

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2022**

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: **000-18730**

DarkPulse, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0472109

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

1345 Ave of the Americas, 2nd Floor, New York, NY
(Address of principal executive offices)

10105
(Zip Code)

(800) 436-1436

(Registrant's telephone number, including area code)

Securities registered pursuant to section 12(b) of the Act:

Title of Each Class
Not applicable

Trading Symbol(s)
Not applicable

Name of each exchange on which registered
Not applicable

Indicate by check mark whether the registrant 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).

Yes ☐ No ☒

Indicate by check mark whether the registrant has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 ☒

The number of shares outstanding of the registrant's common stock on May 10, 2022, was 5,451,212,038.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

DARKPULSE, INC.
Consolidated Balance Sheets

	March 31, 2022	December 31, 2021
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 4,785,797	\$ 3,658,846
Accounts receivable, net	6,747,200	4,223,990
Inventory	1,882,197	865,019
Unbilled revenue	242,151	497,773
Other current assets	138,227	181,000
TOTAL CURRENT ASSETS	13,795,572	9,426,628
NON-CURRENT ASSETS:		
Property and equipment, net	1,781,788	1,787,824
Operating lease right-of-use assets	3,061,164	2,620,993
Patents, net	330,205	342,962
Intangible assets	3,738,087	3,886,588
Goodwill	16,801,192	17,088,501
Other assets, net	347,864	282,884
TOTAL NON-CURRENT ASSETS	26,060,300	26,009,752
TOTAL ASSETS	\$ 39,855,872	\$ 35,436,380
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 7,154,765	\$ 7,844,271
Convertible notes, net of discount \$0 and \$35,525 respectively	378,263	378,263
Notes payable	2,000,000	2,000,000
Customer deposits	4,667,905	2,802,809
Derivative liability	408,646	533,753
Contract liabilities	4,136,809	3,216,562
Operating lease liabilities - current	360,270	364,105
Other current liabilities	2,299,617	2,407,750
TOTAL CURRENT LIABILITIES	21,406,275	19,547,513
NON-CURRENT LIABILITIES:		
Secured debenture	1,201,661	1,172,364
Operating lease liabilities - non-current	3,158,040	2,474,530
Other liabilities - non-current	428,093	676,331
TOTAL NON-CURRENT LIABILITIES	4,787,794	4,323,225
TOTAL LIABILITIES	26,194,069	23,870,738

Commitments and contingencies	—	—
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STOCKHOLDERS' DEFICIT:

Convertible preferred stock - Class D (par value \$0.01; 100,000 shares authorized; 88,235 issued and outstanding at March 31, 2022 and December 31, 2021, respectively)	883	883
Common stock (par value \$0.0001), 20,000,000,000 shares authorized, 5,397,942,946 and 5,197,821,885 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	539,794	519,782
Treasury stock, 100,000 shares at March 31, 2022 and December 31, 2021	(1,000)	(1,000)
Paid-in capital in excess of par value	27,928,691	20,248,703
Non-controlling interest in variable interest entity and subsidiary	2,358,227	2,358,227
Accumulated other comprehensive income	(504,032)	(284,463)
Accumulated deficit	(16,660,760)	(11,276,490)
TOTAL STOCKHOLDERS' DEFICIT	13,661,803	11,565,642
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 39,855,872	\$ 35,436,380

See accompanying notes to consolidated financial statements.

DARKPULSE, INC. Consolidated Statements of Operations

	For the Three Months Ended March 31,	
	2022	2021
REVENUES	\$ 2,018,333	\$ —
COST OF GOODS SOLD	2,348,567	—
GROSS LOSS	(330,234)	—
OPERATING EXPENSES:		
Selling, general and administrative	978,208	29,688
Salaries, wages and payroll taxes	1,972,067	—
Professional fees	1,538,103	74,354
Depreciation and amortization	228,614	12,757
Debt transaction expenses	—	42,750
TOTAL OPERATING EXPENSES	4,716,992	159,549
OPERATING LOSS	(5,047,226)	(159,549)
OTHER INCOME (EXPENSE):		
Interest expense	(517,754)	(31,662)
Gain (Loss) on change in fair market value of derivative liabilities	125,107	(30,944)
Gain (Loss) on convertible notes	—	170,281
Gain on forgiveness of debt	35,750	—
Foreign currency exchange rate variance	19,853	—
TOTAL OTHER INCOME (EXPENSE)	(337,044)	107,675
NET LOSS	(5,384,270)	(51,874)
Net loss attributable to non-controlling interests in variable interest entity and subsidiary	113,681	—
Net loss attributable to Company stockholders	<u>\$ (5,270,589)</u>	<u>\$ (51,874)</u>
LOSS PER SHARE		
Basic	\$ (0.00)	\$ (0.00)
Diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	5,290,107,585	4,457,294,486
Diluted	<u>5,290,107,585</u>	<u>4,457,294,486</u>

See accompanying notes to consolidated financial statements.

DARKPULSE, INC. Consolidated Statements of Comprehensive Loss

	For the Three Months Ended March 31,	
	2022	2021

NET LOSS	\$	(5,270,589)	\$	(51,874)
OTHER COMPREHENSIVE LOSS				
Unrealized Gain (Loss) on Foreign Exchange		(219,569)		(17,909)
COMPREHENSIVE LOSS	\$	<u>(5,490,158)</u>	\$	<u>(69,783)</u>

See accompanying notes to consolidated financial statements.

DARKPULSE, INC.
Consolidated Statement of Stockholders' Deficit
For the Three Months Ended March 31, 2022 and 2021

	Preferred Stock		Common Stock		Treasury Stock	Paid in Capital in Excess of Par Value	Non-Controlling Interest in Subsidiary	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount						
Balance, December 31, 2021	88,235	\$ 883	5,197,821,885	\$ 519,782	\$ (1,000)	\$ 20,248,703	\$ 2,358,227	\$ (284,463)	\$ (11,276,490)	\$ 11,565,642
Common stock issued for cash	—	—	200,121,061	20,012		7,679,988		—	—	7,700,000
Foreign currency adjustment	—	—	—	—		—	—	(219,569)	—	(219,569)
Net loss	—	—	—	—		—	—	—	(5,384,270)	(5,384,270)
Balance, March 31, 2022	<u>88,235</u>	<u>\$ 883</u>	<u>5,397,942,946</u>	<u>\$ 539,794</u>	<u>\$ (1,000)</u>	<u>\$ 27,928,691</u>	<u>\$ 2,358,227</u>	<u>\$ (504,032)</u>	<u>\$ (16,660,760)</u>	<u>\$ 13,661,803</u>
Balance, December 31, 2020	88,235	\$ 883	4,088,762,156	\$ 408,876	\$ (1,000)	\$ 1,805,813	\$ (12,439)	\$ 315,832	\$ (6,450,170)	\$ (3,932,205)
Conversion of convertible notes	—	—	600,999,995	60,100		—	189,839	—	—	249,939
Foreign currency adjustment	—	—	—	—		—	—	(17,909)	—	(17,909)
Net loss	—	—	—	—		—	—	—	(51,874)	(51,874)
Balance, March 31, 2021	<u>88,235</u>	<u>\$ 883</u>	<u>4,689,762,151</u>	<u>\$ 468,976</u>	<u>\$ (1,000)</u>	<u>\$ 1,995,652</u>	<u>\$ (12,439)</u>	<u>\$ 297,923</u>	<u>\$ (6,502,044)</u>	<u>\$ (3,752,049)</u>

See accompanying notes to consolidated financial statements.

