

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-K**

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **September 30, 2018**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-53498**

**CleanSpark, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**87-0449945**

(I.R.S. Employer Identification No.)

**70 North Main Street, Ste. 105**

**Bountiful, Utah**

(Address of principal executive offices)

**84010**

(Zip Code)

Registrant's telephone number: **(801) 244-4405**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class

**None**

Name of each exchange on which registered

**Not applicable**

Securities registered under Section 12(g) of the Exchange Act:

Title of each class

**Common Stock, \$.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$25,096,771

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 39,740,596 shares as of January 9, 2018

# CLEANSARK

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## **PART I**

### **Item 1. Business**

#### **Our Business**

We are in the business of providing advanced energy software and control technology that enables a plug-and-play enterprise solution to modern energy challenges. Our services consist of intelligent energy monitoring and controls, microgrid design and engineering, microgrid consulting services, and turn-key microgrid implementation services. Our software allows energy users to obtain resiliency and economic optimization. Our software is uniquely capable of enabling a microgrid to be scaled to the user's specific needs and can be widely implemented across commercial, industrial, military and municipal deployment.

Integral to our business is our mPulse and mVSO software platforms (the "Platforms"). When the Platforms are implemented on a customer's power system they are able to control the distributed energy resources on site to provide secure, sustainable energy often at significant cost savings for our energy customers. The Platforms allows customers to efficiently manage renewable energy generation, other distributed energy generation technologies including energy generation assets, energy storage assets, and energy consumption assets. By having autonomous control over the distributed facets of energy usage and energy storage, customers are able to reduce their dependency on utilities, thereby keeping energy costs relatively constant over time. The overall aim is to transform energy consumers into energy producers by supplying power that anticipates their routine instead of interrupting it.

We also own patented gasification technologies. Our technology converts any organic material into SynGas. SynGas can be used as clean, renewable, environmentally friendly, warming fuel for power plants, motor vehicles, and as feedstock for the generation of DME (Di-Methyl Ether).

As previously disclosed, we plan to continue our focus on the CleanSpark side of the business in 2019, as opposed to expending significant efforts on the Gasifier side of the business. We plan to continue our efforts to better our technology, service existing customers and market our System (defined below) to prospective clients. We feel that this focus would provide the best opportunity for our shareholders.

#### ***Our Distributed Energy Management Business***

Integral to our business is our Distributed Energy Management Business (the "DER Business"). The main assets of our DER Business include our propriety software systems ("Systems") and also our engineering and methodology trade secrets. The Distributed Energy systems and Microgrids that utilize our Systems are capable of providing secure, sustainable energy with significant cost savings for its energy customers. The Systems allows customers to design, engineer, construct and then efficiently manage renewable energy generation, storage and consumption. By having autonomous control over the multiple facets of energy usage and storage, customers are able to reduce their dependency on utilities, thereby keeping energy costs relatively constant over time. The overall aim is to transform energy consumers into intelligent energy producers by supplying and managing power in a manner that anticipates their routine instead of interrupting it.

Around the world, the aging grid is becoming unstable and unreliable due to increases in loads and lack of new large-scale generation facilities. This inherent instability is compounded by the push to integrate a growing number and variety of renewable but intermittent energy generators and advanced technologies into outdated electrical systems. Simultaneously, defense installations, industrial complexes, communities, and campuses across the world are turning to virtual power plants and microgrids as a means to decrease their reliance from the grid, reduce utility costs, utilize cleaner power, and enhance energy security and surety.

The convergence of these factors is creating a "perfect storm" in the power supply optimization and energy management arena. Efficiently building and operating the distributed energy management systems and microgrids of tomorrow, while maximizing the use of sustainable energy to produce affordable, stable, predictable, and reliable power on a large scale, is a significant opportunity that first-movers can leverage to capture a large share of this emerging global industry.

A microgrid is comprised if any number of generation, energy storage, and smart distribution assets that serve a single or multiple loads, both connected to the utility grid and separate from the utility grid "islanded." In the past, distributed

energy management systems and microgrids have consisted of off-grid generators organized with controls to provide power where utility lines cannot run. Today, modern distributed energy management systems and microgrids integrate renewable energy generation systems (REGS) with advanced energy storage devices and interoperate with the local utility grid. Advanced autonomous cyber-secure microgrids controls relay information between intelligent hardware and localized servers to make decisions in real-time that deliver optimum power where it is needed, when it is needed.

Our Systems create an integrated distributed energy management control platform that seamlessly integrates all forms of energy generation with energy storage devices and controls facility loads to provide energy security in real time free of cyber threats. Able to interoperate with the local utility grid, the Systems bring users the ability to choose when to buy or sell power to and from the grid, enabling what we believe is the most cost effective power solution that exists on the current market.

Our Systems are ideal for commercial, industrial, mining, defense, campus and residential users and ranges in size from 4KW to 100MW and beyond and can deliver power at or below the current cost of utility power.

Our services consist of turn-key distributed energy and microgrid implementation services, distributed energy microgrid system design and engineering, project development consulting services and solar photovoltaic installation and consulting. The work is performed under fixed price bid contracts, and negotiated price contracts.

#### *mPulse Software Suite*

mPulse is a modular platform that enables fine-grained control of a Microgrid based on customer operational goals, equipment and forecasts of load and generation. mPulse performs high-frequency calculations, threshold-based alarming, execution of domain-specific business rules, internal and external health monitoring, historical data persistence, and system-to-operator notifications. The modular design increases system flexibility and extensibility. In addition, the deployment of the mPulse system follows a security-conscious posture by deploying hardware-based firewalls as well as encryption across communication channels. mPulse allows configuration for site-specific equipment and operation and provides a clean, informative user interface to allow customers to monitor and analyze the data streams that describe how their microgrid is operating.

mPulse supports our innovative fractal approach to microgrid design, which enables multiple microgrids on a single site to interact in a number of different ways, including as peers, in a parent-child relationship, and in parallel or completely disconnected. Each grid can have different operational objectives, and those operational objectives can change over time. Any microgrid can be islanded from the rest of the microgrid as well as the larger utility grid. The mPulse software can control the workflow required in both the islanding steps as well as the reconnecting steps of this maneuver and coordinate connected equipment such that connections are only made when it is safe to do so. The mPulse software has proven to be robust and reliable, operating successfully at the Camp Pendleton FractalGrid installation continuously for over 3 years with minimal maintenance and support required.

#### *Microgrid Value Stream Optimizer (mVSO)*

The Microgrid Value Stream Optimizer (*mVSO*) tool provides a robust distributed energy and microgrid system modeling solution. mVSO takes utility rate data and load data for a customer site and helps automate the sizing and analysis of potential microgrid solutions as well as providing a financial analysis around each grid configuration. mVSO uses historical weather data to generate projected energy generation from PV arrays and models how storage responds to varying operational modes and command logics based upon predicted generation and load curves. mVSO analysis multiple equipment combinations and operation situation to determine the optimal configuration for a site based on the financials, equipment outlay, utility cost savings, etc., to arrive at payback and IRR values. This ultimately provides the user with data to design a distributed energy and/or microgrid system that will meet the customers' performance benchmarks.

#### *Version 2.0 improvements*

On September 27, 2017, we launched the development of mPulse 2.0 and mVSO 2.0. These improvements are being built into our existing software platforms and add significant improvements, which focus on positioning, integration, focus and quality, as outlined below.

## Positioning

When mPulse originally was developed, a main focus of the platform and the industry was resiliency of microgrid operation, specifically in military contexts. Since that time, the microgrid landscape has continued to evolve, and there is growing opportunity within the commercial and industrial space as the markets in these spaces desire microgrids capable of obtaining the highest economic advantage.

Further, this growing focus on economic advantage is in line with the continued market evolution toward an open energy market at regional levels. We want to be well positioned to enter into this market at each step of its availability, from responding to demand response requests all the way through participating in ancillary grid service markets and fully open transactive energy markets as regulation matures. To position ourselves, the mPulse platform operation is being improved to mirror the predicted energy market progression by implementing internal markets at each level of the system. In these internal markets, energy producing assets are modeled as sellers, and energy consuming assets are modeled as buyers, with the market playing matchmaker between the two and virtually “selling” available energy to the highest bidder, thereby satisfying the energy loads at the highest economic advantage for both participants at any given moment.

The internal energy market running at our customers’ sites will take daily feeds of production and load forecasts from the platform to set up the daily market parameters, then ingest a stream of current positions of both buyers and sellers as well as their individual pricing information, which is calculated based on the details of the energy rate under which those consumers operate. Consumers bid into the market along the schedule of the specific rate structure under which those loads operate, with bids including the calculated value of energy and power based on that rate and the predicted total use and power profile during the time period of that bid. Based on the predicted generation profile and the other active bids currently being satisfied, the market either fills or cannot fill the newly received bid, and based on the market’s feedback, the consumer’s operation mode and setpoint will change, which will determine the actual control commands sent to related equipment.

This market scenario is mirrored at every level, from an individual node potentially consisting of only one producer and one consumer (power source and meter, respectively), to a higher-level node, in which other nodes participate as either net producers or net consumers, to the site level, and even up to regional level, where sites may participate in the market directly. At each level, details of the level below are aggregated and abstracted away, so each level operates in a simple and self-similar way, mirroring the physical construction of the FractalGrid. These markets shine in optimization scenarios, especially around times of just enough supply or even slight scarcity, which are expected to allow us to reap the maximum economic value for our customers even in the case of undersized grids. In addition, this flexibility allows for ease of integration for new market participants at each level as regulation matures to support further Demand Response programs, ancillary service markets, and eventually peer-to-peer transactive energy.

## Focus

For mPulse 2.0, we are focusing on furthering the development of the economic optimization logic in the platform, including an increased push toward deep learning algorithms and more effective forecasting both on solar generation and facility load.

## Quality

We employ a quality-first mindset in all aspects of our software design. From a software architecture point of view, this translates in designing for the maintainability, extensibility, scalability, availability, accessibility, and deployability of the system.

These planned improvements paired with our design and engineering methods and experience are intended to help keep us on the leading edge of the microgrid industry. As of the date of this filing, we have offered a beta release of mPulse 2.0 to a limited number of customers and we are testing system performance with these customers as feature sets are released of the next two quarters. We plan to make a full release of mPulse to all customers in the first quarter of 2019. As of the date of this filing, we intend to release VSO 2.0 to customers in the second quarter of 2019.

We were granted a new United States Patents on April 10, 2018 protecting our software systems. The patent, "Establishing Communication and Power Sharing Links Between Components of a Distributed Energy System, US 9,941, 696 B2," is a patent that specifically addresses our engineering and data-analytics technologies, processes and procedures. The patent covers our ability to receive data from a plurality of sources within a microgrid, which is then analyzed to forecast power needs across the microgrid, or a combination of multiple 'fractal' microgrids, and then determining whether or when to share power with the requesting module.

#### *MicroGrid Development Projects*

The California Energy Commission awarded a grant to Harper Construction Company, Inc. in July 2013 to support a microgrid technology demonstration project. We were subcontracted to provided design, development, integration, and installation services for the FractalGrid at the School of Infantry in the 52 Area of Marine Corps Base Camp Pendleton. The Project was subsequently transferred to us for consideration and an agreement to indemnify Harper Construction for all future responsibilities of maintenance, operations and warranty.

The project included integration of our proprietary software and controls platform with a variety of energy storage technologies. The system utilizes solar energy generated by pre-existing existing fixed-tilt solar photovoltaic panels and fifteen dual axis tracking concentrated photovoltaic units. Our distributed controls combine the generation with energy storage technologies to create four separate microgrids that self-align together to create a larger microgrid that ties directly into the larger utility grid at the 12kV level, allowing the base to consume energy from the most reliable, affordable source at any given time. The system provides a 100% renewable and sustainable solution to energy security.

In the event of an outage or other energy surety threat, the software can autonomously separate the microgrids from the utility and the controls operate them independently in "island" mode, without interrupting service to critical circuits. Once energy from the grid is stabilized, our platform reconnects the microgrid to the utility. Each individual fractal microgrid can work independently or in concert as the larger 1.1MW FractalGrid, sharing data and energy throughout the group to improve efficiency, protect critical circuits, manage supply and demand, and allow for maintenance or repairs, as needed. The entire installation provides the Marine Corps and Department of the Navy with reliable energy security with built in cyber defense.

In May of 2017 we completed the first and second stages of a contract for \$75,000 for engineering and design and \$60,000 for optimization and control logic development. In July of 2017, we were awarded the contract to construct the Microgrid we designed. The \$900,000 sub-contract awarded by Bethel-Webcor JV is to install a turn-key advanced microgrid system at the U.S. Marine Corps Base Camp Pendleton. The contract is in direct support of the United States Department of Navy's communication information system (CIS) operations complex that was recently awarded to the Joint-Venture. The Company began on-site work for this project in February of 2018 and expects to complete its scope of work in early 2019.

In May of 2017, we were able to engineer, design and install a fully off-grid, triple-redundant power system at a private, residential estate in Southern California.

On October 2, 2018, we executed a Profession Services Agreement with Macerich to perform engineering, design and consultation services and follow-on construction work to install a Microgrid designed by our engineering team which utilized our mVSO software in creating the system design. The system will be controlled by our mPulse controller upon completion. The microgrid is expected to be located at Macerich's Thousand Oaks facility in California.

The Agreement provides that we will be compensated in stages, and each stage requires that Macerich provide written authorization to proceed. The agreement further requires that an additional Design Build Contract be executed for the construction portion of the project. At this time this agreement only specifically authorizes an initial \$88,250 for consultation and engineering services, the balance of the \$18 million microgrid installation contract falls under later stages. These additional stages require Macerich's written authorization to proceed with the overall project. This amount may be subject to further adjustment if the customer requires a change in scope prior to providing written authorization to proceed with construction. A change in scope could be triggered by a variety of reasons not limited to permitting restrictions, utility restrictions and other unforeseen circumstances. We expect to receive written permission to proceed on all stages of the contract in the first quarter of 2019.

These projects are examples of the far reaching capabilities of our System and the variety of applications that are available as plug and play solutions. We are pursuing additional microgrid projects and anticipate executing on the projects being pursued in 2019 and 2020. There is no assurances, however, that we will obtain contracts to sustain our operations.

## **Acquisitions**

As an energy technology company, part of our business model is to assess our technologies, product offerings and business direction and determine whether any strategic acquisitions would benefit us.

As previously disclosed, on May 2, 2018, we entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Pioneer Custom Electric Products Corp., a Delaware corporation.

On December 27, 2018, the parties to the Purchase Agreement entered into a letter amendment (the “Amendment”) to extend the Termination Date from December 31, 2018 until on or before January 16, 2019. Under the Amendment, the parties agreed that, in addition to the other Closing conditions set forth in the Purchase Agreement, the obligation of the Company to consummate the transactions contemplated by the Purchase Agreement, is subject to Bank of Montreal releasing any Liens it holds on the Acquired Assets. The parties further agreed that they are entering into the extension to, amongst other things, allow the parties sufficient time to negotiate amendments to the business terms and structure of the transactions set forth in the Purchase Agreement.

We are still in discussions and negotiations with Pioneer, and we plan to disclose the final business arrangement in the coming days.

## **Our Gasifier Business**

Integral to our existing business is the Gasifier. We own Patent Nos. 9,890,340B2, 9,359,567, 8,518,133 8,105,401 and 8,347,829 protecting our gasification technology and process for using feedstock comprising gaseous fuel. Our technology converts any organic material into SynGas. SynGas can be used as clean, renewable, environmentally friendly, warming fuel for power plants, motor vehicles, and as feedstock for the generation of DME (Di-Methyl Ether). DME is the premier energy carrier and offers a range of important benefits:

- § Simple and low cost of production
- § An environmentally-benign propellant and coolant
- § Clean-burning and high energy efficiency
- § Lower transportation and distribution costs
- § Easily converted into other fuels and chemicals

Our Gasifier converts the following materials into clean, reusable, renewable, and affordable energy:

- § Municipal Solid Waste (MSW)
- § Municipal sewage sludge
- § Food and cooking waste
- § Petroleum sludge and oily wastes
- § Animal manures
- § Cellulosic and non-cellulosic biomass
- § Energy crops
- § Scrap tires
- § Coal

The process involves the grinding, drying, separating, mixing, and then pelletizing of solid waste. These pellets constitute the feedstock for the Gasifier. Gasifying the pellets produces SynGas. SynGas can be converted into multiple forms of energy including motor vehicle and jet fuels. The SynGas produced is so clean that it generally does not require hot-gas cleanup. SynGas is mostly hydrogen and carbon monoxide. Hydrogen and carbon monoxide are primary building blocks for fuels and chemicals. SynGas is a clean burning fuel suitable for use in dual-fuel diesel engines, gas turbines, and steam boilers.

We believe that our process is capable of turn the world’s waste problem into an abundant, renewable resource of energy. Our production can be adapted to the specific energy requirements of a given area. Communities are expected to benefit from the countless options created including inexpensive green electric power for homes, clean-burning fuel for garbage trucks, street maintenance equipment, or for resale to other municipalities. Because of the modular nature of the components intrinsic to the process, the plant could provide one energy source, then be converted to provide a different energy product. Our facility could produce additional electric power during the peak demand part of the day and produce fuels during the rest of the day.



Our market segmentation is vast as we expect to apply our technology to anything that is carbon based. The markets for which we have focused our efforts include: the electric utility market, municipal waste, processing plants, the refining sector, stranded natural gas fields, and Canadian oil sands.

We have begun pursuing opportunities to utilize the assets and intellectual properties purchased. We aim to further develop these technologies in order to pursue licensing, manufacturing and direct sales agreements for our Gasifier technology.

The technologies and prototype will need to undergo additional clinical lab testing to further establish its capability of producing large volumes of clean, renewable energy from any carbon compound (Municipal Solid Waste (MSW), Coal, Sewage Sludge) into clean Synthesis Gas. Our Gasifier is still under development and a commercially viable Gasifier is not expected to be sellable until we are able to expend additional resources on its testing and development. In December of 2014, we executed an agreement with a third party to independently test our production model prototype. Combustion was engaged to independently test the Gasifier's performance and certify the results of its performance. Combustion Resources completed the initial stages of testing. Upon completion of the testing an initial white paper was published outlining the results and suggested improvements. We anticipate that the cost to complete these improvements will be between \$250,000 and \$500,000. Upon completion of the improvement we will conduct an extended test run with an independent third party. We believe the results of these independent tests will provide the results needed to prove its commercial viability, at which time we would begin to actively market our Gasifier units.

We have not engaged in any significant negotiations to sell our Gasifier products to any major customers. Once completed, we intend to distribute our products through advertisements and sales calls on potential customers with demonstrations of how the products work.

## **Competition**

We face significant competition in the alternative energy and microgrid markets. Some of our competitors have substantially larger financial and other resources. Factors that affect our ability to further test a commercially viable Gasifier and upgrade our System include resource limitations, available information and our standards established for projected return on investment.

Integral to our business is its Distributed Energy Management Business (the "DER Business"), the main assets of our DER Business include our proprietary software systems ("Systems") and also our engineering and methodology trade secrets. The Distributed Energy systems and Microgrids that utilize our Systems are capable of providing secure, sustainable energy with significant cost savings for its energy customers. The Systems allows customers to design, engineer, construct and then efficiently manage renewable energy generation, storage and consumption. By having autonomous control over the multiple facets of energy usage and storage, customers are able to reduce their dependency on utilities, thereby keeping energy costs relatively constant over time. The overall aim is to transform energy consumers into intelligent energy producers by supplying and managing power in a manner that anticipates their routine instead of interrupting it.

### *Distributed Energy Management Business Competition*

Our DER Business and software platforms are set up to compete against larger companies. Our integrated microgrid control platform seamlessly integrates energy generation with energy storage devices and controls facility loads to provide energy security in real time. The systems are able to interoperate with the local utility grid and allows users the ability to obtain the most cost-effective power for a facility. The systems are technology agnostic and can incorporate into multiple vendors and manufacturers products and legacy systems. The systems are ideal for commercial, industrial, mining, defense, campus and community users ranging from 4 kw to 100 MW and beyond and can deliver power at or below the current cost of utility power. All of these attributes contribute to our ability to compete with the larger, more established competitors that have rely on their own manufactured products and hardware solutions.

Distributed Energy and Microgrid control technologies are new to the market and can be deployed in various formats. Eight technologies that are predominantly used in commercial applications and/or have been extensively studied are:

- § Viridity (Control Platform)
- § Lotus (Power monitoring)
- § GridBridge (Power monitoring)
- § Schneider (Intelligence and automation)
- § Spirae (Intelligence and automation and Project Proposal Tool)
- § Energy Toolbase (Project Proposal Tool)
- § Homer (Project Proposal Tool)
- § Growing Energy Labs Inc. (Modeling and Control)

These current technologies of our competitors have a number of inherent problems:

- § Operational sensitivity to specific hardware solutions potentially increasing the cost of implementations.
- § Non-automated systems require constant monitoring increasing operating costs.

The principal advantages of our System are:

- § Technology agnostic approach allows customers to leverage aged legacy systems reducing implementation costs.
- § The automated process is user friendly and does not require highly qualified engineers to operate.
- § We believe our project proposal tool is more accurate than any other option on the market.

#### *Gasifier business competition*

Our Gasifier system is set up to compete against larger gasification projects. Our modular concept allows for parallel processing so a facility could be easily expanded or reduced without risk or changing the basic structure by simply adding or removing module units; it also allows for multiple end product processing, producing electricity, ethanol, and fuels simultaneously, and for universal parts which reduces maintenance costs. This design factor solves repair and maintenance problems by simply shutting down the unit(s) to be repaired and bringing the reserve unit(s) online. All of these attributes contribute to our ability to compete with the larger, more established competitors that have large systems that require significant downtime for maintenance and repair.

