

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

**FORM 10-K**

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

For the fiscal year ended: **April 30, 2023**

☐ **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: 000-55036

**NETCAPITAL INC.**

(Exact name of registrant as specified in its charter)

**Utah**

(State or other jurisdiction of incorporation or organization)

**87-0409951**

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

**1 Lincoln Street Boston, MA 02111**

(Address of Principal Executive Offices)

**(781) 925-1700**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, par value \$0.001 per share</b>	<b>NCPL</b>	<b>The Nasdaq Stock Market LLC</b>
<b>Redeemable warrants exercisable for one share of Common Stock at an exercise price of \$5.19</b>	<b>NCPLW</b>	<b>The Nasdaq Stock Market LLC</b>

Securities registered under Section 12(g) of the Exchange Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

Large accelerated filer ☐  
Emerging growth company ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting 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 aggregate market value of registrant's voting and non-voting common equity held by non-affiliates (as defined by Rule 12b-2 of the Exchange Act) computed by reference to the average bid and asked price of such common equity on October 31, 2022 was \$4,424,996.

As of July 26, 2023 the registrant has one class of common equity, and the number of shares outstanding of such common equity was 9,415,382

Documents Incorporated By Reference: None.

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## FORWARD-LOOKING STATEMENTS

We caution readers that this Form 10-K contains forward-looking statements as that term is defined in the Exchange Act. In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other comparable terminology. We hereby qualify all our forward-looking statements by the following cautionary statements. Forward-looking statements are predictions and not guarantees of future performance or events. Forward-looking statements are based on current expectations rather than historical facts and relate to future events or future financial performance. Such statements are based on currently available financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from historical experience and present expectations. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. Undue reliance should not be placed on forward-looking statements as such statements speak only as of the date on which they are made. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Some of the factors that could affect our financial performance, cause actual results to differ from our estimates, or underlie such forward-looking statements, are set forth below and in various places in this Form 10-K, including under the headings Item 1. “Business” and Item 1A. “Risk Factors” in this Form 10-K. These factors include:

- capital requirements and the availability of capital to fund our growth and to service our existing debt;
- difficulties executing our growth strategy, including attracting new issuers and investors;
- our anticipated use of the net proceeds from our recent public offering;
- economic uncertainties and business interruptions resulting from the coronavirus COVID-19 global pandemic and its aftermath;
- as restrictions related to the coronavirus COVID-19 global pandemic are removed and face-to-face economic activities normalize, it may be difficult for us to maintain the recent sales gains that we have experienced;
- all the risks of acquiring one or more complementary businesses, including identifying a suitable target, completing comprehensive due diligence uncovering all information relating to the target, the financial stability of the target, the impact on our financial condition of the debt we may incur in acquiring the target, the ability to integrate the target's operations with our existing operations, our ability to retain management and key employees of the target, among other factors attendant to acquisitions of small, non-public operating companies;
- difficulties in increasing revenue per issuer;
- challenges related to hiring and training fintech employees at competitive wage rates;
- difficulties in increasing the average number of investments made per investor;
- shortages or interruptions in the supply of quality issuers;
- our dependence on a small number of large issuers to generate revenue;
- negative publicity relating to any one of our issuers;
- competition from other online capital portals with significantly greater resources than we have;
- changes in investor tastes and purchasing trends;
- our inability to manage our growth;

- our inability to maintain an adequate level of cash flow, or access to capital, to meet growth expectations;
- changes in senior management, loss of one or more key personnel or an inability to attract, hire, integrate and retain skilled personnel;
- labor shortages, unionization activities, labor disputes or increased labor costs, including increased labor costs resulting from the demand for qualified employees;
- our vulnerability to increased costs of running an online portal on Google Cloud Platform and Amazon Web Services;
- the impact of governmental laws and regulation;
- failure to obtain or maintain required licenses;
- changes in economic or regulatory conditions and other unforeseen conditions that prevent or delay the development of a secondary trading market for shares of equity that are sold on our online portal;
- inadequately protecting our intellectual property or breaches of security of confidential user information; and

You are cautioned that all forward-looking statements involve risks and uncertainties. We undertake no obligation to amend this Form 10-K or revise publicly these forward-looking statements (other than pursuant to reporting obligations imposed on registrants pursuant to applicable federal securities laws) to reflect subsequent events or circumstances.

#### **RISK FACTOR SUMMARY**

Our business is subject to significant risks and uncertainties that make an investment in us speculative and risky. Below we summarize what we believe are the principal risk factors but these risks are not the only ones we face, and you should carefully review and consider the full discussion of our risk factors in the section titled “Risk Factors,” together with the other information in this Annual Report on Form 10-K. If any of the following risks actually occurs (or if any of those listed elsewhere in this Annual Report on Form 10-K occur), our business, reputation, financial condition, results of operations, revenue, and future prospects could be seriously harmed. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. Unless the context otherwise requires, references in this Annual Report on Form 10-K to the “Company,” “we,” “us,” “our,” and “Netcapital” refer to Netcapital Inc. and its subsidiaries.

##### **Risks Related to Our Need for Additional Capital**

We will need to raise additional funding, which may not be available on acceptable terms, or at all. Failure to obtain this necessary capital when needed may force us to delay, limit or terminate operations.

##### **Risks Related to our Business and Growth Strategy**

- We have a limited operating history and cannot assure you that our business will maintain profitability.
- We operate in a highly regulated industry and those regulations are constantly evolving and may be interpreted in ways that could impact our business.
- Our wholly owned subsidiary, Netcapital Funding Portal Inc. has licensed the technology necessary to operate our funding portal and if Netcapital Funding Portal Inc. fails to comply with any obligations under this license agreement, it may be subject to termination which could severely impact our ability to operate our funding portal and would adversely affect our business, financial position and results of operations.
- Our products face significant competition, and if they are unable to compete successfully, our business may suffer.

**Risks Related to Receipt of Securities for Services**

- We are not, and do not intend to become, regulated as an investment company under the U.S. Investment Company Act of 1940, as amended, or the 40 Act, (and similar legislation in other jurisdictions) and if we are deemed an “investment company” under the 40 Act applicable restrictions would make it impractical for us to operate as contemplated.

**Risk Factors Related to Our Common Stock**

- If we are unable to maintain listing of our securities on The Nasdaq Capital Market or any stock exchange, our stock price could be adversely affected and the liquidity of our stock and our ability to obtain financing could be impaired.
- The market price of our common stock is highly volatile and could be subject to volatility related or unrelated to our operations.
- Market and economic conditions may negatively impact our business, financial condition and share price.
- Future sales and issuances of our securities could result in additional dilution of the percentage ownership of our shareholders and could cause our share price to fall.
- Our common stock may be subject to the “penny stock” rules of the SEC and the trading market in the securities is limited, which could make transactions in the stock cumbersome and may reduce the value of an investment in the stock.
- We do not intend to pay cash dividends on our shares of common stock so any returns will be limited to the value of our shares.

## ITEM 1. BUSINESS.

### Overview

Netcapital Inc. is a fintech company with a scalable technology platform that allows private companies to raise capital online from accredited and non-accredited investors. We give virtually all investors the opportunity to access investments in private companies. Our model is disruptive to traditional private equity investing and is based on Title III, Reg CF of the JOBS Act. We generate fees from listing private companies on our portal. Our consulting group, Netcapital Advisors, provides marketing and strategic advice in exchange for cash and equity positions. The Netcapital funding portal is registered with the SEC, is a member of the Financial Industry Regulatory Authority, or FINRA, a registered national securities association, and provides investors with opportunities to invest in private companies.

### Development of Business

The Company was incorporated in Utah in 1984 as DBS Investments, Inc., or DBS. DBS merged with ValueSetters L.L.C. in December 2003 and changed its name to ValueSetters, Inc. In November 2020, the Company purchased Netcapital Funding Portal Inc. (the “Funding Portal”) and changed the name of the Company from ValueSetters, Inc. to Netcapital Inc.

The Company has three operating subsidiaries. The Funding Portal provides private companies with access to investments from accredited and non-accredited retail investors through our online portal (www.netcapital.com). The Funding Portal charges a \$5,000 to \$10,000 engagement fee, a 4.9% success fee for capital raised at closing and sometimes is paid with equity from the issuer that has listed on the Funding Portal. In addition, the Funding Portal generates fees for other ancillary services, such as rolling closes. Netcapital Advisors Inc. generates fees and equity stakes from consulting in select portfolio and non-portfolio clients. MSG Development Corp. provides corporate valuation services to businesses and individuals.

### Funding Portal

Netcapital.com is an SEC-registered funding portal that enables private companies to raise capital online, while investors are able to invest from almost anywhere in the world, at any time, with just a few clicks. Securities offerings on the portal are accessible through individual offering pages, where companies include product or service details, market size, competitive advantages, and financial documents. Companies can accept investment from virtually anyone, including friends, family, customers, employees, etc. Customer accounts on our platform are not permitted to hold digital securities.

In addition to access to the Funding Portal, the Funding Portal provides the following services:

- a fully automated onboarding process;
- automated filing of required regulatory documents;
- compliance review;
- custom-built offering page on our portal website;
- third party transfer agent and custodial services;
- rolling closes, which provide potential access to liquidity before final close date of offering;
- assistance with annual filings; and
- direct access to our team for ongoing support.

### ***Consulting Business***

Our consulting group, Netcapital Advisors helps companies at all stages to raise capital. Netcapital Advisors provides strategic advice, technology consulting and online marketing services to assist with fundraising campaigns on the Netcapital platform. We also act as an incubator and accelerator, taking equity stakes in select disruptive start-ups.

Netcapital Advisors' services include:

- incubation of technology start-ups;
- investor introductions;
- online marketing;
- website design, software and software development;
- message crafting, including pitch decks, offering pages, and ad creation;
- strategic advice; and
- technology consulting.

### ***Valuation Business***

Our valuation group, MSG Development Corp. prepares valuations.

The valuation services include:

- business valuations;
- fairness and solvency opinions;
- ESOP feasibility and valuation;
- non-cash charitable contributions;
- economic analysis of damages;
- intellectual property appraisals; and
- compensation studies.

### **Competition**

We compete with a number of public and private companies that provide assistance with capital raising, strategy, technology consulting, and digital marketing. Most of our competitors have significant financial resources and occupy entrenched positions in the market with name-brand recognition. The majority of our capital raising and digital marketing business is on the Internet.

The barriers to entry into most Internet markets are relatively low, making them accessible to a large number of entities and individuals. We believe the principal competitive factors in our industry that create certain barriers to entry include but are not limited to reputation, technology, financial stability and resources, proven track record of successful operations, critical mass, and independent oversight and transparency of business practices. Obtaining approval from FINRA to operate as a funding portal is also a barrier to entry due to the significant internal control and capital requirements. While these barriers may limit those able to enter or compete effectively in the market, it is likely that new competitors as well as laws and regulations of governmental authority may be established in the future, in addition to our known current competitors.

We face significant competition in every aspect of our business, including from companies that facilitate online capital formation and the sharing of content and information, companies that enable marketers to display advertising, companies that distribute video and other forms of media content, and companies that provide development platforms for applications developers. We compete to attract, engage, and retain customers, to attract and retain marketers, and to attract and retain developers to build compelling applications that integrate with our products.

Increased competition from current and future competitors may in the future materially adversely affect our business, revenues, operating results and financial condition.

## Industry Regulation

In an effort to enhance economic growth and to democratize access to private investment opportunities, Congress finalized the Jumpstart Our Business Startups Act (JOBS Act) in 2016. Title III of the JOBS Act enabled early-stage companies to offer and sell securities to the general public for the first time. The SEC then adopted Regulation Crowdfunding, or Reg CF, in order to implement the JOBS Act's crowdfunding provisions.

Reg CF has several important features that changed the landscape for private capital raising and investment. For the first time, this regulation:

- Allowed the general public to invest in private companies, no longer limiting early-stage investment opportunities to less than 10% of the population;
- Enabled private companies to advertise their securities offerings to the public (general solicitation); and
- Conditionally exempted securities sold under Section 4(a)(6) from the registration requirements of the Securities and Exchange Act of 1934.

We are subject, both directly and indirectly, to various laws and regulations relating to our business. If any of the laws are amended, compliance could become more expensive and directly affect our income. We intend to comply with such laws, but new restrictions may arise that could materially adversely affect our Company. Specifically, the SEC regulates our funding portal business, and our funding portal is also a member of FINRA and is regulated by FINRA. We are also subject to the USA Patriot Act of 2001, which contains anti-money laundering and financial transparency laws and mandates various regulations applicable to financial services companies, including standards for verifying client identification at account opening, and obligations to monitor client transactions and report suspicious activities. Anti-money laundering laws outside of the United States contain some similar provisions. Our failure to comply with these requirements as applicable to us could have a material adverse effect on us.

## Our Market

The traditional funding model restricts access to capital, investments and liquidity. According to Harvard Business Review, venture capital firms, or VCs, invest in fewer than 1% of the companies they consider and only 10% of VC meetings are obtained through cold outreach. In addition, only 2% of VC funding went to women in 2022, according to PitchBook, while only 1% went to black-owned firms, according to TechCrunch.

Furthermore, under the traditional model, the average investor lacked access to early-stage investments. Prior to the JOBS Act, almost 90% of U.S. households were precluded from investing in private deals, per dcydj.com. Liquidity has also been an issue, as private investments are generally locked up until IPO or takeout.

The JOBS Act helped provide a solution to these issues by establishing the funding portal industry, which is currently in its infancy. Title III of the JOBS Act outlines Reg CF, which traditionally allowed private companies to raise up to \$1.07 million from all Americans. In March 2021, regulatory enhancements by the SEC went into effect and increased the limit to \$5 million. These amendments increased the offering limits for Reg CF, Regulation A and Regulation D, Rule 504 offerings as follows: Reg CF increased to \$5 million; Regulation D, Rule 504 increased to \$10 million from \$5 million; and Regulation A Tier 2 increased to \$75 million from \$50 million.

There was \$494 million raised via Reg CF in 2022, according to Crowdwisely. We believe a significant opportunity exists to disrupt private capital markets via the Netcapital funding portal.

Private capital markets reached \$12 trillion by the first half of 2022, per McKinsey. Within this market, private equity represents the largest share, with assets in excess of \$3 trillion and a 10-year CAGR of 10%. Since 2000, global private equity, or PE, net asset value has increased almost tenfold, nearly three times faster than the size of the public equity market. Both McKinsey and Boston Consulting Group predict that this strong growth will continue, as investors allocate increasing amounts to private equity, due to historically higher returns and lower volatility than public markets. In addition, Boston Consulting Group estimates that there are \$42 trillion held in retail investment accounts, which we believe represents a large pool of potential account holders for us.



## **Our Technology**

The Netcapital platform is a scalable, real-time, transaction-processing engine that runs without human intervention, 24 hours a day, seven days a week.

For companies raising capital, the technology provides fully automated onboarding with integrated regulatory filings. Funds are collected from investors and held in escrow until the offering closes. For entrepreneurs, the technology facilitates access to capital at low cost. For investors, the platform provides access to investments in private, early-stage companies that were previously unavailable to the general public. Both entrepreneurs and investors can track and view their investments through their dashboard on netcapital.com. The platform currently has more than 100,000 users.

Scalability was demonstrated in November 2021, when the platform processed more than 2,000 investments in less than two hours, totaling more than \$2 million.

Our infrastructure is designed in a way that can horizontally scale to meet our capacity needs. Using Docker containers and Amazon Elastic Container Service, or Amazon ECS, we are able to automate the creation and launch of our production web and application programming interface, or API, endpoints in order to replicate them as needed behind Elastic Load Balancers (ELBs).

Additionally, all of our public facing endpoints live behind CloudFlare to ensure protection from large scale traffic fluctuations (including DDoS attacks).

Our main database layer is built on Amazon RDS and features a Multi-AZ deployment that can also be easily scaled up or down as needed. General queries are cached in our API layer, and we monitor to optimize very complex database queries that are generated by the API. Additionally, we cache the most complex queries (such as analytics data) in our NoSQL (Mongo) data store for improved performance.

Most of our central processing unit, or CPU, intensive data processing happens asynchronously through a worker/jobs system managed by AWS ElastiCache's Redis endpoint. This component can be easily fine-tuned for any scale necessary.

The technology necessary to operate our funding portal is licensed from Netcapital Systems LLC, a Delaware limited liability company, of which Jason Frishman, Netcapital Founder, owns a 29% interest, under a license agreement with the Funding Portal. Payments under the licensing agreement amounted to \$430,000 and \$357,429 in the years ended April 30, 2023 and 2022, respectively.

## **Proposed Alternative Trading System ("ATS") Relationship**

On January 2, 2023, our wholly owned subsidiary, Netcapital Systems LLC entered into a software license and services agreement ("Templum License Agreement") with Templum, Inc ("Templum") to provide issuers and investors on the Netcapital funding portal with the potential for greater distribution and liquidity. Templum is a company that provides capital markets infrastructure for trading private equity securities and operates an ATS with approval in 53 U.S. states and territories for the trading of unregistered or private securities.

The Templum License Agreement allows us to launch a customized marketplace for the trading of private securities issued under an exemption to the Securities Act of 1933, as amended. Templum operates an alternative trading system under the provisions of Regulation ATS. The Templum License Agreement is for an initial term of three (3) years and will automatically renew for consecutive terms of one (1) year unless (i) either party upon at least ninety (90) days prior to the expiration of the initial term or then-current renewal term, provides written notice to the other party of its intention not to renew, in which case the agreement and the applicable order and technology services and pricing outline will expire, as the case may be, at the end of the then current initial term or renewal term; or (ii) either party terminates the agreement pursuant to and in accordance with the terms and conditions set forth in the agreement. Netcapital Systems paid Templum an implementation fee upon signing of the Agreement.

The Templum License Agreement grants Netcapital Systems a limited, revocable, non-exclusive, non-transferable, and non-sublicensable right and license to use Templum's software and to provide its users access to the software. Notwithstanding the foregoing, Netcapital Systems shall be Templum's exclusive registered crowdfunding platform partner and Templum shall not provide services to any third-party whose primary business is providing services as a registered crowdfunding platform except as noted in the agreement. Netcapital Systems agreed to pay Templum a discounted license fee in year 1, and a standard license fee in years 2 and 3. After conclusion of the initial 3-year term, the annual license fee will increase by the greater of CPI+3% or 5% for each renewal term.

A beta testing platform has been established and the functionality is currently being tested. Additional milestones required to launch the platform to the public include, but are not limited to, development of the know-your-customer (KYC) and anti-money laundering (AML) functionality as well as a launch of the beta version to a closed group of users, which is currently expected in the fourth quarter of 2023. Currently, we do not know when, or if, this platform will be fully completed and launched, as there are many details that remain to be completed as well as certain regulatory matters that are required to be satisfied regarding the proposed operation of the ATS. Any regulatory delays or objections will result in delays in our ability to launch the proposed platform.

It is currently contemplated that the Templum ATS will be integrated with the Netcapital funding platform, and that issuers and investors will not be able to directly access the Templum ATS. Rather, we will be responsible for collecting and delivering any required information to the Templum ATS. Once an order request has been submitted and the Templum ATS has identified two-order (bid/ask) matching at the price level, it will inform us so that we can initiate the process of wallet reconciliation between the two proposed parties in the transaction.

## **Competitive Advantages**

We believe we provide a low-cost solution for online capital raising versus our peer group (StartEngine Crowdfunding, Inc., Wefunder Inc. and Republic Core LLC). We also believe that our access and onboarding of new clients are superior due to our facilitated technology platforms. Our network is expanding as a result of our enhanced marketing and broad distribution to reach new investors. Given the rapid growth in the industry and its potential to disrupt the multi-billion dollar private capital market, we believe there is sufficient room for multiple players.

## **Our Strategy**

Two major tailwinds are driving accelerated growth in the shift to the use of online funding portals: (i) the COVID-19 pandemic; and (ii) the increase in funding limits under Reg CF. The pandemic drove a rapid need to bring as many processes as possible online. With travel restrictions in place and most people in lockdown, entrepreneurs were no longer able to fundraise in person and have increasingly turned to online capital raising through funding portals.

There are numerous industry drivers and tailwinds that complement investor demand for access to investments in private companies. To capitalize on these, our strategy is to:

- **Generate New Investor Accounts.** Growing the number of investor accounts on our platform is a top priority. Investment dollars continuing to flow through our platform is a key revenue driver. When issuers advertise their offerings, they are generating new investor accounts for us at no cost to Netcapital. We plan to supplement our issuers' spend on advertising by increasing our online marketing spend as well, which may include virtual conferences going forward.
- **Hire Additional Business Development Staff.** We seek to hire additional business development staff that is technology and financially passionate about capital markets to handle our growing backlog of potential customers.
- **Increase the Number of Companies on Our Platform via Marketing.** When a new company lists on our platform, they bring their customers, supporters, and brand ambassadors as new investors to Netcapital. We plan to increase our marketing budget to help grow our portal and advisory clients.
- **Invest in Technology.** Technology is critical to everything that we do. We plan to invest in developing innovative technologies that enhance our platform and allow us to pursue additional service offerings. For example, we plan on offering the ability to purchase securities sold under Regulation A.
- **Incubate and Accelerate Our Advisory Portfolio Clients.** The advisory portfolio and our equity interests in select advisory clients represent potential upside for our shareholders. We seek to grow this model of advisory clients.
- **Expand Internationally.** We believe there is a significant opportunity to expand into Europe and Asia as an appetite abroad grows for U.S. stocks.
- **Open ATS/Secondary Transfer Feature.** Lack of liquidity is a key issue for investors in private companies as private markets lack a liquidity feature in our targeted market. In January 2023, we entered into software license and services agreement with Templum Markets LLC, operator of an ATS with approval in 53 U.S. states and territories, for the trading of unregistered or private securities to provide issuers and investors on the Netcapital funding portal with the potential for greater distribution and liquidity. A beta testing platform has been established and the functionality is currently being tested.
- **New Verticals Represent a Compelling Opportunity.** We operate in a regulated market supported by the JOBS Act. We may pursue expansion to our model to include Regulation A and Regulation D offerings.