DARKPULSE, INC.
Consolidated Statements of Cash Flows

	For the Three Months Ended March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (5,384,270)	\$ (51,874)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	228,615	12,757
Loan acquisition costs	—	(212,750)
Gain on extinguishment of debt	(35,750)	—
Operating lease expense	(440,171)	—
Amortization of debt discount	—	42,469
Derivative liability	(125,107)	30,977
Changes in operating assets and liabilities:		
Accounts receivable	(2,523,210)	—
Inventory	(1,017,178)	—
Unbilled revenue	255,622	—
Contract liability	1,451,343	—
Customer deposits	1,334,000	—
Accounts payable and accrued expenses	(355,697)	17,281
Operating lease liabilities	679,675	—
Other current liabilities	(356,372)	—
Net cash used by operating activities	(6,288,500)	(161,173)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capitalized patents	—	(1,200)
Deposits	(64,980)	—
Net cash used by investing activities	(64,980)	(1,200)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	7,700,000	—
Proceeds from convertible debentures	—	212,750
Net cash provided by financing activities	7,700,000	212,750
NET INCREASE (DECREASE) IN CASH	1,346,520	50,377
Effect of exchange rate on cash	(219,569)	—
CASH, beginning of year	3,658,846	337
CASH, end of year	\$ 4,785,797	\$ 50,714
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the three months ended March 31:		
Interest	\$ —	\$ —
Income taxes	\$ —	\$ —

See accompanying notes to consolidated financial statements.

DARKPULSE, INC.
Notes to the Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The information furnished reflects all adjustments, consisting only of normal recurring items which are, in the opinion of management, necessary in order to make the financial statements not misleading. The consolidated financial statements as of December 31, 2021 have been audited by an independent registered public accounting firm. The accounting policies and procedures employed in the preparation of these condensed consolidated financial statements have been derived from the audited financial statements of the Company for the year ended December 31, 2021, which are contained in Form 10-K as filed with the Securities and Exchange Commission on April 15, 2022. The consolidated balance sheet as of December 31, 2021 was derived from those financial statements.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles of the United States of America ("U.S. GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission for Interim Financial Information. The condensed consolidated financial statements of the Company include the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. All adjustments (consisting of normal recurring items) necessary to present fairly the Company's financial position as of March 31, 2022, and the results of operations for three months and cash flows for the three months ended March 31, 2022 have been included. The results of operations for the three months ended March 31, 2022 are not necessarily indicative of the results to be expected for the full year.

Description of Business

DarkPulse, Inc. ("DPT" or "Company") is a technology-security company incorporated in 1989 as Klever Marketing, Inc. ("Klever"). Its' wholly-owned subsidiary, DarkPulse Technologies Inc. ("DPTI"), originally started as a technology spinout from the University of New Brunswick, Fredericton, Canada. The Company's security and monitoring systems will initially be delivered in applications for border security, pipelines, the oil and gas industry and mine safety. Current uses of fiber optic distributed sensor technology have been limited to quasi-static, long-term structural health monitoring due to the time required to obtain the data and its poor precision. The Company's patented BOTDA dark-pulse sensor technology allows for the monitoring of highly dynamic environments due to its greater resolution and accuracy.

On April 27, 2018, Klever entered into an Agreement and Plan of Merger (the "Merger Agreement" or the "Merger") involving Klever as the surviving parent corporation and acquiring a privately held New Brunswick corporation known as DarkPulse Technologies Inc. as its wholly owned subsidiary. On July 18, 2018, the parties closed the Merger Agreement, as amended on July 7, 2018, and the name of the Company was subsequently changed to DarkPulse, Inc. With the change of control of the Company, the Merger is being accounted for as a recapitalization in a manner similar to a reverse acquisition.

On July 20, 2018, the Company filed a Certificate of Amendment to its Certificate of Incorporation with the State of Delaware, changing the name of the Company to DarkPulse, Inc. The Company filed a corporate action notification with the Financial Industry Regulatory Authority (FINRA), and the Company's ticker symbol was changed to DPLS.

Reclassifications

Certain amounts in the Company's prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods.

Going Concern Uncertainty

As shown in the accompanying financial statements, during the three months ended March 31, 2022, the Company reported a net loss of \$5,384,270. As of March 31, 2022, the Company's current liabilities exceeded its current assets by \$7,610,707. As of March 31, 2022, the Company had \$4,785,797 of cash.

The Company will require additional funding during the next twelve months to finance the growth of its current operations and achieve its strategic objectives. These factors, as well as the uncertain conditions that the Company faces relative to capital raising activities, create substantial doubt as to the Company's ability to continue as a going concern. The Company is seeking to raise additional capital principally through private placement offerings and is targeting strategic partners in an effort to finalize the development of its products and begin generating revenues. The ability of the Company to continue as a going concern is dependent upon the success of future capital offerings or alternative financing arrangements or expansion of its operations. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations through calendar year 2022. However, management cannot make any assurances that such financing will be secured.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition, and revenues and expenses for the years then ended. Actual results may differ significantly from those estimates. Significant estimates made by management include, but are not limited to, the assumptions used to calculate stock-based compensation, derivative liabilities, preferred deemed dividend and common stock issued for services.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. The Company places its cash with high credit quality financial institutions. The Company's account at this institution is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. To reduce its risk associated with the failure of such financial institution, the Company evaluates at least annually the rating of the financial institution in which it holds deposits.

Foreign Currency Translation

The Company's reporting currency is US Dollars. The accounts of one of the Company's subsidiaries is maintained using the appropriate local currency, British Pound ("GBP") as the functional currency. The accounts of one of the Company's subsidiaries is maintained using the appropriate local currency, Canadian Dollar ("CAD") as the functional currency. All assets and liabilities are translated into U.S. Dollars at balance sheet date, shareholders' equity is translated at historical rates and revenue and expense accounts are translated at the average exchange rate for the year or the reporting period. The translation adjustments are reported as a separate component of stockholders' equity, captioned as accumulated other comprehensive (loss) gain. Transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the statements of operations.

The relevant translation rates are as follows: for the three months ended March 31, 2022 closing rate at 1.31524 US\$:GBP, average rate at 1.342089 US\$:GBP and for the year ended December 31, 2021 closing rate at 1.353583 US\$: GBP, average rate at 1.375671 US\$:GBP.

The relevant translation rates are as follows: for the three months ended March 31, 2022 closing rate at 1.2484 US\$:CAD, average rate at 1.2614 US\$:CAD and for the year ended December 31, 2021 closing rate at 1.2794 US\$: CAD, average rate at 1.2534 US\$:CAD.

Long-Lived Assets and Goodwill

In accordance with ASC 350-30-65, "Intangibles - Goodwill and Others", the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors the Company considers to be important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;

- Significant changes in the manner of use of the acquired assets or the strategy for the overall business; and
- Significant negative industry or economic trends.

When the Company determines that the carrying value of intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. The Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows.

Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation. Depreciation is based on the estimated service lives of the depreciable assets and is calculated using the straight-line method. Expenditures that increase the value or productive capacity of assets are capitalized. Fully depreciated assets are retained in the property and equipment, and accumulated depreciation accounts until they are removed from service. When property and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. Repairs and maintenance are expensed as incurred.

