

METWOOD INC
Form 10-Q
March 01, 2019

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **December 31, 2016**

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

For the transition period from _____ to _____

Commission File Number **000-05391**

METWOOD, INC.

(Exact name of registrant as specified in its
charter)

NEVADA
(State or other jurisdiction of incorporation
or organization)

83-0210365
(IRS Employer Identification No.)

819 Naff Road, Boones Mill, VA 24065

Edgar Filing: METWOOD INC - Form 10-Q

(Address of principal executive offices) (Zip code)

(540) 334-4294

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark 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 website, 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 such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company as defined by Rule 12b-2 of the Exchange Act:

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Non-accelerated filer | <input type="checkbox"/> |
| Accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input checked="" type="checkbox"/> |

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

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 standard 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 Act).

Edgar Filing: METWOOD INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (no shares of preferred stock were issue and outstanding).

Common Stock, \$.001 Par Value – 17,766,647 shares as of March 1, 2019

Transitional Small Business Disclosure Format: Yes No

PART I FINANCIAL INFORMATION

As used in these footnotes, “we,” “us,” “our,” “Metwood,” “Company,” or “our company” refers to Metwood, Inc.

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

General

The accompanying reviewed interim unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles applicable in the United States of America. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in our Company's annual report on Form 10-K for the year ended June 30, 2016. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the six months ended December 31, 2016 are not necessarily indicative of the results that can be expected for the year ending June 30, 2017.

METWOOD, INC.

TABLE OF CONTENTS - FORM 10-Q

FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

| | | |
|----------------|--|----|
| <u>Item 1.</u> | <u>Financial Statements (unaudited) including:</u> | 2 |
| | <u>Condensed Consolidated Balance Sheets</u> | 4 |
| | <u>Condensed Consolidated Statement of Operations</u> | 5 |
| | <u>Condensed Consolidated Statements of Cash Flows</u> | 6 |
| | <u>Notes to the Financial Statements</u> | 7 |
| <u>Item 2.</u> | <u>Management Discussion and Analysis of Financial Condition and Results of Operations</u> | 12 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 17 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 17 |

PART II - OTHER INFORMATION

| | | |
|----------------|--|----|
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 19 |
| <u>Item 1a</u> | <u>Risk Factors</u> | 19 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 22 |
| <u>Item 3.</u> | <u>Defaults Upon Senior Securities</u> | 22 |
| <u>Item 4.</u> | <u>Mine Safety Disclosures</u> | 22 |
| <u>Item 5.</u> | <u>Other information</u> | 22 |
| <u>Item 6.</u> | <u>Exhibits</u> | 23 |

CERTIFICATIONS

Exhibit 31 – Management certification

Exhibit 32 – Sarbanes-Oxley Act

Table of Contents

METWOOD, INC.

CONSENSUED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND JUNE 30, 2016

(UNAUDITED)

| | December 31, | June 30, |
|---|---------------------|---------------------|
| | 2016 | 2016 |
| Current Assets | | |
| Cash and cash equivalents | \$ 113,662 | \$ 91,309 |
| Accounts receivable | 185,871 | 201,502 |
| Inventory | 485,127 | 479,203 |
| Other current assets | 27,636 | 12,454 |
| Total current assets | 812,296 | 784,468 |
| Property and Equipment | | |
| Leasehold Improvements | 275,469 | 274,869 |
| Furniture, fixtures and equipment | 78,222 | 78,222 |
| Computer and software | 181,842 | 174,541 |
| Machinery & Equipment | 744,885 | 720,585 |
| Vehicles | 406,652 | 412,917 |
| Land improvements | 67,959 | 67,958 |
| Total Property and Equipment | 1,755,029 | 1,729,092 |
| Less accumulated depreciation | (1,239,184) | (1,199,154) |
| Net Property and Equipment | 515,845 | 529,938 |
| Total assets | \$ 1,328,141 | \$ 1,314,406 |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 134,204 | \$ 181,107 |
| Accrued payroll expense | 17,921 | 18,881 |
| Note payable to related party | 76,182 | 80,992 |
| Total current liabilities | 228,307 | 280,980 |
| Long term | | |
| Convertible note payable related party | 5,882 | 0 |
| Total long term liabilities | 5,882 | 0 |
| Total liabilities | 234,189 | 280,980 |
| Commitments and contingencies Note 4 | | |
| Stockholder's equity | | |

Edgar Filing: METWOOD INC - Form 10-Q

| | | |
|---|--------------|-------------|
| Preferred stock (par \$.001) 40,000,000 shares authorized 0 outstanding | | |
| Common stock (par \$.001) 100,000,000 authorized and authorized and 17,774,364 and 15,222,247 outstanding | 17,775 | 17,775 |
| Paid in capital | 3,550,228 | 3,500,228 |
| Accumulated deficit | (1,382,051) | (1,236,577) |
| Contra equity-prepaid rent | (1,092,000) | (1,248,000) |
| Total stockholders' equity | 1,093,952 | 1,033,426 |
| Total liabilities and stockholders' equity | \$ 1,328,141 | 1,314,406 |