#### **Industry Tailwinds**

Two major tailwinds are driving accelerated growth in the shift to digital fundraising: the COVID-19 pandemic and regulatory enhancements to the Jobs Act. The pandemic drove a rapid need to bring as many processes as possible online. With travel restrictions in place and most people in lockdown, entrepreneurs were no longer able to fundraise in person and have increasingly turned to online capital raising through funding portals.

In addition, exempt offering regulatory enhancements proposed by the SEC in 2020 went into effect in March 2021. These amendments increased the offering limits for Reg CF, Regulation A and Rule 504 of Regulation D offerings as follows: the Reg CF limit increased to \$5 million from \$1.07 million, every twelve months. Rule 504 of Regulation D moved to \$10 million from \$5 million and Regulation A Tier 2 rose to \$75 million from \$50 million.

#### **Investment Portfolio**

A key part of our story involves the potential value creation driven by our portfolio companies. In our portfolio, we focus on companies with emerging, disruptive technologies. A partial list of our investment portfolio is described below:

**KingsCrowd****Industry: Fintech**

Trusted by over 300,000 investors to vet startup investments, KingsCrowd, Inc. is a leader in ratings and analytics for online private markets. The company aggregates, analyzes, and rates companies raising on platforms like Netcapital to help investors make more informed decisions.

**ChipBrain****Industry: AI**

Effective communicators close more deals. ChipBrain LLC's emotionally intelligent AI assistant provides real-time emotion, tone, and facial expression feedback in live conversations across text, voice, and video. Taking the guesswork out of identifying conversational cues, the company's technology enables sales professionals to see at a glance how they are coming across to customers.

**ScanHash LLC****Industry: AI**

With the click of a button and the wallet owner's permission, ScanHash's innovative program launches and immediately integrates with customers' technology systems to search for clues and traces of their private key, digital wallets and other crypto-enabling logs and records. Thanks to ScanHash's proprietary digital forensics technology, recovering lost cryptocurrency is affordable, accessible, and safe.

**Zelgor****Industry: Mobile Games**

Backed by famous venture capitalist Tim Draper, napster founder, Shawn Fanning, and co-creator of Guitar Hero, Kai Huang, Zelgor Inc. is an interactive entertainment company featuring a new species of rambunctious alien characters called The Noobs. The Noobs are a unique and original intellectual property introduced to the world through mobile games, multimedia content, and strategic partnerships.

**MustWatch****Industry: Technology**

MustWatch LLC brings your friends and favorite shows together all in one place. The Watch Party app makes it easy to find new shows, see what your friends are watching, and recommend great shows to each other. The company's platform delivers targeted show recommendations based on the television viewing tastes of users' friends and family. It's not a single streaming platform's media catalog, but a cross-platform television guide, crowdsourced from your friends and family.

**C-Reveal Therapeutics****Industry: Cancer Immunotherapy**

C-Reveal Therapeutics's proprietary technology, developed at Massachusetts General Hospital and Harvard University, helps the body's immune system to identify and destroy cancer cells by inhibiting key enzymes that conceal the disease. This patent pending approach is designed to improve the efficacy of treating a broad range of cancers.

**Hiveskill LLC**

**Industry: AI**

The product is an AI-powered database and CRM hybrid that uses data and emotionally intelligent AI to boost direct one-to-one marketing efforts. It also provides specialized experts who know how to leverage your company's data.

**Caesar Media Group Inc.****Industry: Marketing**

Caesar Media Group, Inc. is an advanced marketing and technology solutions provider. Caesar Media Group is designed to leverage its technology and data to provide lead generation, search engine optimization (SEO) website development, project development, digital marketing, content management, customer service, and sales management.

Although each of the above companies possesses potential to be a valuable liquid asset for our Company, they are subject to swings in their valuation and on a quarter-to-quarter basis, may create extreme volatility in our earnings report, as we mark the value of the investment to the most recent observable price. Some of our investments may decrease to a value of zero dollars.

**Major Customers**

For the year ended April 30, 2023, the Company had one customer that constituted 25% of its revenues, and four customers that each constituted 14% of its revenues. For the year ended April 30, 2022, the Company had one customer that constituted 22% of its revenues, a second customer that constituted 22% of its revenues, and a third customer that constituted 18% of its revenues.

**Recent Developments***May 2023 Registered Direct Offering*

On May 23, 2023, we entered into a securities purchase agreement with certain institutional investors, pursuant to which we agreed to issue and sell to such investors, in a registered direct offering (the "Offering"), 1,100,000 shares (the "Shares") of our common stock at a price of \$1.55 per Share, for aggregate gross proceeds of \$1,705,000, before deducting the placement agent's fees and other offering expenses payable by the Company. The Offering closed on May 25, 2023 and we received aggregate net proceeds of \$1,468,700. The Shares were offered and issued and sold pursuant to the Company's shelf registration statement on Form S-3 (File 333-267921) filed by the Company with the SEC under the Securities Act of 1933, as amended (the "Securities Act"), on October 18, 2022 and declared effective on October 26, 2022.

We used approximately \$365,000 of the net proceeds from the Offering to repay certain indebtedness, and the remainder of net proceeds for working capital and general corporate purposes.

Also in connection with the Offering, on May 23, 2023, we entered into a placement agency agreement with ThinkEquity (the "Placement Agent"), pursuant to which (i) the Placement Agent agreed to act as placement agent on a "best efforts" basis in connection with the Offering, (ii) we agreed to pay the Placement Agent an aggregate fee equal to 8.0% of the gross proceeds raised in the Offering, and to reimburse the Placement Agent for certain expenses, and (iii) we agreed to issue to the Placement Agent warrants to purchase up to 55,000 shares of Common Stock at an exercise price of \$1.94 (the "Placement Agent Warrants"), which were issued on May 25, 2023. The Placement Agent Warrants (and the shares of Common Stock issuable upon the exercise of the Placement Agent Warrants) were not registered under the Securities Act, and were offered pursuant to an exemption from the registration requirements of the Securities Act provided in Section 4(a)(2) of the Securities Act and Rule 506(b) promulgated thereunder.

*Repayment of Secured Debt*

On May 25, 2023, we paid \$367,167 to our secured lender, Vaxstar LLC, to pay off the remaining \$350,000 principal balance and \$17,167 in interest, using a portion of the net proceeds of the Offering. Following repayment to Vaxstar LLC the facility was closed and all related agreements were terminated in accordance with their terms.

*Recent Common Stock Issuances.*

In April and May 2023, we issued an aggregate of 450,000 shares of common stock to consultants in consideration of services rendered. In addition, in July 2023, we issued 49,855 shares of common stock to an unrelated third party, in consideration of a release from such third party related to settlement of an outstanding debt between such third-party and Netcapital DE LLC. We did not receive any proceeds from these issuances. Such shares were issued as restricted securities and were issued pursuant to the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

#### *July 2023 Public Offering*

On July 24, 2023 the Company completed an underwritten public offering of 1,725,000 shares of the Company's common stock, at a price to the public of \$0.70 per share for aggregate gross proceeds of \$1,207,500, before deducting underwriting discounts and offering expenses payable by the Company. In conjunction with this offering, the Company issued the underwriter and its designees warrants to purchase 86,250 shares of our common stock at an exercise price of \$0.875.

#### **Corporate Information**

Our principal executive offices are located at State Street Financial Center, One Lincoln Street, Boston, Massachusetts and our telephone number is 781-925-1700. We maintain a corporate website with the address <http://www.netcapitalinc.com>, our funding portal maintains a website with the address <http://www.netcapital.com>, Netcapital Advisors maintains a website at <http://www.netcapitaladvisors.com> and our valuation business maintains a website at <https://valucorp.com/>. We have not incorporated by reference into this Report on Form 10-K the information on any of our websites and you should not consider any of such information to be a part of this document. Our website addresses are included in this document for reference only.

We make available free of charge through our corporate website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports through a link to the EDGAR database as soon as reasonably practicable after we electronically file such material with, or furnish such material to the SEC. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1.800.SEC.0330. In addition, the SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including all of our filings.

## ITEM 1A. RISK FACTORS.

*Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.*

### **Risks Related to Our Need for Additional Capital**

*We will need to raise additional funding, which may not be available on acceptable terms, or at all. Failure to obtain this necessary capital when needed may force us to delay, limit or terminate operations.*

Our cash balances at April 30, 2023 and July 25, 2023 were \$569,441 and \$1,256,200, respectively. We will need to raise additional capital following the date of this report through the offering of additional equity and/or debt securities and/or the sale of equity positions in certain portfolio companies for which Netcapital Advisors provides marketing and strategic advice. In the event that we are not able to raise additional working capital through these methods, we do not expect that our cash on hand will be sufficient to fund our current operations for the next 12 months. Our operating plan may change as a result of many factors currently unknown to us, and we may need to seek additional funds sooner than planned, through public or private equity or debt financings, government or other third-party funding or a combination of these approaches. Raising funds in the current economic environment may present additional challenges. Even if we believe we have sufficient funds for our current or future operating plans, we may seek additional capital if market conditions are favorable or if we have specific strategic considerations.

Any additional fundraising efforts may divert our management from their day-to-day activities. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. Moreover, the terms of any financing may adversely affect the holdings or the rights of our stockholders and the issuance of additional securities, whether equity or debt, by us, or the possibility of such issuance, may cause the market price of our shares of common stock to decline. The sale of additional equity or convertible securities may dilute our existing stockholders. The incurrence of indebtedness would result in increased fixed payment obligations, and we may be required to agree to certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. We could also be required to seek funds through arrangements with collaborative partners or otherwise at an earlier stage than otherwise would be desirable and we may be required to relinquish rights to some of our technologies or product candidates or otherwise agree to terms unfavorable to us, any of which may have a material adverse effect on our business, operating results and prospects.

### **Risks Related to Our Business and Growth Strategy**

*We have a limited operating history and our profits have been generated primarily by unrealized gains from equity securities we own in other companies. Although we have been profitable, the likelihood of our success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered by a small developing company.*

We were incorporated in the State of Utah in April 1984. Although we have reported earnings in the years ended April 30, 2023 and 2022, the majority of our earnings came from unrealized gains in equity securities that we own. These securities have observable prices but are not liquid. Furthermore, the likelihood of our success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered by a small developing company starting a new business enterprise and the highly competitive environment in which we will operate. Since we have a limited operating history, we cannot assure you that our business will maintain profitability.

***We have substantial customer concentration, with a limited number of customers accounting for a substantial portion of our revenues.***

We currently derive a significant portion of our revenues from a limited number of customers. For the year ended April 30, 2023, the Company had one customer that constituted 25% of its revenues, and four customers that each constituted 14% of its revenues. For the year ended April 30, 2022, the Company had one customer that constituted 22% of its revenues, a second customer that constituted 22% of its revenues, and a third customer that constituted 18% of its revenues. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of customers. It is not possible for us to predict the future level of demand for our services that will be generated by these customers or new customers, or the future demand for the products and services of these customers or new customers. If any of these customers experience declining or delayed sales due to market, economic or competitive conditions, we could be pressured to reduce the prices we charge for our products which could have an adverse effect on our margins and financial position and could negatively affect our revenues and results of operations and/or trading price of our common stock.

***We operate in a regulatory environment that is evolving and uncertain.***

The regulatory framework for online capital formation or crowdfunding is very new. The regulations that govern our operations have been in existence for a very few years. Further, there are constant discussions among legislators and regulators with respect to changing the regulatory environment. New laws and regulations could be adopted in the United States and abroad. Further, existing laws and regulations may be interpreted in ways that would impact our operations, including how we communicate and work with investors and the companies that use our services and the types of securities that our clients can offer and sell on our platform.

***We operate in a highly regulated industry.***

We are subject to extensive regulation and failure to comply with such regulation could have an adverse effect on our business. Further, our subsidiary Netcapital Funding Portal Inc is registered as a funding portal. As a funding portal we have to comply with stringent regulations, and the operation of our funding portal is frequently subject to examination, constraints on its business, and in some cases fines. In addition, some of the restrictions and rules applicable to our subsidiary could adversely affect and limit some of our business plans.

***Our funding portal's service offerings are relatively new in an industry that is still quickly evolving.***

The principal securities regulations that we work with, Rule 506(c) and Reg CF, have only been in effect in their current form since 2013 and 2016, respectively. Our ability to continue to penetrate the market remains uncertain as potential issuer companies may choose to use different platforms or providers (including, in the case of Rule 506(c) and Regulation A, using their own online platform), or determine alternative methods of financing. Investors may decide to invest their money elsewhere. Further, our potential market may not be as large, or our industry may not grow as rapidly as anticipated. Success will likely be a factor of investing in the development and implementation of marketing campaigns, repeat business from both issuer companies and investors, and favorable changes in the regulatory environment.

***We have an evolving business model.***

Our business model is one of innovation, including continuously working to expand our product lines and services to our clients. For example, we are evaluating an expansion into the broker-dealer space as well as our foray into becoming an alternative trading system. It is unclear whether these services will be successful. Further, we continuously try to offer additional types of services, and we cannot offer any assurance that any of them will be successful. From time to time, we may also modify aspects of our business model relating to our service offerings. We cannot offer any assurance that these or any other modifications will be successful or will not result in harm to the business. We may not be able to manage growth effectively, which could damage our reputation, limit our growth, and negatively affect our operating results.

***We may be liable for misstatements made by issuers.***

Under the Securities Act and the Securities Exchange Act of 1934 (the “Exchange Act”), issuers making offerings through our funding portal may be liable for inappropriate disclosures, including untrue statements of material facts or for omitting information that could make the statements misleading. This liability may also extend in Reg CF offerings to funding portals, such as our subsidiary. Even though due diligence defenses may be available, there can be no assurance that if we were sued, we would prevail. Further, even if we do succeed, lawsuits are time consuming and expensive, and being a party to such actions may cause us reputational harm that would negatively impact our business. Moreover, even if we are not liable or a party to a lawsuit or enforcement action, some of our clients have been and will be subject to such proceedings. Any involvement we may have, including responding to document production requests, may be time-consuming and expensive as well.

***Our compliance is focused on U.S. laws and we have not analyzed foreign laws regarding the participation of non-U.S. residents.***

Some of the investment opportunities posted on our platform are open to non-U.S. residents. We have not researched all the applicable foreign laws and regulations, and we have not set up our structure to be compliant with foreign laws. It is possible that we may be deemed in violation of those laws, which could result in fines or penalties as well as reputational harm. Any violation of foreign laws may limit our ability in the future to assist companies in accessing money from those investors, and compliance with those laws and regulations may limit our business operations and plans for future expansion.

***Our cash flow is reliant on one main type of service.***

Most of our cash-flow generating services are variants on one type of service: providing a platform for online capital formation. Our revenues are therefore dependent upon the market for online capital formation. As such, any downturn in the market could have a material adverse effect of our business and financial condition.

***We depend on key personnel and face challenges recruiting needed personnel.***

Our future success depends on the efforts of a small number of key personnel, including the founder of our subsidiary, Netcapital Funding Portal Inc., our Chief Executive Officer, Chief Financial Officer, and our compliance, engineering and marketing teams. Our software engineer team, as well as our compliance team and our marketing team are critical to continually innovate and improve our products while operating in a highly regulated industry. In addition, due to the specialized expertise required, we may not be able to recruit the individuals needed for our business needs. There can be no assurance that we will be successful in attracting and retaining the personnel we require to operate and be innovative.

***We are vulnerable to hackers and cyber attacks.***

As an internet-based business, we may be vulnerable to hackers who may access the data of our investors and the issuer companies that utilize our platform. Further, any significant disruption in service on our funding portal platform or in our computer systems could reduce the attractiveness of our platform and result in a loss of investors and companies interested in using our platform. Further, we rely on a third-party technology provider to provide some of our back-up technology as well as act as our escrow agent. Any disruptions of services or cyber-attacks either on our technology provider, escrow agent, or on us could harm our reputation and materially negatively impact our financial condition and business.

***Our funding portal relies on one escrow agent to hold investment commitments for issuers.***

We currently rely on First Citizens Bank to provide all escrow services related to offerings on our platform. Any change in this relationship will require us to find another escrow agent and escrow bank. This change may cause us delays as well as additional costs in transitioning our technology. We are not allowed to operate our funding portal business without a qualified third-party escrow bank. There are a limited number of banks that provide this service. As such, if our relationship with our escrow agent is terminated, we may have difficulty finding a replacement which could have a material adverse effect on our business and results of operations.



***If our wholly owned subsidiary, Netcapital Funding Portal Inc., fails to comply with its obligations under the license agreement with Netcapital Systems LLC under which the technology to operate our funding portal is licensed to Netcapital Funding Portal Inc., we could lose rights necessary to operate our funding portal which are important to our business.***

Our wholly owned subsidiary, Netcapital Funding Portal Inc. has licensed the technology necessary to operate our funding portal from our majority stockholder, Netcapital Systems LLC, of which Mr. Frishman owns a 29% interest. These rights are extremely important to our business. If Netcapital Funding Portal Inc. fails to comply with any obligations under this license agreement, such license agreement may be subject to termination in whole or in part, which could severely impact our ability to operate our funding portal which would have a material adverse effect on our business, financial position, and results of operations.

In addition, disputes may arise regarding the technology subject to a license agreement, including:

- the scope of rights granted under the license agreement and other interpretation-related issues;
- the extent to which our processes infringe on the technology of Netcapital Systems LLC that is not subject to the license agreement;
- the ownership of inventions and know-how resulting from the joint creation or use of technology by Netcapital Systems LLC and us.

Disputes over technology under the license agreement with Netcapital Systems LLC may prevent or impair our ability to maintain our current license agreement on acceptable terms, and we may be unable to successfully operate our funding portal. In addition, any failure of Netcapital Systems LLC to service the technology subject to the license agreement or to operate its website could result in our inability to operate our funding portal which would have a material adverse effect on our business, financial condition, and results of operations.

***Netcapital Systems LLC relies on third-party software for the technology subject to the license agreement with Netcapital Funding Portal Inc. that may be difficult to replace or which could cause errors or failures of our funding portal.***

Netcapital Systems LLC relies on software licensed from third parties for the technology subject to the license agreement with Netcapital Funding Portal Inc. This software may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss by Netcapital Systems LLC of the right to use any of this software could significantly increase our expenses and otherwise result in delays in the provisioning of our funding portal until equivalent technology is either developed by us or Netcapital Systems LLC, or, if available, is identified, obtained, and integrated, which could harm our business. Any errors or defects in third-party software could result in errors or a failure of our funding portal which could harm our business.

***Our strategy to purchase a portion of early-stage companies may provide us with investments that have no liquidity.***

It is our strategy to sometimes purchase, at an affordable price, part or all of early-stage companies and cross pollinate the ideas, technology and expertise within these companies to enhance the operations, profits and market share of all the entities. That strategy may result in us diverting management attention and advisory resources to do work for early-stage companies that pay for the work with equity, which becomes impaired in value or never becomes a liquid asset. For all of these early-stage companies, the future liquidity and value of our investments cannot be guaranteed, and no market may exist for us to generate gains from our investments in early-stage companies.

***Our business depends on the reliability of the infrastructure that supports the Internet and the viability of the Internet.***

The growth of Internet usage has caused frequent interruptions and delays in processing and transmitting data over the Internet. There can be no assurance that the Internet infrastructure or the Company's own network systems will continue to be able to support the demands placed on it by the continued growth of the Internet, the overall online securities industry or that of our customers.

The Internet's viability could be affected if the necessary infrastructure is not sufficient, or if other technologies and technological devices eclipse the Internet as a viable channel.

End-users of our software depend on Internet Service Providers ("ISPs"), online service providers and our system infrastructure for access to the Internet sites that we operate. Many of these services have experienced service outages in the past and could experience service outages, delays and other difficulties due to system failures, stability or interruption. As a result, we may not be able to meet a level of service that we have promised to our subscribers, and we may be in breach of our contractual commitments, which could materially adversely affect our business, revenues, operating results and financial condition.

***We are dependent on general economic conditions.***

Our business model is dependent on investors investing in the companies presented on our platforms. Investment dollars are disposable income. Our business model is thus dependent on national and international economic conditions. Adverse national and international economic conditions may reduce the future availability of investment dollars, which would negatively impact our revenues and possibly our ability to continue operations. It is not possible to accurately predict the potential adverse impacts on the Company, if any, of current economic conditions on its financial condition, operating results and cash flow.

***We face significant market competition.***

We facilitate online capital formation. Though this is a new market, we compete against a variety of entrants in the market as well as new entrants into the market. Some of these follow a regulatory model that is different from ours and might provide them competitive advantages. New entrants could include those that may already have a foothold in the securities industry, including some established broker-dealers. Further, online capital formation is not the only way to address helping start-ups raise capital, and the Company has to compete with a number of other approaches, including traditional venture capital investments, loans and other traditional methods of raising funds and companies conducting crowdfunding raises on their own websites. Additionally, some competitors and future competitors may be better capitalized than us, which would give them a significant advantage in marketing and operations.