The estimated useful lives of property and equipment are generally as follows:

	Years
Office furniture and fixtures	4
Plant and equipment	4-8
Leasehold Improvements	10
Motor Vehicles	3

Revenue Recognition

The Company's revenues are generated primarily from the sale of our products, which consist primarily of advanced technology solutions for integrated communications and security systems. At contract inception, we assess the goods and services promised in the contract with customers and identify a performance obligation for each. To determine the performance obligation, we consider all products and services promised in the contract regardless of whether they are explicitly stated or implied by customary business practices. The timing of satisfaction of the performance obligation is not subject to significant judgment. We measure revenue as the amount of consideration expected to be received in exchange for transferring goods and services. We generally recognize product revenues at the time of shipment, provided that all other revenue recognition criteria have been met.

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. The five-step model is applied to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services transferred to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations and assess whether each promised good or service is distinct. We then recognize revenue in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

In accordance with ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedient*, which is to (1) clarify the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. There was no impact as a result of adopting this ASU on the financial statements and related disclosures. Based on the terms and conditions of the product arrangements, the Company believes that its products and services can be accounted for separately as its products and services have value to the Company's customers on a stand-alone basis. When a transaction involves more than one product or service, revenue is allocated to each deliverable based on its relative fair value; otherwise, revenue is recognized as products are delivered or as services are provided over the term of the customer contract.

Contract liabilities is shown separately in the unaudited consolidated balance sheets as current liabilities. At March 31, 2022 and December 31, 2021, we had contract liabilities of \$4,667,905 and \$3,216,562, respectively.

Cost of Product Sales and Services

Cost of sales consists primarily of materials, airtime and overhead costs incurred internally and amounts incurred to contract manufacturers to produce our products, airtime and other implementation costs incurred to install our products and train customer personnel, and customer service and third-party original equipment manufacturer costs to provide continuing support to our customers. There are certain costs which are deferred and recorded as prepaids, until such revenue is recognized. Refer to revenue recognition above as to what constitutes deferred revenue.

Concentration of Credit Risk

The Company has no significant concentrations of credit risk.

Related Parties

The Company accounts for related party transactions in accordance with ASC 850 ("Related Party Disclosures"). A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

Leases

Effective January 1, 2019, the Company accounts for its leases under ASC 842, *Leases*. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases, and are recorded on the consolidated balance sheet as both a right of use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset result in straight-line rent expense over the lease term. For finance leases, interest on the lease liability and the amortization of the right of use asset results in front-loaded expense over the lease term. Variable lease expenses are recorded when incurred.

In calculating the right of use asset and lease liability, the Company has elected to combine lease and non-lease components. The Company excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election, and recognizes rent expense on a straight-line basis over the lease term.

Derivative Financial Instruments

The Company evaluates the embedded conversion feature within its convertible debt instruments under ASC 815-15 and ASC 815-40 to determine if the conversion feature meets the definition of a liability and, if so, whether to bifurcate the conversion feature and account for it as a separate derivative liability. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses a lattice model, in accordance with ASC 815-15 "Derivative and Hedging" to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether net-cash settlement of the derivative instrument could be required within 12 months after the balance sheet date.

Beneficial Conversion Features

The Company evaluates the conversion feature for whether it was beneficial as described in ASC 470-30. The intrinsic value of a beneficial conversion feature inherent to a convertible note payable, which is not bifurcated and accounted for separately from the convertible note payable and may not be settled in cash upon conversion, is treated as a discount to the convertible note payable. This discount is amortized over the period from the date of issuance to the date the note is due using the effective interest method. If the note payable is retired prior to the end of its contractual term, the unamortized discount is expensed in the period of retirement to interest expense. In general, the beneficial conversion feature is measured by comparing the effective conversion price, after considering the relative fair value of detachable instruments included in the financing transaction, if any, to the fair value of the shares of common stock at the commitment date to be received upon conversion.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial assets and liabilities, such as cash, prepaid expenses, and accruals approximate their fair values because of the short maturity of these instruments. The Company believes the carrying value of its secured debenture payable approximates fair value because the terms were negotiated at arm's length.

Stock-based Compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the consolidated financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 718, for share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date." The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date. Further, ASC Topic 718, provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718, such as the repricing of share options, which would revalue those options and the accounting for the cancellation of an equity award whether a replacement award or other valuable consideration is issued in conjunction with the cancellation. If not, the cancellation is viewed as a replacement and not a modification, with a repurchase price of \$0.

Income (Loss) Per Common Share

The Company accounts for earnings per share pursuant to ASC 260, Earnings per Share, which requires disclosure on the financial statements of "basic" and "diluted" earnings (loss) per share. Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to stock options and warrants for each year. In periods where the Company has a net loss, all dilutive securities are excluded.

For the three months ended March 31, 2021, there were no stock options outstanding. For the three months ended March 31, 2021, common stock equivalents related to convertible preferred stock and convertible debt have not been included in the calculation of diluted loss per common share because they are anti-dilutive. Therefore, basic loss per common share is the same as diluted loss per common share. There are 1,970,029,676 common shares reserved for the potential conversion of the Company's convertible debt.

Recently Issued Accounting Pronouncements

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory", which eliminates the exception that prohibits the recognition of current and deferred income tax effects for intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. The updated guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption of the update is permitted. The

adoption of ASU 2016-16 did not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 *Intangibles-Goodwill and Other ("ASC 350"): Simplifying the Accounting for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under ASU 2017-04, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019. The adoption of ASU 2017-04 did not have a material impact on the consolidated financial statements.

In July 2021, the FASB issued ASU No. 2021-05, *Lessors—Certain Leases with Variable Lease Payments* (Topic 842), Which requires a lessor to classify a lease with variable lease payments that do not depend on an index or rate (hereafter referred to as "variable payments") as an operating lease on the commencement date of the lease if specified criteria are met. ASU 2021-05 is effective for the fiscal year beginning after December 15, 2022, including interim periods within that fiscal year. The Company expects that there would be no material impact on the Company's condensed consolidated financial statements upon the adoption of this ASU.

In November 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, issued by the Financial Accounting Standards Board. This ASU requires entities to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The update will generally result in the recognition of contract assets and contract liabilities at amounts consistent with those recorded by the acquiree immediately before the acquisition date rather than at fair value. The Company expects that there would be no material impact on the Company's condensed consolidated financial statements upon the adoption of this ASU.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which the Company has adopted or will adopt, as applicable, the Company does not believe any of these accounting pronouncements has had or will have a material impact on its financial position or results of operations.

NOTE 2 – REVENUE

The following table is a summary of the Company's timing of revenue recognition for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
Timing of revenue recognition:		
Services and products transferred at a point in time	\$ 2,018,333	\$ —
Services and products transferred over time	—	—
Total revenue	<u>\$ 2,018,333</u>	<u>\$ —</u>

The Company disaggregates revenue by source and geographic destination to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Revenue by source consisted of the following for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
Revenue by products and services:		
Products	\$ 397,627	\$ —
Services	1,620,706	—
Total revenue	<u>\$ 2,018,333</u>	<u>\$ —</u>

Revenue by geographic destination consisted of the following for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
Revenue by geography:		
North America	\$ 161,372	\$ —
International	1,856,961	—
Total revenue	<u>\$ 2,018,333</u>	<u>\$ —</u>

Contract Balances

The Company records contract assets when it has a right to consideration and records accounts receivable when it has an unconditional right to consideration. Contract liabilities consist of cash payments received (or unconditional rights to receive cash) in advance of fulfilling performance obligations. As of March 31, 2022, the Company did not have a contract assets balance.