See the accompanying notes to the condensed consolidated financial statements

Table of Contents

METWOOD, INC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATION

FOR THE THREE AND SIX MONTHS PERIODS ENDED DECEMBER 31, 2016 AND 2015

(UNAUDITED)

| | Three Months | | Six Months | |
|--|--------------|------------|--------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Gross sales | \$ 509,360 | 349,183 | \$ 1,034,865 | 848,652 |
| Cost of sales | (317,662) | (188,719) | (651,259) | (479,174) |
| Gross profit | 191,698 | 160,464 | 383,606 | 369,478 |
| Operating expenses | | | | |
| Advertising | 5,052 | 5,877 | 15,601 | 14,930 |
| Depreciation | 7,747 | 9,256 | 13,779 | 18,513 |
| Insurance | 8,484 | 1,620 | 24,352 | 15,031 |
| Payroll expense | 118,419 | 115,159 | 228,339 | 230,487 |
| Professional fees | 485 | 14,323 | 11,778 | 35,550 |
| Rent | 95,000 | 22,500 | 195,500 | 45,000 |
| Telephone | 6,170 | 0 | 14,658 | 0 |
| Vehicle | 5,473 | 2,123 | 11,600 | 7,246 |
| Other | 15,799 | 25,311 | 32,418 | 59,879 |
| Total operating expenses | 262,629 | 196,169 | 548,025 | 426,636 |
| Operating income (loss) | (70,931) | (35,705) | (164,419) | (57,158) |
| Income from insurance proceeds | 0 | 0 | 21,117 | 0 |
| Interest expense | (1,471) | | (5,882) | |
| Other income (expense) | (2,920) | 31,174 | 3,711 | 29,506 |
| Total other income | (4,391) | 31,174 | 18,946 | 29,506 |
| Net operating (loss) before income taxes | (75,322) | (4,531) | (145,473) | (27,652) |
| Income tax benefit | 0 | 989 | 0 | 4,817 |
| Net loss after taxes | \$ (75,322) | (3,542) | \$ (145,473) | (22,835) |
| Basic loss per share | \$ 0.00 | \$ 0.00 | \$ (0.01) | \$ 0.00 |
| Weighted number of shares outstanding | 17,666,647 | 17,666,647 | 17,666,647 | 17,666,647 |

See the accompanying notes to the condensed consolidated financial statements

Table of Contents

METWOOD, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE SIX MONTHS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|--|--------------|-------------|
| Net Income (loss) | \$ (145,473) | \$ (22,835) |
| Depreciation | 40,030 | 32,999 |
| Gain on insurance settlement | (21,177) | 0 |
| Amortization of prepaid rent | 156,000 | 0 |
| Amortization of convertible debt discount | 5,882 | 0 |
| Provision for income tax | 0 | (4,817) |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 10,820 | 57,353 |
| Inventory | (5,925) | (57,479) |
| Other current assets | (15,182) | 4,407 |
| Increase(Decrease) in liabilities | | |
| Accounts payable and accrued expenses | (46,903) | (187,373) |
| Accrued payroll | (960) | 0 |
| Net cash provided (used in operations) | (22,888) | (177,745) |
| Investment Operations | | |
| Property and equipment purchases | (25,936) | (21,731) |
| Proceeds from insurance on assets | 21,177 | 0 |
| Total cash provided (used) in investment operations | (4,759) | (21,731) |
| Financing Activities | | |
| Convertible note related party | 50,000 | 0 |
| Advances from related party | 0 | 135,208 |
| Total financing activities | 50,000 | 135,208 |
| Increase (decrease) in cash | 22,353 | (64,268) |
| Beginning cash | 91,309 | 100,434 |
| Ending cash | \$ 113,662 | \$ 36,166 |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest paid | \$ 0 | \$ 741 |
| Income taxes paid | \$ 0 | \$ 0 |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities | | |
| Debt discount on convertible note | \$ 50,000 | \$ 0 |

See the accompanying notes to the condensed consolidated financial statements

Table of Contents

METWOOD, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(UNAUDITED)

NOTE 1 - ORGANIZATION AND OPERATIONS

Metwood, Inc. (The Company) was incorporated under the laws of the State of Wyoming on June 19, 1969. On January 28, 2000, the Company, through a majority shareholder vote, changed its domicile to Nevada through a merger with EMC Energies, Inc., a Nevada corporation. The Company also changed its par value to \$.001 and the amount of authorized common stock to 100,000,000 shares.

Prior to 1990, the Company was engaged in the business of exploring for and producing oil and gas in the Rocky Mountain and mid-continental areas of the United States. The Company liquidated substantially all of its assets in 1990 and was dormant until June 30, 2000, when it acquired, in a stock-for-stock, tax-free exchange, all of the outstanding common stock of a privately held Virginia corporation, Metwood, Inc. (“Metwood”), which was incorporated in 1993. Metwood has been in the metal and metal/wood construction materials manufacturing business since 1992. Following the acquisition, the Company approved a name change from EMC Energies, Inc. to Metwood, Inc.

The Company provides construction-related products and engineering services to residential customers and contractors, commercial contractors, developers and retail enterprises, primarily in southwestern Virginia.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

Going Concern

Our consolidated financial statements have been presented on the basis that we are a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have sustained significant operating losses which raises substantial doubt about the Company’s ability to continue as a going concern. During the six months ended December 31, 2016, the Company incurred a loss from operations of \$145,473 and has an accumulated deficit of \$1,382,051. Management will continue its ongoing efforts to increase the customer

base and seek lower cost suppliers to generate future profits. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern and do not include adjustments that might result from the outcome of this uncertainty. The basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business.

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals unless otherwise indicated) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2016 are not necessarily indicative of the results that may be expected for the year ended June 30, 2017. The condensed balance sheet at June 30, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Table of Contents

For further information, refer to the consolidated financial statements and footnotes thereto included in Metwood, Inc.'s annual report on Form 10-K for the year ended June 30, 2016.