Gasification technologies can incorporate any one of a number of Gasifiers. Eight gasification technologies that are predominantly used in commercial applications and/or have been extensively studied are:

- § Texaco Entrained Flow (Downflow) Gasifier
- § E-Gas Entrained Flow (Upflow) Gasifier
- § Shell Entrained Flow (Upflow) Gasifier
- § KRW Fluidized-Bed Gasifier
- § Kellogg Transport Reactor Gasifier
- § Lurgi Dry Ash Gasifier
- § British Gas/Lurgi Fixed Bed Gasifier
- § Plasma Gasification

These current technologies of our competitors have a number of inherent problems:

- § Large footprint plants and high operating costs.
- § Operational sensitivity to properties of different feedstock especially moisture content.
- § Tendency to caking and bridging.
- § Produces a dirty gas, expensive to clean or only suitable for low efficiency conversion in a steam-boiler turbine generator (10% electrical efficiency).
- § Inefficient usage of created energy to power plasma conversion.

The principal advantages of our Gasifier are:

- § Modular concept allows for parallel processing so a facility could be easily expanded or reduced without risk or changing the basic structure by simply adding or removing module units; it also allows for multiple end product processing, producing electricity, ethanol, and fuels simultaneously, and for universal parts, which reduces maintenance costs.
- § The one stage process is very simple and does not require highly qualified engineers to operate because of the automation.
- § The direct heat transfer of the gases to the material being gasified is efficient, and as a natural consequence of the process, the product gas is stripped of its impurities, eliminating the costly hot gas clean up associated with other Gasifiers.
- § Pollutant absorbing binder aids in efficiency, cracking hydrocarbons acting as a catalyst, and absorbs the pollutants, oxidizes carbon eliminating water vapor and all but 5 – 10% carbon dioxide, which in the Company’s estimation will eliminate the need for carbon sequestration.
- § Ash by product makes an excellent road and cement aggregate.
- § Process is nearly 100% environmentally friendly.
- § Any and all liquid and solid organic wastes can be utilized and disposed of, producing no residual wastes.

## **Intellectual Property**

In relation to our Gasifier business, we own the following patents: Patent No. 9,359,567 ‘Gasification Method Using Feedstock Comprising Gaseous Fuels’; Patent No. 8,518,133 ‘Parallel Path, Downdraft Gasifier Apparatus and Method’; and Patent No. 8,105,401 ‘Parallel Path, Downdraft Gasifier Apparatus and Method.’ ; Patent No. 8,347,829 Electrolytic Reactor and Related Methods for Supplementing the Air Intake of an Internal Combustion Engine

In relation to our microgrid business, we own the following patents: Patent No. 9,941,696 B2 "Establishing Communication and Power Sharing Links Between Components of a Distributed Energy System, awarded April 10, 2018, is a revolutionary patent that specifically addresses CleanSpark’s engineering and data-analytics technologies, processes and procedures. The patent covers CleanSpark’s ability to 'receive data from a plurality of sources within a microgrid, which is then analyzed to forecast power needs across the microgrid, or a combination of multiple 'fractal' microgrids, and then determining whether or when to share power with the requesting module.

The second Patent, "Parallel Path Downdraft Gasifier Apparatus and Method, US 9,890, 340 B2", awarded February 13, 2018, further enhances CleanSpark’s patent portfolio surrounding its proprietary gasification and waste-to-energy technologies.

## **Government Regulation**

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. It is anticipated that, absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulations concerning the protection of the environment and human health will not have a material effect upon us, our capital expenditures, or earnings. We cannot predict what effect additional regulation or legislation, enforcement policies thereunder and claims for damages for injuries to property, employees, other persons and the environment resulting from our operations. Our operations are subject to environmental regulation by state and federal authorities including the Environmental Protection Agency (“EPA”). This regulation has not increased the cost of planning, designing and operating to date. Although we believe that compliance with environmental regulations will not have a material adverse effect on our operations or results of these operations, there can be no assurance that significant costs and liabilities, including criminal penalties, will not be incurred. Moreover, it is possible that other developments, including stricter environmental laws and regulations, and claims for damages for injuries to property or persons resulting from our activities could result in substantial costs and liabilities.

In the conduct of our activities our operations will be subject to the requirements of the federal Occupational Safety and Health Act (“OSHA”) and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the federal Superfund Amendment and Reauthorization Act and similar state statutes require us to organize information about hazardous materials used, released or produced in its operations. Certain of this information must be provided to employees, state and local governmental authorities and local citizens. We are also subject to the requirements and reporting set forth in OSHA workplace standards.

Other than the above regulations and maintaining our good standing in the State of Nevada, complying with applicable local business licensing requirements, complying with all state and federal tax requirements, preparing our periodic reports under the Securities Exchange Act of 1934, as amended, and complying with other applicable securities laws, rules, and regulations, we do not believe that existing or probably governmental regulations will have a material effect on our operations. We do not currently require the approval of any governmental agency or affiliated program for our operations.

### **Employees, Consultants and Contractors**

We currently have 7 employees, and also contract the services of consultants in the various areas of expertise as required. The way in which our business currently operates is as follows:

Our Chief Executive Officer, S. Matthew Schultz, currently manages our day-to-day operations. He is responsible for the negotiation of contracts, oversees the design, marketing and implementation of the products and processes, and manages licenses, patents, and other intangible assets. In addition to daily management tasks, Mr. Schultz also researches financing and potential investors.

Our CFO, Zachary K. Bradford, is responsible for implementing our strategic goals and objectives. He is also in charge of managing our financial risks, financial planning, accounting records, SEC filings, reviewing financial data, reporting financial performance, preparing budgets, and monitoring expenditures and costs.

Our COO, Bryan Huber, is responsible for implementing and overseeing our general operations and research and development activities. In addition, he is responsible for determining the feasibility and marketability of our technology and future technologies that we may acquire.

The amount of time devoted to us currently by officers may be limited by the resources we have available. However, we feel the time devoted to operations is enough to cover our current operational requirements.

### **Item 1A. Risk Factors**

*We are subject to various risks that may materially harm our business, prospects, financial condition and results of operations. An investment in our common stock is speculative and involves a high degree of risk. In evaluating an investment in shares of our common stock, you should carefully consider the risks described below, together with the other information included in this report.*

*The risks described below are not the only risks we face. If any of the events described in the following risk factors actually occurs, or if additional risks and uncertainties later materialize, that are not presently known to us or that we currently deem immaterial, then our business, prospects, results of operations and financial condition could be materially adversely affected. In that event, the trading price of our common stock could decline, and you may lose all or part of your investment in our shares. The risks discussed below include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.*

#### **Risks Related to Our Business**

***We lack an established operating history and have incurred losses in prior periods, expect to incur losses in the future and we can give no assurance that our operations will result in profits.***

We have a limited operating history that makes it difficult to evaluate our business. Historical sales pertaining to our System have been in low volume, and we cannot say with certainty when we will begin to achieve profitability. We have not sold any of our Gasifiers.

Since inception, we have sustained \$66,939,531 in cumulative net losses and we had a net loss for the year ended September 30, 2018 of \$47,006,165. We expect to have operating losses at least until such time as we have developed a substantial and stable revenue base. We cannot assure you that we can develop a substantial and stable revenue base or achieve or sustain profitability on a quarterly or annual basis in the future.

***Although we have obtained sufficient funding for the year ending September 30, 2019, if we do not obtain increased revenues in 2019, we may have to scale back or cease our activities or seek additional financing, which may significantly harm our chances of success.***

Because we have generated only a small amount of revenue in prior years and currently operate at a significant loss, we are dependent on generating additional revenue in the coming year or we may need to seek the continued availability of financing in order to continue our business. There can be no assurance that our revenues will develop as planned or that financing sufficient to enable us to continue our operations will be available to us in the future. Moreover, even if we are able to obtain financing in the future, it could be on terms that causes our company's stock price to suffer or further dilutes shareholder interests in our company. Most of our financing in 2018 was from the issuance of convertible notes along with some funding from the sale of our common stock and related party advances. We obtained approximately \$5,000,000 in connection with the sale of a secured convertible promissory note. While this financing is expected to carry us through 2019, our failure to obtain future financing, financing on terms that are acceptable to us, or to produce levels of revenue to meet our financial needs could result in our inability to continue as a going concern and, as a result, our investors could lose their entire investment. In order to maximize our potential for success, we need to generate cashflows from revenues totaling \$2,000,000 to \$4,000,000 to support our current operations or we may need a similar amount in additional financing in 2020. As explained in this annual report, these cashflows are needed for continued upgrades to our software, testing and refinement of our Gasifier, marketing and sales of both sides of our business operations and for working capital.

***Our future success is difficult to predict because we operate in emerging and evolving markets, and the industries in which we compete are subject to volatile and unpredictable cycles.***

The renewable energy, microgrid and related industries are emerging and evolving markets which may make it difficult to evaluate our future prospects and which may lead to period to period variability in our operating results. Our products and services are based on unique technology which we believe offers significant advantages to our customers, but the markets we serve are in a relatively early stage of development and it is uncertain how rapidly they will develop. It is also uncertain whether our products will achieve high levels of demand and acceptance as these markets grow. If companies in the industries we serve do not perceive or value the benefits of our technologies and products, or if they are unwilling to adopt our products as alternatives to traditional power solutions, the market for our products and services may not develop or may develop more slowly than we expect, which could significantly and adversely impact our operating results.

As a supplier to the renewable energy, microgrid and related industries, we may be subject to business cycles. The timing, length, and volatility of these business cycles may be difficult to predict. These industries may be cyclical due to sudden changes in customers' manufacturing capacity requirements and spending, which depend in part on capacity utilization, demand for customers' products, inventory levels relative to demand, and access to affordable capital. These changes may affect the timing and amounts of customers' purchases and investments in technology, and affect our orders, net sales, operating expenses, and net income. In addition, we may not be able to respond adequately or quickly to the declines in demand by reducing our costs.

To meet rapidly changing demand in each of the industries we serve, we must effectively manage our resources and production capacity. During periods of decreasing demand for our products, we must be able to appropriately align our cost structure with prevailing market conditions, effectively manage our supply chain, and motivate and retain key employees. During periods of increasing demand, we must have sufficient inventory to fulfill customer orders, effectively manage our supply chain, and attract, retain, and motivate a sufficient number of qualified individuals. If we are not able to timely and appropriately adapt to changes in our business environment or to accurately assess where we are positioned within a business cycle, our business, financial condition, or results of operations may be materially and adversely affected.

***The industries in which we compete are highly competitive and we may be unable to successfully compete to survive.***

We compete in the market for renewable energy products and microgrid technology and associated services that is intensely competitive. Evolving industry standards, rapid price changes and product obsolescence also impact the market. Our competitors include many domestic and foreign companies, most of which have substantially greater financial, marketing, personnel and other resources than we do. Our current competitors or new market entrants could introduce new or enhanced technologies, products or services with features that render our technologies, products or services obsolete, less competitive or less marketable. Our success will be dependent upon our ability to develop products that are superior to existing products and products introduced in the future, and which are cost effective. In addition, we may be required to continually enhance any products that are developed as well as introduce new products that keep pace with technological change and address the increasingly sophisticated needs of the marketplace. Even if our current technologies prove to be commercially feasible, there is extensive research and development being conducted on alternative energy sources that may render our technologies and protocols obsolete or otherwise non-competitive.

There can be no assurance that we will be able to keep pace with the technological demands of the marketplace or successfully develop products that will succeed in the marketplace. As a small company, we will be at a competitive disadvantage to most of our competitors, which include larger, established companies that have substantially greater financial, technical, manufacturing, marketing, distribution and other resources than us. There can be no assurance that we will have the capital resources available to undertake the research that may be necessary to upgrade our equipment or develop new devices to meet the efficiencies of changing technologies. Our inability to adapt to technological change could have a materially adverse effect on our results of operations.

***To date we have had only sixteen customers for our Microgrid services and System and none for our Gasifiers so we cannot assure you that our customer base will increase.***

We had revenue from fourteen customers in our fiscal year ending September 30, 2018. We cannot assure you that our customer base will expand or that any decline in net revenue attributable to customer losses will be replaced in a timely manner. If we fail to commercialize our products and services and increase our customer base, our business will fail.

***Product development is an inherently uncertain process, and we may encounter unanticipated development challenges and may not be able to meet our product development and commercialization milestones.***

Product development and testing may be subject to unanticipated and significant delays, expenses and technical or other problems. We cannot guarantee that we will successfully achieve our milestones within our planned timeframe or ever. We develop prototypes of planned products prior to the full commercialization of these products. We cannot predict whether prototypes of future products will achieve results consistent with our expectations. A prototype could cost significantly more than expected or the prototype design and construction process could uncover problems that are not consistent with our expectations. Prototypes of emerging products are a material part of our business plan, and if they are not proven to be successful, our business and prospects could be harmed.

More generally, the commercialization of our products may also be adversely affected by many factors not within our control, including:

- § the willingness of market participants to try a new product and the perceptions of these market participants of the safety, reliability, functionality and cost effectiveness of our products;
- § the emergence of newer, possibly more effective technologies;
- § the future cost and availability of the raw materials and components needed to manufacture and use our products; and
- § the adoption of new regulatory or industry standards that may adversely affect the use or cost of our products.

Accordingly, we cannot predict that our products will be accepted on a scale sufficient to support development of mass markets for them.

***We rely on patents and proprietary rights to protect our technology, and enforcing those rights could disrupt our business operation and divert precious resources that could ultimately harm our future prospects.***

We rely on a combination of trade secrets, confidentiality agreements and procedures and patents to protect our proprietary technologies. We own patent numbers 8,518,133 and 8,105,401 'Parallel Path, Downdraft Gasifier Apparatus and Method' and patent number 9,359,567 'Gasification Method Using Feedstock Comprising Gaseous Fuel'— which covers our Gasifier technology. We also own patent number 8,342,829 entitled 'Electrolytic Reactor and Related Methods for Supplementing the Air Intake of an Internal Combustion Engine.'

The claims contained in any patent may not provide adequate protection for our products and technology. In the absence of patent protection, we may be vulnerable to competitors who attempt to copy our products or gain access to our trade secrets and know-how. In addition, the laws of foreign countries may not protect our proprietary rights to this technology to the same extent as the laws of the U.S.

If a dispute arises concerning our technology, we could become involved in litigation that might involve substantial cost. Litigation could divert substantial management attention away from our operations and into efforts to enforce our patents, protect our trade secrets or know-how or determine the scope of the proprietary rights of others. If a proceeding resulted in adverse findings, we could be subject to significant liabilities to third parties. We might also be required to seek licenses from third parties to manufacture or sell our products. Our ability to manufacture and sell our products may also be adversely affected by other unforeseen factors relating to the proceeding or its outcome.

***As we continue to grow and to develop our intellectual property, we could attract threats from patent monetization firms or competitors alleging infringement of intellectual property rights.***

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. If we do not prevail in this type of litigation, we may be required to: pay monetary damages; stop commercial activities relating to our product; obtain one or more licenses in order to secure the rights to continue manufacturing or marketing certain products; or attempt to compete in the market with substantially similar products. Uncertainties resulting from the initiation and continuation of any litigation could limit our ability to continue some of our operations.

***A material part of our success will depend on our ability to manage our suppliers and contract manufacturers. Our failure to manage our suppliers and contract manufacturers could materially and adversely affect our results of operations and relations with our customers.***

We rely upon suppliers to provide the components necessary to build our products and on contract manufacturers to procure components and assemble our products. There can be no assurance that key suppliers and contract manufacturers will provide components or products in a timely and cost efficient manner or otherwise meet our needs and expectations. Our ability to manage such relationships and timely replace suppliers and contract manufacturers, if necessary, is critical to our success. Our failure to timely replace our contract manufacturers and suppliers, should that become necessary, could materially and adversely affect our results of operations and relations with our customers.

***If we are the subject of future product defect or liability suits, our business will likely fail.***

In the course of our planned operations, we may become subject to legal actions based on a claim that our products are defective in workmanship or have caused personal or other injuries. We currently maintain liability insurance but there can be no guarantee that such coverage may not be adequate to cover all potential claims. Moreover, even if we are able to maintain sufficient insurance coverage in the future, any successful claim could significantly harm our business, financial condition and results of operations.

***We may be exposed to lawsuits and other claims if our products malfunction, which could increase our expenses, harm our reputation and prevent us from growing our business.***

Any liability for damages resulting from malfunctions of our products could be substantial, increase our expenses and prevent us from growing or continuing our business. Potential customers may rely on our products for critical needs and a malfunction of our products could result in warranty claims or other product liability. In addition, a well-publicized actual or perceived problem could adversely affect the market's perception of our products. This could result in a decline in demand for our products, which would reduce revenue and harm our business. Further, since our products are used in systems that are made up on components made by other manufacturers, we may be subject to product liability claims even if our products do not malfunction.

***Any failure by management to properly manage growth could have a material adverse effect on our business, operating results and financial condition.***

If our business develops as expected, we anticipate that we will grow rapidly in the near future. Our failure to properly manage our expected rapid growth could have a material adverse effect on our ability to retain key personnel. Our expansion could also place significant demands on our management, operations, systems, accounting, internal controls and financial resources. If we experience difficulties in any of these areas, we may not be able to expand our business successfully or effectively manage our growth. Any failure by management to manage growth and to respond to changes in our business could have a material adverse effect on our business, financial condition and results of operations.

***The lack of management experience in the renewable energy and microgrid industries could adversely affect our company.***

Some members of management and the board of directors may not have prior experience in the energy industry. Some members do, however, have extensive work experience in the reclamation, environmental industries, energy industries, financial/accounting industries, and business management. The lack of experience in the alternative energy industry may impair our managements' and directors' ability to evaluate and make decisions involving our current operations and any future projects we may undertake in the alternative energy industry. Such impairment and lack of experience could adversely affect our business, financial condition and future operations.

***If we are unable to attract and retain a sufficient number of skilled experts and workers our ability to pursue projects may be adversely affected and our costs may increase.***

Our rate of growth will be confined by resource limitations as competitors and customers compete for increasingly scarce resources. We believe that our success depends upon our ability to attract, develop and retain a sufficient number of affordable trained experts that can execute our operational strategy. The demand for trained software engineers, electrical engineers and other skilled workers is currently high. If we are unable to attract and retain a sufficient number of skilled personnel, our ability to pursue projects may be adversely affected and the costs of performing our existing and future projects may increase, which may adversely impact our margins.

***We have engaged in and may engage in acquisitions that could disrupt our business, cause dilution to our stockholders and reduce our financial resources.***

We have been involved in significant acquisitions in our lifespan. In the future, we may enter into transactions to acquire other businesses, products or technologies. If we do identify suitable candidates, we may not be able to make such acquisitions on favorable terms or at all. Any acquisitions we have made or plan to make may not strengthen our competitive position, and these transactions may be viewed negatively by customers or investors. We have and may decide in the future to incur debt in connection with an acquisition or issue our common stock or other securities to the stockholders of the acquired company, which would reduce the percentage ownership of our existing stockholders. We could incur losses resulting from undiscovered liabilities of the acquired business that are not covered by the indemnification we may obtain from the seller. In addition, we may not be able to successfully integrate the acquired personnel, technologies and operations into our existing business in an effective, timely and non-disruptive manner. Acquisitions may also divert management from day-to-day responsibilities, increase our expenses and reduce our cash available for operations and other uses. We cannot predict the number, timing or size of future acquisitions or the effect that the acquisition we have engaged in or any such future transactions might have on our operating results.

***Our business is substantially dependent on utility rate structures and government incentive programs that encourage the use of alternative energy sources. The reduction or elimination of government subsidies and economic incentives for energy-related technologies would harm our business.***

We believe that near-term growth of energy-related technologies, including power conversion technology, relies partly on the availability and size of government and economic incentives and grants (including, but not limited to, the U.S. Investment Tax Credit and various state and local incentive programs). These incentive programs could be challenged by utility companies, or for other reasons found to be unconstitutional, and/or could be reduced or discontinued for other reasons. The reduction, elimination, or expiration of government subsidies and economic incentives could harm our business.



A combination of utility rate structures and government subsidies that encourage the use of alternative energy sources is a primary driver of demand for our products. For example, public utilities are often allowed to collect demand charges on commercial and industrial customers in addition to traditional usage charges. In addition, the federal government and many states encourage the use of alternative energy sources through a combination of direct subsidies and tariff incentives such as net metering for users that use alternative energy sources such as solar power. California also encourages alternative energy technology through its Self-Generation Incentive Program, or SGIP, which offers rebates for businesses and consumers who adopt certain new technologies. Other states have similar incentives and mandates which encourage the adoption of alternative energy sources. Notwithstanding the adoption of other incentive programs, we expect that California will be the most significant market for the sale of our products in the near term. Should California or another state in which we derive a substantial portion of our product revenues in the future change its utility rate structure or eliminate or significantly reduce its incentive programs, demand for our products could be substantially affected, which would adversely affect our business prospects, financial condition and operating results.

***Acquisitions could disrupt our operations and harm our operating results.***

We may seek additional opportunities to expand our product offerings or the markets we serve by acquiring other companies, product lines, technologies and personnel. Acquisitions involve numerous risks, including the following:

- § difficulties integrating the operations, technologies, products, and personnel of an acquired company or being subjected to liability for the target's pre-acquisition activities or operations as a successor in interest;
- § diversion of management's attention from normal daily operations of the business;
- § potential difficulties completing projects associated with in-process research and development;
- § difficulties entering markets in which we have no or limited prior experience, especially when competitors in such markets have stronger market positions;
- § initial dependence on unfamiliar supply chains or relatively small supply partners;
- § insufficient revenues to offset increased expenses associated with acquisitions;
- § the potential loss of key employees of the acquired companies; and
- § the potential for recording goodwill and intangible assets that later can be subject to impairment.