The following table is a summary of the Company's opening and closing balances of contract liabilities related to contracts with customers.

	Total
Balance at December 31, 2021	\$ 3,216,562
Additions through advance billings to or payments from vendors	3,308,304
Revenue recognized from current period advance billings to or payments from vendors	(1,856,961)
Balance at March 31, 2022	\$ 4,667,905

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Accounts receivable	\$ 6,747,200	\$ 4,223,990
Less: Allowance for doubtful accounts	—	—
Total accounts receivable	\$ 6,747,200	\$ 4,223,990

NOTE 4 – INVENTORY

Inventory consisted of the following as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Raw materials	\$ 525,516	\$ 416,180
Work in progress	1,310,470	436,891
Finished goods	46,211	11,948
Total inventory	1,882,197	865,019
Reserve	—	—
Total inventory, net	\$ 1,882,197	\$ 865,019

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Property and equipment	\$ 2,114,106	\$ 1,867,794
Leasehold improvements	46,934	42,396
	2,067,172	1,910,190
Less - accumulated depreciation	(285,384)	(122,366)
	\$ 1,781,788	\$ 1,787,824

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Accounts payable	\$ 6,470,247	\$ 7,209,945
Accrued liabilities	684,523	634,326
Total accounts payable and accrued expenses	\$ 7,154,770	\$ 7,844,271

NOTE 7 – LEASES

We adopted ASC 842 "Leases" using the modified retrospective approach, electing the practical expedient that allows us not to restate our comparative periods prior to the adoption of the standard on January 1, 2019. As such, the disclosures required under ASC 842 are not presented for periods before the date of adoption.

The following was included in our balance sheet as of March 31, 2022:

Operating leases	March 31, 2022
<i>Assets</i>	
ROU operating lease assets	\$ 3,061,164
<i>Liabilities</i>	
Current portion of operating lease	\$ 360,270
Operating lease, net of current portion	\$ 3,158,040

Total operating lease liabilities	\$ 3,518,310
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The weighted average remaining lease term and weighted average discount rate at March 31, 2022 were as follows:

	March 31, 2022
Weighted average remaining lease term (years)	
Operating leases	8.03
Weighted average discount rate	
Operating leases	6.00%

Operating Leases

On March 9, 2022, the Company entered into an operating lease agreement to rent office space in Houston, Texas. This ten-year agreement commenced March 9, 2022 with an annual rent of approximately \$81,000 with the first twelve months rent free.

The following table reconciles future minimum operating lease payments to the discounted lease liability as of March 31, 2022:

2022	300,939
2023	558,317
2024	538,312
2025	549,128
2026 and later	2,274,688
Total lease payments	4,221,384
Less imputed interest	(703,074)
Total lease obligations	3,518,310
Less current obligations	(360,270)
Long-term lease obligations	\$ 3,158,040

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The following table sets forth the changes in the carrying amount of goodwill for the three months ended March 31, 2022:

	Total
Balance at December 31, 2021	\$ 17,088,501
Exchange rate variation	(287,309)
Balance at March 31, 2022	\$ 16,801,192

Intangible Assets - Intrusion Detection Intellectual Property

The Company relies on patent laws and restrictions on disclosure to protect its intellectual property rights. As of March 31, 2022, the Company held three U.S. and foreign patents on its intrusion detection technology, which expire in calendar years 2025 through 2034 (depending on the payment of maintenance fees).

The DPTI issued patents cover a System and Method for Brillouin Analysis, a System and Method for Resolution Enhancement of a Distributed Sensor, and a Flexible Fiber Optic Deformation System Sensor and Method. Maintenance of intellectual property rights and the protection thereof is important to our business. Any patents that may be issued may not sufficiently protect the Company's intellectual property and third parties may challenge any issued patents. Other parties may independently develop similar or competing technology or design around any patents that may be issued to the Company. The Company cannot be certain that the steps it has taken will prevent the misappropriation of its intellectual property, particularly in foreign countries where the laws may not protect proprietary rights as fully as in the United States. Further, the Company may be required to enforce its intellectual property or other proprietary rights through litigation, which, regardless of success, could result in substantial costs and diversion of management's attention. Additionally, there may be existing patents of which the Company is unaware that could be pertinent to its business, and it is not possible to know whether there are patent applications pending that the Company's products might infringe upon, since these applications are often not publicly available until a patent is issued or published.

For the three months ended March 31, 2022 and 2021, the Company amortized \$12,757 and \$12,757, respectively. Future amortization of intangible assets is as follows:

2022	\$ 38,271
2023	51,028
2024	51,028
2025	51,028
2026	51,028
Thereafter	87,822
Total	\$ 330,205

NOTE 9 – DEBT AGREEMENTS

Secured Debenture

DPTI issued a convertible Debenture to the University in exchange for the Patents assigned to the Company, in the amount of Canadian \$1,500,000, or US \$1,491,923 on December

16, 2010, the date of the Debenture. On April 24, 2017 DPTI issued a replacement secured term Debenture in the same C\$1,500,000 amount as the original Debenture. The interest rate is the Bank of Canada Prime overnight rate plus 1% per annum. The Debenture had an initial required payment of Canadian \$42,000 (US\$33,385) due on April 24, 2018 for reimbursement to the University of its research and development costs, and this has been paid. Interest-only maintenance payments are due annually starting after April 24, 2018. Payment of the principal begins on the earlier of (a) three years following two consecutive quarters of positive earnings before interest, taxes, depreciation and amortization, (b) six years from April 24, 2017, or (c) in the event DPTI fails to raise defined capital amounts or secure defined contract amounts by April 24 in the years 2018, 2019, and 2020. The Company has raised funds in excess of the amount required by April 24, 2018. The principal repayment amounts will be due quarterly over a six-year period in the amount of Canadian Dollars \$62,500. Based on the exchange rate between the Canadian Dollar and the U.S. Dollar on March 31, 2022, the quarterly principal repayment amounts will be US\$49,750. The Debenture is secured by the Patents assigned by the University to DPTI by an Assignment Agreement on December 16, 2010. DPTI has pledged the Patents, and granted a lien on them pursuant to an Escrow Agreement dated April 24, 2017, between DPTI and the University.

The Debenture was initially recorded at the \$1,491,923 equivalent US Dollar amount of Canadian \$1,500,000 as of December 16, 2010, the date of the original Debenture. The liability is being adjusted quarterly based on the current exchange value of the Canadian dollar to the US dollar at the end of each quarter. The adjustment is recorded as unrealized gain or loss in the change of the value of the two currencies during the quarter. The amounts recorded as an unrealized loss for the three months ended March 31, 2022 and 2021, were \$29,297 and \$17,909 respectively. These amounts are included in Accumulated Other Comprehensive Loss in the Equity section of the consolidated balance sheet, and as Unrealized Loss on Foreign Exchange on the consolidated statement of comprehensive loss. The Debenture also includes a provision requiring DPTI to pay the University a 2% royalty on sales of any and all products or services which incorporate the Patents for a period of five years from April 24, 2018.

For the three months ended March 31, 2022, and 2021, the Company recorded interest expense of \$12,617 and \$13,283, respectively.

As of March 31, 2022 the debenture liability totaled \$1,201,661, all of which was long term.