Fair Value of Financial Instruments - For certain of the Company's financial instruments, none of which are held for trading, including cash, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

Management's Use of Estimates - The preparation of 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, disclosures of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the Consolidated Statements of cash Flows, we consider liquid investments with an original maturity of six months or less to be cash equivalents. We maintain our cash in bank deposit accounts, which, at times, may exceed the federally insured limit of \$250,000. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable - We grant credit in the form of unsecured accounts receivable to our customers based on an evaluation of their financial condition. We perform ongoing credit evaluations of our customers. The estimate of the allowance for doubtful accounts, which is charged off to bad debt expense, is based on management's assessment of current economic conditions and historical collection experience with each customer. At December 31, 2016, the allowance for doubtful accounts was \$ 8,362. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to bad debt expense when they are determined to be uncollectible. For the six months ended December 31, 2016 and 2015, the net amount of bad debts charged off was \$-0-.

Inventory - Inventory, consisting of metal and wood raw materials, is located on our premises and is stated at the lower of cost or market using the first-in, first-out method. At December 31, 2016 the inventory consisted of raw materials of \$372,586 and work in process of \$112,541.

Property and Equipment - Property and equipment are recorded at cost and include expenditures for improvements when they substantially increase the productive lives of existing assets. Maintenance and repair costs are expensed to operations as incurred. Depreciation is computed using the straight-line method over the assets' estimated useful lives, which range from three to forty years. When a fixed asset is disposed of, its cost and related accumulated depreciation

are removed from the accounts. The difference between undepreciated cost and the proceeds is recorded as a gain or loss.

8

Table of Contents

Impairment of Long-lived Assets - We evaluate our long-lived assets for indications of possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amounts to the future net undiscounted cash flows which the assets are expected to generate. Should an impairment exist, the impairment would be measured by the amount by which the carrying amount of the assets exceeds the projected discounted future cash flows arising from the asset. There have been no such impairments of long-lived assets through December 31,2016.

Patents - We have been assigned several key product patents developed by certain company officers. No value has been recorded in our financial statements because the fair value of the patents was not determinable within reasonable limits at the date of assignment. The company has been developing additional products.

Revenue Recognition - Revenue is recognized when goods are shipped and earned or when services are performed, provided collection of the resulting receivable is probable. If any material contingencies are present, revenue recognition is delayed until all material contingencies are eliminated. Further, no revenue is recognized unless collection of the applicable consideration is probable.

Income Taxes - Income taxes are accounted for in accordance with FASB ASC 740, "Income Taxes". A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and for net operating loss carryforwards where applicable. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Research and Development - We perform research and development on our metal/wood products, new product lines, and new patents. Costs, if any, are expensed as they are incurred. Research and development costs for the three months ended December 31,2016 and 2015 were \$-0- and \$1,500, respectively.

Earnings Per Common Share - Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. If applicable, diluted earnings per share would assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. This presentation has been adopted for the quarters presented. There were no adjustments required to net loss for the years presented in the computation of diluted earnings per share. If the convertible note with the related party is converted in it's entirety an additional 50,000,000 shares of common stock will be issued. The maximum number of shares that can be issued in any one year is 10,000,000. If the change of control contract is consummated than an additional 30,000,000 shares of common stock will be issued.

Recent Accounting Pronouncements – In February, 2016 the FASB issued ASU 2016-02, “Leases (Topic 842)” requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous U.S. GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In February, 2016 the FASB issued ASU 2016-02, “Leases (Topic 842)” requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous U.S. GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

Table of Contents

NOTE 3 - CONCENTRATIONS OF CUSTOMER RISK

For the six months ended December 31, 2016, the customers that individually accounted for 10% or more of our company's revenues are shown in the table below

| | % of | |
|-----------------------|-----------------|-------------------|
| | % | Accounts |
| | of Sales | Receivable |
| 84 Lumber | 15.7 | 0 |
| Builders First Source | 11.6 | 0 |
| Capps Home Building | 0 | 16.66 |
| David James Homes | 0 | 16.12 |
| Superior Home | 0 | 21.36 |

NOTE 4 - COMMITMENTS AND CONTINGENCIES

In prior years, The Company implemented a stock-based incentive compensation plan for its employees. Participating employees have an after-tax deduction withheld by the Company throughout the calendar year. As of December 31 of each year, the employee is considered vested in the plan, and The Company will match the participating employee's withheld amounts. The Company may also make a discretionary contributions based upon pay incentives or attendance. Periodically, The Company will purchase restricted stock on behalf of the employee in the amount of their withholding , our match, and any discretionary contributions. This plan was discontinued in fiscal year 2015 and there are no liabilities for past contributions either in cash or unissued common stock.

During the year ended June 30, 2005, The Company into as sales and leaseback transaction with a related party. The Company sold various buildings at the corporate headquarters which house it's manufacturing plants, executive offices and other buildings for \$600,000 in cash. The Company simultaneously entered into a commercial lease agreement with the related party whereby the Company is committed to lease back these same properties for \$6,800 per month over a ten-year term expiring December 31, 2014. On July 1, 2015 a new lease was entered into with the related party. This lease has a term of five years and the monthly rental is \$5,500 in cash, in addition the Company issued common stock as part of the transaction. The Company incurred rent expense of \$195,500 including the amortization of prepaid rent of \$156,000 for the six months ended December 31, 2016.