Moreover, as we continue to expand our offerings, we will continue to face headwinds and compete with companies that are more established and/or have more financial resources than we do and/or new entrants bringing disruptive technologies and/or ideas.

***Intense competition could prevent us from increasing our market share and growing our revenues.***

We compete with a number of public and private companies and most of our competitors have significant financial resources and occupy entrenched positions in the market with name-brand recognition. We also face challenges from new Internet sites that aim to attract subscribers who seek to play interactive games or invest in public or private securities. Such companies may be able to attract significantly more subscribers because of new marketing ideas and user interface concepts.

Increased competition from current and future competitors may in the future materially adversely affect our business, revenues, operating results and financial condition.

***We may require additional financing in the future to fund our operations.***

We may need additional capital in the future to continue to execute our business plan. Therefore, we will be dependent upon additional capital in the form of either debt or equity to continue our operations. At the present time, we do not have arrangements to raise all of the needed additional capital, and we will need to identify potential investors and negotiate appropriate arrangements with them. Our ability to obtain additional financing will be subject to a number of factors, including market conditions, our operating performance and investor sentiment. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue our operations.

***Raising additional capital may cause dilution to our stockholders, restrict our operations or require us to relinquish certain rights.***

We may seek additional capital through a combination of equity offerings, debt financings, strategic collaborations and alliances or licensing arrangements. To the extent that we raise additional capital through the sale of equity, convertible debt securities or other equity-based derivative securities, your ownership interest will be diluted and the terms may include liquidation or other preferences that adversely affect your rights as a stockholder. Any indebtedness we incur could involve restrictive covenants, such as limitations on our ability to incur additional debt, acquire or license intellectual property rights, declare dividends, make capital expenditures and other operating restrictions that could adversely impact our ability to conduct our business. Furthermore, the issuance of additional securities, whether equity or debt, by us, or the possibility of such issuance, may cause the market price of our common stock to decline. If we raise additional funds through strategic collaborations and alliances or licensing arrangements with third parties, or otherwise agree to terms unfavorable to us, any of which may have a material adverse effect on our business, operating results and prospects. Adequate additional financing may not be available to us on acceptable terms, or at all.

***Our debt level could negatively impact our financial condition, results of operations and business prospects.***

As of April 30, 2023, we had approximately \$2,735,800 of principal indebtedness outstanding and we have borrowed money on three occasions from the SBA. Our level of debt could have significant consequences to our shareholders, including the following:

- requiring the dedication of a substantial portion of cash flow from operations to make payments on debt, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;
- requiring a substantial portion of our corporate cash reserves to be held as a reserve for debt service, limiting our ability to invest in new growth opportunities;
- limiting the ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and general corporate and other activities;
- limiting the flexibility in planning for, or reacting to, changes in the business and industry in which we operate;
- increasing our vulnerability to both general and industry-specific adverse economic conditions;
- putting us at a competitive disadvantage vs. less leveraged competitors; and
- increasing vulnerability to changes in the prevailing interest rates.

Our ability to make payments of principal and interest, or to refinance our indebtedness, depends on our future performance, which is subject to economic, financial, competitive and other factors. Our business may not generate sufficient cash flow in the future to service our debt because of factors beyond our control, including but not limited to our ability to market our products and expand our operations. If we are unable to generate sufficient cash flows, we may be required to adopt one or more alternatives, such as restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

***We may make acquisitions or form joint ventures that are unsuccessful.***

Our ability to grow is partially dependent on our ability to successfully acquire other companies, which creates substantial risk. In order to pursue a growth by acquisition strategy successfully, we must identify suitable candidates for these transactions; however, because of our limited funds, we may not be able to purchase those companies that we have identified as potential acquisition candidates. Additionally, we may have difficulty managing post-closing issues such as the integration into our corporate structure. Integration issues are complex, time consuming and expensive and, without proper planning and implementation, could significantly disrupt our business, including, but not limited to, the diversion of management's attention, the loss of key business and/or personnel from the acquired company, unanticipated events, and legal liabilities.

***Our future growth depends on our ability to develop and retain customers.***

Our future growth depends to a large extent on our ability to effectively anticipate and adapt to customer requirements and offer services that meet customer demands. If we are unable to attract new customers and/or retain new customers, our business, results of operations and financial condition may be materially adversely affected.

***We will need to attract, train and retain additional highly qualified senior executives and technical and managerial personnel in the future.***

We continue to seek technical and managerial staff members, although we have limited resources to compensate them until we have raised additional capital or developed a business that generates consistent cash flow from operations. We believe it is important to negotiate with potential candidates and, if appropriate, engage them on a part-time basis or on a project basis and compensate them at least partially, with stock-based compensation, when appropriate. There is a high demand for highly trained and managerial staff members. If we are not able to fill these positions, it may have an adverse effect on our business.

***Major health epidemics, such as the outbreak caused by the COVID-19 pandemic, and other outbreaks or unforeseen or catastrophic events could continue to disrupt and adversely affect our operations, financial condition and business.***

Public health epidemics or outbreaks could adversely impact our business. The extent to which the coronavirus impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of the coronavirus and the emergence of variants, among others. In particular, the spread and treatment of the coronavirus globally could adversely impact our operations and could have an adverse impact on our business and our financial results. To date, our business has not been impacted by COVID-19 but it could be in the future.

***We may not be able to protect all of our intellectual property.***

Our profitability may depend in part on our ability to effectively protect our proprietary rights, including obtaining trademarks for our brand names, protecting our products and websites, maintaining the secrecy of our internal workings and preserving our trade secrets, as well as our ability to operate without inadvertently infringing on the proprietary rights of others. There can be no assurance that we will be able to obtain future protections for our intellectual property or defend our current trademarks and future trademarks and patents. Further, policing and protecting our intellectual property against unauthorized use by third parties is time-consuming and expensive, and certain countries may not even recognize our intellectual property rights. There can also be no assurance that a third party will not assert infringement claims with respect to our products or technologies. Any litigation for both protecting our intellectual property or defending our use of certain technologies could have a material adverse effect on our business, operating results and financial condition, regardless of the outcome of such litigation.

***Our revenues and profits are subject to fluctuations.***

It is difficult to accurately forecast our revenues and operating results, and these could fluctuate in the future due to a number of factors. These factors may include adverse changes in: number of investors and amount of investors' dollars, the success of world securities markets, general economic conditions, our ability to market our platform to companies and investors, headcount and other operating costs, and general industry and regulatory conditions and requirements. The Company's operating results may fluctuate from year to year due to the factors listed above and others not listed. At times, these fluctuations may be significant and could impact our ability to operate our business.

***Natural disasters and other events beyond our control could materially adversely affect us.***

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers and could decrease demand for our services. Since the spring of 2020, large segments of the U.S. and global economies were impacted by COVID-19, a significant portion of the U.S. population were subject to "stay at home" or similar requirements. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers (both issuers using our services and investors investing on our platform) and our sales cycles, impact on our customer, employee or industry events, and effect on our vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain. To date, the COVID-19 outbreak has significantly impacted global markets, U.S. employment numbers, as well as the business prospects of many small businesses (our potential clients). A significant part of our business model is based on receiving a percentage of the investments made through our platform and services. Further, we are dependent on investments in our offerings to fund our business. However, to date, other than working remotely, COVID-19 has not had a negative impact on the Company. While our business has not yet been impacted by COVID-19, to the extent COVID-19 continues and limits investment capital or personally impacts any of our key employees, it may have a significant impact on our results and operations.

*Acquisitions may have unanticipated consequences that could harm our business and our financial condition.*

Any acquisition that we pursue, whether successfully completed or not, involves risks, including:

- material adverse effects on our operating results, particularly in the fiscal quarters immediately following the acquisition of acquired entities that are integrated into our operations;
- risks associated with entering into markets or conducting operations where we have no or limited prior experience;
- problems retaining key personnel;
- potential impairment of tangible and intangible assets and goodwill acquired in the acquisition;
- potential unknown liabilities;
- difficulties of integration and failure to realize anticipated synergies; and
- disruption of our ongoing business, including diversion of management's attention from other business concerns.

Future acquisitions may be accomplished through a cash purchase transaction, the issuance of our equity securities or a combination of both, could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and impairment charges related to goodwill and other intangible assets, any of which could harm our business and financial condition.

*If we do not effectively protect our customers' credit and debit card data, or other personal information, we could be exposed to data loss, litigation, liability and reputational damage.*

In connection with credit and debit card sales, we transmit confidential credit and debit card information by way of secure online networks. Although we use private networks, third parties may have the technology or know-how to breach the security of the customer information transmitted in connection with credit and debit card sales, and our security measures and those of our technology vendors may not effectively prohibit others from obtaining improper access to this information. If a person were able to circumvent these security measures, he or she could destroy or steal valuable information or disrupt our operations. Any security breach could expose us to risks of data loss, litigation and liability and could seriously disrupt our operations and any resulting negative publicity could significantly harm our reputation.

*We could be harmed by improper disclosure or loss of sensitive or confidential Company, employee, associate or customer data, including personal data.*

In connection with the operation of our business, we plan to store, process and transmit data, including personal and payment information, about our employees, customers, associates and candidates, a portion of which is confidential and/or personally sensitive. Unauthorized disclosure or loss of sensitive or confidential data may occur through a variety of methods. These include, but are not limited to, systems failure, employee negligence, fraud or misappropriation, or unauthorized access to or through our information systems, whether by our employees or third parties, including a cyberattack by computer programmers, hackers, members of organized crime and/or state-sponsored organizations, who may develop and deploy viruses, worms or other malicious software programs.

Such disclosure, loss or breach could harm our reputation and subject us to government sanctions and liability under our contracts and laws that protect sensitive or personal data and confidential information, resulting in increased costs or loss of revenues. It is possible that security controls over sensitive or confidential data and other practices we and our third-party vendors follow may not prevent the improper access to, disclosure of, or loss of such information. The potential risk of security breaches and cyberattacks may increase as we introduce new services and offerings, such as mobile technology. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions in which we provide services. Any failure or perceived failure to successfully manage the collection, use, disclosure, or security of personal information or other privacy related matters, or any failure to comply with changing regulatory requirements in this area, could result in legal liability or impairment to our reputation in the marketplace.

***Failure to recognize, respond to and effectively manage the accelerated impact of social media could adversely impact our business.***

In recent years, there has been a marked increase in the use of social media platforms, including blogs, chat platforms, social media websites, and other forms of Internet based communications which allow individuals access to a broad audience of consumers and other interested persons. The rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The dissemination of information via social media could harm our business, reputation, financial condition, and results of operations, regardless of the information's accuracy. The damage may be immediate without affording us an opportunity for redress or correction.

In addition, social media is frequently used to communicate with our customers and the public in general. Failure by us to use social media effectively or appropriately, particularly as compared to our brands' respective competitors, could lead to a decline in brand value, customer visits and revenue. Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our brands, exposure of personally identifiable information, fraud, hoaxes or malicious dissemination of false information. The inappropriate use of social media by our customers or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation and adversely affect our results of operations.

**Risks Related to Receipt of Securities for Services**

***We are not, and do not intend to become, regulated as an investment company under the U.S. Investment Company Act of 1940, as amended, or the 40 Act, (and similar legislation in other jurisdictions) and if we are deemed an "investment company" under the 40 Act applicable restrictions would make it impractical for us to operate as contemplated.***

The 40 Act and the rules thereunder (and similar legislation in other jurisdictions) provide certain protections to investors and impose certain restrictions on companies that are registered as investment companies. Among other things, such rules limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities and impose certain governance requirements. We have not been and do not intend to become regulated as an investment company and we intend to conduct our activities so we will not be deemed to be an investment company under the 40 Act (and similar legislation in other jurisdictions). In order to ensure that we are not deemed to be an investment company, we may be required to materially restrict or limit the scope of our operations or plans related to us, we will be limited in the types of acquisitions that we may make and we may need to modify our organizational structure or dispose of assets that we would not otherwise dispose of. Moreover, if anything were to happen which would potentially cause us to be deemed an investment company under the 40 Act, it would be impractical for us to operate as intended pursuant to our platform and our business, financial condition and results of operations would be materially adversely affected. Accordingly, we would be required to take extraordinary steps to address the situation, such as the modification and restructuring of our platform, which would materially adversely affect our ability to derive revenue.

***Our consulting and advisory services are primarily paid for in restricted shares of stock of our customers, which are often private companies with no established trading market for their securities.***

For our consulting and advisory services, payment is often made through equity securities of customers instead of cash. The securities issued are in private companies with no established trading market for their securities. In the absence of a trading market, we may be unable to liquidate our investment, which will result in the loss of our investment.

#### **Risk Factors Related to our Common Stock**

***Concentration of ownership among our majority stockholders may prevent new investors from influencing significant corporate decisions.***

As of July 26 2023, Netcapital Systems LLC, our largest stockholder, beneficially owned, in the aggregate, approximately 18.2% of our outstanding shares of common stock. As a result, this stockholder will be able to exercise a significant level of control over matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these stockholders.

***There can be no assurance that we will be able to comply with Nasdaq's continued listing standards, a failure of which could result in a delisting of our common stock and warrants.***

Nasdaq requires that the trading price of a company's listed stock on Nasdaq remain above one dollar in order for such stock to remain listed. If a listed stock trades below one dollar for more than 30 consecutive trading days, then it is subject to delisting from Nasdaq. In addition, to maintain a listing on Nasdaq, we must satisfy minimum financial and other continued listing requirements and standards, including those regarding director independence and independent committee requirements, minimum stockholders' equity, and certain corporate governance requirements. If we are unable to satisfy these requirements or standards, we could be subject to delisting, which would have a negative effect on the price of our common stock and warrants and would impair your ability to sell or purchase our common stock when you wish to do so. In the event of a delisting, we would expect to take actions to restore our compliance with the listing requirements, but we can provide no assurance that any such action taken by us would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the minimum bid price requirement, or prevent future non-compliance with the listing requirements.

***We recently sold a substantial number of shares of our common stock and warrants to purchase common stock in a public offering, which could cause the price of our common stock to decline.***

In our May 2023 offering, we sold 1,100,000 shares of common stock. The existence of the potential additional shares of our common stock in the public market, or the perception that such additional shares may be in the market, could adversely affect the price of our common stock. We cannot predict the effect, if any, that market sales of those shares of common stock or the availability of those shares of common stock for sale will have on the market price of our common stock. Any decline in the price of a share of common stock will also have a negative effect on the price in the market of a warrant.

***We do not expect to pay dividends and investors should not buy our common stock expecting to receive dividends.***

We have not paid any dividends on our common stock in the past, and do not anticipate that we will declare or pay any dividends in the foreseeable future. Consequently, you will only realize an economic gain on your investment in our common stock if the price appreciates. You should not purchase our common stock expecting to receive cash dividends. Since we do not pay dividends, then you may have a limited ability to liquidate or receive any payment on your investment. Therefore, our failure to pay dividends may cause you to not see any return on your investment even if we are successful in our business operations. In addition, because we do not pay dividends we may have trouble raising additional funds, which could affect our ability to expand our business operations.

***We may conduct future offerings of our common stock and pay debt obligations with our common stock which may diminish our investors' pro rata ownership and depress our stock price.***

We reserve the right to make future offers and sales, either public or private, of our securities, including shares of our common stock or securities convertible into common stock at prices differing from the price of the common stock previously issued. In the event that any such future sales of securities are affected or we use our common stock to pay principal or interest on our debt obligations, an investor's pro rata ownership interest may be reduced to the extent of any such future sales.

*The market price of our common stock is highly volatile and could be subject to volatility related or unrelated to our operations.*

You should consider an investment in our securities to be risky, and you should invest in our securities only if you can withstand a significant loss and wide fluctuations in the market value of your investment. Some factors that may cause the market price of our common stock to fluctuate, in addition to the other risks mentioned in this “Risk Factors” section and elsewhere in this prospectus, are:

- actual or anticipated fluctuations in quarterly funding portal revenues or operating results, whether in our operations or in those of our competitors;
- changes in financial estimates or opinions by research analysts, either with respect to us or other fintech companies;
- our failure to accelerate user growth or new issuer growth;
- any failure to meet investor or analyst expectations;
- the public’s reaction to our press releases, other public announcements and our filings with the SEC;
- actual or anticipated changes in domestic or worldwide economic, political or market conditions, such as recessions;
- changes in the consumer spending environment;
- terrorist acts;
- changes in laws or regulations, or new interpretations or applications of laws and regulations, that are applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- short sales, hedging and other derivative transactions in the shares of our common stock;
- future sales or issuances of our common stock, including sales or issuances by us, our directors or executive officers and our significant stockholders;
- our dividend policy;
- changes in the market valuations of other fintech companies;
- actions by stockholders;
- various market factors or perceived market factors, including rumors, involving us, our vendors and clients, whether accurate or not;
- announcements by us or our competitors of new locations, technological advances, significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives; and
- a loss of a key member of management.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of individual companies. These broad market fluctuations may adversely affect the trading price of our common stock in any market that develops for it. In addition, our stock price may be influenced by trading activity in our common stock as a result of market commentary (including commentary that may be unreliable or incomplete in some cases); changes in expectations about our business, our creditworthiness or investor confidence generally; or actions by stockholders and others seeking to influence our business strategies.

In the past, following periods of volatility in the market price of a company’s securities, stockholders have instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and a diversion of management attention and resources, which would significantly harm our profitability and reputation.

*FINRA sales practice requirements may limit a stockholder’s ability to buy and sell our securities.*

In addition to the “penny stock” rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative, low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. The FINRA requirements may make it more difficult for broker-dealers to recommend that their customers buy our common stock or our warrants, which may have the effect of reducing the level of trading activity in our securities. As a result, fewer broker-dealers may be willing to make a market in our common stock or our warrants, reducing a stockholder’s ability to resell shares of our common stock and warrants.



***If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our securities adversely, the price of our common stock or warrants and trading volume could decline.***

The trading market for our common stock may be influenced by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our securities adversely, or provide more favorable relative recommendations about our competitors, the price of our common stock or warrants would likely decline. If any analyst who may cover us was to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the price of our common stock or warrants or trading volume to decline.

***Our issuance of common stock upon the exercise of options granted under our 2023 Omnibus Equity Incentive Plan may dilute all other stockholders.***

We have issued options to purchase 1,950,000 shares of common stock under our 2023 Omnibus Equity Incentive Plan and we expect to issue options to purchase the remaining 50,000 shares of common stock in the future to officers, directors, employees and consultants under our 2023 Omnibus Equity Incentive Plan. Any such issuances of common stock underlying stock options may cause stockholders to experience dilution of their ownership interests and the per share value of our common stock to decline.

***Our compliance with complicated U.S. regulations concerning corporate governance and public disclosure is expensive and diverts management's attention from our core business, which could adversely affect our business, results of operations, and financial condition.***

As a publicly reporting company, we are faced with expensive, complicated and evolving disclosure, governance and compliance laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and the Dodd-Frank Act, and Nasdaq rules. As a result of the complexity involved in complying with the applicable rules and regulations, our management's attention may be diverted from other business concerns, which could harm our business, results of operations and financial condition. We may need to hire more personnel in the future or engage outside consultants, which will increase our operating expenses, to assist us in complying with these requirements.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest substantial resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from business operations to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us, and our business may be harmed.

***Failure to maintain effective internal control over our financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could cause our financial reports to be inaccurate.***

We are required pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, to maintain internal control over financial reporting and to assess and report on the effectiveness of those controls. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Although we prepare our financial statements in accordance with accounting principles generally accepted in the United States, our internal accounting controls may not meet all standards applicable to companies with publicly traded securities. If we fail to implement any required improvements to our disclosure controls and procedures, we may be obligated to report control deficiencies in which case, we could become subject to regulatory sanction or investigation. Further, these outcomes could damage investor confidence in the accuracy and reliability of our financial statements.

*Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.*

Our articles of incorporation and bylaws provide that we will indemnify our directors and officers, in each case to the fullest extent permitted by Utah law.

In addition, as permitted by the Utah Business Corporation Act, our bylaws and the indemnification agreements that we have entered into with our directors and officers provide that:

- we will indemnify our directors and officers for serving us in those capacities or for serving other business enterprises at our request, to the fullest extent permitted by Utah law. Utah law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful;
- we may, in our discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law;
- we are required to advance expenses, as incurred, to our directors and officers in connection with defending a proceeding, except that such directors or officers shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification;
- we will not be obligated pursuant to our bylaws to indemnify a person with respect to proceedings initiated by that person against us or our other indemnitees, except with respect to proceedings authorized by our board of directors, or Board, or brought to enforce a right to indemnification;
- the rights conferred in our bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons; and
- we may not retroactively amend our bylaw provisions to reduce our indemnification obligations to directors, officers, employees and agents.

***Limitations on liability and indemnification matters.***

As permitted by the corporate laws of the state of Utah, our articles of incorporation include a provision to eliminate the personal liability of our directors for monetary damages for breach or alleged breach of their fiduciary duties as directors, subject to certain exceptions. In addition, our bylaws provide that we are required to indemnify our officers and directors under certain circumstances, including those circumstances in which indemnification would otherwise be discretionary, and we will be required to advance expenses to our officers and directors as incurred in connection with proceedings against them for which they may be indemnified. If we are required to indemnify, both for the costs of their defense in any action or to pay monetary damages upon a finding of a court or in any settlement, our business and financial condition could be materially and adversely affected.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide information under this item.