Future minimum required payments over the next 5 years and thereafter are as follows:

Period ending March 31,	
2023	\$ —
2024	—
2025	—
2026	—
2027 and after	1,201,661
Total	<u>\$ 1,201,661</u>

Convertible Debt Securities

The Company uses the Black-Scholes Model to calculate the derivative value of its convertible debt. The valuation result generated by this pricing model is necessarily driven by the value of the underlying common stock incorporated into the model. The values of the common stock used were based on the price at the date of issue of the debt security as of March 31, 2022. Management determined the expected volatility of 172.27%, a risk-free rate of interest of 1.63%, and contractual lives of the debt varying from six months to two years. The table below details the Company's four outstanding convertible notes, with totals for the face amount, amortization of discount, initial loss, change in the fair market value, and the derivative liability.

	Face Amount	Debt Discount	Initial Loss	Change in FMV	Derivative Balance 12/31/2021
	\$ 90,228	\$ —	\$ 58,959	\$ (29,258)	\$ 99,112
	162,150	—	74,429	(52,579)	178,116
	72,488	—	11,381	(23,505)	79,625
	53,397	—	7,850	(19,765)	51,796
Subtotal	378,263	—	152,619	(125,107)	408,649
Transaction expense	—	—	—	—	—
	<u>\$ 378,263</u>	<u>\$ —</u>	<u>\$ 152,619</u>	<u>\$ (125,107)</u>	<u>\$ 408,649</u>

As of March 31, 2022 and December 31, 2021 respectively, there was \$378,263 and \$931,158 of convertible debt outstanding, net of debt discount of \$0, and \$35,525. As of March 31, 2022 and December 31, 2021 respectively, there was derivative liability of \$533,753 and \$1,220,880 related to convertible debt securities.

NOTE 10 - STOCKHOLDERS' DEFICIT

As of March 31, 2022, there were 5,397,942,946 shares of common stock and 88,235 shares of preferred stock issued and outstanding.

Preferred Stock

In accordance with the Company's Certificate of Incorporation, the Company has authorized a total of 2,000,000 shares of preferred stock, par value \$0.01 per share, for all classes. As of March 31, 2022, and December 31, 2021, there were 88,235 total preferred shares issued and outstanding for all classes.

During the three months ended March 31, 2022, the Company issued no shares of preferred stock.

Common Stock

In accordance with the Company's bylaws, the Company has authorized a total of 20,000,000,000 shares of common stock, par value \$0.0001 per share. As of March 31, 2022 and December 31, 2021, there were 5,397,942,946 and 5,197,821,885 common shares issued and outstanding.

During the three months ended March 31, 2022, the Company issued the following shares of common stock:

On January 12, 2022, the Company issued 23,372,430 shares of common stock for \$1,150,000.

On January 21, 2022, the Company issued 33,454,988 shares of common stock for \$1,150,000.

On February 7, 2022, the Company issued 16,040,411 shares of common stock for \$500,000.

On March 3, 2022, the Company issued 16,579,569 shares of common stock for \$500,000.

On March 7, 2022, the Company issued 75,798,921 shares of common stock for \$2,500,000.

On March 14, 2022, the Company issued 5,617,347 shares of common stock for \$400,000.

On March 23, 2022, the Company issued 29,257,395 shares of common stock for \$1,500,000.

Stock Options

During the three months ended March 31, 2022, the Company did not issue any stock options and had no stock options outstanding at March 31, 2022.

Public Offerings

On November 9, 2021, we entered an Equity Financing Agreement (the "**Equity Financing Agreement**") and Registration Rights Agreement (the "**GHS Registration Rights Agreement**") with GHS, pursuant to which GHS agreed to purchase up to \$30,000,000 in shares of our Common Stock, from time to time over the course of 24 months (the "**Contract Period**") after effectiveness of a registration statement on Form S-1 (the "**Registration Statement**") of the underlying shares of Common Stock.

The GHS Registration Rights Agreement provides that we shall (i) use our best efforts to file with the SEC a Registration Statement within 45 days of the date of the GHS Registration Rights Agreement; and (ii) have the Registration Statement declared effective by the SEC within 30 days after the date the GHS Registration Statement is filed with the SEC, but in no event more than 90 days after the GHS Registration Statement is filed.

Pursuant to the Equity Financing Agreement, on January 12, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 23,372,430 shares of Common Stock for total proceeds to us, net of discounts, of \$1,150,000, at an effective price of \$0.054124 per share (the "**Second EFA Closing**"). We received approximately \$1,033,975 in net proceeds from the Second EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Second EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on January 21, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 33,454,988 shares of Common Stock for total proceeds to us, net of discounts, of \$1,150,000, at an effective price of \$0.037812 per share (the "**Third EFA Closing**"). We received approximately \$1,033,975 in net proceeds from the Third EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Third EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on February 7, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 16,040,411 shares of Common Stock for total proceeds to us, net of discounts, of \$500,000, at an effective price of \$0.0342884 per share (the "**Fourth EFA Closing**"). We received approximately \$448,975 in net proceeds from the Fourth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Fourth EFA Closing for working capital and for general corporate purposes.

On February 21, 2022, we sold 75,798,921 shares of our Common Stock at \$0.032982 per share for total consideration of \$2,500,000.

On March 3, 2022, we sold 16,579,569 shares of our Common Stock at \$0.0301576 per share for total consideration of \$500,000.

On March 14, 2022, we sold 5,617,347 shares of our Common Stock at \$0.071208 per share for total consideration of \$400,000.

Pursuant to the Equity Financing Agreement, on March 23, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 29,257,395 shares of Common Stock for total proceeds to us, net of discounts, of \$1,500,000, at an effective price of \$0.056396 per share (the "**Fifth EFA Closing**"). We received approximately \$1,348,975 in net proceeds from the Fifth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Fifth EFA Closing for working capital and for general corporate purposes.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Company follows subtopic 850-10 of the FASB Accounting Standards Codification for the identification of related parties and disclosure of related party transactions. Pursuant to Section 850-10-20 the related parties include a) affiliates of the Company; b) Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity; c) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; d) principal owners of the Company; e) management of the Company; f) other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and g) Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. The financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures shall include: a) the nature of the relationship(s) involved; b) a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements; c) the dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period; and d) amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

During the three months ended March 31, 2022 and 2021, the Company's Chief Executive Officer advanced personal funds in the amount of \$0 and \$329 for Company expenses. As of March 31, 2022, the Company's Chief Executive Officer is owed a total of \$0 for advanced personal funds.

NOTE 12 - COMMITMENTS & CONTINGENCIES

Potential Royalty Payments

The Company, in consideration of the terms of the debenture to the University of New Brunswick, shall pay to the University a two percent royalty on sales of any and all products or services which incorporate the Company's patents for a period of five years from April 24, 2018.

Legal Matters

DarkPulse, Inc. v. Twitter, Inc.

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company's investigation of the Investor News matter remains ongoing.

Carebourn Capital, L.P. v. DarkPulse, Inc.

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with Carebourn Capital, L.P. ("**Carebourn**"). The remainder of this disclosure will address all material updates since the aforementioned Form 10-K.

On April 11, 2022, the Court held a hearing on Carebourn's Motion to Compel DarkPulse. As of the date hereof, no decision has been rendered on Carebourn's motion. On April 14, 2022, the Court granted the Company's Motion to Enforce the Protective Order, and simultaneously denied Carebourn's request for reconsideration of Carebourn's Motion for Dispositive Relief. On April 27, 2022, the Court awarded the Company \$18,858.18 in attorneys' fees from Carebourn in connection with the Court's April 14, 2022 decision on the Company's Motion to Compel Carebourn. Carebourn has been ordered to pay the \$18,858.18 on or before July 26, 2022.