Table of Contents

NOTE 5 - RELATED-PARTY TRANSACTIONS

The Company has executed a demand note with its controlling shareholder, Cahas Mountain, LLC, that Cahas Mountain will make available cash advances from time to time to bridge cash flow shortfalls. These advances are repaid to Cahas Mountain as cash flow allows. The unpaid balance due to Cahas Mountain at the end of each month is subject to an interest rate of 6% per year. At December 31, 2016 and 2015, advances under this note are payable to Cahas Mountain Properties of approximately \$76,000 and \$81,000, respectively. Accrued interest payable to Cahas Mountain Properties totaled approximately \$19,000 and \$19,000 at December 31, 2016 and June 30, 2016 respectively. The Company recognized interest expense of approximately \$0 and \$2,150 for the six months ended December 31, 2016 and 2015, respectively. The unpaid advances are due on demand.

On August 18, 2016 the Company entered into a convertible note with Cahas Mountain in the amount of \$50,000 with an interest rate of 8% per year, this note expires on June 30, 2019. The note is convertible into common shares of Metwood, Inc. at par value of \$.001 and if converted in its entirety will dilute the current shareholders by a maximum of 50,000,000 shares of common stock. The maximum conversion in any year is 10,000,000 shares of common stock. A debt discount of \$50,000 was recorded at issuance and \$5,822 was amortized during the six months ended December 31, 2016.

NOTE 6 - EQUITY

During the six months ended December 31, 2016 The Company did not issue any preferred shares or common shares of stock. There are 100,000,000 shares of common stock authorized and at the quarter end there are 17,774,364 shares issued and outstanding. The authorized preferred stock is 40,000,000 shares and there are -0- shares of preferred stock issued and outstanding.

If the convertible note that is covered in the related party note (Note 5) and is converted into common stock of The Company, an additional 50,000,000 shares of common stock could be issued, resulting in dilution of the current shareholders. When the contract of October 11, 2018 is completed (see Note 8) there will be an additional 30,000,000 shares issued to the principals of Emerge Nutraceuticals, Inc.

NOTE 7 - LEGAL PROCEEDINGS

On June 27, 2016, a law suit was brought against the company alleging breach of contract. This action alleges that the company failed to complete a contract that would have transferred control of the public portion of the company to third parties. The company attorneys has determined that there is an affirmative defense against this claim and that the company will prevail. See note 8.

NOTE 8 - SUBSEQUENT EVENTS

The law suit in Note 7 was subsequently decided in the favor of the company and the judgment was upheld on appeal. Final judgment was rendered in October 2017.

A contract that will eventually change control of the company was entered into on October 11, 2018 and is planned to close within the first quarter of calendar year 2019.

Table of Contents

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Results of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the financial statements and notes included herein. Further, this MD&A should be read in conjunction with the "Business" and "Risk Factors" sections within this Quarterly Report on Form 10-Q.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Included in this interim report are "forward-looking" statements, within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA") as well as historical information. Some of our statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Notes to Financial Statements and elsewhere in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the expectations reflected in these forward-looking statements will prove to be correct. Our actual results could differ materially from those anticipated in forward-looking statements as a result of certain factors, including matters described in the section titled "Risk Factors." Forward-looking statements include those that use forward-looking terminology, such as the words "anticipate," "believe," "estimate," "expect," "intend," "may," "project," "plan," "will," "shall," "should," and similar expressions, including in the negative. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, these statements involve risks and uncertainties and we cannot assure you that actual results will be consistent with these forward-looking statements. We claim the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations. We undertake no obligation to update or revise these forward-looking statements, whether to reflect events or circumstances after the date initially filed or published, to reflect the occurrence of unanticipated events or otherwise.

On October 1, 2013, the Company filed with the Nevada Secretary of State a Certificate of Amendment to the Company's Articles of Incorporation. The Amendment was approved by a "Unanimous Written Consent of The Board of Directors of Metwood, Inc." on August 6, 2013, pursuant to the authority granted them by a "Written Consent of the Holders of a Majority of the Voting Shares of Metwood, Inc." dated August 6, 2013. The information regarding this issue was fully disclosed in the Company's Form 8-K Report filed on October 2, 2013. The Amendment incorporated the following changes:

a. The total number of shares of preferred stock that the Corporation is authorized to issue is 40,000,000 shares with a par value of \$0.001 per share.

b. Grant to the Board of Directors the full right and authority to increase or otherwise change the authorized shares of common stock and preferred stock without any shareholder action or approval.

c. Grant to the Board of Directors the full right and authority to change the name of the corporation at a future date without any shareholder action or approval.

Table of Contents

Description of Business

Overview of The Company

We have been in the metal and metal/wood construction materials manufacturing business since 1992. Our Company manufactures light-gage steel construction materials, usually combined with wood or wood fasteners, for use in residential and commercial applications in place of more conventional wood products, which are inferior in terms of strength and durability. The steel and steel/wood products allow structures to be built with increased load strength and structural integrity and fewer support beams or support configurations, thereby allowing for structural designs that are not possible with wood-only products.

Our primary products and services are:

- TUFF BEAM - internally reinforced cold-formed steel beam

Residential builders are aware of the superiority of steel framing vs. wood framing, insofar as steel framing is lighter; stronger; termite, pest, rot and fire resistant; and dimensionally more stable in withstanding induced loads. Although we believe the use of steel framing in residential construction has generally increased each year since 1980, many residential builders have been hesitant to utilize steel due to the need to retrain framers and subcontractors who are accustomed to a “stick-built” construction method where components are laid out and assembled with nails and screws. Our Company’s founders saw the need to combine the strength and durability of steel with the convenience and familiarity of wood and wood fasteners.

Our management is continually performing ongoing product research and development. Through a strategic partnership with an outside engineering firm, we are able to offer our customers civil engineering capabilities which include rezoning and special use submissions; erosion and sediment control and storm-water management design; residential, commercial, and religious facility site development design; and utility design, including water, sewer and onsite treatment systems.