Acquisitions may also cause us to:

- § issue common stock that would dilute our current shareholders' percentage ownership;
- § assume or otherwise be subject to liabilities of an acquired company;
- § record goodwill and non-amortizable intangible assets that will be subject to impairment testing on a regular basis and potential periodic impairment charges;
- § incur amortization expenses related to certain intangible assets;
- § incur large acquisition and integration costs, immediate write-offs, and restructuring and other related expenses; and
- § become subject to litigation.

Mergers and acquisitions are inherently risky. No assurance can be given that our acquisitions will be successful. Further, no assurance can be given that an acquisition will not adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate an acquisition could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products, there can be no assurance that enhancements to those products will be made in a timely manner or that pre-acquisition due diligence will identify all possible issues that might arise with respect to such products or the acquired business.

**Risks Related to Our Securities**

***If a market for our common stock does not develop, shareholders may be unable to sell their shares.***

Our common stock is quoted under the symbol "CLSK" on the OTCQB operated by OTC Markets Group, Inc., an electronic inter-dealer quotation medium for equity securities. We do not currently have an active trading market. There can be no assurance that an active and liquid trading market will develop or, if developed, that it will be sustained.

Our securities are thinly traded. Accordingly, it may be difficult to sell shares of our common stock without significantly depressing the value of the stock. Unless we are successful in developing continued investor interest in our stock, sales of our stock could continue to result in major fluctuations in the price of the stock.

***Our common stock price may be volatile and could fluctuate widely in price, which could result in substantial losses for investors.***

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including:

- § technological innovations or new products and services by us or our competitors;
- § government regulation of our products and services;
- § the establishment of partnerships with other technology companies;
- § intellectual property disputes;
- § additions or departures of key personnel;
- § sales of our common stock
- § our ability to integrate operations, technology, products and services;
- § our ability to execute our business plan;
- § operating results below expectations;
- § loss of any strategic relationship;
- § industry developments;
- § economic and other external factors; and
- § period-to-period fluctuations in our financial results.

Because we have limited revenues to date, you should consider any one of these factors to be material. Our stock price may fluctuate widely as a result of any of the above.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

***We have the right to issue shares of preferred stock. If we were to issue preferred stock, it is likely to have rights, preferences and privileges that may adversely affect the common stock.***

We are authorized to issue 10,000,000 shares of “blank check” preferred stock, with such rights, preferences and privileges as may be determined from time-to-time by our board of directors. Our board of directors is empowered, without stockholder approval, to issue preferred stock in one or more series, and to fix for any series the dividend rights, dissolution or liquidation preferences, redemption prices, conversion rights, voting rights, and other rights, preferences and privileges for the preferred stock. We currently have 1,000,000 shares of our preferred stock outstanding, the features of which are contained elsewhere in this annual report.

The issuance of shares of preferred stock, depending on the rights, preferences and privileges attributable to the preferred stock, could reduce the voting rights and powers of the common stock and the portion of our assets allocated for distribution to common stockholders in a liquidation event, and could also result in dilution in the book value per share of the common stock we are offering. The preferred stock could also be utilized, under certain circumstances, as a method for raising additional capital or discouraging, delaying or preventing a change in control of the Company, to the detriment of the investors in the common stock offered hereby. We cannot assure you that we will not, under certain circumstances, issue shares of our preferred stock.

***We have not paid dividends in the past and have no immediate plans to pay dividends.***

We plan to reinvest all of our earnings, to the extent we have earnings, in order to market our products and to cover operating costs and to otherwise become and remain competitive. We do not plan to pay any cash dividends with respect to our securities in the foreseeable future. We cannot assure you that we would, at any time, generate sufficient surplus cash that would be available for distribution to the holders of our common stock as a dividend. Therefore, you should not expect to receive cash dividends on our common stock.

***If securities or industry analysts do not publish or do not continue to publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.***

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us now or in the future issue an adverse opinion regarding our stock, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***Because we are subject to the “Penny Stock” rules, the level of trading activity in our stock may be reduced.***

The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be any listed, trading equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules which may increase the difficulty Purchasers may experience in attempting to liquidate such securities.

***Provisions in the Nevada Revised Statutes and our Bylaws could make it very difficult for an investor to bring any legal actions against our directors or officers for violations of their fiduciary duties or could require us to pay any amounts incurred by our directors or officers in any such actions.***

Members of our board of directors and our officers will have no liability for breaches of their fiduciary duty of care as a director or officer, except in limited circumstances, pursuant to provisions in the Nevada Revised Statutes and our Bylaws as authorized by the Nevada Revised Statutes. Specifically, Section 78.138 of the Nevada Revised Statutes provides that a director or officer is not individually liable to the company or its shareholders or creditors for any damages as a result of any act or failure to act in his or her capacity as a director or officer unless it is proven that (1) the director's or officer's act or failure to act constituted a breach of his or her fiduciary duties as a director or officer and (2) his or her breach of those duties involved intentional misconduct, fraud or a knowing violation of law. This provision is intended to afford directors and officers protection against and to limit their potential liability for monetary damages resulting from suits alleging a breach of the duty of care by a director or officer. Accordingly, you may be unable to prevail in a legal action against our directors or officers even if they have breached their fiduciary duty of care. In addition, our Bylaws allow us to indemnify our directors and officers from and against any and all costs, charges and expenses resulting from their acting in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood, we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay. Accordingly, our indemnification obligations could divert needed financial resources and may adversely affect our business, financial condition, results of operations and cash flows, and adversely affect prevailing market prices for our common stock.

## **Item 2. Properties**

Currently, we do not own any real estate. Our corporate offices are located at 70 North Main Street, Suite 105, Bountiful Utah 84010. We executed a one-year lease agreement that calls for us to make payments of \$850 per month.

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We operate our California operations out of leased office space located at 4360 Viewridge Avenue, Suite C, San Diego, California. On May 15, 2018, we executed a 37-month lease agreement, which commenced on July 1, 2018. The agreement calls for us to make payments of \$4,057 in base rent per month through July 31, 2021 subject to an annual 3% rent escalation. Future minimum lease payments under the operating leases for the facilities as of September 30, 2018, are as follows:

Fiscal year ending September 30, 2019	\$49,049
Fiscal year ending September 30, 2020	\$50,521
Fiscal year ending September 30, 2021	\$43,170

**Item 3. Legal Proceedings**

We are not a party to any pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock is quoted under the symbol "CLSK" on the OTCQB operated by OTC Markets Group, Inc.

There is currently no active trading market for our securities. There is no assurance that a regular trading market will develop, or if developed, that it will be sustained. Therefore, a shareholder may be unable to resell his securities in our company.

The following table sets forth the range of high and low bid quotations for our common stock for each of the periods indicated as reported by the OTCQB. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Fiscal Year Ended September 30, 2018		
Quarter Ended	High \$	Low \$
September 30, 2018	6.80	1.50
June 30, 2018	1.51	0.90
March 31, 2018	1.00	0.80
December 31, 2017	2.63	1.00

  

Fiscal Year Ended September 30, 2017		
Quarter Ended	High \$	Low \$
September 30, 2017	2.50	2.50
June 30, 2017	3.01	2.50
March 31, 2017	4.00	2.50
December 31, 2016	3.50	2.50

**Penny Stock**

The Securities Exchange Commission has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized

risk disclosure document prepared by the Commission, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;(b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation to such duties or other requirements of Securities' laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price;(d) contains a toll-free telephone number for inquiries on disciplinary actions;(e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and;(f) contains such other information and is in such form, including language, type, size and format, as the Commission shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with: (a) bid and offer quotations for the penny stock;(b) the compensation of the broker-dealer and its salesperson in the transaction;(c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock if it becomes subject to these penny stock rules. Therefore, because our common stock is subject to the penny stock rules, stockholders may have difficulty selling those securities.

### **Holders of Our Common Stock**

As of January 9, 2019, we had 282 holders of record of our common stock, with others in street name.

The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Holders of the common stock have no preemptive rights and no right to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock.

### **Dividends**

There are no restrictions in our articles of incorporation or bylaws that prevent us from declaring dividends. The Nevada Revised Statutes, however, do prohibit us from declaring dividends where after giving effect to the distribution of the dividend:

1. we would not be able to pay our debts as they become due in the usual course of business, or;
2. our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the rights of shareholders who have preferential rights superior to those receiving the distribution.

We have not declared any dividends and we do not plan to declare any dividends in the foreseeable future.

### **Recent Sales of Unregistered Securities**

#### Common Stock

During the period commencing October 1, 2017 through September 30, 2018, the Company received \$271,900 from 16 investors pursuant to private placement agreements with the investors to purchase 339,875 shares of the Company's \$0.001 par value common stock at a purchase price equal to \$0.80 for each share of common stock.

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In connection with the issuance of the March 23, 2018, Labrys Fund, LP Convertible Note, the Company issued to the Purchaser, as a commitment fee, 137,500 shares of its common stock (the “Returnable Shares”) as well as 100,000 shares of its common stock (the “Non-Returnable Shares”). The agreement was amended on June 29, 2018 and as a result the returnable shares were no longer returnable. Consequently, the fair value of the returnable shares of \$218,626 was charged to interest expense. On September 19, 2018, all principal and accrued interest of \$220,000 and \$12,730, respectively was converted into 258,589 shares of the Company’s common stock. (See Note 8 to the audited financial statements for additional details.)

In connection with the issuance of a the Auctus Fund, LLC Convertible Note, the Company issued to Auctus, as a commitment fee, 137,500 shares of its common stock (the “Returnable Shares”) as well as 150,000 shares of its common stock (the “Non-Returnable Shares”). On September 21, 2018, all principal and accrued interest of \$225,000 and \$5,474, respectively was converted into 256,082 shares of the Company’s common stock. Subsequent to September 30, 2018, as a result of the conversion the 137,500 returnable shares were returned to the Company and cancelled. (See Note 8 to the audited financial statements for additional details.)

In connection with the issuance of a the EMA Financial, LLC Convertible Note, the Company issued to EMA, as a commitment fee, 137,500 shares of its common stock (the “Returnable Shares”) as well as 100,000 shares of its common stock (the “Non-Returnable Shares”). Subsequent to September 30, 2018, the Company repaid all obligations under the note. As a result of the repayment the returnable shares were returned to treasury and cancelled on January 8, 2019. (See Note 8 to the audited financial statements for additional details.)

On September 11, 2018, the Company entered into an agreement with Regal Consulting, LLC for investor relations services. Under this agreement the Company agreed to issue 30,000 shares of the Company’s common stock per month as compensation for services plus \$20,000 per month in cash. As of September 30, 2018, the Company had issued 30,000 shares of its common stock in accordance with the agreement. Stock compensation of \$55,100 was recorded as a result of the stock issued under the agreement.

### Warrants Issued

On December 13, 2017, an investor exercised warrants to purchase 27,548 shares of the Company’s \$0.001 par value common stock at a purchase price equal to \$0.363 for each share of Common stock. The Company receive \$10,000 as a result of this exercise.

On January 1, 2018, the Company issued warrants to purchase 100,000 shares of common stock at an exercise price of \$0.80 per share to an advisor for business advisory services. The warrants were valued at \$234,095 using the Black Scholes option pricing model based upon the following assumptions: term of 5 years, risk free interest rate of 2.01%, a dividend yield of 0% and volatility rate of 158%. The warrants vest evenly over the six-month service period ended September 30, 2018.

On January 19, 2018, an investor exercised warrants to purchase 180,000 shares of the Company’s \$0.001 par value common stock at a purchase price equal to \$0.083 for each share of Common stock. The Company receive \$14,940 as a result of this exercise.

On January 19, 2018, an investor exercised warrants to purchase 15,000 shares of the Company’s \$0.001 par value common stock at a purchase price equal to \$0.363 for each share of Common stock. The Company receive \$5,445 as a result of this exercise.

On January 29, 2018, an investor exercised warrants to purchase 4,500 shares of the Company’s \$0.001 par value common stock at a purchase price equal to \$0.363 for each share of Common stock. The Company receive \$1,634 as a result of this exercise.

On February 8, 2018, an investor exercised 456,000 warrants to purchase shares of the Company’s \$0.001 par value common stock at a purchase price equal to \$0.367 for each share of Common stock. The investor elected to use the cashless exercise option and as a result the Company issued 387,475 shares of common stock.

On May 10, 2018, Bryan Huber the Company’s Chief Operations Officer exercised warrants to purchase 1,353 shares of the Company’s \$0.001 par value common stock at a purchase price equal to \$1.50 for each share of Common stock. The Company receive \$2,030 as a result of this exercise.

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On June 15, 2018, the Company issued 116,600 5-year warrants exercisable at \$0.80 to a lender in connection with a promissory note agreement. (See Note 7 to the audited financial statements for additional details.)

On July 23, 2018, an investor exercised 100,000 warrants to purchase shares of the Company's \$0.001 par value common stock at a purchase price equal to \$0.363 for each share of Common stock. The investor elected to use the cashless exercise option and as a result the Company issued 72,414 shares of common stock.

On August 1, 2018, the Company issued 25,000 5-year warrants exercisable at \$0.80 to a lender in connection with a promissory note agreement. (See Note 7 to the audited financial statements for additional details.)

On August 6, 2018, an investor exercised warrants to purchase 9,000 shares of the Company's \$0.001 par value common stock at a purchase price equal to \$0.363 for each share of Common stock. The Company receive \$3,267 as a result of this exercise.

On August 28, 2018, in connection with the Consulting agreement executed with Zero Positive, LLC Company issued warrants to purchase 900,000 shares of common stock at an exercise price of \$0.80 per share to an Zero Positive. The warrants were valued at \$2,607,096 using the Black Scholes option pricing model based upon the following assumptions: term of 10 years, risk free interest rate of 3.05%, a dividend yield of 0% and volatility rate of 191%. The warrants vest as follows: 300,000 warrants vested immediately, the balance vest evenly on the last day of each month over the forty-two months beginning August 31, 2018. As of September 30, 2018, 328,571 warrants had vested, and the Company recorded an expense of \$951,797 during the year ended September 30, 2018. (See Note 10 to the audited financial statements for additional details.)

On September 20, 2018, the Company issued 25,000 5-year warrants exercisable at \$0.80 to a lender in connection with a promissory note agreement. (See Note 7 to the audited financial statements for additional details.)

On September 21, 2018, the Company issued 25,000 5-year warrants exercisable at \$0.80 to a lender in connection with a promissory note agreement. (See Note 7 to the audited financial statements for additional details.)

On September 28, 2018, an investor exercised warrants to purchase 15,000 shares of the Company's \$0.001 par value common stock at a purchase price equal to \$0.363 for each share of Common stock. The Company receive \$5,445 as a result of this exercise.

On September 28, 2018, an investor exercised warrants to purchase 6,000 shares of the Company's \$0.001 par value common stock at a purchase price equal to \$0.363 for each share of Common stock. The Company receive \$2,178 as a result of this exercise.

These securities were issued pursuant to Section 4(2) of the Securities Act and/or Rule 506 promulgated thereunder. The investor represented his intention to acquire the securities for investment only and not with a view towards distribution. The investor was given adequate information about us to make an informed investment decision. We did not engage in any general solicitation or advertising. We directed our transfer agent to issue the stock certificates with the appropriate restrictive legend affixed to the restricted stock.

### **Securities Authorized for Issuance under Equity Compensation Plans**

In June of 2017, our Board of Directors adopted the 2017 Equity Incentive Plan (the "Plan"). The purpose of the Plan is to attract and retain the best available personnel for positions of substantial responsibility with us, to provide additional incentive to employees, directors and consultants, and to promote our success. Under the initial Plan, we were able to issue up to an aggregate total of 3,000,000 incentive or non-qualified options to purchase our common stock, or stock awards.

<b>Equity Compensation Plans Not Approved by the Shareholders</b>	<b>Number of Securities to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of Securities remaining available for future issuance under equity compensation plans</b>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders			
November 18, 2015(1)	180,000	\$0.33	—
March 12, 2015(2)	3,000,000	\$0.083	—
March 12, 2015(3)	180,000	\$0.083	—
March 18, 2015(4)	285,000	\$0.363	—
January 22, 2016(5)	450,000	\$0.367	—
January 1, 2018(6)	100,000	\$0.80	—
The Plan	319,206	\$1.18	2,680,794
Total	4,514,206	\$0.17	2,680,794

- (1) On November 4, 2014, we entered into a consulting agreement for grant writing services. Pursuant to this agreement the Company issued 180,000 shares of our \$0.001 par value common stock valued at \$0.33 per share or \$60,000.
- (2) On March 12, 2015, we issued warrants to officers and members of the board of directors as compensation for services performed.  
  
The warrants were issued under the following terms; non-transferable, fully vested on March 31, 2015, expire ten years from the date of grant, strike price of \$0.083 and become immediately exercisable upon the occurrence of a significant liquidating, restructuring or change of control event.
- (3) On March 12, 2015, as compensation for his appointment, Mr. Patee was granted a non-statutory option to purchase 180,000 shares of common stock under the following terms: non-transferable, fully vest on March 31, 2015, expire five years from the date of grant, strike price of \$0.083 and become immediately exercisable upon the occurrence of a significant liquidating, restructuring or change of control event.
- (4) On March 18, 2015, we granted an option to purchase 285,000 shares of common stock to a consultant. The options were issued under the following terms; non-transferable, fully vest on March 31, 2015, expire ten years from the date of grant, strike price of \$0.363 and become immediately exercisable upon the occurrence of a significant liquidating, restructuring or change of control event.
- (5) On January 22, 2016, we issued warrants to purchase 450,000 shares of common stock to a Mr. Greg Gohlinghorst for business advisory services. The warrants were issued under the following terms: fully vest on January 31, 2016, expire five years from the date of grant and strike price of \$0.367.
- (6) On January 1, 2018, we issued warrants to purchase 100,000 shares of common stock at an exercise price of \$0.80 per share to an advisor for business advisory services.



## **Item 6. Selected Financial Data**

A smaller reporting company is not required to provide the information required by this Item.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Statements**

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. We intend such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

### **Results of Operations for the Year Ended September 30, 2018 and 2017**

#### ***Revenues***

We earned \$578,635 in revenues during the year ended September 30, 2018, as compared with \$447,963 in revenues for the year ended September 30, 2017.

Most of our revenue for the year ended September 30, 2018 was in the form of design, engineering and construction revenue from the CleanSpark side of our business. This income is the result of contracts to perform engineering design and construction services for distributed energy and microgrid systems. We hope to generate more significant revenue from customers through the sale and licensing of our Software platforms in the future. We hope to have more news on these efforts in future reports. However, we are unable to estimate with any degree of certainty the amount of future revenues, if any, from existing or future software contracts. Also, we do not anticipate earning significant revenues from our Gasifier business until such time that we have fully developed our technology and are able to market our products.

#### ***Gross Profit***

Our cost of revenues were \$390,774 for the year ended September 30, 2018 resulting in gross profit of \$187,861, as compared with cost of revenues of \$296,295 for the year ended September 30, 2017 resulting in gross profits of \$151,668.

Our cost of revenues in 2018 was mainly the result of materials, subcontractors and direct labor expense.

Material expenses increased to \$277,441 for the year ended September 30, 2018, from \$121,982 for the year ended 2017. Our materials expense for the years ended September 30, 2018 and 2017 consisted mainly of the cost of solar panels and energy storage.

Direct labor decreased to \$32,544 for the year ended September 30, 2018, from \$119,607 for the year ended 2017. Our direct labor expenses for the year ended September 30, 2018 consisted mainly of allocated payroll costs of employees and consultants.

Subcontractor expenses increased to \$79,517 for the year ended September 30, 2018, from \$35,951 for the year ended 2017. Our subcontractor expenses for the year ended September 30, 2018 consisted mainly of fees charged by subcontractors for installation of solar panels and energy storage.

### ***Operating Expenses***

We had operating expenses of \$7,263,792 for the year ended September 30, 2018, as compared with \$13,529,885 for the year ended September 30, 2017.

Professional fees increased to \$1,271,005 for the year ended September 30, 2018 from \$1,016,934 for the same period ended September 30, 2017. Our professional fees expenses for the year ended September 30, 2018 consisted mainly of consulting fees of \$564,612 paid to management of the Company, stock based compensation for consulting of \$480,620, sales consulting of \$50,019, legal fees of \$28,910, investor relations consulting of \$16,500, consulting for software and data science of \$34,722 and audit and review fees of \$45,639. Our professional fees expenses for the year ended September 30, 2017 was \$1,016,934 which consisted mainly of consulting fees of \$475,700 paid to management of the Company, stock based compensation for consulting of \$118,880, sales consulting of \$107,178, legal fees of \$82,495, investor relations consulting of \$79,218, consulting for software and engineering of \$78,166 and audit and review fees of \$36,615.

Payroll expenses increased to \$1,579,197 for the year ended September 30, 2018 from \$264,063 for the same period ended September 30, 2017. Our payroll expenses for the year ended September 30, 2018 consisted mainly of salary and wages expense of \$557,576 and employee and officer stock based compensation of \$1,021,621. Our payroll expenses for the year ended September 30, 2017 consisted mainly of salary and wages expense of \$264,063.

