test. If it is determined, on the basis of qualitative factors, that the fair value of a reporting unit is, more likely than not, less than its carrying value, the quantitative impairment test is required. The quantitative impairment test calculates any goodwill impairment as the difference between the carrying amount of a reporting unit and its fair value, but not to exceed the carrying amount of goodwill.

Share-based compensation

The Company measures the cost of employee services received in exchange for equity awards based on the grant date fair-value of the awards. Fair value is typically the market price of the shares on the date of issuance. Costs are measured at the grant date and recognized as compensation expense over the employer's requisite service period (generally the vesting period of the equity award).

Net earnings per share

The basic income per common share is computed by dividing the net income by the weighted average shares of common stock outstanding during the periods. Net income per share on a diluted basis is computed by dividing the net income for the periods by the weighted average number of common and dilutive common stock equivalent shares outstanding during the periods.

1. Summary of significant accounting policies - continued

Fair Value of Financial Instruments

Fair value is determined to be the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The Company follows a fair value hierarchy that prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than the quoted prices in active markets, are observable either directly or indirectly.

Level 3—Unobservable inputs based on the Company's assumptions.

The Company is required to use observable market data if such data is available without undue cost and effort.

At September 30, 2020 and December 31, 2019, the carrying amounts of financial instruments, including cash, accounts and other receivables, accounts payable and accrued liabilities, and notes payable approximate fair value because of their short maturity.

Subsequent Events

The Company follows the guidance in Section 855-10-50 of the FASB Accounting Standards Codification for the disclosure of subsequent events. The Company will evaluate subsequent events through the date when the financial statements were issued.

Recent Accounting Pronouncements

The Company has reviewed accounting pronouncements and interpretations thereof that have effective dates during the periods reported and in future periods. The Company believes that the following impending standards may have an impact on its future filings. The applicability of any standard will be evaluated by the Company and is still subject to review by the Company.

The Company has adopted FASB ASC 220 “Comprehensive Income”, which establishes standards for reporting and display of comprehensive income (loss), its components and accumulated balances. The Company had no components of comprehensive income (loss) for the periods presented.

In August 2018, the FASB issued guidance to improve the effectiveness of fair value measurement disclosures by removing or modifying certain disclosure requirements and adding other requirements. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Certain amendments should be applied prospectively, while all other amendments should be applied retrospectively to all periods presented. The Company is currently evaluating the impact of the new guidance.

In February 2018, the FASB issued guidance that permits the Company to reclassify disproportionate tax effects in accumulated other comprehensive income caused by the Tax Cuts and Jobs Act of 2017 to retained earnings. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new guidance.

In July 2017, the FASB issued ASU 2017-11 which simplifies the accounting for certain financial instruments with down round features. The new standard will reduce income statement volatility for companies that issue warrants and convertible instruments containing such features. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company is currently evaluating the impact of the new guidance.

In June 2016, the FASB issued a new credit loss standard that replaces the incurred loss impairment methodology in current GAAP. The new impairment model requires immediate recognition of estimated credit losses expected to occur for most financial assets and certain other instruments. It is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption for fiscal years beginning after December 15, 2018 is permitted. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first effective reporting period.

1. Summary of significant accounting policies - continued

Recent Accounting Pronouncements - continued

The Company is currently evaluating the impact of the new guidance.

In February 2016, the FASB issued new lease accounting guidance in ASU No. 2016-02, "*Leases*". This new guidance was initiated as a joint project with the International Accounting Standards Board to simplify lease accounting and improve the quality of and comparability of financial information for users. This new guidance would eliminate the concept of off-balance sheet treatment for "operating leases" for lessees for the vast majority of lease contracts. Under ASU No. 2016-02, at inception, a lessee must classify all leases with a term of over one year as either finance or operating, with both classifications resulting in the recognition of a defined "right-of-use" asset and a lease liability on the balance sheet. However, recognition in the income statement will differ depending on the lease classification, with finance leases recognizing the amortization of the right-of-use asset separate from the interest on the lease liability and operating leases recognizing a single total lease expense. Lessor accounting under ASU No. 2016-02 would be substantially unchanged from the previous lease requirements under GAAP. ASU No. 2016-02 will take effect for public companies in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on the consolidated financial statements.

In May 2014, the FASB issued their converged standard on revenue recognition, Accounting Standards Update No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*", updated in December 2016 with the release of ASU 2016-20. This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No 2015-14 "*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*," which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, with earlier application permitted but not before the original effective date.

We have reviewed all the recently issued, but not yet effective, accounting pronouncements and we do not believe any of these pronouncements will have a material impact on the Company.

2. Acquisitions

Afinida Inc.