We also perform a variety of structural design and analysis work, successfully providing solutions for many projects, including retaining walls, residential framing, commercial building framing, light-gage steel fabrication drawings, metal building retrofits and additions, mezzanines, and seismic anchors and restraints.

Our company has designed numerous foundations for a variety of structures. Our foundation design expertise includes metal building foundations, traditional building construction foundations, atypical foundations for residential structures, tower foundations, and sign foundations for a variety of uses and applications.

Table of Contents

We have also designed and drafted full building plans for several applications. When subcontracting for local companies, we have the ability, in partnership with our outside engineering firm, to provide basic architectural, mechanical, electrical, and detailed civil and structural design services for these facilities.

We have reviewed designs by manufacturers for a variety of structures and structural components, including retaining walls, radio towers, tower foundations, sign foundations, timber trusses, light-gage steel trusses, and light-gage steel beams. This service enables clients to take generic designs and have them certified and approved for construction in the desired locality.

Distribution Methods of Products and Services

Our sales are primarily wholesale, directly to lumberyards, home improvement stores, hardware stores, and plumbing and electrical suppliers in Virginia and North Carolina. Our company relies primarily on its own sales force to generate sales; additionally, however, we have distributors in Virginia, New York, Oklahoma, Arizona and Colorado and also utilize the salespeople of wholesale yards stocking our products as an additional sales force. We are an authorized vendor for Lowe's, Home Depot, 84 Lumber, ProBuild, and many more. We have several stocking dealers of our square columns and reinforcing products. We will sell directly to contractors in areas where we do not have a dealer, but with our national dealer relationships, we typically have a dealer to use. Our management intends to continue expanding the wholesale marketing of its unique products to retailers, to increase dealer sales, and to license our technology and products to increase its distribution outside of Virginia, North Carolina and the South.

Seasonality of Market

Our sales are subject to seasonal impacts, as our products are used in residential and commercial construction projects which tend to be at peak levels in Virginia and North Carolina between the months of March and October. Accordingly, our sales are greater in our fourth and first fiscal quarters. We build an inventory of our products throughout the winter and spring to support our sales season. Due to the seasonality of our local market, we are continuing our efforts to expand into markets that are not so seasonally impacted. We have shipped projects to Florida, Georgia, South Carolina, Arizona, Washington, and more. These markets have some seasonality, but increased exposure in these markets will help maintain stronger sales year round.

Competition

Nationally, we believe there are over one hundred manufacturers of the types of products produced by our Company. However, we contend that the majority of these manufacturers are using wood-only products or products without metal reinforcement. Our management has identified only one other manufacturer in the United States that manufactures a cold-formed steel beam. However, we have often found that our products are the only ones that will work within many customers' design specs.

Sources and Availability of Raw Materials and the Names of Principle Suppliers

All of the raw materials we use are readily available on the market from numerous suppliers. The light-gage metal used by the company is supplied primarily by Telling Industries, Nuconsteel, New Millenium, Allied Tube & Conduit, and Vulcraft. Our main source of lumber is BlueLinx. Adelpia Metals, Re-Steel, Nucor and Gerdau Amersteel provide the majority of our rebar. Because of the number of suppliers available to us, our decisions in purchasing materials are dictated primarily by price and secondarily by availability. We do not anticipate a lack of supply to affect our production; however, a shortage might cause us to pass on higher materials prices to our buyers.

Table of ContentsDependence on One or a Few Major Customers

For the six months ended December 31, 2016, the customers that individually accounted for 10% or more of our company's revenues are shown in the table below

| | % | % of |
|-----------------------|----------|------------|
| | of Sales | Accounts |
| | | Receivable |
| 84 Lumber | 15.7 | 0 |
| Builders First Source | 11.6 | 0 |
| Capps Home Building | 0 | 16.66 |
| David James Homes | 0 | 16.12 |
| Superior Home | 0 | 21.36 |

Patents

We have nine U.S. Patents:

U.S. Patent Nos. 5,519,977 and 7,347,031, "Joist Reinforcing Bracket," a bracket that reinforces wooden joists with a hole for the passage of a utility conduit. The Company refers to this as its floor joist patch kit.

U.S. Patent No. 5,625,997, "Composite Beam," a composite beam that includes an elongated metal shell and a pierceable insert for receiving nails, screws or other penetrating fasteners.

U.S. Patent No. 5,832,691, "Composite Beam," a composite beam that includes an elongated metal shell and a pierceable insert for receiving nails, screws or other penetrating fasteners. This is a continuation-in-part of

U.S. Patent No. 5,921,053, "Internally Reinforced Girder with Pierceable Nonmetal Components," a girder that includes a pair of c-shaped members secured together so as to form a hollow box, which permits the girder

U.S. Patent Nos. D472,791S, D472,792S, D472,793S, and D477,210S, all modifications of Metwood's Reinforcing Bracket, which will be used for repairs of wood I-joists.

Need for Government Approval of Principal Products

Our products must either be sold with an engineer's seal or applicable building code approval. Currently, we are seeking International Code Council ("ICC") code approval on our TUFFBEAMS. Once that approval is obtained, our products can be used in all fifty states and will eliminate the need for an engineer's seal on individual products. To date, our company's 2x10 floor joist reinforcer has received both Bureau Officials Code Association approval (2001) and ICC approval (2004).

Time Spent During the Last Two Fiscal Years on Research and Development Activities

An insignificant percent of our time and resources has been spent during the last two fiscal years researching and developing our metal/wood products, new product lines, and new patents. We have performed several tests with NTA, Inc. to achieve a cold compliance report on our TUFFBEAM and TUFFJOIST product lines. As of the date of this report the efforts are continuing, but not yet successfully completed.