General and administrative fees decreased to \$279,679 for the year ended September 30, 2018 from \$365,819 for the same period ended September 30, 2017. Our general and administrative expenses for the year ended September 30, 2018 consisted mainly of travel expenses of \$46,364, rent expenses of \$54,559 insurance expenses of \$37,514, dues and subscriptions of \$60,575 and bad debt expense of \$11,100. Our general and administrative expenses for the year ended September 30, 2017 consisted mainly of travel expenses of \$101,564, rent expenses of \$49,556 insurance expenses of \$50,952.

Product development expense increased to \$1,375,650 for the year ended September 30, 2018 from \$1,067,556 for the same period ended September 30, 2017. Our product development expenses for the year ended September 30, 2018 consisted mainly of amortization of capitalized software of \$1,379,483. Our product development expenses for the year ended September 30, 2017 consisted mainly of amortization of capitalized software of \$1,067,556.

Depreciation and amortization expense decreased to \$854,981 for the year ended September 30, 2018 from \$2,250,784 for the same period ended September 30, 2017.

Impairment expenses decreased to \$1,896,090 for the year ended September 30, 2018 from \$8,551,321 for the same period ended September 30, 2017.

Loss on disposal of assets expenses decreased to \$0 for the year ended September 30, 2018 from \$12,817 for the same period ended September 30, 2017.

### **Other Income/Expenses**

We had other expenses of \$39,930,234 for the year ended September 30, 2018, compared with other expenses of \$120,309 for the year ended September 30, 2017. Our other expenses for the year ended September 30, 2018 consisted mainly of loss on settlement of debts of \$41,092, loss on derivative liability of \$38,964,688, and interest expense of \$924,454. Our other expenses for the year ended September 30, 2017 consisted mainly of loss on settlement of debts of \$117,414, and interest expense of \$2,895.

### **Net Loss**

Net loss for the year ended September 30, 2018 was \$47,006,165 compared to net loss of \$13,498,526 for the year ended September 30, 2017.

### **Liquidity and Capital Resources**

As of September 30, 2018, we had total current assets of \$548,380, consisting of cash, accounts receivable, costs in excess of billings and prepaid expenses and other current assets, and total assets in the amount of \$17,555,662. Our total current liabilities as of September 30, 2018 were \$1,349,587. We had a working capital deficit of \$801,207 as of September 30, 2018.

Operating activities used \$1,260,521 in cash for the year ended September 30, 2018, as compared with \$1,361,865 for the same period ended September 30, 2017. Our net loss of \$47,006,165 was the main component of our negative operating cash flow for the year ended September 30, 2018, offset mainly by impairment expense of \$1,896,090, depreciation and amortization of \$854,981, loss on derivative liability of \$38,964,688, amortization of capitalized software of \$1,379,483 and stock based compensation of \$1,502,241. Our net loss of \$13,498,526 was the main component of our negative operating cash flow for the year ended September 30, 2017, offset mainly by impairment expense of \$8,551,321, amortization of capitalized software of \$1,067,556 and depreciation and amortization of \$2,250,784.

Cash flows used by investing activities during the year ended September 30, 2018 was \$419,232, as compared with \$126,320 for the year ended September 30, 2017. Our investment in the capitalized software of \$396,090, purchase of fixed assets of \$15,227 and the purchase of intangible assets of \$7,915 were the main components of our negative investing cash flow for the year ended September 30, 2018. Our investment in capitalized software of \$93,723 and the purchase of intangible assets of \$28,919 were the main components of our negative investing cash flow for the year ended September 30, 2017.

Cash flows provided by financing activities during the year ended September 30, 2018 amounted to \$2,035,402, as compared with \$1,108,784 for the year ended September 30, 2017. Our positive cash flows from financing activities for the year ended September 30, 2018 consisted of \$271,900 in proceeds from the sale of common stock, \$672,500 in proceeds from promissory notes, \$837,750 in proceeds from convertible notes and \$382,790 from related party debts off-set by repayments of \$101,143 on promissory notes and repayments of \$73,333 on related party debts. Our positive cash flows from financing activities for the year ended September 30, 2017 consisted mainly of \$880,000 in proceeds from the sale of common stock, \$150,000 in proceeds from long term loans and \$80,000 from related party debt.

### **Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. Additionally, the new guidance requires enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including revenue recognition policies to identify performance obligations, assets recognized from costs incurred to obtain and fulfill a contract, and significant judgments in measurement and recognition.

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In July 2015, the FASB made a decision to defer the effective date of the new standard for one year and permit early adoption as of the original effective date. The new standard will be effective for the Company as of October 1, 2018. The Company has evaluated the impact of the adoption of this standard on its revenue recognition policy and does not believe it will have a material impact on its financial statements.

The Company has evaluated all other recent accounting pronouncements, and believes that none of them will have a material effect on the Company's financial position, results of operations or cash flows.

**Critical Accounting Policies**

In December 2001, the SEC requested that all registrants list their most “critical accounting policies” in the Management Discussion and Analysis. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of a company's financial condition and results, and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Our accounting policies are discussed in detail in the footnotes to our financial statements included in this Annual Report on Form 10-K for the year ended September 30, 2018, however we consider our critical accounting policies to be those related to revenue recognition, long-lived assets, accounts receivable, fair value of financial instruments, cash and cash equivalents, accounts receivable, warranty liability and stock-based compensation.

**Off Balance Sheet Arrangements**

As of September 30, 2018, there were no off balance sheet arrangements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

A smaller reporting company is not required to provide the information required by this Item.

**Item 8. Financial Statements and Supplementary Data**

Index to Financial Statements Required by Article 8 of Regulation S-X:

Audited Consolidated Financial Statements:

- F-1 Report of Independent Registered Public Accounting Firm - 2018
- F-2 Report of Independent Registered Public Accounting Firm - 2017
- F-3 Consolidated Balance Sheets as of September 30, 2018 and 2017;
- F-4 Consolidated Statements of Operations for the years ended September 30, 2018 and 2017;
- F-5 Consolidated Statements of Stockholders' Equity
- F-6 Consolidated Statements of Cash Flows for the years ended September 30, 2018 and 2017;
- F-7 Notes to Consolidated Financial Statements

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of  
CleanSpark, Inc.  
Bountiful, Utah

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheet of CleanSpark, Inc. and its subsidiaries (collectively, the “Company”) as of September 30, 2018, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the year 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 September 30, 2018, and the results of their operations and their cash flows for the year 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 the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit 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 financial statements. Our audit 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 audit provides a reasonable basis for our opinion.

/s/ *MaloneBailey, LLP*  
www.malonebailey.com

We have served as the Company’s auditor since 2018.

Houston, Texas

January 15, 2019



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Stockholders of  
Cleanspark, Inc.**

We have audited the accompanying balance sheet of Cleanspark, Inc. as of September 30, 2017 the related statements of operations, stockholders' equity (deficit), and cash flows for the year then ended. Cleanspark, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cleanspark, Inc. as of September 30, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has limited revenues, has negative working capital at September 30, 2017, has incurred recurring losses and recurring negative cash flow from operating activities, and has an accumulated deficit which raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/s/ AMC Auditing*

AMC Auditing  
Las Vegas, Nevada  
January 15, 2018

**CLEANS PARK, INC.  
CONSOLIDATED BALANCE SHEETS**

	<u>September 30, 2018</u>	<u>September 30, 2017</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 412,777	\$ 57,128
Accounts receivable	34,141	41,947
Cost in excess of billings	52,439	—
Prepaid expense and other current assets	49,023	29,556
Total current assets	548,380	128,631
Fixed assets, net	86,731	125,441
Capitalized Software, net	8,786,226	9,709,444
Intangible assets, net	3,214,467	5,903,686
Goodwill	4,919,858	4,919,858
Deposits	—	5,742
Total assets	\$ 17,555,662	\$ 20,792,802
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 131,724	\$ 143,225
Convertible notes, net of unamortized discounts	69,121	—
Customer deposits	—	16,000
Due to related parties	308,373	61,021
Loans from related parties	382,790	73,333
Loans payable, net of unamortized discounts	457,579	7,712
Total current liabilities	1,349,587	301,291
Long- term liabilities		
Loans payable	150,000	150,000
Total liabilities	1,499,587	451,291
Stockholders' equity		
Common stock; \$0.001 par value; 100,000,000 shares authorized; 36,116,447 and 33,409,471 shares issued and outstanding as of September 30, 2018 and September 30, 2017, respectively	36,116	33,409
Preferred stock; \$0.001 par value; 10,000,000 shares authorized; 1,000,000 and 1,000,000 shares issued and outstanding as of September 30, 2018 and September 30, 2017, respectively	1,000	1,000
Additional paid-in capital	82,958,490	40,240,468
Accumulated earnings (deficit)	(66,939,531)	(19,933,366)
Total stockholders' equity	16,056,075	20,341,511
Total liabilities and stockholders' equity	\$ 17,555,662	\$ 20,792,802

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

**CLEANSARK, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Years Ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Revenues, net	\$ 578,635	\$ 447,963
Cost of revenues	390,774	296,295
Gross profit	187,861	151,668
Operating expenses		
Professional fees	1,271,005	1,016,934
Payroll expenses	1,579,197	264,063
Product development	1,375,650	1,067,556
Research and development	7,190	591
General and administrative expenses	279,679	365,819
Loss on disposal of assets	—	12,817
Impairment expense	1,896,090	8,551,321
Depreciation and amortization	854,981	2,250,784
Total operating expenses	7,263,792	13,529,885
Loss from operations	(7,075,931)	(13,378,217)
Other income (expense)		
Loss on settlement of debt	(41,092)	(117,414)
Loss on derivative liability	(38,964,688)	—
Interest expense	(924,454)	(2,895)
Total other income (expense)	(39,930,234)	(120,309)
Net loss	\$ (47,006,165)	\$ (13,498,526)
Basic loss per common share	\$ (1.36)	\$ (0.42)
Basic weighted average common shares outstanding	34,517,986	32,182,107

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



**CLEANSARK, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
<b>Balance, September 30, 2016</b>	<b><u>1,000,000</u></b>	<b><u>\$ 1,000</u></b>	<b><u>27,834,415</u></b>	<b><u>\$ 27,834</u></b>	<b><u>\$ 39,068,127</u></b>	<b><u>\$ (6,434,840)</u></b>	<b><u>\$ 32,662,121</u></b>
Shares issued for services	—	—	—	—	—	—	—
Options and warrants issued for services	—	—	—	—	16,666	—	16,666
Shares issued upon exercise of warrants	—	—	4,399,056	4,399	(4,399)	—	—
Shares issued for direct investment	—	—	1,101,000	1,101	878,899	—	880,000
Shares issued for settlement of debt	—	—	50,000	50	212,450	—	212,500
Shares and warrants issued to acquire assets	—	—	—	—	—	—	—
Preferred Shares issued for services	—	—	25,000	25	68,725	—	68,750
Net loss	—	—	—	—	—	(13,498,526)	(13,498,526)
<b>Balance, September 30, 2017</b>	<b><u>1,000,000</u></b>	<b><u>1,000</u></b>	<b><u>33,409,471</u></b>	<b><u>33,409</u></b>	<b><u>40,240,468</u></b>	<b><u>(19,933,366)</u></b>	<b><u>20,341,511</u></b>
Shares issued for services	—	—	30,000	30	55,070	—	55,100
Options and warrants issued for services	—	—	—	—	1,507,418	—	1,507,418
Shares issued upon exercise of warrants	—	—	718,290	718	44,220	—	44,938
Commitment and returnable shares issued with debt	—	—	762,500	763	547,765	—	548,528
Shares issued for direct investment	—	—	339,875	340	271,560	—	271,900
Shares issued for settlement of debt	—	—	514,671	514	462,690	—	463,204
Fair value of tainted warrants reclassified to derivative liability	—	—	—	—	(12,537,117)	—	(12,537,117)
Resolution of derivative liability	—	—	—	—	52,291,024	—	52,291,024
Shares issued to escrow as collateral	—	—	300,000	300	(300)	—	—
Shares issued as settlement of accounts payable	—	—	41,640	42	75,692	—	75,734
Net loss	—	—	—	—	—	(47,006,165)	(47,006,165)
<b>Balance, September 30, 2018</b>	<b><u>1,000,000</u></b>	<b><u>\$ 1,000</u></b>	<b><u>36,116,447</u></b>	<b><u>\$ 36,116</u></b>	<b><u>\$ 82,958,490</u></b>	<b><u>\$ (66,939,531)</u></b>	<b><u>\$ 16,056,075</u></b>

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

**CLEANS PARK, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Years Ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (47,006,165)	\$ (13,498,526)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on disposal of fixed assets	—	12,817
Stock based compensation	1,502,343	135,546
Impairment expense	1,896,090	8,551,321
Commitment shares issued with debt	218,626	—
Depreciation and amortization	854,981	2,250,784
Amortization of capitalized software	1,379,483	1,067,556
Loss on derivative liability	38,964,688	—
Loss on settlement of debt	41,092	117,414
Amortization of debt discount	638,090	—
Changes in assets and liabilities		
(Increase) decrease in prepaid expenses and other current assets	12,983	(21,964)
(Increase) decrease in deposits	5,742	(5,153)
Increase in costs in excess of billings	(52,439)	—
Decrease in accounts receivable	7,806	15,148
Increase (decrease) in customer deposits	(16,000)	16,000
Increase in accounts payable	44,807	144
Increase (decrease) in due to related parties	247,352	(2,952)
Net cash used in operating activities	(1,260,521)	(1,361,865)
<b>Cash Flows from investing</b>		
Purchase of intangible assets	(7,915)	(28,919)
Purchase of fixed assets	(15,227)	(5,112)
Investment in microgrid assets	—	(5,566)
Investment in capitalized software	(396,090)	(93,723)
Cash received on sale of assets	—	7,000
Net cash used in investing activities	(419,232)	(126,320)
<b>Cash Flows from Financing Activities</b>		
Payments on promissory notes	(101,143)	(20,255)
Proceeds from promissory notes	672,500	25,706
Proceeds from related part debts	382,790	80,000
Payments on related party debts	(73,333)	(6,667)
Proceeds from convertible debt, net of issuance costs	837,750	—
Proceeds from exercise of warrants	44,938	—
Proceeds from long term loans	—	150,000
Proceeds from issuance of common stock	271,900	880,000
Net cash from financing activities	2,035,402	1,108,784
Net increase (decrease) in Cash	355,649	(379,401)
Beginning cash balance	57,128	436,529
Ending cash balance	\$ 412,777	\$ 57,128
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 106,970	\$ 1,629
Cash paid for tax	\$ —	\$ —
<b>Non-Cash investing and financing transactions</b>		
Cashless exercise of options	\$ 460	\$ 4,399
Stock issued to settle accounts payable	\$ 75,734	\$ 212,500
Shares issued on conversion of debt and interest	\$ 463,204	\$ —
Financing of prepaid insurance	\$ 32,450	\$ —
Debt discount on convertible debt	\$ 837,750	\$ —
Debt discount on promissory notes	\$ 281,373	\$ —
Shares issued and held in escrow as collateral	\$ 300	\$ —
Recognition of derivative liability due to tainted equity instruments	\$ 12,537,117	\$ —
Resolution of derivative liability reclassified to additional paid in capital	\$ 52,291,024	\$ —
Option expense capitalized as software development costs	\$ 60,175	\$ —

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



**CLEANSARK, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND LINE OF BUSINESS**

Organization

CleanSpark, Inc. (“we”, “our”, the “Company”) was incorporated in the state of Nevada on October 15, 1987 as SmartData Corporation. SmartData conducted a 504-public offering in the State of Nevada in December 1987 and began trading publicly in January 1988. Due to a series of unfortunate events, including the untimely death of the founding CEO, SmartData discontinued active business operations in 1992.

On March 25, 2014, we began operations in the alternative energy sector.

In December 2014, the Company changed its name to Stratean Inc. through a short-form merger in order to better reflect the new business plan.

On July 1, 2016, the Company entered into an Asset Purchase Agreement, as amended (the “Purchase Agreement”), with CleanSpark Holdings LLC, CleanSpark LLC, CleanSpark Technologies LLC and Specialized Energy Solutions, Inc. (together, the “Seller”). Pursuant to the Purchase Agreement, the Company acquired CleanSpark, LLC and all the assets related to the Seller and its line of business and assumed \$200,000 in liabilities.

In October 2016, the Company changed its name to CleanSpark, Inc. through a short-form merger in order to better reflect the brand identity.

Line of Business

Through the acquisition of CleanSpark, LLC, the Company provides microgrid solutions to military, commercial and residential properties.

The services offered consist of turn-key microgrid implementation services, microgrid design and engineering, project development consulting services and solar photovoltaic installation and consulting. The work is performed under fixed price bid contracts and negotiated price contracts. The Company performed all of its work in California during the year ended September 30, 2018.

**2. SUMMARY OF SIGNIFICANT POLICIES**

This summary of significant accounting policies of CleanSpark Inc. is presented to assist in understanding the Company’s consolidated financial statements. The consolidated financial statements and notes are representations of the Company’s management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidated financial statements.

Basis of Presentation

The Company has incurred losses for the past several years while developing infrastructure and its software platforms. As shown in the accompanying audited consolidated financial statements, the Company incurred net losses of \$47,006,165 and \$13,498,526 during the years ended September 30, 2018 and September 30, 2017, respectively. Additionally, as of September 30, 2018, the Company had a working capital deficit of approximately \$801,207. In response to these conditions, subsequent to September 30, 2018 we have raised additional capital through the sale of debt and equity securities pursuant to a registration statement on Form S-3. (See Note 17 for additional details.)

The Company’s independent registered public accounting firm expressed in its report on the Company’s financial statements for the year ended September 30, 2017 a substantial doubt about the Company’s ability to continue as a going concern. Based on management’s plans and the capital raised subsequent to the year ended September 30, 2018, that substantial doubt has been alleviated.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CleanSpark, Inc., and its wholly owned operating subsidiaries, CleanSpark, LLC, CleanSpark, II, LLC and CleanSpark Acquisition, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include estimates used to review the Company’s goodwill impairment, impairments and estimations of long-lived assets, revenue recognition on percentage of completion type contracts, allowances for uncollectible accounts, derivative instruments valuation, and the valuations of non-cash capital stock issuances. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition –The Company recognizes revenue on arrangements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” and No. 104, “Revenue Recognition”. In all cases, revenue is recognized only when the price is fixed, or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability is reasonably assured. For the years ended September 30, 2018 and 2017, the Company reported revenues of \$578,635 and \$447,963, respectively.

Revenues and related costs on construction contracts are recognized using the “percentage of completion method” of accounting in accordance with ASC 605-35, Accounting for Performance of Construction-Type and Certain Production Type Contracts (“ASC 605-35”). Under this method, contract revenues and related expenses are recognized over the performance period of the contract in direct proportion to the costs incurred as a percentage of total estimated costs for the entirety of the contract. Costs include direct material, direct labor, subcontract labor and any allocable indirect costs. All un-allocable indirect costs and corporate general and administrative costs are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as it is determined.

Revisions in cost and profit estimates during the course of the contract are reflected in the accounting period in which the facts, which require the revision, become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The Asset, “Costs in excess of billings”, represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, “Billings in excess of costs”, represents billings in excess of revenues recognized on contracts in progress. At September 30, 2018 and September 30, 2017, the costs in excess of billings balance were \$52,439 and \$0, and the billings in excess of costs balance were \$0 and \$0, respectively.

Accounts receivables are recorded on contracts for amounts currently due based upon progress billings, as well as retention, which are collectible upon completion of the contracts. Accounts payable to material suppliers and subcontractors are recorded for amounts currently due based upon work completed or materials received, as are retention due subcontractors, which are payable upon completion of the contract. General and administrative expenses are charged to operations as incurred and are not allocated to contract costs. Retention receivable is the amount withheld by a customer until a contract is completed. Retention receivables of \$17,751 and \$0 were included in the balance of trade accounts receivable as of September 30, 2018 and September 30, 2017, respectively.

Accounts Receivable – Accounts receivable is comprised of uncollateralized customer obligations due under normal trade terms. The Company performs ongoing credit evaluation of its customers and management closely monitors outstanding receivables based on factors surrounding the credit risk of specific customers, historical trends, and other information. The carrying amount of accounts receivable is reviewed periodically for collectability. If management determines that collection is unlikely, an allowance that reflects management’s best estimate of the amounts that will not be collected is recorded. Accounts receivable are presented net of an allowance for doubtful accounts of \$0 and \$0 at September 30, 2018, and September 30, 2017, respectively.

**Cash and cash equivalents** – For purposes of the statements of cash flows, the Company considers all highly liquid investments and short-term debt instruments with original maturities of three months or less to be cash equivalents. There was \$412,777 and \$57,128 in cash and no cash equivalents as of September 30, 2018 and September 30, 2017, respectively.

**Concentration Risk**

At times throughout the year, the Company may maintain cash balances in certain bank accounts in excess of FDIC limits. As of September 30, 2018, the cash balance in excess of the FDIC limits was \$149,429. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in these accounts. The Company had certain customers whose revenue individually represented 10% or more of the Company's total revenue. (See Note 17 for details.)

**Warranty Liability** – The Company establishes warranty liability reserves to provide for estimated future expenses as a result of installation and product defects, product recalls and litigation incidental to the Company's business. Liability estimates are determined based on management's judgment, considering such factors as historical experience, the likely current cost of corrective action, manufacturers' and subcontractors' participation in sharing the cost of corrective action, consultations with third party experts such as engineers, and discussions with the Company's general counsel and outside counsel retained to handle specific product liability cases. The Company's manufacturers and service providers currently provide substantial warranties between ten to twenty-five years with full reimbursement to replace and install replacement parts. Warranty costs and associated liabilities for the years ended September 30, 2018 and 2017 were \$0 and \$0, respectively.