The Company remains committed to actively litigating its claims for relief under the Securities Exchange Act of 1934.

More Capital, LLC v. DarkPulse, Inc. et al

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with More Capital, LLC ("**More**"). The remainder of this disclosure will address all material updates since the aforementioned Form 10-K.

On April 11, 2014, the Court held a hearing on the Company's Motion to Compel More and More's Motion for Summary Judgment. As of the date hereof, no decision has been rendered on either of the aforesaid motions.

The Company remains committed to actively litigating its claims for relief under the Securities Exchange Act of 1934.

Goodman et al. v. DarkPulse, Inc.

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with Stephen Goodman ("**Goodman**"), Mark Banash ("**Banash**"), and David Singer ("**Singer**") (Goodman, Banash, and Singer together, the "**Series D Plaintiffs**"). As of April 15, 2022, there has been no material updates to this litigation.

The Company remains committed to actively litigating its claims and defenses against the Series D Plaintiffs.

DarkPulse, Inc. v. FirstFire Global Opportunities Fund, LLC, and Eli Fireman (SDNY)

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with FirstFire Global Opportunities Fund, LLC ("**FirstFire**"), and Eli Fireman ("**Fireman**") (FirstFire and Fireman together, the "**FirstFire Parties**"). The remainder of this disclosure will address all material updates since the aforementioned Form 10-K.

On May 5, 2022, the Company filed its amended complaint ("**FirstFire Amended Complaint**"). Accordingly, the FirstFire Parties' answer or motion in response to the FirstFire Amended Complaint is due on or before May 19, 2022.

FirstFire Global Opportunities Fund, LLC v. DarkPulse, Inc. (Del. Chancery Court)

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, there are no material updates to this litigation and the Company maintains its view that the FirstFire Delaware Chancery matter is fully disclosed. Absent any future material developments, no further disclosures will be made about the FirstFire Delaware Chancery matter.

DarkPulse, Inc. v. EMA Financial, LLC et al

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with EMA Financial, LLC ("**EMA**"), EMA Group, Inc. ("**EMA Group**"), and Felicia Preston ("**Preston**") (EMA, EMA Group, and Preston together, the "**EMA Parties**"). The remainder of this disclosure will address all material updates since the aforementioned Form 10-K.

On March 28, 2022, the Company filed its first amended complaint against the EMA Parties (the "**EMA Amended Complaint**"). On April 22, 2022, the Company and the EMA Parties entered into a Stipulation, which the Court so ordered on May 3, 2022, and established the EMA Parties were required to file and serve their answer and/or pre-motion letter for a motion under Rule 12 to the EMA Amended Complaint on or before June 21, 2022.

The Company remains committed to actively litigating its claims for relief under the Securities Exchange Act of 1934.

From time to time, we may become involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently involved in any pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on our business, financial condition and operating results.

NOTE 13 – SUBSEQUENT EVENTS

On April 8, 2022, the Company issued 23,746,816 shares of common stock for \$1,000,000.

On May 3, 2022, the Company issued 29,522,276 shares of common stock for \$1,000,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain certain forward-looking statements. Historical results may not indicate future performance. Our forward-looking statements reflect our current views about future events; are based on assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. Factors that may cause differences between actual results and those contemplated by forward-looking statements include, but are not limited to, those discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2021. We undertake no obligation to publicly update or revise any forward-looking statements, including any changes that might result from any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements

Critical Accounting Policies

The following discussions are based upon our financial statements and accompanying notes, which have been prepared in accordance with accounting principles generally accepted in the United States.

The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingencies. We continually evaluate the accounting policies and estimates used to prepare the financial statements. We base our estimates on historical experiences and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management.

Business Overview

DarkPulse, Inc., a Delaware corporation (the "**Company**" or "**DarkPulse**"), is a technology company focused on the manufacture, sale, installation, and monitoring of laser sensing systems based on its patented BOTDA dark-pulse sensor technology. The Company develops, markets, and distributes a full suite of engineering, monitoring, installation and security management solutions for critical infrastructure/key resources to both industries and governments. Coupled with our patented BOTDA dark-pulse technology (the "**DarkPulse Technology**"), DarkPulse provides its customers a comprehensive data stream of critical metrics for assessing the health and security of their infrastructure. Our systems provide rapid, precise analysis and responsive activities predetermined by the end-user customer. The Company's activities since inception have consisted of developing various solutions, obtaining patents and trademarks related to its technology, raising capital, acquisition of companies deemed to expand global operations and/or capabilities, creating key partnerships to expand our suite of products and services. Our activities have evolved to a sales-focused mission since the successful completion of our BOTDA system in December 2020.

Headquartered in New York, DarkPulse is a globally based technology company with presence in United Kingdom, India, Dubai, Russian Federation, Turkey, Azerbaijan, Iraq, Libya, Egypt, United States and Canada. In addition to the Company's BOTDA systems, through a series of strategic acquisitions the Company offers the manufacture, sale, installation, and monitoring of laser sensing systems, O & G pipeline leak detection, physical security services, telecommunications and satellite communications services, drone and rover systems, and BDaaS. The Company is focused on expanding services through acquisitions and partnerships to address global infrastructure and critical environmental resource challenges. DarkPulse offers a full suite of engineering and environmental solutions that provide safety and security infrastructure projects. The sensing and monitoring capabilities offered by DarkPulse and our subsidiary companies operate in the Air, Land, Sea. Our patented technology provides rapid, precise analysis to protect and safeguard oil and gas pipelines above or below ground, physical security countermeasures, mining operations, and other critical infrastructure / key resources subject to vulnerability or risk. Our patented Brillouin scattering distributed fiber sensing system is best in class. The Company is able to monitor areas in around critical infrastructure buried or above ground including pipelines 100km or more in length and/ or localized pipes as small as 8 CM DIA, detecting internal anomalies before catastrophic failure. We are developing an Intelligent Rock Bolt, to prevent casualties and fatalities in mining operations and include a real time sensor system that can detect the location & movement of personnel & equipment throughout a mining operation. We monitor airflow, air quality, temperature, seismic events, etc. Our sensors cover extended areas, protecting an area from intrusion by detecting events at any location along the sensing cable. Working safely every day is our first core value and employees at DarkPulse and our subsidiary companies are recognized experts in their fields, providing comprehensive services for all our clients' needs.

Our Operating Units

Our operating units consist of, Optilan, a company headquartered in Coventry, United Kingdom whose focus is in telecommunications, energy, rail, critical network infrastructure, pipeline integrity systems, renewables and security; Remote Intelligence, a company headquartered in Pennsylvania who provides unmanned aerial drone and UGC (unmanned ground crawler) services to a variety of clients from industrial mapping and ecosystem services, to search and rescue, to pipeline security; Wildlife Specialists, a company headquartered in Pennsylvania who provides clients with comprehensive wildlife and environmental assessment, planning, and monitoring services; TerraData Unmanned, a company headquartered in Florida who custom manufactures NDAA compliant drones and unmanned ground crawlers to meet the needs of its customers; and TJM West Electronics, a company headquartered in Arizona who is a U.S. manufacturer and test of advanced electronics, cables and sub-assemblies specializing in advanced package and complex CCA and hardware.