Costs and Effects of Compliance with Environmental Laws

We do not incur any costs to comply with environmental laws. We are an environmentally friendly business in that our products are fabricated from recycled steel.

Number of Total Employees and Number of Full-Time Employees

The Company had 12 employees at December 31, 2016, eleven of whom were full time.

Table of Contents

Changes in Results of Operations

We had a net loss of \$145,473 for the six months ended December 31, 2016 compared to a net loss of \$22,835 for the six months ended December 31, 2015. Gross profit increased to 37.1% for the six months ended December 31, 2016 compared to 35.7% in the same period in 2015.

Liquidity and Capital Reserves – Cash flows used by operating activities for the six months ended December 31, 2016 were \$(22,888) compared to cash used \$(117,745) for the six months ended December 31, 2015. The decrease comparing those two periods was primarily due to an increase in inventory, accounts payables and accrued expenses.

Cash flows used in investing activities were \$4,819 for the six months ended December 31, 2016 and \$21,731 for December 31, 2015, respectively, and resulted from the purchase of equipment during both periods, partially offset in 2016 by gain on the sale of asset.

Cash flows provided from financing activities for the six months ended December 31, 2016 were an increase of \$50,000 compared to an increase of \$135,208 for the six months ended December 31, 2015 and were derived from the adoption of a convertible note of \$50,000, for December 31, 2016 and advances from a related party for December 31, 2015.

We had a net loss of \$75,322 for the three months ended December 31, 2016 compared to a net loss of \$3,542 for the three months ended December 31, 2015. Gross profit decreased to 37.6% for the six months ended December 31, 2016 compared to 45.9% in the same period in 2015.

We have historically funded our cash needs through operating income and credit line draws as needed with a related company. We will continue to rely on sales revenue as our main source of liquidity and will incur debt primarily to fund inventory purchases as sales growth produces increased product demand. Liquidity needs that cannot be met by current sales revenue may also arise in certain unusual circumstances such as has previously occurred when rain and snow significantly slowed construction activity and resulted in a corresponding decline in demand for our products. In those circumstances, debt may be added to meet our fixed costs and to maintain inventory in anticipation of a spurt in product demand that generally occurs once a weather-related slowdown has ended.

On a long-term basis, we also anticipate that product demand will increase considerably once we get awarded our Code Compliance Report. As sales increase, we can add a second shift to meet the additional product demand without

having to use funds to expand our production facilities. If additional cash becomes necessary to fund our growth, we may raise this capital through an additional follow-on stock offering rather than taking on more debt. However, there can be no assurance that we will be able to obtain additional equity or debt financing in the future. If we are unable to raise additional capital as needed, our growth potential will be adversely affected, and we would have to significantly modify our plans. Upon the date of this filing the code report has not been received, but management is putting in place a testing program to achieve this goal.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, result of operations, liquidity or capital expenditures.

Critical Accounting Policies

In accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), we record certain assets at the lower of cost or fair market value. In determining the fair value of certain of our assets, we must make judgments, estimates and assumptions regarding circumstances or trends that could affect the value of these assets, such as economic conditions. Those judgments, estimates and assumptions are based on information available to us at that time. Many of those conditions, trends and circumstances are outside our control and if changes were to occur in the events, trends or other circumstances on which our judgments or estimates were based, we may be required under U.S. GAAP to adjust those estimates that are affected by those changes. Changes in such estimates may require that we reduce the carrying value of the affected assets on our balance sheet (which are commonly referred to as “write downs” of the assets involved).

Table of Contents

It is our practice to establish reserves or allowances to record adjustments or “write-downs” in the carrying value of assets, such as accounts receivable. Such write-downs are recorded as charges to income or increases in the expense in our Statement of Operations in the periods when such reserves or allowances are established or increased. As a result, our judgments, estimates and assumptions about future events can and will affect not only the amounts at which we record such assets on our balance sheet but also our results of operations.

In making our estimates and assumptions, we follow U.S. GAAP applicable to our business and those that we believe will enable us to make fair and consistent estimates of the fair value of assets and establish adequate reserves or allowances. Set forth below is a summary of the accounting policies that we believe are material to an understanding of our financial condition and results of operations.

Recently Issued Accounting Pronouncements

Refer to Note 2 in the accompanying interim financial statements.

Additional Information

You are advised to read this Form 10-Q in conjunction with other reports and documents that we file from time to time with the SEC. In particular, please read our Quarterly Reports on Form 10-Q, Annual Reports on Form 10-K, and Current Reports on Form 8-K that we file from time to time. You may obtain copies of these reports directly from us or from the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549, and you may obtain information about obtaining access to the Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains information for electronic filers at its website <http://www.sec.gov>.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide the information required by this item.

ITEM 4 - CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures were designed to provide reasonable assurance that the controls and procedures would meet their objectives. As required by SEC Rule 13a-15, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level.

Table of Contents

Management's Annual Report on Internal Control over Financial Reporting

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining adequate internal control over our financial reporting. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Our system of internal control over financial reporting is designed 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has used the framework set forth in the report entitled Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, known as COSO, to evaluate the effectiveness of our internal control over financial reporting. Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that our internal control over financial reporting was not effective as of December 31, 2016. Management’s assessment identified the following material weaknesses in internal control over financial reporting:

The small size of our Company limits our ability to achieve the desired level of separation in our internal controls and financial reporting. We do have a separate CEO and CFO; however, we do not have an Audit Committee to review and oversee the financial policies and procedures of the Company. Until such time we are able to install an audit committee, we do not meet the full requirement for separation. In the interim, we will continue to strengthen the role of our CEO and CFO and their review of our internal control procedures.