**Stock-based compensation** – The Company follows the guidelines in FASB Codification Topic ASC 718-10 "*Compensation-Stock Compensation*," which requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period. The Company accounts for non-employee share-based awards in accordance with FASB ASC 505-50 under which the awards are valued at the earlier of a commitment date or upon completion of the services, based on the fair value of the equity instruments, and are recognized as expense over the service period. On June 9, 2017, the Company implemented an employee stock-based compensation plan and since inception of the plan has issued 319,206 options to purchase shares of the Company's common stock under this plan as of September 30, 2018. The options are exercisable between \$0.80 to \$3.45 per share. The Company may issue compensatory shares for services including, but not limited to, executive, management, accounting, operations, corporate communication, financial and administrative consulting services.

**Earnings (loss) per share** – The Company reports earnings (loss) per share in accordance with Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 260-10 "*Earnings Per Share*," which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income or loss available to common stockholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. The calculation of diluted net loss per share gives effect to common stock equivalents; however, potential common shares are excluded if their effect is anti-dilutive. As of September 30, 2018, there are 9,461,102 shares issuable upon exercise of outstanding options, warrants and convertible debt which have been excluded as anti-dilutive.

**Long-lived Assets** – In accordance with the Financial Accounting Standards Board ("FASB") Accounts Standard Codification (ASC) ASC 360-10, "Property, Plant and Equipment," the carrying value of intangible assets and other long-lived assets is reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value. During the years ended September 30, 2018 and 2017 the Company recorded an impairment expense of \$1,896,090 related to a patent and client lists acquired in 2016 which the Company does not anticipate utilizing in future periods and \$8,551,321 related to impairment of software, microgrid and gasification assets, respectively.

**Intangible Assets and Goodwill** – The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations," where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company reviews its indefinite lived intangibles and goodwill for impairment annually or whenever events or circumstances indicate that the carrying amount of the asset exceeds its fair value and may not be recoverable. In accordance with its policies, the Company performed an assessment of indefinite lived intangibles and goodwill and determined there was no impairment for the years ended September 30, 2018 and 2017.

**Software Development Costs**— The Company capitalizes software development costs under guidance of ASC 985-20 “Costs of Software to be Sold, Leased or Marketed”. Software development costs include payments made to independent software developers under development agreements, as well as direct costs incurred for internally developed products. Software development costs are capitalized once the technological feasibility of a product is established and such costs are determined to be recoverable. Technological feasibility of a product requires both technical design documentation and infrastructure design documentation, or the completed and tested product design and a working model. Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established, and the evaluation is performed on a product-by-product basis. For products where proven technology exists, such as mPulse 2.0 and mVSO 2.0 this may occur early in the development cycle. Prior to a product’s release, if and when we believe capitalized costs are not recoverable, we expense the amounts as part of "Product development." Capitalized costs for products that are cancelled or are expected to be abandoned are charged to "Product development" in the period of cancellation. Amounts related to software development which are not capitalized are charged immediately to "Product development."

Commencing upon a product’s release, capitalized software development costs are amortized to "Cost of revenues—software amortization " based on the ratio of current revenues to total projected revenues for the specific product, generally resulting in an amortization period of seven years for our current product offerings. In accordance with ASC 985-35 in recognition of the uncertainties involved in estimating future revenue, amortization will never be less than straight-line amortization of the products remaining estimated economic life.

We evaluate the future recoverability of capitalized software development costs on a quarterly basis. For products that have been released in prior periods, the primary evaluation criterion is the actual performance of the software platform to which the costs relate. For products that are scheduled to be released in future periods, recoverability is evaluated based on the expected performance of the specific products to which the costs relate. Criteria used to evaluate expected product performance include: historical performance of comparable products developed with comparable technology; market performance of comparable software; orders for the product prior to its release; pending contracts and general market conditions.

Significant management judgments and estimates are utilized in assessing the recoverability of capitalized costs. In evaluating the recoverability of capitalized costs, the assessment of expected product performance utilizes forecasted sales amounts and estimates of additional costs to be incurred. If revised forecasted or actual product sales are less than the originally forecasted amounts utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge. Material differences may result in the amount and timing of expenses for any period if matters resolve in a manner that is inconsistent with management’s expectations. If an impairment occurs the reduced amount of the capitalized software costs that have been written down to the net realizable value at the close of each annual fiscal period will be considered the cost for subsequent accounting purposes.

**Income taxes** – The Company accounts for its income taxes in accordance with FASB Codification Topic ASC 740-10, “*Income Taxes*”, which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Reclassifications** – Certain prior year amounts have been reclassified for consistency with the current year presentation. On the Company’s consolidated balance sheet as of September 30, 2017 \$4,020,269, net of \$333,139 in accumulated depreciation has been reclassified from Flexpower system assets to intangible assets. This amount was associated with engineering and trade secrets. Flexpower assets have been reclassified as capitalized software to more clearly reflect the nature of the assets. In addition, \$1,067,556 in amortization and depreciation expense related to the capitalized software has been reclassified to product development expense for the year ended September 30, 2017. These reclassifications had no effect on the reported results of operations or net assets of the Company.

**Segment Reporting** – Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding the method to allocate resources and assess performance. The Company currently has one reportable segment for financial reporting purposes, which represents the Company's core business.

**Recently issued accounting pronouncements -**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers* (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. Additionally, the new guidance requires enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including revenue recognition policies to identify performance obligations, assets recognized from costs incurred to obtain and fulfill a contract, and significant judgments in measurement and recognition.

In July 2015, the FASB made a decision to defer the effective date of the new standard for one year and permit early adoption as of the original effective date. The new standard will be effective for the Company as of October 1, 2018. The Company has evaluated the impact of the adoption of this standard on its revenue recognition policy and does not believe it will have a material impact on its financial statements.

The Company has evaluated all other recent accounting pronouncements, and believes that none of them will have a material effect on the Company's financial position, results of operations or cash flows.

### 3. COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

The Asset, “Costs in excess of billings”, represents revenues recognized in excess of amounts billed on contracts in progress. The Liability, “Billings in excess of costs”, represents billings in excess of revenues recognized on contracts in progress. At September 30, 2018 and September 30, 2017, the costs in excess of billings balance were \$52,439 and \$0, and the billings in excess of costs balance were \$0 and \$0, respectively.

The following is a summary of the costs and estimated earnings on contracts as of September 30, 2018. There were no open percentage-of-completion method contracts as of September 30, 2017.

	<b>Year ended September 30, 2018</b>
Costs incurred on contracts	\$ 292,990
Estimated earnings	114,471
	<u>407,461</u>
Less billings to date	(355,022)
Total	52,439
Costs and estimated earnings in excess of billings	52,439
Billings in excess of costs and estimated earnings	—
Total	<u>\$ 52,439</u>

All contracts open as of September 30, 2018 are expected to be completed in the fiscal year ending September 30, 2019.



#### 4. CAPITALIZED SOFTWARE

Capitalized software consists of the following as of September 30, 2018 and September 30, 2017:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
mVSO software	\$ 4,708,203	\$ 4,663,513
MPulse software	6,334,772	5,923,197
Less: accumulated amortization	<u>(2,256,749)</u>	<u>(877,266)</u>
Capitalized Software, net	<u>\$ 8,786,226</u>	<u>\$ 9,709,444</u>

In accordance with ASC 985-20 the Company capitalized \$456,265 in software development costs (including capitalized stock compensation cost of \$60,175) related to the enhancements created for our mPulse and mVSO 2.0 platforms during the year ended September 30, 2018.

Capitalized software amortization recorded as product development expense for the years ended September 30, 2018 and 2017 was \$1,379,483 and \$1,067,556, respectively.

During the year ended September 30, 2017, the Company recorded an impairment of \$5,039,078 related directly to components of our original software that were replaced.

#### 5. INTANGIBLE ASSETS

Intangible assets consist of the following as of September 30, 2018 and September 30, 2017:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Patents	\$ 71,962	\$ 89,473
Websites	16,482	14,532
Brand and Client lists	—	2,497,472
Trademarks	5,928	5,928
Engineering trade secrets	4,020,269	4,020,269
Software	26,990	26,990
Less: accumulated amortization	<u>(927,164)</u>	<u>(750,978)</u>
Intangible assets, net	<u>\$ 3,214,467</u>	<u>\$ 5,903,686</u>

Amortization expense for the years ended September 30, 2018 and 2017 was \$802,287 and \$675,379, respectively.

During the years ended September 30, 2018 and 2017 the Company recorded an impairment of \$1,894,847 and \$0, respectively.

#### 6. FIXED ASSETS

Fixed assets consist of the following as of September 30, 2018 and September 30, 2017:

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Machinery and equipment	\$ 130,191	\$ 133,061
Furniture and fixtures	54,251	74,393
Total	<u>184,442</u>	<u>207,454</u>
Less: accumulated depreciation	<u>(97,711)</u>	<u>(82,013)</u>
Fixed assets, net	<u>\$ 86,731</u>	<u>\$ 125,441</u>

Depreciation expense for the years ended September 30, 2018 and 2017 was \$52,694 and \$102,054, respectively.

In 2017, the Company also recorded additional depreciation expense of \$1,601,936 related to microgrid assets, which were impaired in the year ended September 30, 2017.

During the years ended September 30, 2018 and 2017 the Company recorded an impairment of fixed assets of \$1,243 and \$3,512,243, respectively.

## 7. LOANS

Long term

	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Long-term loans payable consist of the following:		
Promissory notes	\$ 150,000	\$ 150,000
Total	<u>\$ 150,000</u>	<u>\$ 150,000</u>

On November 11, 2017, the Company executed a 10% secured promissory note with a face value of \$100,000 with an investor. Under the terms of the promissory note the Company received \$100,000 and agreed to make monthly interest payments and repay the note principal 24 months from the date of issuance. The note is secured by 100,000 shares which would be issued to the note holder only in the case of an uncured default. As of September 30, 2018, the Company owed \$100,000 in principal and \$822 in accrued interest under the terms of the agreement and recorded interest expense of \$6,411 for the year ended September 30, 2018.

On December 5, 2017, the Company executed a 9% secured promissory note with a face value of \$50,000 with an investor. Under the terms of the promissory note the Company received \$50,000 and agreed to make monthly interest payments and repay the note principal 24 months from the date of issuance. The note is secured by 50,000 shares which would be issued to the note holder only in the case of an uncured default. As of September 30, 2018, The Company owed \$50,000 in principal and \$370 in accrued interest under the terms of the agreement and recorded interest expense of \$2,552 for the year ended September 30, 2018.

Current

	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Current loans payable consist of the following:		
Promissory notes	\$ 628,951	\$ —
Insurance financing loans	10,257	7,712
Unamortized debt discount	<u>(181,629)</u>	<u>—</u>
Total, net of unamortized discount	<u>\$ 457,579</u>	<u>\$ 7,712</u>

Promissory Notes

On September 5, 2017, the Company executed a 9% secured promissory note with a face value of \$150,000 with an investor. Under the terms of the promissory note, the Company received \$150,000 and agreed to make monthly interest payments and repay the note principal 24 months from the date of issuance. The note is secured by 150,000 shares which are held in escrow and would be issued to the note holder only in the case of an uncured default. As of September 30, 2018, the Company owed \$150,000 in principal and \$0 in accrued interest under the terms of the agreement and recorded interest expense of \$13,500 during the year ended September 30, 2018.

On October 6, 2017, the Company executed an unsecured variable interest rate promissory note with a maximum interest rate of 58.3% and a face value of \$45,000 with a financial institution. Under the terms of the promissory note the Company received \$45,000 and agreed to repay the note evenly over 12 months. As of September 30, 2018, the Company owed \$3,750 in principal and \$450 in accrued interest under the terms of the agreement and recorded interest expense of \$14,175 during the year ended September 30, 2018. The Company repaid all principal and outstanding interest on October 1, 2018.

On November 20, 2017, the Company executed a 10% unsecured promissory note with a face value of \$80,000 with an investor. Under the terms of the promissory note the Company received \$80,000 and agreed to make monthly interest payments and repay the note principal 12 months from the date of issuance. As of September 30, 2018, the Company owed \$80,000 in principal and \$0 in accrued interest under the terms of the agreement and recorded interest expense of \$6,882 during the year ended September 30, 2018. On November 21, 2018, the investor extended the maturity date to December 31, 2018. The Company repaid all principal and outstanding interest on December 31, 2018.

On January 12, 2018, the Company executed an unsecured variable interest rate promissory note with a maximum interest rate of 58.5% and a face value of \$18,400 with a financial institution. Under the terms of the promissory note the Company received \$18,400 and agreed to repay the note and interest evenly over 12 months. As of September 30, 2018, the Company owed \$6,133 in principal and \$184 in accrued interest under the terms of the agreement and recorded interest expense of \$5,520 during the year ended September 30, 2018. The Company repaid all principal and outstanding interest on October 1, 2018.

On February 27, 2018, we entered into an unsecured promissory note pursuant to which we borrowed \$125,000. The note carries an original issue discount of 5.6% (\$7,000). Interest under the promissory note was 10% per annum. Under the terms of the promissory note the Company agreed to make interest and principal payments equal to \$2,500 or greater on a monthly basis. All unpaid balances under the note were due in full on August 1, 2018. The note was settled in full on August 1, 2018 through the issuance of a new promissory note. The Company recorded interest expense of \$5,453 during the year ended September 30, 2018. The aggregate original issued issue discount has been accreted and charged to interest expenses as a financing expense in the amount of \$7,000 during the year ended September 30, 2018.

On May 22, 2018, the Company executed an unsecured variable interest rate promissory note with a maximum interest rate of 51.0% and a face value of \$24,500 with a financial institution. Under the terms of the promissory note the Company received \$24,500 and agreed to repay the note and interest evenly over 12 months. As of September 30, 2018, the Company owed \$18,375 in principal and \$1,960 in accrued interest under the terms of the agreement and recorded interest expense of \$4,900 during the year ended September 30, 2018. The Company repaid all principal and outstanding interest on October 1, 2018.

On June 15, 2018, we entered into a 10% secured promissory note with a face value of \$116,600 pursuant to which we received \$110,000, net of an original issue discount of 6% (\$6,600). The Company also issued 116,600 5-year warrants exercisable at \$0.80 in connection with issuance of the promissory note. Under the terms of the promissory note the Company agreed to make monthly interest payments and repay the note principal on December 15, 2018. The note is secured by the Company's accounts receivable. As of September 30, 2018, the Company owed \$116,600 in principal and \$0 in accrued interest under the terms of the agreement and recorded interest expense of \$3,418 during the year ended September 30, 2018. The Company has determined the value associated with the warrants issued in connection with the note to be \$110,000 which has been recorded as a debt discount. The aggregate original issue discount, and debt discount related to the warrants have been accreted and charged to interest expenses as a financing expense in the amount of \$68,176 for the year ended September 30, 2018. The unamortized discount as of September 30, 2018 amounted to \$48,424. The Company repaid all principal and outstanding interest on January 2, 2019.

On August 1, 2018, we entered into a 10% secured promissory note with a face value of \$130,625 pursuant to which we received \$125,000, net of an original issue discount of 4.5% (\$5,625). The Company also issued 25,000 5-year warrants exercisable at \$0.80 in connection with purchase of the promissory note. The proceeds of the note were used to settle in full a note issued on February 27, 2018. Under the terms of the promissory note the Company agreed to make monthly interest only payments and repay the note principal on November 30, 2018. The note is secured by the Company's accounts receivable. As of September 30, 2018, the Company owed \$127,748 in principal and \$0 in accrued interest under the terms of the agreement and recorded interest expense of \$2,171 during the year ended September 30, 2018. The Company has determined the value associated with the warrants issued in connection with the note to be \$71,373 which has been recorded as a debt discount. The aggregate original issue discount, and debt discount related to the warrants have been accreted and charged to interest expenses as a financing expense in the amount of \$38,499 the year ended September 30, 2018. The unamortized discount as of September 30, 2018 amounted to \$38,499. The Company repaid all principal and outstanding interest on January 2, 2019.

On August 14, 2018, the Company executed an unsecured variable interest rate promissory note with a maximum interest rate of 58.57% and a face value of \$19,600 with a financial institution. Under the terms of the promissory note the Company received \$19,600 and agreed to repay the note and interest evenly over 12 months. As of September 30, 2018, the Company owed \$17,967 in principal and \$784 in accrued interest under the terms of the agreement and recorded interest expense of \$1,568 during the year ended September 30, 2018. The Company repaid all principal and outstanding interest on October 1, 2018.

On September 20, 2018, the Company executed a 10% unsecured promissory note with a face value of \$52,500 with an investor, net of an original issue discount of 5% (\$2,500). Under the terms of the promissory note the Company received \$50,000 and agreed to repay the note principal and all accrued interest on December 31, 2018. The Company also issued 25,000 5-year warrants exercisable at \$0.80 in connection with purchase of the promissory note. As of September 30, 2018, the Company owed \$50,000 in principal and \$144 in accrued interest under the terms of the agreement and recorded interest expense of \$144 during the year ended September 30, 2018. The Company has determined the value associated with the warrants issued in connection with the notes to be \$50,000 which has been recorded as a debt discount. The aggregate original issue discount, and debt discount related to the warrants have been accreted and charged to interest expenses as a financing expense in the amount of \$5,147 the year ended September 30, 2018. The unamortized discount as of September 30, 2018 amounted to \$47,353. The Company repaid all principal and outstanding interest on December 31, 2018.

On September 21, 2018, the Company executed a 10% unsecured promissory note with a face value of \$52,500 with an investor, the note included an original issue discount of 5% (\$2,500). Under the terms of the promissory note the Company received \$50,000 and agreed to repay the note principal and all accrued interest on December 31, 2018. The Company also issued 25,000 5-year warrants exercisable at \$0.80 in connection with purchase of the promissory note. As of September 30, 2018, the Company owed \$50,000 in principal and \$144 in accrued interest under the terms of the agreement and recorded interest expense of \$144 during the year ended September 30, 2018. The Company has determined the value associated with the warrants issued in connection with the notes to be \$50,000 which has been recorded as a debt discount. The aggregate original issue discount, and debt discount related to the warrants have been accreted and charged to interest expenses as a financing expense in the amount of \$5,147 the year ended September 30, 2018. The unamortized discount as of September 30, 2018 amounted to \$47,353. The Company repaid all principal and outstanding interest on December 31, 2018.

#### Insurance financing loans

In February 2018, the Company executed two unsecured 6.1% installment loans with a total face value of \$35,089 with a financial institutional to finance its insurance policies. Under the terms of the installment notes the Company received \$35,089 and agreed to make equal payments and repay the notes' principal 10 months from their dates of issuance. As of September 30, 2018, the Company owed \$10,257 in principal and \$0 in accrued interest under the terms of the agreement. The Company repaid all principal and outstanding interest on December 1, 2018.

8. CONVERTIBLE NOTES PAYABLE

September 30, 2018

Convertible Notes Payable consists of the following:

**Labrys Fund, LP – March 23, 2018 Promissory Note Funding**

On March 23, 2018, we entered into a master convertible promissory note pursuant to which we could borrow up to \$500,000.

On March 23, 2018 the Company borrowed \$200,000, less debt issuance costs of \$15,750. The note carries an original issue discount of 10% (\$20,000). Interest under the convertible promissory note is 12% per annum, and the principal and all accrued but unpaid interest is due on September 23, 2018. The Lender also received 237,500 commitment shares at execution as an inducement for entering into the agreement. The Company also incurred \$15,750 of debt issuance costs on the note which was recorded as a debt discount.

The note was convertible at any date after the issuance date at the noteholder’s option into shares of our common stock at a variable conversion price. The Conversion price equals the lesser of (1) 70% multiplied by the lowest "Trading Price" during the previous 20 Trading Day period ending on the latest complete Trading Day prior to the date of this Note and (2) 70% multiplied by the lowest "Trading Price" for the Common Stock during the 20 Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. The "Trading Price" as defined by the agreement is the lesser of: (a) the lowest trade price on the OTC Pink, OTCQB, or applicable trading market (the "OTC Market") as reported by a reliable reporting service ("Reporting Service") designated by the Holder and (b) the lowest closing bid price on the OTC Market as reported by a Reporting Service designated by the Holder.

The Company recorded a debt discount in the amount of \$85,348 in connection with the commitment shares and \$98,902 in connection with the initial valuation of the derivative liability related to the embedded conversion option of the note to be amortized utilizing the effective interest method of accretion over the term of the note.

On September 19, 2018, all principal and accrued interest of \$220,000 and \$12,730, respectively was converted into 258,589 shares of the Company’s common stock.

The aggregate debt discount have been accreted and charged to interest expenses as a financing expense in the amount of \$220,000 during the year ended September 30, 2018, respectively.

Total, net of unamortized discount

\$ —

**Auctus Fund, LLC – July 2, 2018 Promissory Note Funding**

On July 2, 2018 the Company entered into a Securities Purchase Agreement with Auctus Fund, LLC ("Auctus"), which was later amended on July 6, 2018, pursuant to which the Company issued to Auctus a Master Convertible Promissory Note ("Note") pursuant to which the Company could borrow up to \$500,000. The Company also incurred \$11,900 of debt issuance costs on the note which was recorded as a debt discount.

On July 11, Auctus paid \$225,000 less \$26,000 in legal and due diligence fees. The Note has a maturity date of six months for each tranche funded and the Company has agreed to pay interest on the unpaid principal balance of the Note at the rate of twelve percent (12%) per annum from the date on which the Note is issued (the "Issue Date") until the same becomes due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. The Company has the right to prepay the Note, provided it makes a payment to Auctus as set forth in the Note within 180 days of its Issue Date.