Recent Events

Financings

On November 9, 2021, we entered an Equity Financing Agreement (the "**Equity Financing Agreement**") and Registration Rights Agreement (the "**GHS Registration Rights Agreement**") with GHS, pursuant to which GHS agreed to purchase up to \$30,000,000 in shares of our Common Stock, from time to time over the course of 24 months (the "**Contract Period**") after effectiveness of a registration statement on Form S-1 (the "**Registration Statement**") of the underlying shares of Common Stock.

The GHS Registration Rights Agreement provides that we shall (i) use our best efforts to file with the SEC a Registration Statement within 45 days of the date of the GHS Registration Rights Agreement; and (ii) have the Registration Statement declared effective by the SEC within 30 days after the date the GHS Registration Statement is filed with the SEC, but in no event more than 90 days after the GHS Registration Statement is filed.

Pursuant to the Equity Financing Agreement, on January 12, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 23,372,430 shares of Common Stock for total proceeds to us, net of discounts, of \$1,150,000, at an effective price of \$0.054124 per share (the "**Second EFA Closing**"). We received approximately \$1,033,975 in net proceeds from the Second EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Second EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on January 21, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 33,454,988 shares of Common Stock for total proceeds to us, net of discounts, of \$1,150,000, at an effective price of \$0.037812 per share (the "**Third EFA Closing**"). We received approximately \$1,033,975 in net proceeds from the Third EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Third EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on February 7, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 16,040,411 shares of Common Stock for total proceeds to us, net of discounts, of \$500,000, at an effective price of \$0.0342884 per share (the "**Fourth EFA Closing**"). We received approximately \$448,975 in net proceeds from the Fourth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Fourth EFA Closing for working capital and for general corporate purposes.

On February 21, 2022, we sold 75,798,921 shares of our Common Stock at \$0.032982 per share for total consideration of \$2,500,000.

On March 3, 2022, we sold 16,579,569 shares of our Common Stock at \$0.0301576 per share for total consideration of \$500,000.

On March 14, 2022, we sold 5,617,347 shares of our Common Stock at \$0.071208 per share for total consideration of \$400,000.

Pursuant to the Equity Financing Agreement, on March 23, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 29,257,395 shares of Common Stock for total proceeds to us, net of discounts, of \$1,500,000, at an effective price of \$0.056396 per share (the "**Fifth EFA Closing**"). We received approximately \$1,348,975 in net proceeds from the Fifth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Fifth EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on April 11, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 23,746,816 shares of Common Stock for total proceeds to us, net of discounts, of \$1,000,000, at an effective price of \$0.04211091 per share (the "**Sixth EFA Closing**"). We received approximately \$898,975 in net proceeds from the Sixth EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Sixth EFA Closing for working capital and for general corporate purposes.

Pursuant to the Equity Financing Agreement, on May 3, 2022, we and GHS agreed that the Company would issue and sell to GHS, and GHS would purchase from us, 29,522,276 shares of Common Stock for total proceeds to us, net of discounts, of \$1,000,000, at an effective price of \$0.0387273 per share (the "**Seventh EFA Closing**"). We received approximately \$898,975 in net proceeds from the Seventh EFA Closing after deducting the fees and other estimated offering expenses payable by us. We used the net proceeds from the Seventh EFA Closing for working capital and for general corporate purposes.

Going Concern Uncertainty

As shown in the accompanying financial statements, during the three months ended March 31, 2022, the Company reported a net loss of \$5,384,270. As of March 31, 2022, the Company's current liabilities exceeded its current assets by \$7,610,707. As of March 31, 2022, the Company had \$4,785,797 of cash.

We will require additional funding to finance the growth of our operations and achieve our strategic objectives. These factors, as relative to capital raising activities, create doubt as to our ability to continue as a going concern. We are seeking to raise additional capital and are targeting strategic partners in an effort to accelerate the sales and marketing of our products and begin generating revenues. Our ability to continue as a going concern is dependent upon the success of future capital offerings or alternative financing arrangements, expansion of our operations and generating sales. The accompanying financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. Management is actively pursuing additional sources of financing sufficient to generate enough cash flow to fund its operations; however, management cannot make any assurances that such financing will be secured.

Results of Operations

Revenues

For the three months ended March 31, 2022, total revenues were \$2,018,333 compared to \$0 for the same period in 2021, an increase of \$2,018,333. This increase primarily consisted of revenues of \$1,856,961 from Optilan, \$34,094 from Wildlife Specialists and \$118,926 from TJM Electronics as well as \$8,352 from the remaining subsidiaries.

Cost of Goods Sold and Gross Loss

For the three months ended March 31, 2022, cost of goods sold were \$2,348,567 compared to \$0 for the same period in 2021, an increase of \$2,348,567.

Gross loss for the three months ended March 31, 2022 was \$330,234 with a gross loss margin of (16.36)% compared to \$0 for the same period in 2021 with no gross profit margin.

Operating Expenses

Selling, general and administrative expenses for three months ended March 31, 2022 increased by \$948,520, or 3,195%, to \$978,208 from \$29,688 for the three months ended March 31, 2021. The increase primarily consisted of an increase to the operations from our various acquisitions.

Payroll related expenses for three months ended March 31, 2022, increased to \$1,972,067 from \$0 for the three months ended March 31, 2021. The increase primarily consisted of an increase to the numbers of employees inherited from our various acquisitions.

Professional fees for the three months ended March 31, 2022, increased by \$1,463,749 to \$1,538,103 from \$74,354 for the three months ended March 31, 2021. This increase primarily consisted of increased legal expenditures associated with the increase in litigation.

Depreciation and amortization for three months ended March 31, 2022, increased by \$215,857 to \$228,614 from \$12,757 for the three months ended March 31, 2021. This increase is primarily due to the increase in depreciable assets we acquired from new acquisitions.

Other Income (Expense)

For the three months ended March 31, 2022, we had other expense of \$337,043 compared to other income of \$107,675 for the same period in 2021, an increase in expense of \$444,718. This increase in other income primarily consisted of changes of \$35,750 of gain related to the extinguishment of debt, \$156,051 increase in the fair value of the Company's derivative instruments, \$19,853 of gain on foreign currency exchange rate variance, an increase in interest expense of \$486,092 due to increased borrowings associated with acquisitions.

Net Loss

As a result of the above, we reported a net loss of \$5,384,270 and \$51,874 for the three months ended March 31, 2022 and 2021, respectively.

Liquidity and Capital Resources

We require working capital to fund the continued development and commercialization of our proprietary fiber optic sensing devices, and for operating expenses. During the three months ended March 31, 2022, we had \$7,700,000 in new cash proceeds compared to the three months ended March 31, 2021, when we had \$212,750 in new cash proceeds.

As of March 31, 2022, we had cash of \$4,785,797, compared to \$50,714 as of March 31, 2021. We currently do not have sufficient cash to fund our operations for the next 12 months and we will require working capital to complete development, testing and marketing of our products and to pay for ongoing operating expenses. We anticipate adding consultants for technology development and the corresponding operations of the Company, but this will not occur prior to obtaining additional capital. Management is currently in the process of looking for additional investors. Currently, loans from banks or other lending sources for lines of credit or similar short-term borrowings are not available to us. We have been able to raise working capital to fund operations through the issuances of convertible notes or obtained through the issuance of our restricted common stock. As of March 31, 2022, our current liabilities exceeded our current assets by \$7,610,707.