**ITEM 2. PROPERTIES**

We utilize an office at 1 Lincoln Street in Boston, Massachusetts. We currently pay rent of approximately \$5,700 a month, and our lease agreement is through September 2023 for approximately 400 square feet in an office-suite location. The majority of our employees work remotely. We believe our current office space is suitable and adequate for its intended purposes and our near-term expansion plans.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

#### *(a) Market Information*

Our common stock was quoted on the OTCQX marketplace under the symbol “NCPL” before our listing on Nasdaq in July 2022. Any over-the-counter quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

Our common stock and warrants trade on the Nasdaq Capital Market under the symbols “NCPL” and “NCPLW,” respectively. Our common stock and warrants commenced trading on Nasdaq on July 13, 2022.

#### **Recent Issuances of Unregistered Securities**

On May 10, 2023, we issued 100,000 shares of our common stock for consulting services. We did not receive any proceeds from this issuance. The issuance was exempt under Section 4(a)(2) of the Securities Act of 1933, as amended.

On July 14, 2023, we issued 49,855 shares of our common stock in consideration of a release from an unrelated third party in conjunction with the settlement of an outstanding debt between such third party and Netcapital Systems LLC. We did not receive any proceeds from this issuance. The issuance was exempt under Section 4(a)(2) of the Securities Act of 1933, as amended.

#### *(b) Holders*

There are 270 shareholders of record of our common stock as of July 26, 2023.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Equity Stock Transfer LLC with its business address at 237 W 37<sup>th</sup> Street, Suite 602, New York, NY 10018. Its telephone number is (212) 575-5757 and its email address is [info@equitystock.com](mailto:info@equitystock.com).

#### *(c) Dividends*

We have never paid dividends on our common stock and do not expect to do so in the foreseeable future.

#### *(d) Securities Authorized for Issuance under Equity Compensation Plans*

**2021 Equity Incentive Plan.** In November 2021, our Board adopted the 2021 Equity Incentive Plan, or the Plan. An aggregate of 300,000 shares of our common stock is reserved for issuance and available for awards under the Plan, including incentive stock options granted under the Plan. The Plan administrator may grant awards to any employee, director, consultant or other person providing services to us or our affiliates. As of July 26, 2023, we had awarded an aggregate of 252,000 options to purchase shares of common stock to directors and there remain 48,000 shares for grant under the Plan.

The Plan is administered by our Board. The Plan administrator has the authority to determine, within the limits of the express provisions of the Plan, the individuals to whom awards will be granted, the nature, amount and terms of such awards and the objectives and conditions for earning such awards. Our Board may at any time amend or terminate the Plan, provided that no such action may be taken that adversely affects any rights or obligations with respect to any awards previously made under the Plan without the consent of the recipient. No awards may be made under the Plan after the tenth anniversary of its effective date.

Awards under the Plan may include incentive stock options, nonqualified stock options, stock appreciation rights (“SARs”), restricted shares of common stock, restricted stock units, performance share awards, stock bonuses and other stock-based awards and cash-based incentive awards.

*2023 Omnibus Equity Incentive Plan.* On January 3, 2023, the Board of Directors of the Company approved and adopted the Netcapital Inc., 2023 Omnibus Equity Incentive Plan (the “2023 Plan”), which was subsequently approved by the Company’s stockholders. The total number of shares of common stock authorized for issuance under the 2023 Plan is (i) 2,000,000 shares of common stock plus (ii) an annual increase on the first day of each calendar year beginning with May 1, 2024 and ending with the last May 1 during the initial ten-year term of the 2023 Plan, equal to the lesser of (A) five percent (5%) of the shares of common stock outstanding (on an as-converted basis, which shall include shares issuable upon the exercise or conversion of all outstanding securities or rights convertible into or exercisable for shares of common stock, including without limitation, preferred stock, warrants and employee options to purchase any shares of common stock) on the final day of the immediately preceding calendar year and (B) such lesser number of shares of common stock as determined by the Board; provided, that, shares of common stock issued under the 2023 Plan with respect to an exempt award shall not count against such share limit. No more than 2,000,000 Shares, and as increased on an annual basis, on the first day of each calendar year beginning with May 1, 2024 and ending with the last May 1 during the initial ten-year term of the Plan, by the lesser of (A) five percent (5%) of the shares of common stock outstanding (on an as-converted basis, which shall include shares of common stock issuable upon the exercise or conversion of all outstanding securities or rights convertible into or exercisable for shares of common stock, including without limitation, preferred stock, warrants and employee options to purchase any shares of common stock) on the final day of the immediately preceding calendar year; (B) 300,000 shares of common stock, and (C) such lesser number of shares of common stock as determined by the Board, shall be issued pursuant to the exercise of ISOs. As of April 30, 2023, we had awarded an aggregate of 1,950,000 options to purchase shares of common stock to directors and there remain 50,000 shares for grant under the 2023 Plan.

The 2023 Plan will be administered by the Board or a committee to which the Board delegates such responsibility (the “Administrator”). The 2023 Plan will be administered by the Administrator in accordance with Rule 16b-3 of the Securities Exchange Act of 1934, as amended. The Administrator may interpret the 2023 Plan and may prescribe, amend, and rescind rules and make all other determinations necessary or desirable for the administration of the 2023 Plan. The 2023 Plan permits the Administrator to select the eligible recipients who will receive awards, to determine the terms and conditions of those awards, including but not limited to the exercise price or other purchase price of an award, the number of shares of common stock or cash or other property subject to an award, the term of an award and the vesting schedule applicable to an award, to determine the terms and conditions of written instruments evidencing such awards and to amend the terms and conditions of outstanding awards.

The 2023 Plan permits the grant of: (a) stock options, which may be intended as incentive stock options (“ISOs”) or as nonqualified stock options (options not meeting the requirements to qualify as ISOs); (b) stock appreciation rights (“SARs”); (c) restricted stock; (d) restricted stock units; (e) cash incentive awards; or (f) other awards, including: (i) stock bonuses, performance stock, performance units, dividend equivalents, or similar rights to purchase or acquire Shares, whether at a fixed or variable price or ratio related to the Common Stock, upon the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or any combination thereof; or (ii) any similar securities with a value derived from the value of or related to the Common Stock and/or returns thereon.

**ITEM 6. [RESERVED].**

**ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

THE FOLLOWING DISCUSSION OF OUR PLAN OF OPERATION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES TO THE FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS ANNUAL REPORT. THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. THESE STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE OUR ACTUAL RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS.

## Overview

Netcapital Inc. is a fintech company with a scalable technology platform that allows private companies to raise capital online from accredited and non-accredited investors. We give virtually all investors the opportunity to access investments in private companies. Our model is disruptive to traditional private equity investing and is based on Title III, Reg CF of the JOBS Act. We generate fees from listing private companies on our portal. Our consulting group, Netcapital Advisors, provides marketing and strategic advice in exchange for cash and equity positions. The Netcapital funding portal is registered with the SEC, is a member of the Financial Industry Regulatory Authority, or FINRA, a registered national securities association, and provides investors with opportunities to invest in private companies.

We provide private company investment access to accredited retail and non-accredited retail investors through our online portal ([www.netcapital.com](http://www.netcapital.com)). The Funding Portal charges a \$5,000 to \$10,000 engagement fee, a 4.9% success fee for capital raised at closing and sometimes is paid with equity from the issuer that has listed on the Funding Portal. In addition, the Funding Portal generates fees for other ancillary services, such as rolling closes. Securities offerings on the portal are accessible through individual offering pages, where companies include product or service details, market size, competitive advantages, and financial documents. Companies can accept investment from virtually anyone, including friends, family, customers, employees, etc., at any time, with just a few clicks.

In addition to access to the Funding Portal, Netcapital provides the following services:

- a fully automated onboarding process;
- automated filing of required regulatory documents;
- compliance review;
- custom-built offering page on our portal website;
- third party transfer agent and custodial services;
- email marketing to our proprietary list of investors;
- rolling closes, which provide potential access to liquidity before final close date of offering;
- assistance with annual filings; and
- direct access to our team for ongoing support.

Our consulting group, Netcapital Advisors helps companies at all stages to raise capital. Netcapital Advisors provides strategic advice, technology consulting and online marketing services to assist with fundraising campaigns on the Netcapital platform. The Company also acts as an incubator and accelerator, taking equity stakes in select disruptive start-ups.

Our limited operating history and the uncertain nature of our future operations and the markets we address or intend to address make predictions of our future results of operations difficult. Our operations may never generate significant revenues, and we may not consistently achieve profitable operations.

## Recent Developments

### *May 2023 Registered Direct Offering*

On May 23, 2023, we entered into a securities purchase agreement with certain institutional investors, pursuant to which we agreed to issue and sell to such investors, in a registered direct offering (the “Offering”), 1,100,000 shares (the “Shares”) of our common stock at a price of \$1.55 per Share, for aggregate gross proceeds of \$1,705,000, before deducting the placement agent's fees and other offering expenses payable by the Company. The Offering closed on May 25, 2023 and we received aggregate net proceeds of \$1,468,700. The Shares were offered and issued and sold pursuant to the Company's shelf registration statement on Form S-3 (File 333-267921) filed by the Company with the SEC under the Securities Act of 1933, as amended (the “Securities Act”), on October 18, 2022 and declared effective on October 26, 2022.

In connection with the Offering, on May 23, 2023, we entered into a placement agency agreement with ThinkEquity (the “Placement Agent”), pursuant to which (i) the Placement Agent agreed to act as placement agent on a “best efforts” basis in connection with the Offering, (ii) we agreed to pay the Placement Agent an aggregate fee equal to 8.0% of the gross proceeds raised in the Offering, and to reimburse the Placement Agent for certain expenses, and (iii) we agreed to issue to the Placement Agent warrants to purchase up to 55,000 shares of Common Stock at an exercise price of \$1.94 (the “Placement Agent Warrants”), which were issued on May 25, 2023. The Placement Agent Warrants (and the shares of Common Stock issuable upon the exercise of the Placement Agent Warrants) were not registered under the Securities Act, and were offered pursuant to an exemption from the registration requirements of the Securities Act provided in Section 4(a)(2) of the Securities Act and Rule 506(b) promulgated thereunder.

#### *Repayment of Secured Debt*

On May 25, 2023 the Company paid \$367,167 to its secured lender, Vaxstar LLC, to pay off the remaining \$350,000 principal balance and \$17,167 in interest.

#### *Recent Common Stock Issuances.*

In April and May 2023, we issued an aggregate of 450,000 shares of common stock to consultants in consideration of services rendered. In addition, in July 2023, we issued 49,855 shares of common stock to an unrelated third party, in consideration of a release from such third party related to settlement of an outstanding debt between such third-party and Netcapital DE LLC. We did not receive any proceeds from these issuances. Such shares were issued as restricted securities and were issued pursuant to the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

#### *July 2023 Public Offering*

On July 24, 2023 the Company completed an underwritten public offering of 1,725,000 shares of the Company’s common stock, at a price to the public of \$0.70 per share for aggregate gross proceeds of \$1,207,500, before deducting underwriting discounts and offering expenses payable by the Company. In conjunction with this offering, the Company issued the underwriter and its designees warrants to purchase 86,250 shares of our common stock at an exercise price of \$0.875.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes to the financial statements included elsewhere in this Form 10-K. This discussion contains forward-looking statements that relate to future events or our future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

#### **Results of Operations**

##### **Fiscal Year 2023 Compared to Fiscal Year 2022**

Our revenues for fiscal 2023 increased by \$3,013,150, or 55%, to \$8,493,985 as compared to \$5,480,835 reported for fiscal 2022. The increase in revenues is attributable to increased revenues from consulting services for equity securities, which recorded an increase in fees of \$3,730,000, or 111% to \$7,105,000 in fiscal 2023 as compared to \$3,375,000 in fiscal 2022. The components of revenue are as follows:

	April 30, 2023	April 30, 2022
Consulting services for equity securities	\$ 7,105,000	\$ 3,375,000
Consulting revenue	455,320	503,233
Portal fees	418,513	1,206,957
Listing fees	513,960	394,490
Other revenue	1,192	1,155
Total	\$ 8,493,985	\$ 5,480,835

In fiscal 2023 and 2022, the average dollars raised in a successful offering on the funding portal amounted to \$128,170 and \$369,478, respectively, and the number of offerings that closed successfully amounted to 49 and 64, respectively.

Our costs of revenues decreased by \$25,077, or 23%, to \$85,038 in fiscal 2023, from \$110,115 in fiscal 2022. The decrease is attributable to lower costs of sales from our non-funding portal sources of income.

Consulting expenses decreased by \$303,218, or 34%, to \$589,349 for fiscal 2023 from \$892,567 reported in the prior fiscal year. The decrease was primarily attributed to a decrease in overseas programmers.

Payroll and payroll related expenses decreased by \$117,355, or 3%, to \$3,646,490 in fiscal 2023, as compared to \$3,763,845 in fiscal 2022. The decrease was attributed to a decrease in staff and wages.

General and administrative expenses increased by \$138,667 or 9%, to \$1,740,698 for the year ended April 30, 2023, as compared to \$1,602,031 for the prior fiscal year. The primary increase in expenses is attributable to professional fees.

Interest expense decreased by \$32,530 to \$93,842 for the year ended April 30, 2023, as compared to \$126,372 for the prior fiscal year. The decrease in interest expense is attributed to a reduction in debt owed to our secured lender.

A realized loss of \$406,060 was recorded in the year ended April 30, 2023, as compared to no realized losses in the year ended April 30, 2022. The Company sold 606,060 shares of KingsCrowd Inc. in June 2022 for proceeds of \$200,000 that had been valued at \$606,060 and recorded a realized loss on the sale of the investment of \$406,060.

Unrealized gains on equity securities for the years ended April 30, 2023 decreased by \$1,418,245, or approximately 43%, to \$1,857,500, as compared to \$3,275,745 during the year ended April 30, 2022. The decrease in unrealized gains is attributable to the sale of common stock at \$1.00 per share in a public offering by Kingscrowd Inc., which exceeded the carrying value on our books by \$3,275,745, during the year ended April 30, 2022, as compared to a net gain of \$1,857,500 from observable price changes in investment securities of three investments held by the Company during the year ended April 30, 2023.

#### Liquidity and Capital Resources

As of April 30, 2023, we had cash and cash equivalents of \$569,441 and negative working capital of \$2,622,670 as compared to cash and cash equivalents of \$473,925 and negative working capital of \$3,113,403 of April 30, 2022.

We have been successful in raising capital by completing public offerings of our common stock.

On July 15, 2022, the Company completed an underwritten public offering of 1,205,000 shares of the Company's common stock and warrants to purchase 1,205,000 shares of the Company's common stock at a combined public offering price of \$4.15 per share and warrant. The gross proceeds from the offering were \$5,000,750 prior to deducting underwriting discounts, commissions, and other offering expenses. The warrants have a per share exercise price of \$5.19, are exercisable immediately, and expire five years from the date of issuance. With the use of proceeds, we paid \$1 million of debt to our secured lender, to reduce the outstanding principal balance to \$400,000.

On December 16, 2022 we completed an underwritten public offering of 1,247,000 shares of our common stock, at a price to the public of \$1.40 per share. In conjunction with this offering, we issued the underwriter and its designees warrants to purchase 62,350 shares of our common stock at an exercise price of \$1.75. The underwriters exercised their over-allotment option and on January 5, 2023, we issued an additional 187,000 shares of its common stock at a price of \$1.40 per share. We received net proceeds of \$1,621,459 for the issuance of a total of 1,434,000 shares of common stock in both the initial and over-allotment offering. In conjunction with the exercise of the over-allotment, the Company issued the underwriter and its designees warrants to purchase 9,350 shares of our common stock with an exercise price of \$1.75.



On May 23, 2023, we entered into a securities purchase agreement with certain institutional investors, pursuant to which the Company agreed to issue and sell to such investors, in a registered direct offering (the "Offering"), 1,100,000 shares (the "Shares") of the Company's common stock, par value \$0.001 per share (the "Common Stock"), at a price of \$1.55 per Share, for aggregate gross proceeds of \$1,705,000, before deducting the placement agent's fees and other offering expenses payable by the Company. The Offering closed on May 25, 2023. The Shares were offered and issued and sold pursuant to the Company's shelf registration statement on Form S-3 (File 333-267921), filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended, on October 18, 2022 and declared effective on October 26, 2022.

With the use of proceeds, we paid our secured lender \$350,000 in principal plus accrued interest of \$17,167.23 to retire all outstanding obligations to the secured lender.

On July 24, 2023 the Company completed an underwritten public offering of 1,725,000 shares of the Company's common stock, at a price to the public of \$0.70 per share for aggregate gross proceeds of \$1,207,500, before deducting underwriting discounts and offering expenses payable by the Company. In conjunction with this offering, the Company issued the underwriter, and its designees, warrants to purchase 86,250 shares of our common stock at an exercise price of \$0.875.

We believe that our existing cash investment balances, our anticipated cash flows from operations and liquidity sources including Offering of equity and/or debt securities and/or the sale of equity positions in certain portfolio companies for which Netcapital Advisors provides marketing and strategic advice will be sufficient to meet our working capital and expenditure requirements for the next 12 months. Although we believe we have adequate sources of liquidity over the next 12 months, the success of our operations, the global economic outlook, and the pace of sustainable growth in our markets, in each case, in light of the market volatility and uncertainty as a result of the COVID-19 pandemic, among other factors, could impact our business and liquidity. Up to this point in time, we believe the pandemic has helped drive people to online investing, as we see regular monthly increases in users and dollars invested, and an increase in issuers seeking to use online fund-raising services in lieu of face-to-face meetings.

## Year over Year Changes

Net cash used in operating activities amounted to \$4,617,200 in fiscal 2023, as compared to net cash used in operating activities of \$3,006,667 in fiscal 2022.

In fiscal 2023, the primary sources of cash were net income of \$2,954,972, changes in deferred taxes of 680,000, a realized loss on the sale of investments of 406,060, a decrease in accounts receivable of \$1,039,957 and stock-based compensation of \$269,577. However, these items were offset by non-cash revenue from the receipt of equity of \$8,110,000, and an unrealized gain on equity securities of \$1,857,500. In fiscal 2022, the primary sources of cash were net income of \$3,503,530 and stock-based compensation of \$1,176,058. However, these items were offset by non-cash revenue from the receipt of equity of \$2,387,500, an unrealized gain on equity securities of \$3,275,745 debt forgiveness of \$1,904,302 and an increase in accounts receivable of \$1,153,598.

In fiscal 2023, net cash provided by investing activities amounted to \$200,000 from the sale of an investment. In fiscal 2022, net cash used in investing activities amounted to \$319,166, consisting of loans to affiliates of \$202,000 and an investment in an affiliate of \$117,166.

In fiscal 2023, net cash provided from financing activities amounted to \$4,512,716, which included proceeds from the sale of common stock of \$5,570,576, which was offset by a payment of \$7,860 for a related party note, and payment of \$1,050,000 to a secured lender. In fiscal 2022, net cash provided by financing activities amounted to \$1,325,799. Cash proceeds were received of \$300,000 from the sale of two convertible notes, \$400,000 from borrowing from our secured lender and \$625,799 from the sale of stock subscriptions.

In fiscal 2023 and 2022, there were no expenditures for capital assets. We do not anticipate any capital expenditures in the next fiscal year.

## New Accounting Standards

The new accounting pronouncements in Note 1 to our financial statements, which are included in this Report, are incorporated herein by reference thereto.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The most significant estimates include:

- revenue recognition and estimating allowance for doubtful accounts;
- valuation of long-lived assets; and
- valuation of intangible assets.

We continually evaluate our accounting policies and the estimates we use to prepare our financial statements. In general, the estimates are based on historical experience, on information from third party professionals and on various other sources and assumptions that are believed to be reasonable under the facts and circumstances at the time such estimates are made. Management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate, or the use of different estimating methods, could have a material impact on our consolidated results of operations or financial condition.

Actual results could differ from those estimates. Significant accounting policies are described in Note 1 to our financial statements, which are included in this Report. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

Certain of our accounting policies are deemed "critical", as they require management's highest degree of judgment, estimates and assumptions. The following critical accounting policies are not intended to be a comprehensive list of all of our accounting policies or estimates:

**Revenue Recognition**

The Company recognizes service revenue from its consulting contracts and its game website using the five-step model as prescribed by ASC 606:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as, the Company satisfies a performance obligation.

**Allowance for Doubtful Accounts**

In order to record the Company's accounts receivable at their net realizable value, the Company must assess their collectability. A considerable amount of judgment is required in order to make this assessment, including an analysis of historical bad debts and other adjustments, a review of the aging of the Company's receivables, and the current creditworthiness of the Company's customers. Generally, when a customer account reaches a certain level of delinquency, the Company provides an allowance for the related amount receivable from the customer. The Company writes off the accounts receivable balance from a customer and the related allowance established when it believes it has exhausted all reasonable collection efforts. Net accounts receivable of \$1,388,500 and \$2,433,900 were recorded at April 30, 2023 and 2022, respectively, and an allowance for doubtful accounts of \$91,955 and \$136,955 were recorded at April 30, 2023 and 2022, respectively.

**Impairment of Long-Lived Assets**

Financial Accounting Standards Board ("FASB") authoritative guidance requires that certain assets be reviewed for impairment and, if impaired, remeasured at fair value whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment loss estimates are primarily based upon management's analysis and review of the carrying value of long-lived assets at each balance sheet date, utilizing an undiscounted future cash flow calculation. We did not recognize an impairment loss in fiscal 2023 and 2022.