In connection with the issuance of the Note, the Company issued to Auctus, as a commitment fee, 137,500 shares of its common stock (the "Returnable Shares") as well as 150,000 shares of its common stock (the "Non-Returnable Shares"), as further provided in the Note. The Returnable Shares shall be returned to the Company’s treasury if the Note is fully repaid and satisfied prior to the date, which is one hundred eighty (180) days following the Issue Date, subject further to the terms and conditions of the Note.

The Note is convertible at any date after the issuance date at the noteholder’s option into shares of our common stock at a variable conversion price of 70% of the lowest closing market price of our common stock during the previous 20 days to the date of the notice of conversion, subject to adjustment in the case of default.

The Note contains certain covenants, such as restrictions on: (i) distributions on capital stock, (ii) stock repurchases, (iii) certain loans, (iii) sales and the transfer of assets, and (iv) participation in 3(a)(10) transactions. The Note also contains certain anti-dilution provisions that apply in connection with any stock split, stock dividend, stock combination, recapitalization or similar transactions. In addition, subject to limited exceptions, Auctus will not have the right to convert any portion of the Note if Auctus, together with its affiliates, would beneficially own in excess of 4.99% of the number of shares of the Company’s common stock outstanding immediately after giving effect to its conversion.

The Company recorded a debt discount in the amount of \$130,829 in connection with the Non-returnable shares and \$56,271 in connection with the initial valuation of the derivative liability related to the embedded conversion option of the Note to be amortized utilizing the effective interest method of accretion over the term of the Note.

On September 21, 2018, all principal and accrued interest of \$225,000 and \$5,474, respectively was converted into 256,082 shares of the Company’s common stock.

The aggregate debt discount have been accreted and charged to interest expenses as a financing expense in the amount of \$225,000 during the year ended September 30, 2018.

Total, net of unamortized discount

\$ —

### **EMA Financial, LLC – August 21, 2018 Promissory Note Funding**

On August 21, 2018 we entered into a Securities Purchase Agreement with EMA Financial, LLC, (“EMA”), pursuant to which we issued and sold to EMA a convertible promissory note, dated August 21, 2018 in the principal amount of \$225,000 (the “Note”). The Note is due six months from the date of issuance and bears interest at the rate of 12% per annum. The Company received \$199,000 from the investment less fees and debt issuance costs of \$26,000 which was recorded as a debt discount.

In connection with the issuance of the Note, the Company issued to EMA, as a commitment fee, 137,500 shares of its common stock (the “Returnable Shares”) as well as 100,000 shares of its common stock (the “Non-Returnable Shares”), as further provided in the Note. The Returnable Shares shall be returned to the Company’s treasury if the Note is fully repaid and satisfied prior to the date, which is one hundred eighty (180) days following August 21, 2018, subject further to the terms and conditions of the Note.

The Note as amended on September 27, 2018, is convertible at any date after the issuance date at the noteholder’s option into shares of our common stock at a variable conversion price, equal to the lesser of (i) 70% of the lowest trading price during the previous 20 days and ending on the latest trading date prior to the date of the Note, or (ii) a 70% of the lowest trading price for our common stock during the 20 trading day period immediately prior to conversion but subject to a conversion floor price of \$3.05. The floor price is subject to reset under certain conditions.

We have the right to prepay the Note at any time prior to 180 days following the closing date. If we pay after September 24, 2018, we must pay an additional \$25,000 as a prepayment penalty.

The Note contains customary default events which, if triggered and not timely cured, will result in default interest and penalties. The Note also contains a right of first refusal provision with respect to future financings by us.

The Company recorded a debt discount in the amount of \$113,727 in connection with the Non-returnable shares and \$73,373 in connection with the initial valuation of the derivative liability related to the embedded conversion option of the Note to be amortized utilizing the effective interest method of accretion over the term of the Note.

The aggregate debt discount have been accreted and charged to interest expenses as a financing expense in the amount of \$48,955 during the year ended September 30, 2018.

As of September 30, 2018, the Company owed \$225,000 in principal and \$2,959 in accrued interest under the terms of the agreement and recorded interest expense of \$2,959 during the year ended September 30, 2018.

Unamortized debt discount	225,000
	(176,045)
<b>Total, net of unamortized discount</b>	<b>\$ 48,955</b>

### **Labrys Fund, LP – September 19, 2018 Promissory Note Funding**

On March 23, 2018, we entered into a master convertible promissory note pursuant to which we could borrow up to \$500,000.

On September 19, 2018 borrowed \$330,000, less debt issuance costs of \$20,700. The note also carries an original issue discount of 10% (\$30,000). Interest under the convertible promissory note is 12% per annum, and the principal and all accrued but unpaid interest is due six months from the date of issuance.

The Note, as amended on September 27, 2018, is convertible at any date after the issuance date at the noteholder’s option into shares of our common stock at a variable conversion price subject to a conversion floor price of \$3.05. The Conversion price equals the lesser of (1) 70% multiplied by the lowest "Trading Price" during the previous 20 Trading Day period ending on the latest complete Trading Day prior to the date of this Note and (2) 70% multiplied by the lowest "Trading Price" for the Common Stock during the 20 Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. The "Trading Price" as defined by the agreement is the lesser of: (a) the lowest trade price on the OTC Pink, OTCQB, or applicable trading market (the “OTC Market”) as reported by a reliable reporting service (“Reporting Service”) designated by the Holder and (b) the lowest closing bid price on the OTC Market as reported by a Reporting Service designated by the Holder. If the note is not repaid within 180 days of issuance the floor will cease to apply.

The Company recorded a debt discount in the amount of \$279,300 in connection with the initial valuation of the derivative liability related to the embedded conversion option of the note to be amortized utilizing the effective interest method of accretion over the term of the note.

The aggregate debt discount have been accreted and charged to interest expenses as a financing expense in the amount of \$20,166 during the year ended September 30, 2018.

Unamortized debt discount	330,000
	(309,834)
<b>Total, net of unamortized discount</b>	<b>\$ 20,166</b>
<b>Total convertible notes, net</b>	<b>\$ 69,121</b>

The Company did not enter into any convertible note agreements in the year ended September 30, 2017.

## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVE LIABILITIES

The carrying value of cash, accounts payable and accrued expenses, and debt (See Notes 8 & 9) approximate their fair values because of the short-term nature of these instruments. Management believes the Company is not exposed to significant interest or credit risks arising from these financial instruments. The carrying amount of the Company's long-term debt is also stated at fair value of \$150,000 since the stated rate of interest approximates market rates.

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

- Level 1 Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets.
- Level 2 Quoted prices for similar assets and liabilities in active markets; quoted prices included for identical or similar assets and liabilities that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. These are typically obtained from readily-available pricing sources for comparable instruments.
- Level 3 Unobservable inputs, where there is little or no market activity for the asset or liability. These inputs reflect the reporting entity's own beliefs about the assumptions that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

The following table presents the derivative financial instruments, the Company's only financial liabilities measured and recorded at fair value on the Company's balance sheets on a recurring basis, and their level within the fair value hierarchy as of September 30, 2018:

	Amount	Level 1	Level 2	Level 3
Embedded conversion derivative liability	\$ —	\$ —	\$ —	\$ —
Warrant and option derivative liabilities	\$ —	\$ —	\$ —	\$ —
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The embedded conversion feature in the convertible debt instruments that the Company issued (See Note 9), was convertible at issuance which qualified them as a derivative instrument since the number of shares issuable under the note is indeterminate based on guidance in ASC Topic No. 815-15, "Derivatives and Hedging ("Topic No. 815-15"). Topic No. 815-15 requires the Company to bifurcate and separately account for the conversion features as an embedded derivative contained in the Company's convertible debt. This convertible debt tainted all other equity linked instruments including all outstanding non-employee options and warrants on the date that the instrument became convertible. The Company is required to carry the embedded derivative on its balance sheet at fair value and account for any unrealized change in fair value as a component of results of operations.

On September 27, 2018, all derivative instruments held by the Company had been either extinguished through settlement of the associated debts or through amendments to the instruments that removed the derivative aspect of the instrument.

The Black-Scholes model utilized the following inputs to value the derivative liabilities at the date of issuance of the convertible note through September 27, 2018 which was the date the derivative liability was terminated:

Fair value assumptions:	March 23, 2018 through September 27, 2018
Risk free interest rate	1.92-2.81%
Expected term (years)	0.26-6.99
Expected volatility	134%-334%
Expected dividends	0%

The following table presents a summary of the Company's derivative liabilities associated with its convertible notes as of September 30, 2018:

	Amount
Balance September 30, 2017	\$ —
Debt discount originated from derivative liabilities	789,219
Initial derivative loss recorded	4,160,476
Fair value of derivative liability at issuance reclassified from additional paid in capital	12,537,117
Resolution of derivative liability reclassified to additional paid in capital	(52,291,024)
Change in fair market value of derivative liabilities	34,804,212
Balance September 30, 2018	<b>\$ —</b>

## 10. RELATED PARTY TRANSACTIONS

### Matthew Schultz- Chief Executive Officer and Director

The Company has a consulting agreement with Matthew Schultz, our Chief Executive Officer, for management services. In accordance with this agreement, as amended, Mr. Schultz provides services to us in exchange for \$15,000 in compensation for services plus a \$1,000 medical insurance stipend, each month plus a bonus of 0.5% of gross revenue. The Company has also agreed to reimburse Mr. Schultz for expenses incurred. The term of the agreement is one year and automatically renews until cancelled by either party. During the year ended September 30, 2018 and 2017, Mr. Schultz earned \$194,527 and \$193,425, respectively, in accordance with this agreement. During the year ended September 30, 2018, Mr. Schultz allowed the Company to defer \$123,114 as accrued compensation. The Company owed Mr. Schultz \$123,796 and \$58,810 in deferred compensation and reimbursable expenses as of September 30, 2018 and 2017, respectively. Deferred compensation is reported under due to related parties in the consolidated balance sheets.

During the year ended September 30, 2018, the Company executed two 15% promissory notes with a total face value of \$30,000 with the spouse of the CEO of our Company. Under the terms of the promissory notes the Company received \$30,000 and agreed to repay the note on demand. As of September 30, 2018, Company owed \$30,000 in principal and \$2,832 in accrued interest under the terms of the agreement. On January 1, 2019, the Company settled all remaining obligations under the notes through the payment of all outstanding principal and interest then outstanding.

### Zachary Bradford – President, Chief Financial Officer and Director

The Company has a consulting agreement with ZRB Holdings, Inc, an entity wholly owned by Zachary Bradford, our Chief Financial Officer and director, for management services. In accordance with this agreement, as amended, Mr. Bradford provides services to us in exchange for \$15,000 in compensation for services plus a \$1,000 medical insurance stipend, each month plus a bonus of 0.5% of gross revenue. The Company has also agreed to reimburse Mr. Bradford for expenses incurred. The term of the agreement is one year and automatically renews until cancelled by either party. During the years ended September 30, 2018 and 2017, Mr. Bradford earned \$194,527 and \$193,425, respectively, in accordance with this agreement. During the year ended September 30, 2018, Mr. Bradford allowed the Company to defer \$87,746 as accrued compensation. The Company owed Mr. Bradford \$89,351 and \$78,252 in deferred compensation and reimbursable expenses as of September 30, 2018 and 2017, respectively. Deferred compensation is reported under due to related parties in the consolidated balance sheets.

On August 13, 2017, the Company executed a 15% promissory note with a face value of \$80,000 with Zachary Bradford, its President and Chief Financial Officer. Under the terms of the promissory note the Company received \$80,000 and agreed to repay the note evenly over 12 months. The Company repaid \$73,333 and 6,667 in principal during the years ended September 30, 2018 and 2017, respectively. The Company incurred interest expense of \$12,000 and \$1,800 in interest during the years ended September 30, 2018 and 2017, respectively. The Company owed \$0 and \$73,333 in principal and \$600 and \$0 in accrued interest under the terms of the agreement as of September 30, 2018 and 2017, respectively.

During the year ended September 30, 2018, the Company executed eleven 15% promissory notes with a total face value of \$189,690 with Zachary Bradford, its President and Chief Financial Officer. Under the terms of the promissory notes the Company received \$189,690 and agreed to repay the notes on demand. As of September 30, 2018, Company owed \$189,690 in principal and \$10,733 in accrued interest under the terms of the agreement. On January 3, 2019, the Company settled all remaining obligations under the notes through the payment of all outstanding principal and interest then outstanding.

### Bryan Huber – Chief operations Officer and Director

The Company has a consulting agreement with Bryan Huber, our Chief Operations Officer and director, for management services. In accordance with the original agreement, Mr. Huber provided services to us in exchange for \$117,000 in compensation for services plus a \$500 medical insurance stipend and a bonus of 0.5% of gross revenue. On August 28, 2018, the Company replaced the original agreement with an agreement with Zero Positive, LLC an entity controlled by Mr. Huber. In accordance with this agreement with Zero Positive, LLC, Mr. Huber agrees to provide services through to the Company in exchange for \$160,000 in annual compensation plus a \$500 medical insurance stipend and a bonus of 0.5% of gross revenue. Under the agreement Mr. Huber was also granted a one-time bonus of \$50,000, payment of which will be deferred until the Company completes a qualified financing that exceeds three-million dollars or average monthly revenues of the Company exceed one-million dollars for three months. The Company has also agreed to reimburse Zero Positive, LLC for expenses incurred. The term of the agreement is one year and automatically renews until cancelled by either party. During the year ended September 30, 2018 and 2017, Mr. Huber and Zero positive earned \$180,612 and \$116,377, respectively, in accordance with this agreement. During the years ended September 30, 2018, Mr. Huber allowed the Company to defer \$69,604 as accrued compensation. The Company owed Mr. Huber \$73,625 and \$6,288 in deferred compensation and reimbursable expenses as of September 30, 2018 and 2017, respectively. Deferred compensation is reported under due to related parties in the consolidated balance sheets.



On May 10, 2018, Bryan Huber the Company's Chief Operations Officer exercised warrants to purchase 1,353 shares of the Company's \$0.001 par value common stock at a purchase price equal to \$1.50 for each share of common stock. The Company received \$2,030 as a result of this exercise.

On September 28, 2018, in connection with the consulting agreement executed with Zero Positive, LLC Company issued warrants to purchase 900,000 shares of common stock at an exercise price of \$0.80 per share to Zero Positive. The warrants were valued at \$2,607,096 using the Black Scholes option pricing model based upon the following assumptions: term of 10 years, risk free interest rate of 3.05%, a dividend yield of 0% and volatility rate of 191%. The warrants vest as follows: 300,000 vested immediately, the balance vest evenly on the last day of each month over forty-two months beginning August 31, 2018. As of September 30, 2018, 328,571 warrants had vested, and the Company recorded an expense of \$951,797 during the year ended September 30, 2018.

*Larry McNeill – Chairman of the Board of Directors*

During the year ended September 30, 2018, the Company executed eight 15% promissory notes with a total face value of \$163,100 with Larry McNeill, a Director of the Company. Under the terms of the promissory notes the Company received \$163,100 and agreed to repay the note on demand. As of September 30, 2018, Company owed \$163,100 in principal and \$6,562 in accrued interest under the terms of the agreement. On December 31, 2018, the Company settled all remaining obligations under the note through the payment of all outstanding principal and interest then outstanding.

## 11. STOCKHOLDERS' EQUITY

### Overview

The Company's authorized capital stock consists of 100,000,000 shares of common stock and 10,000,000 shares of preferred stock, par value \$0.001 per share. As of September 30, 2018, there were 36,116,447 shares of common stock issued and outstanding and 1,000,000 shares of preferred stock issued and outstanding.

### Common Stock issuances during the year ended September 30, 2018

During the period commencing October 1, 2017 through September 30, 2018, the Company received \$271,900 from 16 investors pursuant to private placement agreements with the investors to purchase 339,875 shares of the Company's \$0.001 par value common stock at a purchase price equal to \$0.80 for each share of common stock.

During the year ended September 30, 2018, the Company issued 41,640 shares of the Company's \$0.001 par value common stock to settle accounts payable. The shares were valued at \$75,734 and the Company recorded a loss on settlement of debt of \$41,092 result of the issuance.

In connection with the issuance of the March 23, 2018, Labrys Fund, LP Convertible Note, the Company issued, as a commitment fee, 137,500 shares of its common stock (the "Returnable Shares") as well as 100,000 shares of its common stock (the "Non-Returnable Shares"). The agreement was amended on June 29, 2018 and as a result the returnable shares were no longer returnable. Consequently, the fair value of the returnable shares of \$218,626 was charged to interest expense. On September 19, 2018, all principal and accrued interest of \$220,000 and \$12,730, respectively was converted into 258,589 shares of the Company's common stock. (See Note 8 for additional details)

In connection with the issuance of the Auctus Fund, LLC Convertible Note, the Company issued to Auctus, as a commitment fee, 137,500 shares of its common stock (the "Returnable Shares") as well as 150,000 shares of its common stock (the "Non-Returnable Shares"). On September 21, 2018, all principal and accrued interest of \$225,000 and \$5,474, respectively was converted into 256,082 shares of the Company's common stock. Subsequent to September 30, 2018, as a result of the conversion the 137,500 returnable shares were returned to the Company and cancelled. (See Note 8 for additional details)

In connection with the issuance of a the EMA Financial, LLC Convertible Note, the Company issued EMA, as a commitment fee, 137,500 shares of its common stock (the “Returnable Shares”) as well as 100,000 shares of its common stock (the “Non-Returnable Shares”). Subsequent to September 30, 2018, the Company repaid all obligations under the note and the 137,500 returnable shares were returned to the Company and cancelled on January 8, 2019. (See Note 8 for additional details)

On September 11, 2018, the Company entered into an agreement with Regal Consulting, LLC for investor relations services. Under this agreement the Company agreed to issue 30,000 shares of the Company’s common stock per month as compensation for services plus \$20,000 per month in cash. As of September 30, 2018, the Company had issued 30,000 shares of its common stock in accordance with the agreement. Stock compensation of \$55,100 was recorded as a result of the stock issued under the agreement.

#### Common Stock issuances during the year ended September 30, 2017

During the period commencing October 1, 2016 through September 30, 2017, the Company received \$880,000 from 38 investors pursuant to private placement agreements with the investors to purchase 1,101,000 shares of the Company’s \$0.001 par value common stock at a purchase price equal to \$0.80 for each share of Common stock.

In November of 2016, the Company issued 2,932,704 shares of common stock to two officers for the cashless exercise of 3,000,000 options.

In December of 2016, the Company issued 1,466,352 shares of common stock to a director for the cashless exercise of 1,500,000 options.

On April 13, 2017, the Company issued 25,000 shares of common stock to a consultant for services. The shares were valued at \$2.75 per share or \$68,750, which was the quoted closing price of our Common stock on the date of issuance.

On February 9, 2017, the Company entered into a Debt Settlement Agreement with Webcor Construction LP (“Webcor”) to settle \$158,753 in debt owed to Webcor. The Company agreed to pay Webcor \$58,000 on or before February 28, 2017 and to issue 50,000 shares of the Company’s common stock within 4 days of execution. Upon receipt of payment, Webcor agreed to release the full amount of the debt. The shares issued were deemed to have a fair value of \$212,500 on the date of the transaction and a loss on settlement of debt of \$111,747 was recorded as a result of the Debt Settlement Agreement. The cash payment was made per the agreement on February 28, 2017.

## 12. STOCK WARRANTS

The following is a summary of stock warrant activity during the years ended September 30, 2018 and September 30, 2017.

	<b>Number of Warrant Shares</b>	<b>Weighted Average Exercise Price</b>
Balance, September 30, 2016	13,112,100	\$ 0.59
Warrants granted	—	\$ —
Warrants expired	—	—
Warrants canceled	—	—
Warrants exercised	(4,500,000)	0.083
Balance, September 30, 2017	8,612,100	\$ 0.85
Warrants granted	1,191,600	\$ 0.80
Warrants expired	—	—
Warrants canceled	—	—
Warrants exercised	(814,401)	0.36
Balance, September 30, 2018	8,989,299	\$ 0.89

As of September 30, 2018, the outstanding warrants have a weighted average remaining term of was 4.85 years and an intrinsic value of \$45,021,758.

As of September 30, 2018, there are warrants exercisable to purchase 8,417,870 shares of common stock in the Company and 571,429 unvested warrants outstanding that cannot be exercised until vesting conditions are met. 4,498,647 of the outstanding warrants require a cash investment of \$1.50 per share to exercise and 4,490,652 of the outstanding warrants contain provisions allowing a cashless exercise at their respective exercise price.

Warrant activity for the year ended September 30, 2018

During the year ended September 30, 2018, certain investors exercised warrants to purchase 258,401 shares of the Company's common stock at purchase prices ranging from \$0.083 to \$1.50. The Company received total proceeds of \$44,938 from the warrant exercises.

During the year ended September 30, 2018, a total of 459,889 shares of the Company's common stock were issued in connection with the cashless exercise of 556,000 common stock warrants with an exercise prices of \$0.36.

On January 1, 2018, the Company issued warrants to purchase 100,000 shares of common stock at an exercise price of \$0.80 per share to an advisor for business advisory services. The warrants were valued at \$234,095 using the Black Scholes option pricing model. The warrants vest evenly over the six-month service period ended September 30, 2018.

On June 15, 2018, the Company issued 116,600 5-year warrants exercisable at \$0.80 to a lender in connection with a promissory note agreement. (See Note 7 for additional details.)

On August 1, 2018, the Company issued 25,000 5-year warrants exercisable at \$0.80 to a lender in connection with a promissory note agreement. (See Note 7 for additional details.)