(b) Changes in internal control over financial reporting

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. As we grow geographically and with new product offerings, we continue to create new processes and controls as well as improve our existing environment to increase efficiencies. Improvements may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

We are currently involved in litigation but we believe this action will not have a material adverse effect on our financial condition or results of operations. The law suit alleges breach of contract, but our attorneys believe there are mitigating factors that will allow us to prevail. There is no other action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our Company or any of our subsidiaries, threatened against or affecting our Company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect. This litigation was settled in favor of the Company in December 2017.

ITEM 1A - Risk Factors

Our business is subject to a variety of risks and uncertainties, including, but not limited to, the risks and uncertainties described below. If any of the risks described below, or elsewhere in this report on Form 10-Q, or our Company's other filings with the Securities and Exchange Commission (the "SEC") were to occur, our financial condition and results of operations could suffer, and the trading price of our common stock could decline. Additionally, if other risks not presently known to us, or that we do not currently believe to be significant, occur or become significant, our financial condition and results of operations could suffer, and the trading price of our common stock could decline.

You should carefully review the risk factors together with all other information contained in this Quarterly Report on Form 10-Q, and in prior reports pursuant to the Securities Exchange Act of 1934, as amended and the Securities Act of 1933, as amended. Our risk factors, including but not limited to the risk factors listed below, are as follows:

SHOULD ONE OR MORE OF THE FOREGOING RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD THE UNDERLYING ASSUMPTIONS OF OUR BUSINESS PROVE INCORRECT, ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THOSE ANTICIPATED, BELIEVED, ESTIMATED, EXPECTED, INTENDED OR PLANNED.

Changing economic conditions could materially adversely affect us - Our operations and performance depend significantly on regional and national economic conditions and their impact on levels of spending by our customers

and end users. Currently, those economic conditions have deteriorated and may remain depressed for the foreseeable future. These changing economic conditions could have a material adverse effect on demand for our products and on our financial condition and operating results.

Current volatility and disruption in the capital and credit markets may continue to exert downward pressure on our stock price - The capital and credit markets have been experiencing extreme volatility and disruption over the past year. Stock markets in general, and our stock price in particular, have experienced significant volatility over the past year. Our stock recently traded at historic lows. In the future, there can be no assurance that price volatility in the stock markets in general will abate or that our stock price in particular will rise. Additionally, the volatility in the credit markets could impact our ability to access new financing.

We have a history of operating losses and may incur future losses – We incurred net losses of \$145,473 for the six months ended December 31, 2017 and \$659,896 for the six months ended December 31, 2016. Our ability to generate significant revenues and maintain profitability is dependent in large part on our ability to expand our customer base; increase sales of our products to existing customers; manage our expense growth; enter into additional supply, license and collaborative arrangements; and successfully manufacture and commercialize products incorporating our technologies in new applications and in new markets.

Table of Contents

Our common shares have been subject to penny stock regulation in the United States of America - Our common shares have been subject to the provisions of Section 15(g) and Rule 15g-9 of the (US) Securities Exchange Act of 1934, as amended (the “Exchange Act”), commonly referred to as the “penny stock” rule. Section 15(g) sets forth certain requirements for transactions in penny stocks and Rule 15g-9(d)(1) incorporates the definition of penny stock as that used in Rule 3a51-1 of the Exchange Act. The Commission generally defines penny stock to be any equity security that has a market price less than US \$5.00 per share, subject to certain exceptions. Rule 3a51-1 provides that any equity security is considered to be penny stock unless that security is: registered and traded on a national securities exchange meeting specified criteria set by the Commission; issued by a registered investment company; excluded from the definition on the basis of price (at least US \$5.00 per share) or the registrant’s net tangible assets; or exempted from the definition by the Commission. If our common shares are deemed to be “penny stock,” trading in common shares will be subject to additional sales practice requirements on broker/dealers who sell penny stock to persons other than established customers and accredited investors.

Financial Industry Regulatory Authority, Inc. (“FINRA”) sales practice requirements may limit a shareholder’s ability to buy and sell our common shares - In addition to the “penny stock” rules described above, FINRA has adopted rules that require that in recommending an investment to a client, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that client. Prior to recommending speculative low priced securities to their non-institutional clients, broker-dealers must make reasonable efforts to obtain information about the client’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some clients. FINRA requirements make it more difficult for broker-dealers to recommend that their clients buy our common shares, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

As a public company we are subject to complex legal and accounting requirements that will require us to incur significant expenses and will expose us to risk of non-compliance - As a public company, we are subject to numerous legal and accounting requirements in both Canada and the United States of America that do not apply to private companies. The cost of compliance with many of these requirements is material, not only in absolute terms but, more importantly, in relation to the overall scope of the operations of a small company. Our relative inexperience with these requirements may increase the cost of compliance and may also increase the risk that we will fail to comply. Failure to comply with these requirements can have numerous adverse consequences including, but not limited to, our inability to file required periodic reports on a timely basis, loss of market confidence, delisting of our securities and/or governmental or private actions against us. We cannot assure you that we will be able to comply with all of these requirements or that the cost of such compliance will not prove to be a substantial competitive disadvantage vis-à-vis privately held and larger public competitors.

Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses and pose challenges for our management - Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations promulgated thereunder, the Sarbanes-Oxley Act and SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the U.S.

public markets. Our management team needs to devote significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

Because we are quoted on the OTC pink Sheets instead of a national securities exchange, our investors may have more difficulty selling their stock or experience negative volatility on the market price of our stock in the United States - *Our common shares are quoted on the OTC Pink Sheets. The OTC Pink Sheets is marketed as an electronic exchange for high growth and early stage companies. Trades are settled and cleared in a manner similar to any NASDAQ or NYSE stock and trade reports are disseminated through Yahoo, Bloomberg, Reuters, and most other financial data providers. The OTC Pink Sheets can be significantly illiquid, in part because it does not have a national quotation system by which potential investors can follow the market price of shares except through information received and generated by a limited number of broker-dealers that make markets in particular stocks. There is a greater chance of volatility for securities that trade on the OTC Pink Sheets as compared to a national securities exchange, such as the New York Stock Exchange, the NASDAQ Stock Market or the NYSE Amex. This volatility may be caused by a variety of factors, including the lack of readily available price quotations, the absence of consistent administrative supervision of bid and ask quotations, lower trading volume, and market conditions. Investors in our common shares may experience high fluctuations in the market price and volume of the trading market for our securities. These fluctuations, when they occur, have a negative effect on the market price for our common shares. Accordingly, our shareholders may not be able to realize a fair price from their shares when they determine to sell them or may have to hold them for a substantial period of time until the market for our common shares improves.*

Table of Contents

The price at which you purchase our common shares may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you. The market price for our common shares is particularly volatile given our status as a relatively unknown company with a small and thinly traded public float, limited operating history and lack of profits which could lead to wide fluctuations in our share price - The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer. The volatility in our share price is attributable to a number of factors. First our common shares, at times, are thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Second, we are a speculative or “risky” investment due to our limited operating history, lack of profits to date and uncertainty of future market acceptance for our potential products. As a consequence, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our performance. We cannot make any predictions as to what the prevailing market price for our common shares will be at any time or as to what affect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Volatility in our common share price may subject us to securities litigation, thereby diverting our resources that may have a material effect on our profitability and results of operations - The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. This type of litigation could result in substantial costs and could divert management’s attention and resources.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") could have a material adverse effect on our business and our operating results - If we fail to comply with the requirements of Section 404 of the Sarbanes-Oxley Act regarding internal control over financial reporting or to remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common shares.

Table of Contents

Pursuant to Section 404 of the Sarbanes-Oxley Act and current SEC regulations, we are required to prepare assessments regarding internal controls over financial reporting. In connection with our on-going assessment of the effectiveness of our internal control over financial reporting, we may discover “material weaknesses” in our internal controls as defined in standards established by the Public Company Accounting Oversight Board, or the PCAOB. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The PCAOB defines “significant deficiency” as a deficiency that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected.

In the event that a material weakness is identified, as it has been for this report, subject to expansion of the size of our Company and our finance department, we will employ qualified personnel and adopt and implement policies and procedures to address any material weaknesses that we identify. However, the process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that the measures we will take will remediate any material weaknesses that we may identify or that we will implement and maintain adequate controls over our financial process and reporting in the future.

Any failure to complete our assessment of our internal control over financial reporting, to remediate any material weaknesses that we may identify or to implement new controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could adversely affect the results of the management evaluations of our internal controls. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common shares.

We do not intend to pay dividends - We do not anticipate paying cash dividends on our common shares in the foreseeable future. We may not have sufficient funds to legally pay dividends. Even if funds are legally available to pay dividends, we may nevertheless decide, in our sole discretion, not to pay dividends. The declaration, payment and amount of any future dividends will be made at the discretion of our board of directors, and will depend upon, among other things, the results of our operations, cash flows and financial condition, operating and capital requirements, and other factors our board of directors may consider relevant. There is no assurance that we will pay any dividends in the future, and, if dividends are paid, there is no assurance with respect to the amount of any such dividend.

The current financial environment may impact our business and financial condition that we cannot predict - The continued instability in the global financial system and related limitation on availability of credit may continue to have an impact on our business and our financial condition, and we may continue to face challenges if conditions in the financial markets do not improve. Our ability to access the capital markets has been restricted as a result of the economic downturn and related financial market conditions and may be restricted in the future when we would like, or need, to raise capital. The difficult financial environment may also limit the number of prospects for potential joint

venture, asset monetization or other capital raising transactions that we may pursue in the future or reduce the values we are able to realize in those transactions, making these transactions uneconomic or difficult to consummate.

ITEM 2. RECENT ISSUANCES OF UNREGISTERED SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the period ended December 31, 2016.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

There is no information with respect to which information is not otherwise called for by this form.

Table of Contents

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit

| No. | Exhibit |
|----------------|---|
| 3.1(1) | Articles of Incorporation (1) |
| <u>3.1(2)</u> | <u>Amendment to Articles of Incorporation(2)</u> |
| 3.2 | New Adopted Bylaws (1) |
| <u>10.1(3)</u> | <u>Agreement with Emerge Neutricueticals, Inc.</u> |
| <u>31.1*</u> | <u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act. (6)(6 (2)</u> |
| <u>31.2*</u> | <u>Certification of Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.</u> |

* filed herewith

Table of Contents

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 1, 2019

By: */s/ Robert M. Callahan*
Robert M. Callahan
Chief Executive Officer

Date: March 1, 2019

By: */s/ Shawn A. Callahan*
Shawn A. Callahan
Chief Financial Officer

Table of Contents

INDEX TO EXHIBITS

NUMBER DESCRIPTION OF EXHIBIT

| | |
|-------------|---|
| <u>31.1</u> | <u>Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>31.2</u> | <u>Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002</u> |
| <u>32</u> | <u>Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18U.S.C. 1350)</u> |