**Income Taxes**

We estimate the degree to which tax assets and loss carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined that such assets will more likely than not go unused. If it becomes more likely than not that a tax asset or loss carry-forward will be used, the related valuation allowance on such assets is reversed.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Information About Market Risk**

We are not subject to fluctuations in interest rates, currency exchange rates or other financial market risks. We have not made any sales, purchases or commitments with foreign entities which would expose us to currency risks.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide information under this item.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Our Consolidated Financial Statements required by this Item are included herein, commencing on page F-1.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES.***(a) Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Principal Executive Officer (the "PEO") and Principal Financial Officer (the "PFO"), has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in SEC Rule 13a-15(e)) as of April 30, 2023. Based on that evaluation, the PEO and the PFO concluded that, as of April 30, 2023, such controls and procedures were effective.

*(b) Management's Assessment of Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including the PEO and the PFO, the Company's management has evaluated the effectiveness of its internal control over financial reporting as of April 30, 2023, based on the criteria established in a report entitled "2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission" and the interpretive guidance issued by the Commission in Release No. 34-55929. Based on this evaluation, the Company's management has evaluated and concluded that the Company's internal control over financial reporting was effective as of April 30, 2023.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. The Company's registered public accounting firm was not required to issue an attestation on its internal controls over financial reporting pursuant to the rules of the SEC. The Company will continue to evaluate the effectiveness of internal controls and procedures on an ongoing basis.

*(c) Changes in Internal Control over Financial Reporting*

There have been no changes in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during the quarter ended April 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

None.

**ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.**

Not Applicable.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

##### Directors and Executive Officers

The following table and biographical summaries set forth information, including principal occupation and business experience, about our directors and executive officers as of July 26, 2023.

Our executive officers and directors are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Officer or Director Since</u>
Martin Kay	59	President and Chief Executive Officer, Director	May 2022
Cecilia Lenk	68	Director, CEO of Netcapital Advisors Inc.	July 2017
Avi Liss	43	Secretary and Director	August 2010
Steven Geary	56	Director	June 2006
Arnold Scott	80	Director	November 2022
Coreen Kraysler	59	Chief Financial Officer	September 2017
Jason Frishman	30	Founder of Netcapital Funding Portal Inc.	November 2020

Our directors serve in such capacity until the first annual meeting of our shareholders and until their successors have been elected and qualified. Our officers serve at the discretion of our board of directors, until their death, or until they resign or have been removed from office.

##### Executive Officers and Directors

###### Martin Kay, Director and Chief Executive Officer

Martin Kay has served as a Director of the Company since May 2022 and as our Chief Executive Officer since January 2023. He was formerly a Managing Director at Accenture Strategy, a position he held from October 2015 until December 2022 and holds a BA in physics from Oxford University and an MBA from Stanford University Graduate School of Business. Mr. Kay is an experienced C-suite advisor and digital media entrepreneur, working at the intersection of business and technology. His experience includes oversight of our funding portal when he served on the board of managers of Netcapital Systems LLC from 2017 – 2021.

###### Cecilia Lenk, Director and CEO of Netcapital Advisors Inc.

Cecilia Lenk has served as a director since July 2017. She served as our Chief Executive Officer from July 2017 to January 2023 and currently serves as the Chief Executive Officer of our wholly owned subsidiary, Netcapital Advisors Inc. Prior to that, she worked as a self-employed business consultant and a town councilor in Watertown, MA for five years.

Ms. Lenk has specialized in technology and health care. Formerly Vice President of Technology and Digital Design at Decision Resources Inc., a global company serving the biopharmaceutical market, she oversaw the implementation of new technologies, products, and business processes. Prior to joining Decision Resources, Cecilia founded a technology firm that built a patented platform for online research. She has managed large-scale technology projects for leading corporations, universities, government agencies, and major non-profit organizations.

Ms. Lenk has a Ph.D. in Biology from Harvard University and a B.A. from Johns Hopkins University in Geography and Environmental Engineering. She has served on a number of non-profit boards, including Chair of the Johns Hopkins Engineering Alumni. She is currently on the Alumni Advisory Board for the Hopkins School of Engineering.

Ms. Lenk brings to our Board key leadership experience in high-growth technology companies and possesses a strong mix of strategic, finance, and operating skills.

**Avi Liss, Director and Secretary**

Avi Liss has served as a Director and Secretary of the Company since August 2010. From August 2009 to present, he has served as the President of Liss Law, LLC, a law firm specializing in real estate conveyances. Prior to founding Liss Law, he worked as a judicial law clerk for the Honorable Stephen S. Mitchell, a bankruptcy court judge for the Eastern District of Virginia.

Mr. Liss is well qualified to serve as a director of the company due to his knowledge and working experience with legal governance matters.

**Steven Geary, Director**

Steven Geary has served as a Director of the Company since June 2006. Since 2009, he has served in several management positions at Statera and is currently the Vice President of Strategy and Business Development. From 2008 to 2009, he was the Chief Executive Officer of ImproveSmart, Inc. From April 2006 to June 2008, he served as our President and Chief Operating Officer, and as our Chief Executive Officer from June 2008 to December 2009.

Mr. Geary has significant business development and brand marketing expertise in consumer products and services.

**Arnold Scott, Director**

Arnold Scott has served as a Director of the Company since December 2022. In addition, Mr. Scott currently serves as a founding member of the Boston Chapter of the Private Directors Association, a position he has held since 2020. Previously, he served as a director of ChipBrain, a position he held from 2021 - 2022, a director and Vice Chairman of First Commons Bank from 2008-2017, as a director of Perillon Software from 2015-2019 and as a manager on the board of managers of Netcapital Systems LLC from 2017 - 2020, an affiliate and shareholder of Netcapital Inc. In addition, he previously has served as a member of the board of trustees of Alderson Broadus University from 2013 to 2020. He has also served on several advisory boards including Vestmark, Successimo, ai Resources, and The Capital Network.

**Coreen Kraysler, CFA, Chief Financial Officer**

Coreen Kraysler has served as the Chief Financial Officer of the Company since September 2017.

Ms. Kraysler is a CFA Charterholder with over 30 years of investment experience. Formerly a Senior Vice President and Principal at Independence Investments, she managed several 5-star rated mutual funds as well as institutional accounts and served on the Investment Committee. She also worked at Eaton Vance as a Vice President, Equity Analyst on the Large and Midcap Value teams. A specialist in financial services, household and consumer products, she guest lectures at local colleges and universities. She received a B.A. in Economics and French, cum laude, from Wellesley College and a Master of Science in Management from MIT Sloan.

**Jason Frishman, Founder of Netcapital Funding Portal Inc.**

Jason Frishman is the Founder and former Chief Executive Officer of our funding portal subsidiary, Netcapital Funding Portal Inc. Mr. Frishman founded Netcapital Funding Portal Inc. to help reduce the systemic inefficiencies early-stage companies face in securing capital. He currently holds advisory positions at leading organizations in the financial technology ecosystem and has spoken as an external expert at Morgan Stanley, University of Michigan, YPO, and others. Mr. Frishman has a background in the life sciences and previously conducted research in medical oncology at the Dana Farber Cancer Institute and cognitive neuroscience at the University of Miami, where he graduated summa cum laude with a B.S. in Neuroscience.

**Term of Office**

All our directors will hold office until their successors have been elected and qualified or appointed or the earlier of their death, resignation or removal. Executive officers are appointed and serve at the discretion of the Board.

**Family Relationships**

There are no family relationships among our directors or officers.

**Board Composition**

Our bylaws provide that the size of our Board will be determined from time to time by resolution of our Board. Currently, the Board comprises five members, three of whom qualify as “independent” directors under any applicable standard.

**Election of Directors**

Our bylaws provide that members of our board or directors will be elected by a majority vote of our stockholders.

**Director Independence**

Our common stock is currently quoted on the Nasdaq Capital Market. Nasdaq Rule 5065(b) requires that “[a] majority of the board of directors must be comprised of Independent Directors as defined in Rule 5605(a)(2).” Pursuant to these requirements, Avi Liss, Arnold Scott, and Steven Geary are independent members of our Board.

**Arrangements between Officers and Directors**

Except as set forth herein, to our knowledge, there is no arrangement or understanding between any of our officers or directors and any other person pursuant to which the officer or director was selected to serve as an officer or director.

**Involvement in Certain Legal Proceedings**

We are not aware of any of our directors or officers being involved in any legal proceedings in the past ten years relating to any matters in bankruptcy, insolvency, criminal proceedings (other than traffic and other minor offenses), or being subject to any of the items set forth under Item 401(f) of Regulation S-K.

**Board Meetings and Committees; Management Matters****Board Committees**

The Company’s Board has three standing Nasdaq compliance committees: Audit, Compensation, and Nominating and Corporate Governance. Our audit committee consists of Avi Liss, Arnold Scott, and Steven Geary. Each of the committees operates pursuant to its charter. The committee charters are reviewed annually by the Nominating and Corporate Governance Committee. If appropriate, and in consultation with the chairs of the other committees, the Nominating and Corporate Governance Committee may propose revisions to the charters. The responsibilities of each committee are described in more detail below.

Our Board committees took actions by written consent on three occasions during the fiscal year ended April 30, 2023. No fees are paid to directors for attendance at meetings or for agreeing to a unanimous consent or the Board.



### **Compensation Committee**

Our Compensation Committee consists of Avi Liss, Arnold Scott, and Steven Geary.

The Compensation Committee oversees our compensation policies, plans and programs, and to review and determine the compensation to be paid to our executive officers and directors. In addition, the Compensation Committee has the authority to act on behalf of the Board in fulfilling the Board's responsibilities with respect to compensation-based and related disclosures in filings as required by the Securities and Exchange Commission. This committee took action by written consent on two occasions during the fiscal year ended April 30, 2023.

### **Nominating and Corporate Governance Committee**

Our Nominating and Governance Committee consists of Avi Liss, Arnold Scott, and Steven Geary.

The Nominating and Corporate Governance Committee (i) oversees our corporate governance functions on behalf of the Board; (ii) makes recommendations to the Board regarding corporate governance issues; (iii) identifies and evaluates candidates to serve as our directors consistent with the criteria approved by the Board and reviews and evaluates the performance of the Board; (iv) serves as a focal point for communication between director candidates, non-committee directors and management; (v) selects or recommends to the Board for selection candidates to the Board, or, to the extent required below, to serve as nominees for director for the annual meeting of shareholders; and (vi) makes other recommendations to the Board regarding affairs relating to our directors. This committee took actions by written consent on fifteen occasions during the fiscal year ended April 30, 2023. No fees are paid to directors for attendance at meetings or for agreeing to a unanimous consent.

### **Audit Committee**

Our Audit Committee members consist of Arnold Scott, Avi Liss and Steven Geary. Each of the members of our Audit Committee is an independent director under the Nasdaq listing rules, satisfies the additional independence criteria for Audit Committee members and satisfies the requirements for financial literacy under the Nasdaq listing rules and Rule 10A-3 of the Exchange Act, as applicable.

Our board has also determined that Mr. Geary qualifies as an Audit Committee financial expert within the meaning of the applicable rules and regulations of the SEC and satisfies the financial sophistication requirements of the Nasdaq listing rules.

Our Audit Committee oversees our corporate accounting and financial reporting process and assists our Board in monitoring our financial systems and our legal and regulatory compliance. Our Audit Committee also:

- oversees the work of our independent auditors;
- approves the hiring, discharging and compensation of our independent auditors;
- approves engagements of the independent auditors to render any audit or permissible non-audit services;
- reviews the qualifications, independence and performance of the independent auditors;
- reviews our financial statements and our critical accounting policies and estimates;
- reviews the adequacy and effectiveness of our internal controls;
- reviews our policies with respect to risk assessment and risk management;
- reviews and monitors our policies and procedures relating to related person transactions; and
- reviews and discusses with management and the independent auditors the results of our annual audit, our quarterly financial statements and our publicly filed reports.

Our Audit Committee operates under a written charter approved by our Board and that satisfies the applicable rules and regulations of the SEC and the listing requirements of Nasdaq. The charter is available on the corporate governance section of our website, which is located at [www.netcapitalinc.com](http://www.netcapitalinc.com)

#### **Code of Ethics**

We have adopted a Code of Ethics and Business Conduct applicable to our directors, officers and employees, in accordance with Section 406 of the Sarbanes-Oxley Act, the rules of the SEC promulgated thereunder, and the Nasdaq listing rules. We have filed a copy of our form of the Code of Ethics and Business Conduct as an exhibit to the registration statement on Form S-1/A filed on April 8, 2022. You will be able to review this document by accessing our public filings at the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, a copy of the Code of Ethics and Business Conduct will be provided without charge upon request from us. If we make any amendments to our Code of Ethics and Business Conduct other than technical, administrative or other non-substantive amendments, or grant any waiver, including any implicit waiver, from a provision of the Code of Ethics and Business Conduct applicable to our principal executive officer, principal financial officer principal accounting officer or controller or persons performing similar functions requiring disclosure under applicable SEC or Nasdaq rules, we will disclose the nature of such amendment or waiver in a Current Report on Form 8-K. We also intend to post any amendments to our Code of Ethics and Business Conduct, or any waivers of its requirements, on our website, [www.netcapitalinc.com](http://www.netcapitalinc.com).

#### **Limitation of liability and indemnification matters**

Our articles of incorporation contain provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Utah law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, unless the director engaged in gross negligence, willful misconduct or intentional infliction of harm on the corporation or its shareholders, or an intentional violation of criminal law.

We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by our Board. With specified exceptions, these agreements provide for indemnification for related expenses including, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these provisions in our articles of incorporation and the indemnification agreements are necessary to attract and retain qualified persons as directors and officers.

The limitation of liability and indemnification provisions included in our articles of incorporation may discourage stockholders from bringing a lawsuit against our directors and officers for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and our stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage.

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

Section 16(a) of the Exchange Act of 1934, requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities ("10% Shareholders"), to file with the Commission initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and 10% Shareholders are required by Commission regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely upon a review of Form 3, 4, and 5 filed with the SEC during the fiscal year ended April 30, 2023, we believe that, except as set forth below, our directors, executive officers, and greater than 10% Shareholders have complied with all applicable filing requirements for the fiscal year ended April 30, 2023.

- Avi Liss failed to timely report one transaction on a Form 4, which report has now been filed.
- Steven Geary failed to timely report two transactions on a Form 4, which reports have now been filed.
- Arnold Scott failed to timely report one transaction on a Form 4, which report has now been filed.
- Cecilia Lenk failed to timely report one transaction on a Form 4, which report has now been filed.

# ITEM 11. EXECUTIVE COMPENSATION.

## Summary Compensation Table

The following table sets forth, for the fiscal years indicated, all compensation awarded to, earned by or paid to Martin Kay, our CEO (since January 3, 2023), Cecilia Lenk, our former chief executive officer (until January 3, 2023), Coreen Kraysler, our CFO, Carole Murko, our former Chief Marketing Officer and Jason Frishman, Founder and former Chief Executive Officer of our wholly owned subsidiary Netcapital Funding Portal, Inc., or, collectively, the Named Executive Officers, or NEOs. We have no other executive officers.

Summary Executive Compensation Table

Name and principal position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock awards (\$)(1)	Option awards (\$)	Non-equity incentive plan compensation (\$)	Change in pension value and nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Martin Kay, CEO (Since January 3, 2023)	2023	94,615	—	0	81,309	—	—	—	175,924
Cecilia Lenk CEO (until January 3, 2023 and CEO of Netcapital Advisors since January 3, 2023)	2023	142,500	—	—	4,833	—	—	—	147,333
	2022	96,000	—	40,608	5,825	—	—	—	142,433
Coreen Kraysler, CFO	2023	164,135	25,000	0	25,927	0	0	0	215,062
	2022	96,000	0	40,608	11,649	0	0	0	148,257
Carole Murko, former CMO (until January 7, 2022)(2)	2022	73,688	—	109,547	—	—	—	—	183,235
Jason Frishman, Founder, (and former CEO of Netcapital Funding Portal, until February 9, 2023)	2023	166,173	25,000	—	25,927	—	—	—	217,100
	2022	96,000	0	0	11,649	0	—	—	107,649

(1) Represents the dollar amount of vested equity awards during the fiscal year.

(2) Ms. Murko received severance of \$7,384.50 and her 8,885 unvested shares vested upon termination, both pursuant to a separation agreement.

#### Outstanding Equity Awards At End Of 2023

The following table provides information about outstanding stock options issued by the Company held by each of our NEOs as of April 30, 2023. None of our NEOs held any other equity awards from the Company as of April 30, 2023.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Stock That Has Not Yet Vested	Market Value of Stock that has not Yet Vested
Martin Kay	83,332	916,668	1.43	1/3/2033	0	0
Cecilia Lenk	417	19,583	1.40	4/25/2033	0	0
	3,120	6,880	10.50	2/9/2032	0	0
Coreen Kraysler	16,668	183,332	1.43	1/3/2033	0	0
	6,255	13,745	10.50	2/9/2032	0	0
Jason Frishman	16,668	183,332	1.43	1/3/2033	0	0
	6,255	13,745	10.50	2/9/2032	0	0

## **Director Compensation**

We have not paid any cash compensation to our directors in their capacity as such.

On February 9, 2022, we issued to each of our then three independent board members, options to purchase 5,000 shares of common stock under the 2021 Equity Incentive Plan which will be exercisable at a per share exercise price of \$10.50, that was out-of-the-money at time of issuance and expires ten years after the date of grant.

On April 25, 2023, we granted to each of our three current independent board members, options to purchase 20,000 shares of common stock under the 2023 Omnibus Equity Incentive Plan which will be exercisable at a per share exercise price of \$1.40, that was out-of-the-money at time of issuance and expires ten years after the date of grant.

We issued Avi Liss 10,000 shares of our common stock valued at \$7.50 per share on November 18, 2021 in consideration of his services as a director of the Company.

## **Officer Compensation**

We pay each of our Named Executives Officers a combination of a cash salary and equity awards for their services.

## **Employment Agreements**

We currently have employment agreements with Martin Kay and Coreen Kraysler. Prior to the resignations of Cecilia Lenk on January 3, 2023 and Jason Frishman on February 9, 2023, we and our Netcapital Funding Portal subsidiary had employment agreements with each of them, respectively. Cecilia Lenk is currently the Chief Executive Officer of our wholly owned subsidiary and Jason Frishman holds the position of Founder of Netcapital Inc. The former employment agreements of Cecilia Lenk and Jason Frishman are described below. Prior to the termination of Carole Murko on January 7, 2022, we had an employment agreement with her as described below:

### *Employment Agreement with Martin Kay*

We entered into an employment agreement with Martin Kay on January 3, 2023, pursuant to which we employ Mr. Kay as our Chief Executive Officer. Under the Employment Agreement, Mr. Kay is eligible to (a) receive an annual base salary of \$300,000; (b) receive an option grant to purchase 100,000 fully vested shares of the Company pursuant to the 2023 Plan and an option grant to purchase 1,000,000 shares of the Company, which vest monthly over four (4) years pursuant to an option award agreement, described below, and in each case subject to the 2023 Plan; (c) receive periodic bonuses or additional salary in the discretion of the Board or compensation committee; (d) receive .005 times the gross revenue paid in cash annually so long as the Company reports positive earnings after the bonus is paid; (e) participate in the Company's fringe benefits, health and welfare plans, and pension and/ or profit sharing plans provided to executives; (f) receive reimbursement for all reasonable business expenses; and (g) receive sick leave, sick pay, and disability benefits in accordance with Company policy. Mr. Kay's employment agreement, which has a three-year term, may be terminated upon the occurrence of the death of Mr. Kay, at any time by Mr. Kay, by the Company due to disability, by the Company for "cause", and by Mr. Kay for "good reason". Mr. Kay's employment agreement also contains provisions regarding, among other things, a six (6)-month non-competition provision, confidential information, governing law, and covenants governing Mr. Kay's conduct.

### *Employment Agreement with Cecilia Lenk*

We entered into an employment agreement with Cecilia Lenk on June 23, 2022 pursuant to which we employed Ms. Lenk as CEO of our wholly owned subsidiary. The term of her agreement ends on June 23, 2025. The agreement provided for an annual base salary during the term of the agreement of \$96,000, which was increased to \$150,000 upon completion of a public offering in July 2022. Ms. Lenk was eligible for periodic bonuses or for additional salary in addition to her base salary, as may be determined by our board of directors or the compensation committee.

The agreement also contained the following material provisions: eligible to participate in all employee fringe benefits and any pension and/or profit share plans; eligible to participate in any medical and health plans; entitled to sick leave, sick pay and disability benefits; entitled to reimbursement for all reasonable and necessary business expenses. Ms. Lenk agreed to non-compete and non-solicit terms under her agreement.

#### *Employment Agreement with Coreen Kraysler*

We entered into an employment agreement with Coreen Kraysler on June 23, 2022 pursuant to which we employ Ms. Kraysler as our Chief Financial Officer. The term of her agreement ends on June 23, 2025. The agreement provides for an annual base salary during the term of the agreement of \$96,000, which was increased to \$150,000 upon completion of a public offering in July 2022, and increased to \$225,000 in January 2023. Ms. Kraysler is eligible for periodic bonuses or for additional salary in addition to her base salary, as may be determined by our board of directors or the compensation committee.