On August 28, 2018, in connection with the Consulting agreement executed with Zero Positive, LLC. the Company issued warrants to purchase 900,000 shares of common stock at an exercise price of \$0.80 per share to an Zero Positive. The warrants were valued at \$2,607,096 using the Black Scholes option pricing model. The warrants vest as follows: 300,000 warrants vested immediately, the balance vest evenly on the last day of each month over the forty-two months beginning August 31, 2018. As of September 30, 2018, 328,571 warrants had vested, and the Company recorded an expense of \$951,797 during the year ended September 30, 2018. (See Note 10 for additional details.)

On September 20, 2018, the Company issued 25,000 5-year warrants exercisable at \$0.80 to a lender in connection with a promissory note agreement. (See Note 7 for additional details.)

On September 21, 2018, the Company issued 25,000 5-year warrants exercisable at \$0.80 to a lender in connection with a promissory note agreement. (See Note 7 for additional details.)

The Black-Scholes model utilized the following inputs to value the warrants granted during the year ended September 30, 2018:

<b>Fair value assumptions – Warrants:</b>	<b>September 30, 2018</b>
Risk free interest rate	2.01-3.05%
Expected term (years)	5-10
Expected volatility	158%-265%
Expected dividends	0%

Warrant activity for the year ended September 30, 2017

In the year ended September 30, 2017, the Company issued 4,399,056 shares of common stock to two officers and a director for the cashless exercise of 4,500,000 options with a strike price of \$0.83.

As of September 30, 2017, the Company expects to recognize \$1,655,299 of stock-based compensation for the non-vested outstanding warrants over a weighted-average period of 3.33 years.

## 13. STOCK OPTIONS

The Company sponsors a stock-based incentive compensation plan known as the 2017 Incentive Plan (the “Plan”), which was established by the Board of Directors of the Company on June 19, 2017. A total of 3,000,000 shares were initially reserved for issuance under the Plan. As of September 30, 2018, there were 2,680,794 shares available for issuance under the plan.

The Plan allows the Company to grant incentive stock options, non-qualified stock options, stock appreciation right, or restricted stock. The incentive stock options are exercisable for up to ten years, at an option price per share not less than the fair market value on the date the option is granted. The incentive stock options are limited to persons who are regular full-time employees of the Company at the date of the grant of the option. Non-qualified options may be granted to any person, including, but not limited to, employees, independent agents, consultants and attorneys, who the Company’s Board believes have contributed, or will contribute, to the success of the Company. Non-qualified options may be issued at option prices of less than fair market value on the date of grant and may be exercisable for up to ten years from date of grant. The option vesting schedule for options granted is determined by the Board of Directors at the time of the grant. The Plan provides for accelerated vesting of unvested options if there is a change in control, as defined in the Plan.

The following is a summary of stock option activity during the years ended September 30, 2018 and year ended September 30, 2017.

	<b>Number of Option Shares</b>	<b>Weighted Average Exercise Price</b>
Balance, September 30, 2016	—	\$ —
Options granted	6,902	\$ 3.45
Options expired	—	—
Options canceled	—	—
Options exercised	—	—
Balance, September 30, 2017	6,902	\$ 3.45
Options granted	312,304	\$ 1.13
Options expired	—	—
Options canceled	—	—
Options exercised	—	—
Balance, September 30, 2018	<u>319,206</u>	<u>\$ 1.18</u>

As of September 30, 2018, there are options exercisable to purchase 208,932 shares of common stock in the Company and 110,274 unvested options outstanding that cannot be exercised until vesting conditions are met. As of September 30, 2018, the outstanding options have a weighted average remaining term of was 2.26 years and an intrinsic value of \$2,871,783.

Option activity for the year ended September 30, 2018

During the year ended September 30, 2018, the Company issued 62,304 options to purchase shares of the common stock to employees, the shares were granted at quoted market prices ranging from \$1.57 to \$3.45. The shares were valued at issuance using the Black Scholes model and stock compensation expense of \$130,000 was recorded as a result of the issuances.

On March 10, 2018 the Company issued a total of 250,000 options to four consultants for advisory services. The options vest evenly 12 months from issuance. The options expire 24 months after issuance and require a cash investment to exercise. The options were valued at issuance using the Black Scholes model at \$342,500 and amortized of the term of the agreement. During the year ended September 30, 2018, \$191,526 was been expensed as stock-based compensation.

The Black-Scholes model utilized the following inputs to value the options granted during the year ended September 30, 2018:

<b>Fair value assumptions – Options:</b>	<b>September 30, 2018</b>
Risk free interest rate	1.46-2.78%
Expected term (years)	2-3
Expected volatility	120%-191%
Expected dividends	0%

Option activity for the year ended September 30, 2017

During the year ended September 30, 2017, the Company issued 6,902 options to purchase shares of the common stock to employees, the shares were granted at quoted market price of \$3.45. The shares were valued at issuance using the Black Scholes model and stock compensation expense of \$16,665 was recorded as a result of the issuances.

The Black-Scholes model utilized the following inputs to value the options granted during the year ended September 30, 2017:

<b>Fair value assumptions – Options:</b>	<b>September 30, 2017</b>
Risk free interest rate	1.46-1.50%
Expected term (years)	3
Expected volatility	116%-120%
Expected dividends	0%

As of September 30, 2018, the Company expects to recognize \$150,974 million of stock-based compensation for the non-vested outstanding options over a weighted-average period of 0.44 years.

14. INCOME TAXES

The Company provides for income taxes under FASB ASC 740, Accounting for Income Taxes. FASB ASC 740 requires the use of an asset and liability approach in accounting for income taxes. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates in effect currently.

FASB ASC 740 requires the reduction of deferred tax assets by a valuation allowance, if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In the Company's opinion, it is uncertain whether they will generate sufficient taxable income in the future to fully utilize the net deferred tax asset. Accordingly, a valuation allowance equal to the deferred tax asset has been recorded. The total deferred tax asset is approximately \$5.8 million as of September 30, 2018 which is calculated by multiplying a 21% estimated tax rate by the cumulative net operating loss (NOL) of approximately \$27.6 million.

Due to the enactment of the Tax Reform Act of 2017, we have calculated our deferred tax assets using an estimated corporate tax rate of 21%. US Tax codes and laws may be subject to further reform or adjustment which may have a material impact to the Company's deferred tax assets and liabilities.

The significant components of the Company's deferred tax assets and liabilities as of September 30, 2018 and 2017 are as follows:

As of September 30,	<b>2018</b>	<b>2017</b>
Cumulative tax net operating losses (in millions)	\$ 27.6	\$ 21.0
Deferred tax asset (in millions)	\$ 5.8	\$ 4.4
Valuation allowance (in millions)	(5.8)	(4.4)
Current taxes payable	—	—
Income tax expense	\$ —	\$ —

As of September 30, 2018, and 2017, the Company had gross federal net operating loss carryforwards of approximately \$27.6 million and \$21.0 million, respectively.

The Company plans to file its U.S. federal return for the year ended September 30, 2018 upon the issuance of this filing. Upon filing of the tax return for the year ended September 30, 2018 the actual deferred tax asset and associated valuation allowance available to the Company may differ from management's estimates. The tax years 2014-2017 remained open to examination for federal income tax purposes by the major tax jurisdictions to which the Company is subject. No tax returns are currently under examination by any tax authorities.

## 15. COMMITMENTS AND CONTINGENCIES

Office leases

The Company's corporate offices are located at 70 North Main Street, Suite 105, Bountiful, Utah 84010. The Company occupies the leased space on a month to month basis at a rate of \$850 per month. Future minimum lease payments under the operating leases for the facilities as of September 30, 2018, are \$0.

On May 15, 2018, the Company executed a 37-month lease agreement, which commenced on July 1, 2018 at 4360 Viewridge Avenue, Suite C, San Diego, California. The agreement calls for the Company to make payments of \$4,057 in base rent per month through July 31, 2021 subject to an annual 3% rent escalation. Future minimum lease payments under the operating leases for the facilities as of September 30, 2018, are as follows:

Fiscal year ending September 30, 2019	\$49,049
Fiscal year ending September 30, 2020	\$50,521
Fiscal year ending September 30, 2021	\$43,170

Contracts and awards

The Company was awarded a \$900,000 contract from Bethel-Webcor JV. Under the contract terms we will install a turn-key advanced microgrid system at the U.S. Marine Corps Base Camp Pendleton. The contract is in direct support of the United States Department of Navy's communication information system (CIS) operations complex at the U.S. Marine Corps Base Camp Pendleton that was recently awarded to the Joint-Venture. The Company begin on-site work for this project in February of 2018 and expects to complete its scope of work in early 2019.

## 16. MAJOR CUSTOMERS AND VENDORS

For the years ended September 30, 2018 and 2017, the Company had the following customers that represented more than 10% of sales.

	September 30, 2018	September 30, 2017
Bethel-Webcor JV-1	70.42%	10.8%
Daoust	11.82%	—
Jacobs/ HDR a joint venture	—	13.0%
Macerich	—	24.4%
Firenze	—	20.0%

For the years ended September 30, 2018 and 2017, the Company had the following suppliers that represented more than 10% of direct material costs.

	September 30, 2018	September 30, 2017
CED Greentech	13.57%	54.9%
Rexel USA, Inc.	27.47%	—
ESS, Inc.	19.29%	—
Ideal Power, Inc.	14.72%	—
Integrated power systems	—	11.5%
Simplphi Power	1.8%	27.6%

## 17. SUBSEQUENT EVENTS

### Issuance of Common stock

During the period commencing October 1, 2018 through December 10, 2018, the Company received \$361,800 from 14 investors pursuant to private placement agreements with the investors to purchase 452,250 shares of the Company's \$0.001 par value common stock at a purchase price equal to \$0.80 for each share of common stock.

During the period commencing October 1, 2018 through December 31, 2018, the Company issued 90,000 shares of the Company's \$0.001 par value common stock to Regal Consulting, LLC for investor relations services.

During the period commencing October 1, 2018 through December 31, 2018, the Company issued 30,000 shares of the Company's \$0.001 par value common stock and 30,000 warrants to a Consultant for services.

### Warrant exercise

On October 2, 2018, an investor exercised warrants to purchase 3,000 shares of the Company's \$0.001 par value common stock at a purchase price equal to \$0.363 for each share of Common stock. The Company receive \$1,089 as a result of this exercise.

On January 7, 2019, a total of 1,444,170 shares of the Company's common stock were issued in connection with the cashless exercise of 1,500,000 common stock warrants with an exercise prices of \$0.083.

### Issuance of Stock options to employees

During the period commencing October 1, 2018 through January 1, 2019, the Company issued 111,682 options to purchase shares of the common stock to employees, the shares were granted at quoted market prices ranging from \$1.51 to \$5.90.

### Loans from related parties

During the year ended September 30, 2018, the Company executed eight 15% promissory notes with a total face value of \$163,100 with Larry McNeill, a Director of the Company. Subsequent to the year ended September 30, 2018, the Company executed one additional 15% promissory note with a total face value of \$50,000. Under the terms of the promissory notes the Company received a total of \$213,100 and agreed to repay the note on demand. On December 31, 2018, the Company settled all remaining obligations under the note through the payment of all outstanding principal and interest then outstanding of \$213,100 and \$5,816, respectively.

During the year ended September 30, 2018, the Company executed eleven 15% promissory notes with a total face value of \$189,690 with Zachary Bradford, its President and Chief Financial Officer. Subsequent to the year ended September 30, 2018, the Company executed two additional 15% promissory notes with a total face value of \$25,030. Under the terms of the promissory notes the Company received a total of \$214,720 and agreed to repay the notes on demand. On January 3, 2019, the Company settled all remaining obligations under the notes through the payment of all outstanding principal and interest then outstanding of \$214,720 and \$3,037, respectively.

During the year ended September 30, 2018, the Company executed two 15% promissory notes with a total face value of \$30,000 with the spouse of the CEO of our Company. Under the terms of the promissory notes the Company received \$30,000 and agreed to repay the note on demand. On January 3, 2019, the Company settled all remaining obligations under the notes through the payment of all outstanding principal and interest then outstanding of \$30,000 and \$383, respectively.

### Convertible note repayments

#### EMA Financial, LLC – August 21, 2018 Promissory Note

On January 3, 2019, the Company settled all remaining obligations under the EMA note through the payment of all outstanding principal, prepayment penalties and interest then outstanding of \$225,000, \$35,000 and \$10,736, respectively.

In connection with the issuance of the Note, the Company issued to the Purchaser, as a commitment fee, 137,500 returnable shares of its common stock. As a result of the repayment the shares were returned to treasury and cancelled on January 8, 2019.

#### Labrys Fund, LP – September 19, 2018 Promissory Note

On January 3, 2019, the Company settled all remaining obligations under the Labrys Fund, LP note through the payment of all outstanding principal and interest then outstanding of \$330,000 and \$11,609, respectively.

#### Auctus Fund, LLC – July 2, 2018 Promissory Note

In connection with the issuance of the Note, the Company issued to the Purchaser, as a commitment fee, 137,500 returnable shares of its common stock. As a result of the conversion of the note on September 21, 2018, the shares were returned to treasury and cancelled on December 21, 2018.

Convertible notes executed

On December 31, 2018, the Company entered into a Securities Purchase Agreement (the “SPA”) with an otherwise unaffiliated third-party institutional investor (the “Investor”), pursuant to which the Company issued to the Investor a Senior Secured Redeemable Convertible Debenture (the “Debenture”) in the aggregate face value of \$5,250,000. The note is secured by all assets of the Company. The Debenture has a maturity date two years from the issuance date and the Company has agreed to pay compounded interest on the unpaid principal balance of the Debenture at the rate equal 7.5% per annum. Interest is payable on the date the applicable principal is converted or on maturity. The interest must be paid in cash and, in certain circumstances, may be paid in shares of common stock.

The transactions described above closed on December 31, 2018. In connection with the issuance of the Debenture and pursuant to the terms of the SPA, the Company issued to the Investor 100,000 shares of common stock and a Common Stock Purchase Warrant to acquire up to 3,083,333 shares of common stock for a term of three years (the “Warrant”) on a cash-only basis at an exercise price of \$2.00 per share with respect to 1,250,000 Warrant Shares, \$2.50 with respect to 1,000,000 Warrant Shares, \$5.00 with respect to 500,000 Warrant Shares and \$7.50 with respect to 333,333 Warrant Shares.

Pursuant to the terms of the SPA, the Investor agreed to tender to the Company the sum of \$5,000,000, of which the Company received the full amount as of the closing.

Pursuant to the SPA, the Company agreed to sell the Debenture, the shares of common stock issuable upon conversion of the Debenture, the Warrant and the shares of common stock issuable upon exercise of the Warrant pursuant to an effective shelf registration statement on Form S-3 (Registration No 333-228063), declared effective by the Securities and Exchange Commission on November 20, 2018.

Prior to the maturity date, provided that no trigger event has occurred, the Company will have the right at any time upon 30 trading days’ prior written notice, in its sole and absolute discretion, to redeem all or any portion of the Debenture then outstanding by paying to the Investor an amount equal to 140% of the of the portion of the Debenture being redeemed.

The Investor may convert the Debenture into shares of the Company’s common stock at a conversion price equal to 95% of the mathematical average of the 5 lowest individual daily volume weighted average prices of the common stock, less \$.05 per share, during the period beginning on the issuance date and ending on the maturity date subject to certain floor price restrictions. In the event certain equity conditions exist, the Company may require that the Investor convert the Debenture. In no event shall the Debenture be allowed to affect a conversion if such conversion, along with all other shares of Company common stock beneficially owned by the Investor and its affiliates would exceed 4.99% of the outstanding shares of the common stock of the Company.

On January 7, 2019, the investor converted \$2,500,000 in principal and \$875,000 in interest as a conversion premium, for 1,784,729 shares of the Company common stock at an effective conversion price of \$1.90, due to a trigger event for the Company not filing its annual report on Form 10-K for the fiscal year ended September 30, 2018 on or before December 31, 2018.

Repayment of Promissory Notes

Subsequent to September 30, 2018, the Company settled 8 promissory notes (See Note 8) through the repayment of outstanding principal and accrued interest totaling to \$420,208 and \$7,565, respectively.

On December 31, 2018, the Company settlement a \$52,500 promissory note (See Note 8) through the issuance of 25,000 shares of the Company’s common stock and payment of \$27,500 in outstanding principal and interest then outstanding of \$1,467.



## **Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

On July 17, 2018, we dismissed AMC Auditing as our independent registered public accounting firm and appointed MaloneBailey, LLP as our independent registered public accounting firm. The engagement of MaloneBailey, LLP was approved by our Board of Directors.

On July 18, 2018, we filed a Form 8-K announcing the change in auditors and that filing is incorporated by reference herein.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report, being September 30, 2018. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based upon that evaluation, including our Chief Executive Officer and Chief Financial Officer, we have concluded that our disclosure controls and procedures were ineffective as of the end of the period covered by this annual report.

#### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Management has assessed the effectiveness of our internal control over financial reporting as of September 30, 2018 based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of September 30, 2018, our internal control over financial reporting was not effective. Our management identified the following material weaknesses in our internal control over financial reporting, which are indicative of many small companies with small staff: (i) inadequate segregation of duties and effective risk assessment; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC guidelines.

We plan to take steps to enhance and improve the design of our internal control over financial reporting. During the period covered by this annual report on Form 10-K, we have not been able to remediate the material weaknesses identified above. To remediate such weaknesses, we hope to implement the following changes during our fiscal year ending September 30, 2019: (i) appoint additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopt sufficient written policies and procedures for accounting and financial reporting.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

#### **Remediation of Material Weakness**

We are unable to remedy our controls related to the inadequate segregation of duties and ineffective risk management until we receive financing to hire additional employees. We are currently in the process of hiring an outsourced service provider to improve the controls for accounting and financial reporting.

### Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the year ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Limitations on the Effectiveness of Internal Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting are or will be capable of preventing or detecting all errors or all fraud. Any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements, due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns may occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risk.

### Item 9B. Other Information

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth the names, ages and positions of our current directors and executive officers.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
S. Matthew Schultz	49	Chief Executive Officer and Director
Zachary K. Bradford	32	President, Chief Financial Officer and Director
Bryan Huber	36	Chief Operating Officer and Director
Larry McNeill	76	Chairman and Director

Set forth below is a brief description of the background and business experience of our executive officers and directors.

**S. Matthew Schultz**, Chief Executive Officer, has been involved in many capacities with several publicly traded companies. Most recently, he served as the President and CEO of Amerigo Energy, Inc., creating multiple syndicated offerings of developmental oil production programs, as well as overseeing the operations from permitting through production. Since 1999, he has assisted numerous development and early stage companies to secure financing and experience significant growth. As the President of Wexford Capital Ventures, Inc., he was instrumental in funding companies both domestically and abroad. While serving as the Chairman of Pali Financial Group, Inc., he assisted in market development of dozens of public corporations. He was a founding member and the Vice President of the Utah Consumer Lending Association. A native of Lander, WY, he studied management and finance at Weber State University.

Aside from that provided above, Mr. Schultz does not hold and has not held over the past five years any other directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Mr. Schultz is qualified to serve on our Board of Directors because of his experience and knowledge in public company reporting and financing and work in the energy sector.

**Zachary K. Bradford**, President and Chief Financial Officer, is a licensed Certified Public Accountant in Nevada and a member of the American Institute of Certified Public Accountants. He has served as the managing partner of a public accounting and consulting firm in Henderson, Nevada since June 2013. Mr. Bradford holds a B.S. in Accounting and a Masters of Accountancy from Southern Utah University. From March of 2015 to July 31, 2016, Mr. Bradford served as a member of the board of directors and Chief Financial Officer of Epic Stores Corp.

Aside from that provided above, Mr. Bradford does not hold and has not held over the past five years any other directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Mr. Bradford is qualified to serve on our Board of Directors because of his experience and knowledge in public company reporting and accounting.

**Bryan Huber**, Chief Operating Officer, Mr. Huber has over 13 years of experience in the design-build construction and energy industries. He has extensive experience and specialization with sustainable energy design and implementation, sustainable building design and construction, energy efficiency program design and development, renewable energy design and integration, project management, quality assurance, and project commissioning. In addition, Bryan brings with him a core competency within renewable energy Independent Power Producer deal structuring, design, forecasting, financial modeling, incentive monetization, project financing, and deployment. As a Co-Founder of CleanSpark, Bryan continues to be integrally involved in technology development management, refinement, implementation, and operation of CleanSpark's Energy Operating Platform.

Bryan holds a B.S. in Construction Engineering & Management from Purdue University's School of Civil Engineering, has completed Master's coursework in Architecture focusing on integration of Distributed Energy Resource Systems into the built environment, and is a LEED Accredited Professional through the United States Green Building Council.

Aside from that provided above, Mr. Huber does not hold and has not held over the past five years any other directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Mr. Huber is qualified to serve on our Board of Directors because of his experience and knowledge in the renewable energy industry.

**Larry McNeill**, Chairman and Director, has a master's degree in Business Administration from Armstrong University, a BA in Business Administration, Economics, and Russian language from Minnesota State University, and has completed the course work towards his PhD in Business Management.

Larry has a diverse business background that includes a range of broad business skills gained from his many roles in Real Estate, Finance, Research, Legal, Management, and Business Strategies. These roles include serving as the Director of Safeway Grocery Stores, Inc's Consumer, Sales, and Store Location research departments where he was responsible for the expansion of Safeway in Europe, Australia and Canada. The Director of Market Research for A&P where he was responsible for the Company's expansion into Saudi Arabia. An Executive Officer of Smiths Food and Drug Centers for 17 years; most recently as the Senior Vice President of Corporate Development overseeing the Research, Real Estate, and Legal Departments. Mr. McNeill retired from Smith's Food & Drug Stores in 1996 after the Fred Meyer merger was completed.