On February 19, 2020, TREP purchased one hundred percent (100%) of the issued and outstanding common equity shares of Afinida Inc., a California Corporation ("Afinida") from its sole shareholder Synergy.O Inc. The purchase was made by means of a Stock Purchase Agreement ("SPA"). The consideration for the share purchase was one hundred thousand (100,000) common equity shares of TREP at a fair value of \$2,050. Afinida offers a full suite of valuable benefits designed to help them grow their businesses and increase their operating efficiency. Services include:

- i) Payroll Services, which includes, Payroll processing, Cloud based software, Direct deposits, New hire reporting, and others.
- ii) Payroll Tax Services, which includes, Payroll tax payments, filings and compliance services.

UWS Insurance Corporation

On February 19, 2020, TREP purchased one hundred percent (100%) of the issued and outstanding common equity shares of UWS Insurance Corp., a California Corporation ("UWS") from its sole shareholder Synergy.O Inc. The purchase was made by means of a Stock Purchase Agreement ("SPA"). The consideration for the share purchase was fifty thousand (50,000) common equity shares of TREP at a fair value of \$1,025. UWS is an insurance agency currently

licensed in 25 states with plans to become licensed in all 50. Through UWS-licensed brokers, it is projected approximately \$500,000 in additional revenue from the acquisition will result. Coverages include:

- (i) Employee Benefits - Medical/Dental/Vision Plans, Supplemental Insurance, Life Insurance & Cafeteria Plans.
- (ii) Commercial Lines - Workers Compensation, Business Owners Policies, Property Insurance, General Liability Insurance & Employment Practices Liability Insurance.
- (iii) Individual Policies - Medical, Dental, & Vision Plans, Supplemental Insurance, Life Insurance & Home Owners/Condo/Renters Insurance.

The Company recognized \$556,606 in goodwill for these acquisitions pertaining to the excess of the purchase price consideration over the net assets acquired and liabilities assumed.

3. Equity

At September 30, 2020, the Company is authorized to issue:

- 1. 5,000,000 shares of preferred stock, par value \$0.001 per share.
- 2. 500,000,000 shares of common stock, par value \$0.001 per share.

Common Stock

At September 30, 2020 and December 31, 2019, there are 52,912,123 and 52,762,123 shares of common stock outstanding, respectively.

There are no stock options outstanding at September 30, 2020 and December 31, 2019.

Preferred Shares

There are no preferred shares issued or outstanding.

4. Net earnings per share

| | September 30, 2020 | September 30, 2019 |
|---------------------------------------|--------------------------|-----------------------|
| Net Income (loss) | \$ 624,995 | \$ (336,366) |
| Weighted number of shares outstanding | 52,884,751 | 52,762,123 |
| Net income (loss) per share | \$ 0.01 | \$ (0.01) |

5. Related Party Transactions

A related party advanced to the Company \$400,000 on March 31, 2016, \$250,000 on December 31, 2016, and \$200,516 on June 30, 2018. In addition a related party advanced \$153,379 on December 31, 2017, \$842,964 on December 31, 2018 and \$1,488,793 on December 31, 2019. On June 30, 2018 three of these advances became a five year Note Payable for \$850,516 at 5% annual interest of which the \$400,000 note was paid back during the September 30, 2020 quarter. The remaining notes are three-year notes at 4% annual interest.

6. Loans Payable

A third party advanced to the Company \$270,000 on April 1, 2018, and \$300,000 on June 30, 2018. On June 30, 2018 these advances became a five year Note Payable for \$570,000 at 5% annual interest. On May 11, 2020, the Company received a two year PPP loan of \$380,010 from BBVA USA/SBA at 1% annual interest.

During the nine months ended September 30, 2019, the Company's subsidiary received proceeds of \$25,572 in a Cares Act loan, which is included in other liabilities in the consolidated balance sheets.

7. Commitments and Contingencies

On November 1, 2016, the Company executed a three year lease of an office building located at 600 La Terraza Blvd., Second Floor, Escondido, CA 92025.

On September 19, 2017 the November 1, 2016 lease was amended to extend the lease to November 3, 2023.

On August 14, 2019, the September 19, 2017 was amended to increase the square feet occupied, and to increase the monthly rent to \$10,551 with 3% annual increases.

On May 1, 2020, the August 14, 2019 Amended lease was Amended to increase the square footage used as a result of the acquisition of Afinida and UWS. The new monthly lease payment is \$34,567.

8. Legal Proceedings:

None

9. Subsequent Events:

Management has evaluated all activity and concluded that no subsequent events have occurred that would require recognition in these financial statements or disclosure in the notes to these financial statements.