Cash Flows From Operating Activities

During the three months ended March 31, 2022, net cash used by operating activities was \$6,288,504, resulting from our net loss of \$5,384,270 and an increase in expenses related to our convertible notes payables, including increase in inventory of \$1,017,178 and operating lease liabilities of \$440,171. These increases were offset by a decrease in derivative liability of \$125,107, decrease in accounts payable and accrued expenses of \$355,398 and an increase from the gain on the extinguishment of debt of \$35,750, increase in accounts receivable of \$2,523,210, decrease in unbilled revenue of \$255,622 and increase in contract liability of \$1,451,343.

By comparison, during the three months ended March 31, 2021, net cash used by operating activities was \$161,173, resulting from our net loss of \$51,874 partially offset by non-cash expenses totaling \$126,580 and increases in accounts payable and accrued liabilities of \$17,281.

Cash Flows From Investing Activities

During the three months ended March 31, 2022, we had net cash used in investing activities of \$64,980. During the three months ended March 31, 2021, net cash used by investing activities was \$1,200, of capitalized patents costs of \$1,200.

Cash Flows From Financing Activities

During the three months ended March 31, 2022, net cash provided by financing activities was \$7,700,000 which was comprised of proceeds from the sale of common stock from offering of \$7,700,000. During the three months ended March 31, 2021, net cash used by financing activities was \$212,750, which was comprised of proceeds from issuance of convertible notes payable of \$212,750.

Factors That May Affect Future Results

Management's Discussion and Analysis contains information based on management's beliefs and forward-looking statements that involve a number of risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from the forward-looking statements as a result of various factors, including but not limited to, our ability to obtain the equity funding or borrowings necessary to market and launch our products, our ability to successfully serially produce and market our products; our success establishing and maintaining collaborative licensing and supplier arrangements; the acceptance of our products by customers; our continued ability to pay operating costs; our ability to meet demand for our products; the amount and nature of competition from our competitors; the effects of technological changes on products and product demand; and our ability to successfully adapt to market forces and technological demands of our customers.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our consolidated financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity capital expenditures or capital resources.

Recent Accounting Pronouncements

We have provided a discussion of recent accounting pronouncements in Note 1 to the Condensed Financial Statements.

As a smaller reporting company, the Company has elected not to provide the disclosure required by this item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and, as such, is accumulated and communicated to our Chief Executive Officer, Dennis O'Leary, who serves as our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Mr. O'Leary, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of March 31, 2022. Based on his evaluation, Mr. O'Leary concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2022.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting, as defined in Rules 13a-15(f) of the Exchange Act, during our quarter ended March 31, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

DarkPulse, Inc. v. Twitter, Inc.

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company's investigation of the Investor News matter remains ongoing.

Carebourn Capital, L.P. v. DarkPulse, Inc.

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with Carebourn Capital, L.P. ("**Carebourn**"). The remainder of this disclosure will address all material updates since the aforementioned Form 10-K.

On April 11, 2022, the Court held a hearing on Carebourn's Motion to Compel DarkPulse. As of the date hereof, no decision has been rendered on Carebourn's motion. On April 14, 2022, the Court granted the Company's Motion to Enforce the Protective Order, and simultaneously denied Carebourn's request for reconsideration of Carebourn's Motion for Dispositive Relief. On April 27, 2022, the Court awarded the Company \$18,858.18 in attorneys' fees from Carebourn in connection with the Court's April 14, 2022 decision on the Company's Motion to Compel Carebourn. Carebourn has been ordered to pay the \$18,858.18 on or before July 26, 2022.

The Company remains committed to actively litigating its claims for relief under the Securities Exchange Act of 1934.

More Capital, LLC v. DarkPulse, Inc. et al

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with More Capital, LLC ("**More**"). The remainder of this disclosure will address all material updates since the aforementioned Form 10-K.

On April 11, 2014, the Court held a hearing on the Company's Motion to Compel More and More's Motion for Summary Judgment. As of the date hereof, no decision has been rendered on either of the aforesaid motions.

The Company remains committed to actively litigating its claims for relief under the Securities Exchange Act of 1934.

Goodman et al. v. DarkPulse, Inc.

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with Stephen Goodman ("**Goodman**"), Mark Banash ("**Banash**"), and David Singer ("**Singer**") (Goodman, Banash, and Singer together, the "**Series D Plaintiffs**"). As of April 15, 2022, there has been no material updates to this litigation.

The Company remains committed to actively litigating its claims and defenses against the Series D Plaintiffs.

DarkPulse, Inc. v. FirstFire Global Opportunities Fund, LLC, and Eli Fireman (SDNY)

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with FirstFire Global Opportunities Fund, LLC

("FirstFire"), and Eli Fireman ("Fireman") (FirstFire and Fireman together, the "FirstFire Parties"). The remainder of this disclosure will address all material updates since the aforementioned Form 10-K.

On May 5, 2022, the Company filed its amended complaint ("FirstFire Amended Complaint"). Accordingly, the FirstFire Parties' answer or motion in response to the FirstFire Amended Complaint is due on or before May 19, 2022.

FirstFire Global Opportunities Fund, LLC v. DarkPulse, Inc. (Del. Chancery Court)

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, there are no material updates to this litigation and the Company maintains its view that the FirstFire Delaware Chancery matter is fully disclosed. Absent any future material developments, no further disclosures will be made about the FirstFire Delaware Chancery matter.

DarkPulse, Inc. v. EMA Financial, LLC et al

As disclosed in greater detail in the Company's Form 10-K, filed April 15, 2022, the Company remains in active litigation with EMA Financial, LLC ("EMA"), EMA Group, Inc. ("EMA Group"), and Felicia Preston ("Preston") (EMA, EMA Group, and Preston together, the "EMA Parties"). The remainder of this disclosure will address all material updates since the aforementioned Form 10-K.

On March 28, 2022, the Company filed its first amended complaint against the EMA Parties (the "EMA Amended Complaint"). On April 22, 2022, the Company and the EMA Parties entered into a Stipulation, which the Court so ordered on May 3, 2022, and established the EMA Parties were required to file and serve their answer and/or pre-motion letter for a motion under Rule 12 to the EMA Amended Complaint on or before June 21, 2022.

The Company remains committed to actively litigating its claims for relief under the Securities Exchange Act of 1934.

Item 6. Exhibits

SEC Ref. No.	Title of Document
31.1*	Rule 13a-14(a) Certification by Principal Executive and Financial Officer
32.1**	Section 1350 Certification of Principal Executive and Financial Officer
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in inline XBRL, and included in exhibit 101).

*Filed with this Report.

**Furnished with this Report.

SIGNATURES

Pursuant to 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.

DarkPulse, Inc.

Date: May 16, 2022

By /s/ Dennis O'Leary
Dennis O'Leary, Chairman, Chief Executive Officer, President, Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

CERTIFICATIONS

I, Dennis O'Leary, certify that:

1. I have reviewed this Form 10-Q quarterly report of DarkPulse, Inc. for the quarter ended March 31, 2022;
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. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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. I have disclosed, based on my 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: May 16, 2022

/s/ Dennis O'Leary

Dennis O'Leary, Chief Executive Officer
(Principal Executive & Financial Officer)

**CERTIFICATION 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 DarkPulse, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission (the “Report”), the undersigned principal executive and principal financial officer of the Company, hereby certifies 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) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 16, 2022

/s/ Dennis O’Leary

Dennis O’Leary, Chief Executive Officer
(Principal Executive & Financial Officer)