Aside from that provided above, Mr. McNeill does not hold and has not held over the past five years any other directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Mr. McNeill is qualified to serve on our Board of Directors because of his experience and knowledge in business management and financing.

#### **Term of Office**

Our directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board.

#### **Family Relationships**

There are no family relationships between or among the directors, executive officers or persons nominated or chosen by us to become directors or executive officers.

#### **Involvement in Certain Legal Proceedings**

To the best of our knowledge, during the past ten years, none of the following occurred with respect to a present or former director, executive officer, or employee: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

#### **Committees of the Board**

Our company currently does not have nominating, compensation or audit committees or committees performing similar functions nor does our company have a written nominating, compensation or audit committee charter. Our directors believe that it is not necessary to have such committees, at this time, because the functions of such committees can be adequately performed by the board of directors.

Our company does not have any defined policy or procedural requirements for shareholders to submit recommendations or nominations for directors. The board of directors believes that, given the stage of our development, a specific nominating policy would be premature and of little assistance until our business operations develop to a more advanced level. Our company does not currently have any specific or minimum criteria for the election of nominees to the board of directors and we do not have any specific process or procedure for evaluating such nominees. The board of directors will assess all candidates, whether submitted by management or shareholders, and make recommendations for election or appointment.

A shareholder who wishes to communicate with our board of directors may do so by directing a written request addressed to the Chairman of our Board of Directors, Larry McNeill, at the address appearing on the first page of this annual report.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company’s directors and executive officers and persons who beneficially own more than ten percent of a registered class of the Company’s equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent beneficial shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To the best of the Company’s knowledge based solely on a review of Forms 3, 4, and 5 (and any amendments thereof) received by us during or with respect to the year ended September 30, 2018, the following persons have not filed on a timely basis, the identified reports required by Section 16(a) of the Exchange Act during fiscal year ended September 30, 2018:

<b>Name and principal position</b>	<b>Number of late reports</b>	<b>Transactions not timely reported</b>	<b>Known failures to file a required form</b>
S. Matthew Schultz, CEO	0	1	0
Zachary Bradford, President and CFO	0	0	0
Bryan Huber, COO and Director	1	1	0
Larry McNeill, Chairman and Director	0	1	0

**Code of Ethics**

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller. We will provide, at no cost, a copy of the Code of Ethics to any shareholder upon receiving a written request sent to the Company’s address shown on Page 1 of this report.

**Item 11. Executive Compensation**

The table below summarizes all compensation awarded to, earned by, or paid to our former or current executive officers for the fiscal years ended September 30, 2017 and 2018.

<b>Name and principal position</b>	<b>Year</b>	<b>SUMMARY COMPENSATION TABLE</b>							
		<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)</b>	<b>Non-Equity Incentive Plan Compensation (\$)</b>	<b>Nonqualified Deferred Compensation Earnings (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
<b>S. Matthew Schultz</b> CEO	2017	-	-	-	-	-	25,673	168,052	193,725
	2018	-	2,527	-	-	-	123,114	68,886	194,527
<b>Zachary Bradford</b> CFO	2017	-	-	-	-	-	26,360	167,365	193,725
	2018	-	2,527	-	-	-	87,746	104,254	194,527
<b>Bryan Huber</b> COO	2017	-	-	-	-	-	6,288	110,023	116,311
	2018	-	52,527	-	951,797	-	19,604	108,481	1,132,409

**Narrative Disclosure to the Summary Compensation Table**

Matthew Schultz- Chief Executive Officer and Director

The Company has a consulting agreement with Matthew Schultz, our Chief Executive Officer, for management services. In accordance with this agreement, as amended, Mr. Schultz provides services to us in exchange for \$15,000 in compensation for services plus a \$1,000 medical insurance stipend, each month plus a bonus of 0.5% of gross

revenue. The Company has also agreed to reimburse Mr. Schultz for expenses incurred. The term of the agreement is one year and automatically renews until cancelled by either party. During the year ended September 30, 2018 and 2017, Mr. Schultz earned \$194,527 and \$193,425, respectively, in accordance with this agreement. During the year ended September 30, 2018, Mr. Schultz allowed the Company to defer \$123,114 as accrued compensation. The Company owed Mr. Schultz \$123,796 and \$58,810 in deferred compensation and reimbursable expenses as of September 30, 2018 and 2017, respectively. Deferred compensation is reported under due to related parties.

Zachary Bradford – President, Chief Financial Officer and Director

The Company has a consulting agreement with ZRB Holdings, Inc, an entity wholly owned by Zachary Bradford, our Chief Financial Officer and director, for management services. In accordance with this agreement, as amended, Mr. Bradford provides services to us in exchange for \$15,000 in compensation for services plus a \$1,000 medical insurance stipend, each month plus a bonus of 0.5% of gross revenue. The Company has also agreed to reimburse Mr. Bradford for expenses incurred. The term of the agreement is one year and automatically renews until cancelled by either party. During the years ended September 30, 2018 and 2017, Mr. Bradford earned \$194,527 and \$193,425, respectively, in accordance with this agreement. During the year ended September 30, 2018, Mr. Bradford allowed the Company to defer \$87,746 as accrued compensation. The Company owed Mr. Bradford \$89,351 and \$78,252 in deferred compensation and reimbursable expenses as of September 30, 2018 and 2017, respectively. Deferred compensation is reported under due to related parties in the consolidated balance sheets.

Bryan Huber – Chief operations Officer and Director

The Company has a consulting agreement with Bryan Huber, our Chief Operations Officer and director, for management services. In accordance with the original agreement, Mr. Huber provided services to us in exchange for \$117,000 in compensation for services plus a \$500 medical insurance stipend and a bonus of 0.5% of gross revenue. On August 28, 2018, the Company replaced the original agreement with an agreement with Zero Positive, LLC an entity controlled by Mr. Huber. In accordance with this agreement with Zero Positive, LLC, Mr. Huber agrees to provide services through to the Company in exchange for \$160,000 in annual compensation plus a \$500 medical insurance stipend and a bonus of 0.5% of gross revenue. Under the agreement Mr. Huber was also granted a one-time bonus of \$50,000, payment of which will be deferred until the Company completes a qualified financing that exceeds three-million dollars or average monthly revenues of the Company exceed one-million dollars for three months. The Company has also agreed to reimburse Zero Positive, LLC for expenses incurred. The term of the agreement is one year and automatically renews until cancelled by either party. During the year ended September 30, 2018 and 2017, Mr. Huber and Zero positive earned \$180,612 and \$116,377, respectively, in accordance with this agreement. During the years ended September 30, 2018, Mr. Huber allowed the Company to defer \$69,604 as accrued compensation. The Company owed Mr. Huber \$73,625 and \$6,288 in deferred compensation and reimbursable expenses as of September 30, 2018 and 2017, respectively. Deferred compensation is reported under due to related parties.

On September 28, 2018, in connection with the Consulting agreement executed with Zero Positive, LLC Company issued warrants to purchase 900,000 shares of common stock at an exercise price of \$0.80 per share to an Zero Positive. The warrants were valued at \$2,607,096 using the Black Scholes option pricing model based upon the following assumptions: term of 10 years, risk free interest rate of 3.05%, a dividend yield of 0% and volatility rate of 191%. The warrants vest as follows: 300,000 vested immediately, the balance vest evenly on the last day of each month over the forty-two months beginning August 31, 2018. As of September 30, 2018, 328,571 warrants had vested, and the Company recorded an expense of \$951,797 during the year ended September 30, 2018.

Other than disclosed above there are no formal agreements to compensate any officers for their services. Our officers and directors are reimbursed for expenses incurred on our behalf. However, our officers and directors have received benefits in the form of shares of our common stock and warrants.

**Outstanding Equity Awards at Fiscal Year-End**

On June 9, 2017, our Board of Directors adopted the 2017 Equity Incentive Plan (the “Plan”). The purpose of the Plan is to attract and retain the best available personnel for positions of substantial responsibility with us, to provide additional incentive to employees, directors and consultants, and to promote our success. Under the initial Plan, we were able to issue up to an aggregate total of 3,000,000 incentive or non-qualified options to purchase our common stock, or stock awards.

The table below summarizes all unexercised options, stock that has not vested, and equity incentive plan awards for each named executive officer as of September 30, 2018.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

**OPTION AWARDS** **STOCK AWARDS**

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards:			Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
			Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date				
S. Matthew Schultz	-	-	-	-	-	-	-	-	-
Zachary Bradford	-	-	-	-	-	-	-	-	-
Bryan Huber	328,571	571,429	-	\$0.80	09/28/2018	-	-	-	-

**Director Compensation**

The table below summarizes all compensation of our directors for the year ended September 30, 2018.

**DIRECTOR COMPENSATION**

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
	Larry McNeill	-	-	-	-	-	-

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth as of January 9, 2019 the number and percentage of the 39,740,596 shares of outstanding common stock which, according to the information supplied to the Company, were beneficially owned by (i) each person who is currently a director of the Company, (ii) each executive officer, (iii) all current directors and executive officers of the Company as a group and (iv) each person who, to the knowledge of the Company, is the beneficial owner of more than 5% of the outstanding common stock. Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable.

Except as otherwise indicated, the address of each of the persons named in the table below is c/o CleanSpark, Inc., 70 North Main Street, Ste. 105 Bountiful, Utah 84010.

Name of Beneficial Owner	Number of Shares of Par Value \$0.001 Common Stock Beneficially Owned	Percentage of Class
<b>5% or Greater Stockholders</b>		
CleanSpark Holdings, LLC 9666 Businesspark Ave Unit 207 San Diego, CA 92131	2,782,470	7.0%
Bruce Lybbert 1366 Skyline Dr. Bountiful, UT 84010	3,541,691 <sup>(1)</sup>	8.9%
<b>Directors and named executive officers</b>		
S. Matthew Schultz	5,709,956 <sup>(2)</sup>	14.4%
Zachary Bradford	3,608,632 <sup>(3)</sup>	9.0%
Larry McNeill	1,880,713 <sup>(4)</sup>	4.7%
Bryan Huber	923,491 <sup>(5)</sup>	2.2%
All Officers and Directors as a Group (4 Persons)	12,122,792	30.3%

\* Less than 1%

- (1) Includes 1,541,691 shares of common stock held in his name, 2,000,000 shares of common stock held by Jacque Lybbert, Mr. Lybbert's spouse.
- (2) Includes 4,800,000 shares of common stock held in the S M Schultz IRRV TR to which Mr. Schultz is the beneficial owner, 500,000 shares of common stock held in his name and 409,956 shares of common stock held by his spouse.
- (3) Includes 3,238,632 shares of common stock held in ZRB Holdings Inc. in which Mr. Bradford is the beneficial owner, 120,000 shares of common stock held in BlueChip Advisors LLC in which Mr. Bradford shares beneficial ownership and warrants to purchase 250,000 shares of common stock.
- (4) Includes 489,361 shares of common stock held in his name, 716,352 shares of common stock held in his Roth IRA, 175,000 shares held by his son living with him and warrants to purchase 500,000 shares of common stock.
- (5) Includes 23,491 shares of common stock held in his name and warrants to purchase 900,000 shares of common stock.

The following table sets forth as of January 9, 2018 the number and percentage of the 1,000,000 shares of outstanding Series A Preferred Stock which, according to the information supplied to the Company, were beneficially owned by (i) each person who is currently a director of the Company, (ii) each executive officer, (iii) all current directors and executive officers of the Company as a group and (iv) each person who, to the knowledge of the Company, is the beneficial owner of more than 5% of the outstanding shares of Series A Preferred Stock. Except as otherwise indicated, the persons named in the table have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws where applicable.

Except as otherwise indicated, the address of each of the persons named in the table below is c/o CleanSpark, Inc., 70 North Main Street, Ste. 105 Bountiful, Utah 84010.



Name of Beneficial Owner	Number of Shares of Par Value \$0.001 Series A Preferred Stock Beneficially Owned	Percentage of Class
5% or Greater Stockholders		
Bruce Lybbert	250,000	25%
Directors and named executive officers		
S. Matthew Schultz	250,000	25%
Zachary Bradford	250,000	25%
Bryan Huber	—	0%
Larry McNeill	250,000	25%
All Officers and Directors as a Group (5 Persons)	750,000	75%

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Except as provided below and in “Executive Compensation” set forth above, for the past two fiscal years there have not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a participant in which the amount involved exceeded or will exceed the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years(\$191,742), and in which any director, executive officer, holder of 5% or more of any class of our capital stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest.

**Zach Bradford, President, CFO and Director**

On August 13, 2017, the Company executed a 15% promissory note with a face value of \$80,000 with Zachary Bradford, its President and Chief Financial Officer. Under the terms of the promissory note the Company received \$80,000 and agreed to repay the note evenly over 12 months. The Company repaid \$73,333 and \$6,667 in principal during the years ended September 30, 2018 and 2017, respectively. The Company incurred interest expense of \$12,000 and \$1,800 in interest during the years ended September 30, 2018 and 2017, respectively. The Company owed \$0 and \$73,333 in principal and \$600 and \$0 in accrued interest under the terms of the agreement as of September 30, 2018 and 2017, respectively.

During the year ended September 30, 2018, the Company executed eleven 15% promissory notes with a total face value of \$189,690 with Zachary Bradford, its President and Chief Financial Officer. Under the terms of the promissory notes the Company received \$189,690 and agreed to repay the notes on demand. As of September 30, 2018, Company owed \$189,690 in principal and \$10,733 in accrued interest under the terms of the agreement. On January 3, 2019, the Company settled all remaining obligations under the notes through the payment of all outstanding principal and interest then outstanding.

**Larry McNeil, Chairman and Director**

During the year ended September 30, 2018, the Company executed eight 15% promissory notes with a total face value of \$163,100 with Larry McNeill, a Director of the Company. Under the terms of the promissory notes the Company received \$163,100 and agreed to repay the note on demand. As of September 30, 2018, Company owed \$163,100 in principal and \$6,562 in accrued interest under the terms of the agreement. On December 31, 2018, the Company settled all remaining obligations under the note through the payment of all outstanding principal and interest then outstanding.

**Item 14. Principal Accounting Fees and Services**

Below is the table of Audit Fees billed by our auditors in connection with the audits of the Company’s annual financial statements for the years ended:

Financial Statements for the Year Ended September 30	Audit Related			
	Audit Services	Fees	Tax Fees	Other Fees
2018	\$ 45,639	\$ 0	\$ 0	\$ 0
2017	\$ 36,615	\$ 0	\$ 0	\$ 0

**PART IV****Item 15. Exhibits, Financial Statements Schedules***(a) Financial Statements and Schedules*

The following financial statements and schedules listed below are included in this Form 10-K.

Financial Statements (See Item 8)

*(b) Exhibits*

Exhibit Description

Number

- | Exhibit Number | Exhibit Description  |
|----------------|--|
| 2.1            | Asset Purchase Agreement, dated May 2, 2018, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 8, 2018.                         |
| 2.2            | Amendment to Asset Purchase Agreement, dated June 28, 2018, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 3, 2018.         |
| 2.3            | Amendment to Asset Purchase Agreement, dated July 13, 2018, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 17, 2018.        |
| 3.1            | Articles of Incorporation, incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10-12G, filed with the Securities and Exchange Commission on November 17, 2008.                          |
| 3.2            | Amendment to Articles of Incorporation, incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10-12G, filed with the Securities and Exchange Commission on November 17, 2008.             |
| 3.3            | Bylaws, incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form 10-12G, filed with the Securities and Exchange Commission on November 17, 2008.   |
| 3.4            | Amended Bylaws, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 12, 2013.   |
| 3.5            | Certificate of Change, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 26, 2013.  |
| 3.6            | Articles of Merger, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 1, 2014.   |
| 3.7            | Certificate of Change, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 12, 2015.   |
| 3.8            | Certificate of Amendment and Certificate of Designation, incorporated by reference to Exhibits 3.1 and 3.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 16, 2015. |
| 3.9            | Certificate of Change, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 13, 2015.  |
| 3.10           | Articles of Merger, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 14, 2016.  |
| 4.1            | Promissory Note, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 3, 2014.  |
| 4.2            | Promissory Note, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 3, 2014.  |
| 4.3            | Warrant, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 17, 2015.  |
| 4.4            | Convertible Promissory Note, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 2, 2018.                                       |
| 4.5            | Convertible Promissory Note, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 17, 2018.                                       |

4.6	Convertible Promissory Note, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 11, 2018.
4.7	Form of Senior Secured Redeemable Convertible Debenture dated December 31, 2018 issued to the Investor, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 31, 2018.
4.8	Form of Common Stock Purchase Warrant dated December 31, 2018 issued to the Investor, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 31, 2018.
5.1	Opinion of the Doney Law Firm regarding the legality of the securities being registered, incorporated by reference to Exhibit 5.1 in the registration statement on Form S-3 filed with the Securities and Exchange Commission on October 30, 2018.
10.1	Debt Settlement Agreement, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 3, 2014.
10.2	Asset and Intellectual Property Purchase Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A, filed with the Securities and Exchange Commission on April 10, 2014.
10.3	Debt Settlement Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 6, 2014.
10.4	Services Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 11, 2014.
10.5	Debt Settlement Agreements, incorporated by reference to Exhibits 10.1 and 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 6, 2015.
10.6	Consulting Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 19, 2016.
10.7	Stock Purchase Agreement and Assignment, incorporated by reference to Exhibits 2.1 and 2.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 2, 2016.
10.8	Agreement for Secretary, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 9, 2016.
10.9	Asset Purchase Agreement, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 7, 2016.
10.10	Amendment No. 1 to Asset Purchase Agreement, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 22, 2016.
10.11	Amendment No. 2 to Asset Purchase Agreement, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 22, 2016.
10.12	Securities Purchase Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 2, 2018.
10.13	Securities Purchase Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 17, 2018.
10.14	Amended Securities Purchase Agreement, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 17, 2018.
10.15	Securities Purchase Agreement, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 11, 2018.
10.16	Form of Securities Purchase Agreement dated December 31, 2018 between CleanSpark Inc. and the Investor incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 31, 2018.
10.17	Form of IP Security Agreement dated December 31, 2018 between CleanSpark, Inc. and the Investor incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 31, 2018.
23.1	<a href="#">Consent of MaloneBailey</a>
23.2	<a href="#">Consent of AMC Auditing</a>
99.1	Financial Statements and Pro Formas, incorporated by reference to Exhibits 99.2-99.4 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 19, 2016.
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101**	The following materials from the Company's Annual Report on Form 10-K for the year ended September 30, 2018 formatted in Extensible Business Reporting Language (XBRL).

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CleanSpark Inc.

By: /s/ S. Matthew Schultz  
S. Matthew Schultz  
Chief Executive Officer, Principal Executive Officer and Director  
January 15, 2019

By: /s/ Zachary Bradford  
Zachary Bradford  
President, Chief Financial Officer, Principal Financial Officer, Principal Accounting Officer and Director  
January 15, 2019

In accordance with Section 13 or 15(d) of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

By: /s/ S. Matthew Schultz  
S. Matthew Schultz  
Chief Executive Officer, Principal Executive Officer and Director  
January 15, 2019

By: /s/ Zachary Bradford  
Zachary Bradford  
President, Chief Financial Officer, Principal Financial Officer, Principal Accounting Officer and Director  
January 15, 2019

By: /s/ Larry McNeill  
Larry McNeill  
Chairman and Director  
January 15, 2019

By: /s/ Bryan Huber  
Bryan Huber  
Chief Operations Officer and Director  
January 15, 2019

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-3 No. 333-228063 and Form S-8 No. 333-218831 of our report dated January 15, 2019, with respect to the audited consolidated financial statements of CleanSpark, Inc. and its subsidiaries for the year ended September 30, 2018 appearing in this Annual Report on Form 10-K of CleanSpark, Inc. for the year ended September 30, 2018.

*/s/ MaloneBailey, LLP*  
www.malonebailey.com  
Houston, Texas  
January 15, 2019

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-3 No. 333-228063 and Form S-8 No. 333-218831 of our report dated January 15, 2018, with respect to the audited consolidated financial statements of CleanSpark, Inc. and its subsidiaries for the year ended September 30, 2017 appearing in this Annual Report on Form 10-K of CleanSpark, Inc. for the year ended September 30, 2017.

*/s/ AMC Auditing*

AMC Auditing  
Las Vegas, Nevada  
January 15, 2019

**Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer**

I, S. Matthew Schultz, certify that;

1. I have reviewed this annual report on Form 10-K for the year ended September 30, 2018 of CleanSpark, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: January 15, 2019

/s/ S. Matthew Schultz

By: S. Matthew Schultz

Title: Chief Executive Officer

**Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer**

I, Zachary Bradford, certify that;

1. I have reviewed this annual report on Form 10-K for the year ended September 30, 2018 of CleanSpark, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: January 15, 2019

/s/ Zachary Bradford

By: Zachary Bradford

Title: Chief Financial Officer



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly Report of CleanSpark, Inc. (the "Company") on Form 10-K for the year ended September 30, 2018 filed with the Securities and Exchange Commission (the "Report"), I, S. Matthew Schultz, Chief Executive Officer of the Company, and I, Zachary Bradford, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

By: /s/ S. Matthew Schultz  
Name: S. Matthew Schultz  
Title: Chief Executive Officer,  
Date: January 15, 2019

By: /s/ Zachary Bradford  
Name: Zachary Bradford  
Title: Chief Financial Officer  
Date: January 15, 2019

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.