The agreement also contains the following material provisions: eligible to participate in all employee fringe benefits and any pension and/or profit share plans; eligible to participate in any medical and health plans; entitled to sick leave, sick pay and disability benefits; entitled to reimbursement for all reasonable and necessary business expenses. Ms. Kraysler agreed to non-compete and non-solicit terms under her agreement.

#### *Employment Agreement with Jason Frishman*

We entered into an employment agreement with Jason Frishman on June 23 2022 pursuant to which we employed Mr. Frishman, our Founder, as Chief Executive Officer of Netcapital Funding Portal, Inc. The term of his agreement ends on June 23, 2025. The Agreement provided for an annual base salary during the term of the agreement of \$96,000, which was increased to \$150,000 upon completion of a public offering in July 2022, and increased to \$225,000 in January 2023. Mr. Frishman is eligible for periodic bonuses or for additional salary in addition to his base salary, as may be determined by our board of directors or the compensation committee.

The agreement also contained the following material provisions: eligible to participate in all employee fringe benefits and any pension and/or profit share plans; eligible to participate in any medical and health plans; entitled to sick leave, sick pay and disability benefits; entitled to reimbursement for all reasonable and necessary business expenses. Mr. Frishman agreed to non-compete and non-solicit terms under his agreement.

#### *Employment Agreement with Carole Murko*

We entered into an employment agreement with Carole Murko on March 10, 2020 pursuant to which we employed Ms. Murko as our Director of Business Development. The agreement was for an initial term of four years. The agreement provided for an annual base salary during the term of the agreement of \$1.00 plus a commission of 20% of the cash collected from revenues generated directly by Ms. Murko plus an unvested grant of stock-based compensation of 12,500 shares (after giving effect to the November 2020 1-for-2000 reverse stock split) of restricted stock. The stock vested over a 48 month period in equal installments of 260 shares per month. Ms. Murko was eligible for periodic bonuses or for additional salary in addition to her base salary.

The agreement also contained the following material provisions: eligible to participate in all employee fringe benefits and any pension and/or profit share plans; eligible to participate in any medical and health plans; entitled to up to eight weeks of paid time off; entitled to sick leave, sick pay and disability benefits; entitled to reimbursement for all reasonable and necessary business expenses. If Ms. Murko was to be terminated for any reason other than “cause” prior to the end of her term, then the Company will have no claim on the unvested portion of her 12,500 shares. If Ms. Murko resigned without “good reason” or retired before the end of her term, the unvested shares would have been returned to the Company. Ms. Murko agreed to non-compete and non-solicit terms under her agreement.

#### **Potential Payments Upon Termination Or Change In Control**

In the event that Ms. Kraysler’s employment is terminated by us for any reason other than “cause” or by Ms. Kraysler for “good reason,” then we will have no claims to the 20,000 and 200,000 shares of common stock underlying the stock option grant (and all unvested options under such grant shall immediately and fully vest) issued to Ms. Kraysler in February 2022 and January 2023, respectively.

The following table sets forth quantitative information with respect to potential payments to be made to Ms. Kraysler upon termination in various circumstances. The potential payments are based on the terms of each of the employment agreements discussed above. For a more detailed description of Ms. Kraysler’s employment agreement, see the “Employment Agreements” section above.

Name	Potential Payment Upon Termination Option Awards (#)
Coreen Kraysler	197,077(1)

- (1) Represents the number of unvested options at April 30, 2023. Ms. Kraysler's options vest equally over a 48-month period. At April 30, 2023, there were 33 months remaining in her vesting schedule for the options granted in February 2022 and 44 months remaining in her vesting schedule for the options granted in January 2023. The potential payment of shares subject to Ms. Kraysler's unvested options will reduce every month as her options vest and the value of her unvested options will be based on our market price at such time.

#### Pay Versus Performance

As required by Section 953(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and Item 402(v) of Regulation S-K, we are providing the following information about the relationship between executive compensation and certain financial performance metrics. The disclosure included in this section is prescribed by SEC rules and does not necessarily align with how we or the compensation committee view the link between financial performance and the compensation actually received or realized by our named executive officers. All information provided above under the "Pay Versus Performance" heading will not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing, except to the extent the Company specifically incorporates such information by reference.

The table below presents information on the compensation of CEO and other named executive officers in comparison to certain performance metrics for 2023 and 2022. Martin Kay has been our CEO since January 3, 2023 and Cecilia Lenk was CEO for all of 2022 and through January 3, 2023. These metrics are not those that the compensation committee uses when setting executive compensation. The use of the term *Compensation Actually Paid* (CAP) is required by the rules and regulations of the SEC, and under such rules, CAP was calculated by adjusting the Summary Compensation Table, or SCT. Total values for the applicable year as described in the footnotes to the table.

Year	Summary Compensation Table Total for First PEO (Cecilia Lenk) (1)	Summary Compensation Table Total for Second PEO (Martin Kay) (1)	Compensation Actually Paid to First PEO (1)	Compensation Actually Paid to Second PEO (1)	Average Summary Compensation Table Total for Non-PEO Name Executive Officers (1)(2)	Average Compensation Actually Paid to Non-PEO Name Executive Officers (3)	Value of Initial Fixed \$100 Investment Based on Total Shareholder Return	Net Income
	(a)	(b)	(a)	(b)	(c)	(d)		
2023	\$ 93,461	175,924	\$ 43,059	\$ 1,045,940	\$ 193,165	\$ 256,879	\$ 10	\$ 2,954,972
2022	\$ 142,433	\$ —	\$ 154,095	\$ —	\$ 146,380	\$ 166,022	\$ 68	3,503,530

- (1) The Principal Executive Officer (“PEO”) information reflected in columns (a) and (b) relates to our CEO, Cecilia Lenk (until January 3, 2023), or First PEO, and Martin Kay (from January 3, 2023 until April 30, 2023), or Second PEO. The non-Principal Executive Officer (“non-PEO”) NEOs information reflected in columns (c) and (d) above relates to our CFO Coreen Kraysler and founder of our Netcapital Funding Portal Subsidiary, Jason Frishman.
- (2) The amounts shown in this column are the average total compensation reported for the non-PEO NEOs, as applicable, for each corresponding year in the “Total” column of the Summary Compensation. Please refer to “Executive Compensation—Compensation Tables—Summary Compensation Table.”
- (3) The amounts shown have been calculated in accordance with Item 402(v) of Regulation S-K and do not reflect compensation actually realized or received by the Company’s PEO and non-PEO NEOs. In accordance with the requirements of Item 402(v) of Regulation S-K, adjustments were made to Ms. Lenk’s and Mr. Kay’s total compensation, as applicable, or the average total compensation of the non-PEO NEOs, as applicable, as described in the tables below.

***First PEO (Cecilia Lenk) SCT Total to CAP Reconciliation***

Year	Summary Compensation Total	Less Stock Awards	Less Option Awards	Fair Value Adjustments to SCT Total	CAP
2023	\$ 93,461	\$ —	\$ (4,833)	\$ (45,569)	\$ 43,059
2022	142,433	(40,608)	(5,825)	58,095	154,095

***Second PEO (Martin Kay) SCT Total to CAP Reconciliation***

Year	Summary Compensation Total	Less Stock Awards	Less Option Awards	Fair Value Adjustments to SCT Total	CAP
2023	\$ 175,924	\$ —	\$ (81,309)	\$ 951,325	\$ 1,405,940
2022	—	—	—	—	—

***Average Non-PEO NEOs SCT Total to CAP Reconciliation***

Year	Summary Compensation Total	Less Stock Awards	Less Option Awards	Fair Value Adjustments to SCT Total	CAP
2023	\$ 193,165	\$ —	\$ (17,285)	\$ 80,999	\$ 256,879
2022	146,380	(50,052)	(7,766)	77,459	166,022



*First PEO (Cecilia Lenk) Equity Component of CAP*

Year	Fair Value of Current Year Equity Awards at December 31, (a)	Change in Fair Value of Prior Years' Awards Unvested at December 31, (b)	Change in Fair Value of Prior Years' Awards Vested through the Year Ended December 31, (c)	Change in Fair Value of Prior Years' Awards Failed to Vest through the Year Ended December 31, (d)	Equity Value Included in CAP (e) = (a)+(b)+(c)+(d)
2023	\$ —	\$ (33,417)	\$ —	\$ (12,152)	\$ (45,569)
2022	54,464	—	3,631	—	58,095

*Second PEO (Martin Kay) Equity Component of CAP*

Year	Fair Value of Current Year Equity Awards at December 31, (a)	Change in Fair Value of Prior Years' Awards Unvested at December 31, (b)	Change in Fair Value of Prior Years' Awards Vested through the Year Ended December 31, (c)	Change in Fair Value of Prior Years' Awards Failed to Vest through the Year Ended December 31, (d)	Equity Value Included in CAP (e) = (a)+(b)+(c)+(d)
2023	\$ 872,048	\$ —	\$ 79,277	\$ —	\$ 951,325
2022	—	—	—	—	—

*Average Non-PEO NEOs Equity Component of CAP*

Year	Fair Value of Current Year Equity Awards at December 31, (a)	Change in Fair Value of Prior Years' Awards Unvested at December 31, (b)	Change in Fair Value of Prior Years' Awards Vested through the Year Ended December 31, (c)	Change in Fair Value of Prior Years' Awards Failed to Vest through the Year Ended December 31, (d)	Equity Value Included in CAP (e) = (a)+(b)+(c)+(d)
2023	\$ 130,998	\$ (44,556)	\$ 10,759	\$ (16,202)	\$ 80,999
2022	72,618	—	4,841	—	77,459

## Compensation Plans

### 2021 Equity Incentive Plan and 2023 Omnibus Equity Incentive Plan

The following table shows information regarding our equity compensation plans as of April 30, 2023.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (c))
Equity compensation plans approved by security holders (1)	1,950,000	\$ 1.42	50,000
Equity compensation plans not approved by security holders (2)	252,000	\$ 10.50	48,000
Total	2,202,000	\$ 2.46	98,000

(1) *2023 Omnibus Equity Incentive Plan.* On January 3, 2023, the Board of Directors of the Company approved and adopted the Netcapital Inc., 2023 Omnibus Equity Incentive Plan (the “2023 Plan”), subject to the approval of the 2023 Plan by the Company’s stockholders. The total number of Shares of Common Stock authorized for issuance under the 2023 Plan is (i) 2,000,000 Shares of Common Stock plus (ii) an annual increase on the first day of each calendar year beginning with May 1, 2024 and ending with the last May 1 during the initial ten-year term of the 2023 Plan, equal to the lesser of (A) five percent (5%) of the Shares of Common Stock outstanding (on an as-converted basis, which shall include Shares issuable upon the exercise or conversion of all outstanding securities or rights convertible into or exercisable for Shares of Common Stock, including without limitation, preferred stock, warrants and employee options to purchase any Shares of Common Stock) on the final day of the immediately preceding calendar year and (B) such lesser number of Shares of Common Stock as determined by the Board; provided, that, Shares of Common Stock issued under the 2023 Plan with respect to an Exempt Award shall not count against such share limit. No more than 2,000,000 Shares, and as increased on an annual basis, on the first day of each calendar year beginning with May 1, 2024 and ending with the last May 1 during the initial ten-year term of the Plan, by the lesser of (A) five percent (5%) of the shares of Common Stock outstanding (on an as-converted basis, which shall include Shares of Common Stock issuable upon the exercise or conversion of all outstanding securities or rights convertible into or exercisable for shares of Common Stock, including without limitation, preferred stock, warrants and employee options to purchase any shares of Common Stock) on the final day of the immediately preceding calendar year; (B) 300,000 shares of Common Stock, and (C) such lesser number of shares of Common Stock as determined by the Board, shall be issued pursuant to the exercise of ISOs. As of April 30, 2023, we had awarded an aggregate of 1,950,000 options to purchase shares of common stock to directors and there remain 50,000 shares for grant under the 2023 Plan.

*Administration.* The 2023 Plan will be administered by the Board or a committee to which the Board delegates such responsibility (the “Administrator”). The 2023 Plan will be administered by the Administrator in accordance with Rule 16b-3 of the Securities Exchange Act of 1934, as amended. The Administrator may interpret the 2023 Plan and may prescribe, amend and rescind rules and make all other determinations necessary or desirable for the administration of the 2023 Plan. The 2023 Plan permits the Administrator to select the eligible recipients who will receive awards (“Awards”), to determine the terms and conditions of those awards, including but not limited to the exercise price or other purchase price of an award, the number of shares of common stock or cash or other property subject to an award, the term of an award and the vesting schedule applicable to an award, to determine the terms and conditions of written instruments evidencing such awards (an “Award Agreement”) and to amend the terms and conditions of outstanding awards.

*Eligibility.* Employees, directors and independent contractors of the Company or any of its affiliates of the Company will be eligible to receive Awards under the 2023 Plan, subject to certain limitations to avoid accelerated taxation and/or tax penalties under Section 409A of the Code. The participants in the 2023 Plan shall be selected from time to time by the Administrator, in its sole discretion, from those individuals that qualify as eligible recipients.

*Consideration for Awards.* The purchase price for any Award granted under the 2023 Plan or the Common Stock to be delivered pursuant to any such Award, as applicable, may be paid by means of any lawful consideration as determined by the Administrator, including, without limitation, one or a combination of the following methods:

- services rendered by the recipient of such Award;
- cash, check payable to the order of the Company, or electronic funds transfer;
- notice and third party payment in such manner as may be authorized by the Administrator;
- the delivery of previously owned and fully vested Shares of Common Stock;
- by a reduction in the number of Shares otherwise deliverable pursuant to the Award; or
- subject to such procedures as the Administrator may adopt, pursuant to a “cashless exercise” with a third party who provides financing for the purposes of (or who otherwise facilitates) the purchase or exercise of Awards.

*Awards.* The 2023 Plan permits the grant of: (a) stock options, which may be intended as incentive stock options (“ISOs”) or as nonqualified stock options (options not meeting the requirements to qualify as ISOs); (b) stock appreciation rights (“SARs”); (c) restricted stock; (d) restricted stock units; (e) cash incentive awards; or (f) other awards, including: (i) stock bonuses, performance stock, performance units, dividend equivalents, or similar rights to purchase or acquire Shares, whether at a fixed or variable price or ratio related to the Common Stock, upon the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or any combination thereof; or (ii) any similar securities with a value derived from the value of or related to the Common Stock and/or returns thereon.

*Adjustments.* To the extent necessary to preserve the economic intent of an Award or of the 2023 Plan, following a “Change in Capitalization”, such other equitable substitutions or adjustments shall be made as may be determined by the Administrator, in its sole discretion. A “Change in Capitalization” means any of the following: (i) merger, consolidation, reclassification, recapitalization, spin-off, spin-out, repurchase or other reorganization or corporate transaction or event, (ii) special or extraordinary dividend or other extraordinary distribution (whether in the form of cash, Common Stock or other property), stock split, reverse stock split, share subdivision or consolidation, (iii) combination or exchange of shares or (iv) other change in corporate structure, which, in any such case, the Administrator determines, in its sole discretion, affects the Shares such that an adjustment would be appropriate.

*Options.* Options granted under the 2023 Plan shall be designated as nonqualified stock options or ISOs. Each participant (“Participant”) who is granted an option (“Option”) shall enter into an Award Agreement with the Company, containing such terms and conditions as the Administrator shall determine, in its sole discretion, including, among other things, the Exercise Price (as defined in the 2023 Plan) of the Option, the term of the Option and provisions regarding exercisability of the Option, and whether the Option is intended to be an ISO or a nonqualified stock option (and in the event the Award Agreement has no such designation, the Option shall be a nonqualified stock option). The provisions of each Option need not be the same with respect to each Participant. More than one Option may be granted to the same Participant and be outstanding concurrently hereunder. The Exercise Price of Shares purchasable under an Option shall be determined by the Administrator in its sole discretion at the time of grant, but in no event shall the exercise price of an Option be less than one hundred percent (100%) of the Fair Market Value of a Share of Common Stock on the date of grant. The maximum term of each Option shall be fixed by the Administrator, but no Option shall be exercisable more than ten (10) years after the date such Option is granted. The Administrator shall have the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as the Administrator, in its sole discretion, deems appropriate.

Each Option shall be exercisable at such time or times and subject to such terms and conditions, including the attainment of performance goals, as shall be determined by the Administrator in the applicable Award Agreement.

The Administrator may also provide that any Option shall be exercisable only in installments, and the Administrator may waive such installment exercise provisions at any time, in whole or in part, based on such factors as the Administrator may determine in its sole discretion. The Administrator shall have the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as the Administrator, in its sole discretion, deems appropriate.

Notwithstanding anything to the contrary in the 2023 Plan, if an ISO is granted to a participant who owns Shares representing more than ten percent (10%) of the voting power of all classes of Shares of the Company at the time of grant, its "parent corporation" (as such term is defined in Section 424(e) of the Code) or a subsidiary of the Company, the term of the ISO shall not exceed five (5) years from the time of grant of such ISO and the Exercise Price shall be at least one hundred and ten percent (110%) of the Fair Market Value of the Shares on the date of grant. A Participant shall have no rights to dividends, dividend equivalents or distributions or any other rights of a stockholder with respect to the Shares subject to an Option until the Participant has given written notice of the exercise thereof, and has paid in full for such Shares and has satisfied the requirements of the 2023 Plan.

Treatment of an Option upon termination of employment of a Participant shall be provided for by the Administrator in the Award Agreement. An Option shall be affected, both with regard to vesting schedule and termination, by leaves of absence, including unpaid and un-protected leaves of absence, changes from full-time to part-time employment, partial disability or other changes in the employment status or service status of a Participant, in the discretion of the Administrator.

*Stock Appreciation Rights.* The Administrator will be authorized to award SARs under the 2023 Plan. SARs will be subject to the terms and conditions established by the Administrator and reflected in the Award Agreement. A SAR is a contractual right that allows a participant to receive, in the form of either cash, Shares or any combination of cash and Shares, the appreciation, if any, in the value of a Share over a certain period of time. An option granted under the 2023 Plan may include SARs, and SARs may also be awarded to a participant independent of the grant of an option. SARs granted in connection with an option shall be subject to terms similar to the option corresponding to such SARs.

*Restricted Stock and Restricted Stock Units (RSUs).* The Administrator will be authorized to award restricted stock or RSUs under the 2023 Plan. Awards of restricted stock and RSUs will be subject to the terms and conditions established by the Administrator at its sole discretion.

*Other Stock-Based Awards.* Other Stock-Based Awards may be issued under the 2023 Plan. Subject to the provisions of the 2023 Plan, the Administrator shall have sole and complete authority to determine the individuals to whom and the time or times at which such Other Stock-Based Awards shall be granted. An example of an Other Stock-Based Award is a performance bonus payable as Company Common Stock.

*Change in Control.* In the event that a change in control occurs, as defined in the 2023 Plan to include, among other things, the acquisition by a person of more than 50% of the voting power of the Company, the Administrator may, at its sole discretion, modify any unvested and un-exercisable portion of any Award to make it fully vested and exercisable.

*Amendment and Termination.* The Board may amend, alter or terminate the 2023 Plan at any time, but no amendment, alteration or termination shall be made that would impair the rights of a participant under any Award theretofore granted without such participant's consent. The Board shall obtain approval of the Company's stockholders for any amendment that would require such approval in order to satisfy the requirements of any rules of the stock exchange on which the Common Stock is traded or other applicable law.

The foregoing description of the 2023 Plan does not purport to be complete and is qualified in its entirety by reference to the full text of the 2023 Plan, a copy of which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

(2) *2021 Equity Incentive Plan.* In November 2021, our Board adopted the 2021 Equity Incentive Plan, or the 2021 Plan. An aggregate of 300,000 shares of our common stock is reserved for issuance and available for awards under the Plan, including incentive stock options granted under the 2021 Plan. The 2021 Plan administrator may grant awards to any employee, director, consultant or other person providing services to us or our affiliates. As of April 30, 2023, we had awarded an aggregate of 252,000 options to purchase shares of common stock to directors and there remain 48,000 shares for grant under the 2021 Plan.

The 2021 Plan is administered by our Board. The 2021 Plan administrator has the authority to determine, within the limits of the express provisions of the 2021 Plan, the individuals to whom awards will be granted, the nature, amount and terms of such awards and the objectives and conditions for earning such awards. Our Board may at any time amend or terminate the 2021 Plan, provided that no such action may be taken that adversely affects any rights or obligations with respect to any awards previously made under the 2021 Plan without the consent of the recipient. No awards may be made under the 2021 Plan after the tenth anniversary of its effective date.

Awards under the 2021 Plan may include incentive stock options, nonqualified stock options, stock appreciation rights (“SARs”), restricted shares of common stock, restricted stock units, performance share awards, stock bonuses and other stock-based awards and cash-based incentive awards.

*Stock Options.* The 2021 Plan administrator may grant to a participant options to purchase our common stock that qualify as incentive stock options for purposes of Section 422 of the Internal Revenue Code (“incentive stock options”), options that do not qualify as incentive stock options (“non-qualified stock options”) or a combination thereof. The terms and conditions of stock option grants, including the quantity, price, vesting periods, and other conditions on exercise will be determined by the 2021 Plan administrator. The exercise price for stock options will be determined by the 2021 Plan administrator in its discretion, but non-qualified stock options and incentive stock options may not be less than 100% of the fair market value of one share of our company’s common stock on the date when the stock option is granted. Additionally, in the case of incentive stock options granted to a holder of more than 10% of the total combined voting power of all classes of our stock on the date of grant, the exercise price may not be less than 110% of the fair market value of one share of common stock on the date the stock option is granted. Stock options must be exercised within a period fixed by the 2021 Plan administrator that may not exceed ten years from the date of grant, except that in the case of incentive stock options granted to a holder of more than 10% of the total combined voting power of all classes of our stock on the date of grant, the exercise period may not exceed five years. At the 2021 Plan administrator’s discretion, payment for shares of common stock on the exercise of stock options may be made in cash, shares of our common stock held by the participant or in any other form of consideration acceptable to the 2021 Plan administrator (including one or more forms of “cashless” or “net” exercise).

*Stock Appreciation Rights.* The 2021 Plan administrator may grant to a participant an award of SARs, which entitles the participant to receive, upon its exercise, a payment equal to (i) the excess of the fair market value of a share of common stock on the exercise date over the SAR exercise price, times (ii) the number of shares of common stock with respect to which the SAR is exercised. The exercise price for a SAR will be determined by the 2021 Plan administrator in its discretion; provided, however, that in no event shall the exercise price be less than the fair market value of our common stock on the date of grant.

*Restricted Shares and Restricted Units.* The 2021 Plan administrator may award to a participant shares of common stock subject to specified restrictions (“restricted shares”). Restricted shares are subject to forfeiture if the participant does not meet certain conditions such as continued employment over a specified forfeiture period and/or the attainment of specified performance targets over the forfeiture period. The 2021 Plan administrator also may award to a participant units representing the right to receive shares of common stock in the future subject to the achievement of one or more goals relating to the completion of service by the participant and/or the achievement of performance or other objectives (“restricted units”). The terms and conditions of restricted share and restricted unit awards are determined by the 2021 Plan administrator.

*Stock Bonuses.* Stock bonuses may be granted as additional compensation for service or performance and may be settled in the form of common stock, cash or a combination thereof, and may be subject to restrictions, which may vest subject to continued service and/or the achievement of performance conditions.

*Performance Awards.* The 2021 Plan administrator may grant performance awards to participants under such terms and conditions as the 2021 Plan administrator deems appropriate. A performance award entitles a participant to receive a payment from us, the amount of which is based upon the attainment of predetermined performance targets over a specified award period. Performance awards may be paid in cash, shares of common stock or a combination thereof, as determined by the 2021 Plan administrator.

*Other Stock-Based Awards.* The 2021 Plan administrator may grant equity-based or equity-related awards, referred to as “other stock-based awards,” other than options, SARs, restricted shares, restricted units, or performance awards. The terms and conditions of each other stock-based award will be determined by the 2021 Plan administrator. Payment under any other stock-based awards will be made in common stock or cash, as determined by the 2021 Plan administrator.

**Board Diversity Matrix**

Our Nominating and Corporate Governance Committee is committed to promoting diversity on our Board of Directors. We have surveyed our current directors and asked each director to self-identify their race, ethnicity, and gender using one or more of the below categories. The results of this survey as of July 26, 2023 are included in the matrix below.

Board Diversity Matrix (As of July 26, 2023)				
Total Number of Directors: 5				
Part I: Gender Identity	Female	Male	Non-Binary	Did Not Disclose Gender
Directors	1	4		
Part II: Demographic Background				
African American or Black				
Alaskan Native or Native American				
Asian				
Hispanic or Latinx				
Native Hawaiian or Pacific Islander				
White	1	3		
Two or More Races or Ethnicities				
LGBTQ+				
Did Not Disclose Demographic Background		1		
54				

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth information with respect to the beneficial ownership of shares of our common stock as of July 26, 2023 by:

- each person whom we know beneficially owns more than 5% of any class of equity security;
- each of our directors individually;
- each of our named executive officers individually; and
- all of our current directors and executive officers as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting or investment power with respect to such securities. In addition, pursuant to such rules, we deemed outstanding shares of common stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of July 26, 2023. We did not deem such shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the beneficial owners named in the table below have sole voting and investment power with respect to all shares of our common stock that they beneficially own, subject to applicable community property laws. The inclusion in the table below of any shares deemed beneficially owned does not constitute an admission of beneficial ownership of those shares.

<b>Name and Address of Beneficial Owner (1)</b>	<b>Amount of Shares and Nature of Beneficial Ownership of Common Stock</b>	<b>Percent of Common Stock*</b>
Netcapital Systems LLC (2)	1,711,261	18.2%
Bard Associates LLC (3)	1,494,838	15.5%
Martin Kay (4)	187,500	2.0%
Arnold Scott (5)	88,640	**0%
Coreen Kraysler (6)	68,333	**0%
Cecilia Lenk (7)	32,318	**0%
Steven Geary (8)	14,883	**0%
Avi Liiss (8)	15,583	**0%
Officers and Directors as a group (6 persons)	407,257	4.2%

\* Based on 9,415,382 shares outstanding as of July 26, 2023.

\*\* Less than 1%

(1) Unless otherwise noted, the business address of each member of our Board is c/o Netcapital Inc. 1 Lincoln Street, Boston Massachusetts 02111.

(2) The natural person with investment control over the securities held by Netcapital Systems LLC is Jason Frishman. Netcapital Systems LLC has agreed to vote its shares of common stock to support the resolutions of the Board of Netcapital Inc. on any matters that are brought to a shareholder vote.

(3) Based solely on a Schedule 13D/A filed with the SEC on May 26, 2023, Bard Associates Inc. is an investment manager and beneficially owns 1,494,835 shares of our common stock (including 233,525 shares of common stock under presently exercisable warrants), including sole voting power over 73,000 shares, sole dispositive power over 73,000 shares, shared dispositive power over 1,421,835 shares; and Timothy Johnson has sole dispositive power over 101,000 shares. The address for Bard Associates Inc. and Timothy Johnson is 135 South LaSalle Street, Suite 3700, Chicago, IL 60603.

(4) Includes 187,500 shares of common stock subject to stock options that are presently exercisable or exercisable within 60 days after July 26, 2023.

- (5) Includes 2,500 shares of common stock subject to stock options that are presently exercisable or exercisable within 60 days after July 26, 2023.
- (6) Includes 45,833 shares of common stock subject to stock options that are presently exercisable or exercisable within 60 days after July 26, 2023.
- (7) Includes 6,667 shares of common stock subject to stock options that are presently exercisable or exercisable within 60 days after July 26, 2023.
- (8) Includes 4,583 shares of common stock subject to stock options that are presently exercisable or exercisable within 60 days after July 26, 2023.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

##### **Policies and Procedures for Transactions with Related Parties**

Our Chief Executive Officer or our Chief Financial Officer must review and approve certain transactions between us and Related Parties (as defined below). A “Related-Party Transaction” is defined as a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we (including any of our subsidiaries) were, are or will be a participant.

For the purposes of our Related-Party Transactions, a “Related Party” is defined as: any person who is, or at any time since the beginning of our last two fiscal years was, a director or executive officer or a nominee to become a director; any person who is known to be the beneficial owner of more than ten percent of our common stock; any immediate family member of any of the foregoing persons, including any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, and any person (other than a tenant or employee) sharing the household of any of the foregoing persons; and any firm, corporation or other entity in which any of the foregoing persons is a general partner or, for other ownership interests, a limited partner or other owner in which such person has a beneficial ownership interest of 10% or more.

##### **Transactions with Related Parties**

The Company’s largest shareholder, Netcapital Systems LLC (“Systems”), owns 1,711,261 shares of common stock, or 26.6% of the Company’s 6,440,527 outstanding shares as of April 30, 2023 (and approximately 18.2% of the Company’s outstanding stock as of July 26, 2023). As of April 30, 2022, the Company accrued a payable to Systems of \$294,054 for supplemental consideration owed in conjunction with its purchase of Netcapital Funding Portal Inc., which was paid in full on July 14, 2022, with the issuance to Systems of 39,901 shares of the Company’s common stock. The Company provided professional services to Systems in the years ended April 30, 2023 and 2022 and recorded revenue of \$4,660 and \$15,000, respectively, for those services.

In total, the Company owed Systems \$0 and \$294,054 as of April 30, 2023 and 2022, respectively. The company paid Systems \$430,000 and \$357,429 in the years ended April 30, 2023 and 2022, respectively, for use of the software that runs the website [www.netcapital.com](http://www.netcapital.com).

The Chief Executive Officer of our wholly owned subsidiary, Netcapital Advisors Inc., is a member of the board of directors of KingsCrowd Inc. The Company sold 606,060 shares of KingsCrowd in June 2022 for proceeds of \$200,000 and recorded a realized loss on the sale of the investment of \$406,060. As of April 30, 2023 and 2022, the Company owned 3,209,685 and 3,815,745 shares of KingsCrowd Inc., valued at \$3,209,685 and \$3,815,745, respectively.

The Chief Executive Officer of our wholly owned subsidiary, Netcapital Advisors Inc. is a member of the board of directors of Deuce Drone LLC. As of April 30, 2023 and 2022, the Company owned 2,350,000 membership interest units of Deuce Drone LLC., valued at \$2,350,000. The Company has notes receivable aggregating \$152,000 from Deuce Drone LLC as of April 30, 2023 and 2022.



Compensation expense to officers in the years ended April 30, 2023 and 2022 consisted of common stock valued at \$0 and \$190,763, respectively, cash compensation of \$598,077 and \$265,688, respectively, and options to purchase common stock valued at \$137,994 and \$3,147, respectively.

Compensation to a related party consultant in the years ended April 30, 2023 and 2022 consisted of common stock valued at \$0 and \$25,908, respectively, and cash compensation of \$60,039 and \$60,000, respectively. This consultant is also the controlling shareholder of Zelgor Inc., and the Company earned revenues from Zelgor Inc. of \$66,000 and \$5,500 in the years ended April 30, 2023 and 2022. The Company owns 1,400,000 shares of Zelgor Inc., valued at \$1,400,000 and holds a note receivable of \$50,000 as of April 30, 2023.

Cash compensation to the President of Netcapital Systems LLC amounted to \$184,808 and \$96,000, and stock-based compensation amounted to \$25,927 and \$0, in the years ended April 30, 2023 and 2022, respectively.

We owe Steven Geary, a director, \$31,680 as of April 30, 2023 and 2022. This obligation is not interest bearing. \$16,680 is recorded as a related party trade accounts payable and \$15,000 as a related party note payable. We have no signed agreements for the indebtedness to Mr. Geary.

The Company made an investment of \$240,080 in an affiliate, 6A Aviation Alaska Consortium, Inc., in conjunction with a land lease in an airport in Alaska. Our Chief Executive Officer is also the Chief Executive Officer of 6A Aviation Alaska Consortium, Inc. As a result of the investment, the Company is a 19% owner of 6A Aviation Consortium Inc.

In November 2021, we issued a member of our Board 10,000 shares of common stock for his service as a member of our board and audit committee, valued at \$100,000.

On February 2, 2022, the Company granted members of our board of directors an aggregate of 25,000 options to purchase shares of our common stock at an exercise price of \$10.50 per share. An option to purchase 10,000 shares of common stock was granted to the Chief Executive Officer of Netcapital Advisors Inc., who is also a director, and each of the three independent board members received an option to purchase 5,000 shares of common stock. The options vest on a straight-line basis over 48 months and expire in 10 years. On April 25, 2023, the Company also granted the same four members of our board of directors an aggregate of 80,000 options, or 20,000 for each board member, to purchase shares of our common stock at an exercise price of \$1.40 per share. The options vest monthly on a straight-line basis over a 4-year period and expire in 10 years.

In January 2023 we granted stock options to purchase an aggregate of 1,600,000 shares of our common stock to four related parties as follows: Our Chief Executive Officer, 1,000,000 shares; our Chief Financial Officer, 200,000 shares; our Founder, 200,000 shares; and a director of one of our subsidiaries, 200,000 shares. The options have an exercise price of \$1.43, vest monthly on a straight-line basis over a 4-year period and expire in 10 years.

Coreen Kraysler, our Chief Financial Officer, has personally guaranteed a \$500,000 promissory note from the U.S. Small Business Administration. The note bears interest at an annual rate of 3.75%, has a 30-year term, and monthly payments of \$2,594 began on December 17, 2022.

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Fruci & Associates II, PLLC is the Company's independent registered public accounting firm.

The following table presents fees for professional audit services rendered by our independent registered public accounting firm during the past two fiscal years.

	Fiscal 2023	Fiscal 2022
<b>Audit fees</b>	\$ 84,113	\$ 53,325
<b>Audit related fees</b>		
<b>Tax fees</b>		
<b>All other fees</b>		
<b>Total</b>	<u>\$ 84,113</u>	<u>\$ 53,325</u>

#### **Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

Consistent with SEC policies regarding auditor independence, our board of directors has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the board of directors has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to engagement of the independent auditor for the next year's audit, management will submit an aggregate of services expected to be rendered during that year for each of four categories of services to the board of directors for approval.

1. **Audit** services include audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters and reviews of our financial statements included in our Quarterly Reports on Form 10-Q.

2. **Audit-Related** services are for assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

3. **Tax** services include all services performed by the independent auditor's tax personnel except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice.

4. **Other** services are those associated with services not captured in the other categories. We generally do not request such services from the independent auditor.

PART IV

ITEM 15. FINANCIAL STATEMENTS AND EXHIBITS.

Exhibit Number	Description
1.1	<a href="#">Underwriting Agreement between the registrant and ThinkEquity LLC incorporated by reference to Exhibit 1.1 to our Current Report on Form 8-K dated July 12, 2022.</a>
1.2	<a href="#">Underwriting Agreement dated July 19, 2023 between the Registrant and ThinkEquity LLC, incorporated by reference to our Current Report on Form 8-K dated July 19, 2023.</a>
2.1	<a href="#">Asset Purchase Agreement dated November 23, 2010 between ValueSetters, Inc. and NetGames.com, incorporated by reference to Exhibit 2.1 to our Form 10/A dated July 25, 2014</a>
2.2	<a href="#">Agreement and Plan of Merger by and Among Netcapital Funding Portal Inc., ValueSetters Inc. and Netcapital Acquisition Vehicle Inc., incorporated by reference to our Current Report on Form 8-K dated August 23, 2020</a>
3.1	<a href="#">Articles of Incorporation filed on April 25, 1984, incorporated by reference to Exhibit 3.1 to our Form 10 dated September 3, 2013</a>
3.2	<a href="#">Amendment to Articles of Incorporation filed on September 7, 1999, incorporated by reference to Exhibit 3.2 to our Form 10 dated September 3, 2013</a>
3.3	<a href="#">Amendment to Articles of Incorporation filed on December 4, 2003, incorporated by reference to Exhibit 3.2 to our Form 10 dated September 3, 2013</a>
3.4	<a href="#">Amendment to Articles of Incorporation filed on April 13, 2015, incorporated by reference to Exhibit 3.1.3 to our Form S-1 dated February 14, 2022</a>
3.5	<a href="#">Amendment to Articles of Incorporation filed on September 29, 2020, incorporated by reference to Exhibit 3.1 to our Form 8-K dated November 5, 2020</a>
3.6	<a href="#">By-Laws of ValueSetters, Inc. incorporated by reference to Exhibit 3.4 to our Form 10 dated September 3, 2013</a>
4.1	<a href="#">Specimen stock certificate evidencing shares of common stock, incorporated by reference to Exhibit 4.1 to our Form S-1/A dated April 8, 2022</a>
4.2	<a href="#">Form of Unsecured Convertible Notes, incorporated by reference to Exhibit 4.3 to our Form S-1 dated February 14, 2022</a>
4.3	<a href="#">Form of Representative's Warrant incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated July 15, 2022.</a>
4.4	<a href="#">Form of Warrant Agent Agreement incorporated by reference to Exhibit 4.4 to our Form S-1/A dated June 28, 2022</a>
4.5	<a href="#">Form of Public Warrant, incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated July 15, 2022</a>
4.6	<a href="#">Form of Pre-Funded Warrant, incorporated by reference to Exhibit 4.6 to our Form S-1/A dated June 28, 2022</a>
4.7	<a href="#">Form of Representative's Warrant incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated July 15, 2022.</a>
4.8	<a href="#">Form of Unsecured Convertible Notes incorporated by reference to our Current Report on Form 8-K dated July 15, 2022.</a>
4.9	<a href="#">Form of Representative Warrant (included as Exhibit A to Exhibit 1.1) incorporated by reference to our Current Report on Form 8-K dated December 16, 2022.</a>

4.10	Form of Placement Agent Warrant, incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated May 23, 2023.
4.11	Form of Representative Warrant, incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated July 19, 2023.
4.12*	Description of capital stock
10.1+	<a href="#">2021 Equity Incentive Plan, filed as Exhibit 4.1 to the registrant's registration statement on Form S-8 on January 27, 2022, and incorporated herein by reference.</a>
10.2+	<a href="#">Employment Agreement with Carole Murko, incorporated by reference to Exhibit 10.12 to our Form S-1 dated February 14, 2022</a>
10.3+	<a href="#">Separation Agreement with Carole Murko, incorporated by reference to Exhibit 10.13 to our Form S-1 dated February 14, 2022</a>
10.4	<a href="#">Form of Note Purchase Agreement, incorporated by reference to Exhibit 10.14 to our Form S-1 dated February 14, 2022</a>
10.5	<a href="#">License Agreement between Netcapital Systems LLC, a Delaware limited liability company, and Netcapital Funding Portal Inc., filed as Exhibit 10.1 to our Current Report on Form 8-K dated April 18, 2022 and filed on June 28, 2022 and incorporated by reference herein.</a>
10.6+	<a href="#">Employment Agreement with Cecilia Lenk, filed as Exhibit 10.2 to our Current Report on Form 8-K dated April 18, 2022 and filed on June 28, 2022 and incorporated by reference herein.</a>
10.7+	<a href="#">Employment Agreement with Coreen Kraysler, filed as Exhibit 10.3 to our Current Report on Form 8-K dated April 18, 2022 and filed on June 28, 2022 and incorporated by reference herein.</a>
10.8+	<a href="#">Employment Agreement with Jason Frishman, filed as Exhibit 10.4 to our Current Report on Form 8-K dated April 18, 2022 and filed on June 28, 2022 and incorporated by reference herein.</a>
10.9+	<a href="#">Netcapital Inc 2023 Omnibus Equity Incentive Plan incorporated by reference to our Current Report on Form 8-K dated January 5, 2023.</a>
10.10	<a href="#">Employment Agreement with Martin Kay dated January 3, 2023 incorporated by reference to our Current Report on Form 8-K dated January 5, 2023.</a>
10.11	<a href="#">Form of Stock Option Agreement incorporated by reference to our Current Report on Form 8-K dated January 5, 2023.</a>
10.12	<a href="#">Software License and Services Agreement between Templum, Inc. and Netcapital Systems LLC dated January 2, 2023 incorporated by reference to our Current Report on Form 8-K dated January 6, 2023.</a>
10.13	Form of Securities Purchase Agreement between Netcapital Inc. and certain institutional investors dated May 23, 2023, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated May 23, 2023.
14.1	<a href="#">Code of Ethics, incorporated by reference to Exhibit 14.1 to our Form S-1/A dated April 8, 2022</a>
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
31.2*	Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).
32.1*	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

+ Indicates a management contract or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

### NETCAPITAL INC.

Date: July 26, 2023

By: /s/ Martin Kay

Martin Kay  
Chief Executive Officer and Director  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Name</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Martin Kay</u> Martin Kay	Chief Executive Officer and Director (Principal Executive Officer)	July 26, 2023
<u>/s/ Coreen Kraysler</u> Coreen Kraysler	Chief Financial Officer, (Principal Accounting and Financial Officer)	July 26, 2023
<u>/s/ Avi Liss</u> Avi Liss	Director	July 26, 2023
<u>/s/ Cecilia Lenk</u> Cecilia Lenk	Director	July 26, 2023
<u>/s/ Arnold Scott</u> Arnold Scott	Director	July 26, 2023
<u>/s/ Steven Geary</u> Steven Geary	Director	July 26, 2023

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Netcapital Inc. and Subsidiaries

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Netcapital Inc. and Subsidiaries ("the Company") as of April 30, 2023, and 2022, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended April 30, 2023, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of April 30, 2023, and 2022, and the results of its operations and its cash flows for the years in the two-year period ended April 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### Valuation of Investments

#### *Description of the Critical Audit Matter*

As discussed in Note 10 to the consolidated financial statements, the Company has investments in several entities which require the Company to initially value based on offering prices that are not considered observable and to periodically evaluate potential impairment by assessing whether the carrying value of the investments exceeds the estimated fair value, or by monitoring observable price changes from orderly transactions to measure estimated fair value. Auditing management's analysis includes tests that are complex and highly judgmental due to the estimation required to determine the fair value of each of the underlying investees. In particular, fair value estimates are sensitive to significant assumptions and factors such as expectations about future market and economic conditions, revenue growth rates, strategic plans, and historical operating results, among others.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our principal audit procedures to evaluate management's valuation of investments consisted of the following, among others:

1. Obtain and test management assumptions and analysis, including review of third-party market data, public filings, and funding activities of investee entities.
2. Confirmed investee shares held by the Company, relative ownership percentages, and active reported share prices.
3. Performed a recalculation of significant inputs used in the valuation for reasonableness.
4. Assess management's key indicators of the investee operations, including analysis of operational growth, public filings, and future strategic and funding plans.

*Fruci & Associates II, PLLC*

Fruci & Associates, PLLC – PCAOB ID #5525

We have served as the Company's auditor since 2017.

Spokane, Washington

July 26, 2023

NETCAPITAL INC.  
YEARS ENDED APRIL 30, 2023 AND 2022  
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**NETCAPITAL INC.**  
Consolidated Balance Sheets

Assets:	April 30, 2023	April 30, 2022
Cash and cash equivalents	\$ 569,441	\$ 473,925
Related party receivable	—	668
Accounts receivable, net	1,388,500	2,433,900
Prepaid expenses	583,030	5,694
Total current assets	<u>2,540,971</u>	<u>2,914,187</u>
Deposits	6,300	6,300
Note receivable – related parties	202,000	202,000
Purchased technology	15,875,297	15,536,704
Investment in affiliate	240,080	240,080
Equity securities at fair value	22,955,445	12,861,253
Total assets	<u>\$ 41,820,093</u>	<u>\$ 31,760,524</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable		
Trade	\$ 578,331	\$ 536,508
Related party	75,204	378,077
Accrued expenses	285,065	229,867
Stock subscription payable	10,000	33,400
Deferred revenue	661	2,532
Interest payable	98,256	222,295
Income taxes payable	174,000	—
Deferred tax liability, net	1,657,000	977,000
Related party debt	15,000	22,860
Secured note payable	350,000	1,400,000
Current portion of SBA loans	1,885,800	1,890,727
Loan payable - bank	34,324	34,324
Convertible notes payable	—	300,000
Total current liabilities	<u>5,163,641</u>	<u>6,027,590</u>
Long-term liabilities:		
Long-term SBA loans, less current portion	500,000	495,073
Total Liabilities	<u>5,663,641</u>	<u>6,552,663</u>
Commitments and contingencies		
	—	—
Stockholders' equity:		
Common stock, \$.001 par value; 900,000,000 shares authorized, 6,440,527 and 2,934,344 shares issued and outstanding	6,441	2,934
Capital in excess of par value	30,500,944	22,479,769
Shares to be issued	183,187	244,250
Retained earnings	5,465,880	2,510,908
Total stockholders' equity	<u>36,156,452</u>	<u>25,237,861</u>
Total liabilities and stockholders' equity	<u>\$ 41,820,093</u>	<u>\$ 31,760,524</u>

See Accompanying Notes to the Financial Statements



**NETCAPITAL INC.**  
Consolidated Statements of Operations

	Year Ended April 30, 2023	Year Ended April 30, 2022
Revenues	\$ 8,493,985	\$ 5,480,835
Costs of services	85,038	110,115
Gross profit	<u>8,408,947</u>	<u>5,370,720</u>
Costs and expenses:		
Consulting expense	589,349	892,567
Marketing	85,482	95,753
Rent	75,052	47,670
Payroll and payroll related expenses	3,646,490	3,763,845
General and administrative costs	1,740,698	1,602,031
Total costs and expenses	<u>6,137,071</u>	<u>6,401,866</u>
Operating income (loss)	<u>2,271,876</u>	<u>(1,031,146)</u>
Other income (expense):		
Interest expense	(93,842)	(126,372)
Debt forgiveness	—	1,904,296
Gain on debt conversion	224,260	—
Amortization of intangible assets	(96,407)	—
Realized loss on sale of investment	(406,060)	—
Unrealized gain on equity securities	1,857,500	3,275,745
Other income	51,645	25,007
Total other income	<u>1,537,096</u>	<u>5,078,676</u>
Net income before taxes	<u>3,808,972</u>	<u>4,047,530</u>
Income tax expense	854,000	544,000
Net income	<u>\$ 2,954,972</u>	<u>\$ 3,503,530</u>
Basic earnings per share	\$ 0.63	\$ 1.31
Diluted earnings per share	\$ 0.63	\$ 1.27
Weighted average number of common shares outstanding:		
Basic	<u>4,677,214</u>	<u>2,666,173</u>
Diluted	<u>4,677,464</u>	<u>2,748,480</u>

See Accompanying Notes to the Financial Statements

**NETCAPITAL INC.**  
Consolidated Statements of Stockholders' Equity  
For the Years Ended April 30, 2023 and 2022

	Common Stock		Shares To	Capital in	Retained	Total
	Shares	Amount	Be Issued	Excess of Par Value	Earnings (Deficit)	Equity
Balance, April 30, 2021	2,178,766	\$ 2,178	\$ —	\$ 15,168,987	\$ (992,622)	\$ 14,178,543
Stock-based compensation	937	2	—	14,054	—	14,056
Sale of common stock	176,934	176	—	1,592,219	—	1,592,395
Shares issued to acquire funding portal	361,736	362	—	3,523,100	—	3,523,462
Net income, July 31, 2021	—	—	—	—	1,457,410	1,457,410
Balance, July 31, 2021	2,718,373	2,718	—	20,298,360	464,788	20,765,866
Stock-based compensation	937	1	—	10,072	—	10,073
Net loss, October 31, 2021	—	—	—	—	(274,156)	(274,156)
Balance, October 31, 2021	2,719,310	2,719	—	20,308,432	190,632	20,501,783
Stock-based compensation	55,312	55	—	553,967	—	554,022
Purchase of equity interest	50,000	50	—	499,950	—	500,000
Purchase of MSG Development Corp.	50,000	50	244,250	488,450	—	732,750
Sale of common stock	22,222	22	—	199,978	—	200,000
Net income, January 31, 2022	—	—	—	—	1,821,006	1,821,006
Balance, January 31, 2022	2,896,844	2,896	244,250	22,050,777	2,011,638	24,309,561
Stock-based compensation	—	—	—	29,030	—	29,030
Purchase of equity interest	37,500	38	—	399,962	—	400,000
Net income, April 30, 2022	—	—	—	—	499,270	499,270
Balance, April 30, 2022	2,934,344	2,934	244,250	22,479,769	2,510,908	25,237,861
Shares issued for debt conversion	133,333	134	—	379,852	—	379,986
Sale of common stock	1,205,000	1,205	—	3,947,912	—	3,949,117
Vesting of stock options	—	—	—	32,953	—	32,953
Net income July 31, 2022	—	—	—	—	64,477	64,477
Balance, July 31, 2022	4,272,677	4,273	244,250	26,840,486	2,575,385	29,664,394
Sale of common stock	2,600	3	—	23,397	—	23,400
Purchase of equity interest	37,500	37	—	366,338	—	366,375
Vesting of stock options	—	—	—	32,953	—	32,953
Net income Oct. 31, 2022	—	—	—	—	183,138	183,138
Balance October 31, 2022	4,312,777	4,313	244,250	27,263,174	2,758,523	30,270,260
Sale of common stock	1,434,000	1,434	—	1,620,025	—	1,621,459
Purchase of equity interest	18,750	19	—	171,105	—	171,124
Purchase of intellectual property	300,000	300	—	434,700	—	435,000
Reduction in shares to be issued	6,250	6	(61,063)	61,057	—	—
Vesting of stock options	—	—	—	63,057	—	63,057
Net income January 31, 2023	—	—	—	—	1,696,499	1,696,499
Balance January 31, 2023	6,071,777	6,072	183,187	29,613,118	4,455,022	34,257,399
Purchase of equity interest	18,750	19	—	195,233	—	195,252
Vesting of stock options	—	—	—	132,943	—	132,943
Stock-based compensation	350,000	350	—	559,650	—	560,000
Net income April 30, 2023	—	—	—	—	1,010,858	985,456
Balance, April 30, 2023	6,440,527	\$ 6,441	\$ 183,187	\$ 30,500,944	\$ 5,465,880	\$ 36,156,452

See Accompanying Notes to the Financial Statements

**NETCAPITAL INC.**  
Consolidated Statements of Cash Flows

	<u>Year Ended April 30, 2023</u>	<u>Year Ended April 30, 2022</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 2,954,972	\$ 3,503,530
Adjustment to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation	269,577	1,176,058
Non-cash revenue from the receipt of equity	(8,110,000)	(2,387,500)
Allowance for credit losses	5,443	76,630
Debt forgiveness	—	(1,904,302)
Amortization of intangible assets	96,407	—
Realized loss on investment	406,060	—
Gain on debt conversion	(224,260)	—
Unrealized gain on equity securities	(1,857,500)	(3,275,745)
Changes in deferred taxes	680,000	544,000
Changes in non-cash working capital balances:		
Accounts receivable	1,039,957	(1,153,598)
Related party receivable	668	(668)
Prepaid expenses	(25,007)	16,290
Accounts payable and accrued expenses	97,020	281,904
Deferred revenue	(1,871)	1,910
Income taxes payable	174,000	—
Accrued interest payable	(113,847)	124,314
Accounts payable – related party	(8,819)	(9,490)
Net cash used in operating activities	<u>(4,617,200)</u>	<u>(3,006,667)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investment	200,000	—
Loans to affiliate	—	(202,000)
Investment in affiliate	—	(117,166)
Net cash provided by (used in) investing activities	<u>200,000</u>	<u>(319,166)</u>
<b>FINANCING ACTIVITIES</b>		
Payment of related party note	(7,860)	—
Proceeds from sale of common stock	5,570,576	—
Proceeds from (payments to) secured lender	(1,050,000)	400,000
Proceeds from stock subscriptions	—	625,799
Proceeds from convertible notes	—	300,000
Cash flow provided by financing activities	<u>4,512,716</u>	<u>1,325,799</u>
Net increase (decrease) in cash	95,516	(2,000,034)
Cash and cash equivalents, beginning of the period	473,925	2,473,959
Cash and cash equivalents, end of the period	<u>\$ 569,441</u>	<u>\$ 473,925</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for taxes	\$ —	\$ —
Cash paid for interest	<u>\$ 207,690</u>	<u>\$ 2,064</u>
<b>Supplemental Non-Cash Investing and Financing Information:</b>		
Common stock issued as prepaid compensation	\$ 552,329	\$ —
Common stock issued to pay related party payable	\$ 113,714	\$ 3,523,462
Common stock issued to pay promissory notes	\$ 266,272	\$ —
Common stock issued to purchase intellectual property	\$ 435,000	\$ —
Common stock issued to purchase 10% interest in Caesar Media Group Inc.	\$ 732,751	\$ 900,000
Common stock for the purchase of MSG Development Corp.	<u>\$ —</u>	<u>\$ 732,750</u>

See Accompanying Notes to the Financial Statements

**NETCAPITAL INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED APRIL 30, 2023 AND 2022**

**1. Description of Business and Summary of Accounting Principles**

***Description of Business and Concentrations***

Netcapital Inc. (“Netcapital,” “we,” “our,” or the “Company”) is a fintech company with a scalable technology platform that allows private companies to raise capital online and provides private equity investment opportunities to investors. The company’s consulting group, Netcapital Advisors, provides marketing and strategic advice and takes equity positions in select companies with disruptive technologies. The Netcapital funding portal is registered with the U.S. Securities & Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA), a registered national securities association.

The consolidated financial statements are presented in United States dollars and have been prepared in accordance with generally accepted accounting principles in the United States of America. The Company’s fiscal year ends April 30.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after the elimination of significant intercompany balances and transactions. The wholly owned subsidiaries are Netcapital Funding Portal Inc., an equity-based funding portal registered with the SEC, Netcapital Advisors Inc., which provides marketing and strategic advice to select companies, and MSG Development Corp, which was acquired in November 2021, and provides business valuation services.

***Income Taxes***

The Company accounts for income taxes under the asset and liability method in accordance with ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the tax authorities. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in income tax expense. The Company has determined that it had no significant uncertain tax positions requiring recognition or disclosure.

### ***Revenue Recognition under ASC 606***

The Company recognizes service revenue from its consulting contracts, funding portal and game website using the five-step model as prescribed by ASC 606:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies a performance obligation.

The Company identifies performance obligations in contracts with customers, which primarily are professional services, listing fees on our funding portal, and a portal fee of 4.9% of the money raised on the funding portal. The transaction price is determined based on the amount the Company expects to be entitled to receive in exchange for transferring the promised services to the customer. The transaction price in the contract is allocated to each distinct performance obligation in an amount that represents the relative amount of consideration expected to be received in exchange for satisfying each performance obligation. Revenue is recognized when performance obligations are satisfied. The Company usually bills its customers before it provides any services and begins performing services after the first payment is received. Contracts are typically one year or less. For larger contracts, in addition to the initial payment, the Company may allow for progress payments throughout the term of the contract.

### ***Judgments and Estimates***

The estimation of variable consideration for each performance obligation requires the Company to make subjective judgments. The Company enters into contracts with customers that regularly include promises to transfer multiple services, such as digital marketing, web-based videos, offering statements, and professional services. For arrangements with multiple services, the Company evaluates whether the individual services qualify as distinct performance obligations. In its assessment of whether a service is a distinct performance obligation, the Company determines whether the customer can benefit from the service on its own or with other readily available resources, and whether the service is separately identifiable from other services in the contract. This evaluation requires the Company to assess the nature of each individual service offering and how the services are provided in the context of the contract, including whether the services are significantly integrated, highly interrelated, or significantly modify each other, which may require judgment based on the facts and circumstances of the contract.

When agreements involve multiple distinct performance obligations, the Company allocates arrangement consideration to all performance obligations at the inception of an arrangement based on the relative standalone selling prices (SSP) of each performance obligation. Where the Company has standalone sales data for its performance obligations which are indicative of the price at which the Company sells a promised service separately to a customer, such data is used to establish SSP. In instances where standalone sales data is not available for a particular performance obligation, the Company estimates SSP by the use of observable market and cost-based inputs. The Company continues to review the factors used to establish list price and will adjust standalone selling price methodologies as necessary on a prospective basis.

#### ***Service Revenue***

Service revenue from subscriptions to the Company's game website is recognized over time on a ratable basis over the contractual subscription term beginning on the date that the platform is made available to the customer. Payments received in advance of subscription services being rendered are recorded as a deferred revenue. Professional services revenue is recognized over time as the services are rendered.

When a contract with a customer is signed, the Company assesses whether collection of the fees under the arrangement is probable. The Company estimates the amount to reserve for uncollectible amounts based on the aging of the contract balance, current and historical customer trends, and communications with its customers. These reserves are recorded as operating expenses against the contract asset (accounts receivable).

#### ***Contract Assets***

Contract assets are recorded for those parts of the contract consideration not yet invoiced but for which the performance obligations are completed. The revenue is recognized when the customer receives services. Contract assets are included in other current assets in the consolidated balance sheets and will be recognized during the succeeding twelve-month period.

#### ***Deferred Revenue***

Deferred revenues represent billings or payments received in advance of revenue recognition and is recognized upon transfer of control. Balances consist primarily of annual plan subscription services and professional services not yet provided as of the balance sheet date. Deferred revenues that will be recognized during the succeeding twelve-month period are recorded as current deferred revenues in the consolidated balance sheets, with the remainder recorded as other non-current liabilities in the consolidated balance sheets.

#### ***Costs to Obtain a Customer Contract***

Sales commissions and related expenses are considered incremental and recoverable costs of acquiring customer contracts. These costs are capitalized as other current or non-current assets and amortized on a straight-line basis over the life of the contract, which approximates the benefit period. The benefit period was estimated by taking into consideration the length of customer contracts, technology lifecycle, and other factors.

All sales commissions are recorded as consulting fees within the Company's consolidated statement of operations.

#### ***Remaining Performance Obligations***

The Company's subscription terms are typically less than one year. All of the Company's revenues in the years ended April 30, 2023 and 2022, which amounted to \$8,493,985 and \$5,480,835, respectively, are considered contract revenues. Contract revenue as of April 30, 2023 and 2022, which has not yet been recognized, amounted to \$661 and \$2,532, respectively, and is recorded on the balance sheet as deferred revenue. The Company expects to recognize revenue on all of its remaining performance obligations over the next 12 months.

### ***Disaggregation of Revenue***

Our revenue is from U.S.-based companies with no notable geographical concentrations in any area. A distinction exists in revenue source; our revenues are either generated online or from personal services.

Revenues disaggregated by revenue source consist of the following:

	Year Ended April 30, 2023	Year Ended April 30, 2022
Consulting services	\$ 7,560,320	\$ 3,878,233
Fees from online services	933,665	1,602,602
Total revenues	<u>\$ 8,493,985</u>	<u>\$ 5,480,835</u>

### ***Costs of Services***

Costs of services consist of direct costs that we pay to third parties to provide the services that generate revenue.

### ***Earnings Per Share***

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of vested, unrestricted common shares outstanding during the period. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the if-converted method.

### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company did not have any cash equivalents during fiscal 2023 and 2022. The Company uses three financial institutions for its cash balances and has maintained cash balances that exceed federally insured limits.

### ***Accounts Receivable***

The Company extends credit to its customers in the normal course of business and performs ongoing credit evaluations of its customers, maintaining an allowance for potential credit losses. Accounts receivable is reported net of the allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will be collected. The Company recorded an allowance for doubtful accounts of \$91,955 and \$136,955 as of April 30, 2023 and 2022, respectively.

### **Notes Receivable**

The Company lends money to companies in limited instances, performs ongoing credit evaluations of its notes receivable and establishes an allowance for potential credit losses when appropriate.

### **Intangible Assets**

Intangible assets with defined useful lives are generally measured at cost less straight-line amortization. The useful life is determined using the period of the underlying contract or the period of time over which the intangible asset can be expected to be used. Impairments are recognized if the recoverable amount of the asset is lower than the carrying amount. The recoverable amount is the higher of either the fair value less costs to sell or the value in use. The value in use is determined on the basis of future cash inflows and outflows, and the weighted average cost of capital. Intangible assets with indefinite useful lives, such as trade names and trademarks, that have been acquired as part of acquisitions are measured at cost and tested for impairment annually, or if there is an indication that their value has declined.

### **Impairment of Long-Lived Assets**

Authoritative guidance requires that certain assets be reviewed for impairment and, if impaired, remeasured at fair value whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Impairment loss estimates are primarily based upon management's analysis and review of the carrying value of long-lived assets at each balance sheet date, utilizing an undiscounted future cash flow calculation. The Company did not recognize an impairment loss in fiscal 2023 and 2022.

### **Stock-Based Compensation**

The Company accounts for employee stock-based compensation in accordance with the guidance of FASB ASC Topic 718, Compensation – Stock Compensation which requires all share-based payments to employees, including the vesting of restricted stock grants to employees, to be recognized in the financial statements based on their fair values. The fair value of the equity instrument is charged directly to compensation expense and credited to common stock and capital in excess of par value during the period during which services are rendered.

The Company follows ASC Topic 505-50, formerly EITF 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods and Services," for common stock issued to consultants and other non-employees. These shares of common stock are issued as compensation for services provided to the Company and are accounted for based upon the fair market value of the common stock. The fair value of the equity instrument is charged directly to compensation expense, or to prepaid expenses in instances where stock was issued under a contractual arrangement to a consultant who agreed to provide services over a period of time.



### ***Advertising Expenses***

Advertising and marketing expenses are recorded separately in the Consolidated Statements of Operations and are expensed as incurred.

### ***Equity Securities***

All investments in equity securities are initially measured at cost. Cost is based upon either the cost of the investment, the fair value of the services provided or the estimated market value of the investment at the time it was acquired, whichever can be more clearly determined. If the Company identifies an observable price change in an orderly transaction for an identical or similar investment of the same issuer, the Company measures the equity security at fair value as of the date that the observable transaction occurred.

### ***Use of Estimates***

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimate relates to investments, the allowance for doubtful accounts and the calculation of stock-based compensation for the stock options. On a continual basis, management reviews its estimates, utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

### ***Recent Accounting Pronouncements***

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses*. The new guidance provides better representation about expected credit losses on financial instruments. This update requires the use of a methodology that reflects expected losses and requires consideration of a broader range of reasonable and supportive information to inform credit loss estimates. This ASU is effective for reporting periods beginning after December 15, 2022, with early adoption permitted. The company is studying the impact of adopting the ASU in fiscal year 2023, and what effect it could have. The Company believes the accounting change would not have a material effect on the financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, we will adopt those that are applicable under the circumstances.

## **2. Concentrations**

For the year ended April 30, 2023, the Company had one customer that constituted 25% of its revenues, and four customers that each constituted 14% of its revenues. For the year ended April 30, 2022, the Company had one customer that constituted 22% of its revenues, a second customer that constituted 22% of its revenues, and a third customer that constituted 18% of its revenues.

### 3. Debt

The following table summarizes components debt as of April 30, 2023 and 2022:

	2023	2022	Interest Rate
Secured lender	\$ 350,000	\$ 1,400,000	8.0% – 12.0%
Notes payable – related parties	15,000	22,860	0.0%
Convertible promissory notes	—	300,000	8.0%
U.S. SBA loan	500,000	500,000	3.75%
U.S. SBA loan	1,885,800	1,885,800	1.0%
Loan payable – bank	34,324	34,324	10.0%
Total debt	2,785,124	4,142,984	
Less: current portion of long-term debt	2,285,124	3,647,911	
Total long-term debt	\$ 500,000	\$ 495,073	

As of April 30, 2023 and 2022, the Company owed its principal lender (“Lender”) \$350,000 and \$1,400,000, respectively, under a loan and security agreement (“Loan”) dated April 28, 2011, that was amended on July 26, 2014 and several times thereafter to extend the maturity date to October 31, 2023.

In connection with the financing, the Company has agreed to certain restrictive covenants, including, among others, that the Company may not convey, sell, lease, transfer or otherwise dispose of any part of its business or property, except as permitted in the agreement, dissolve, liquidate or merge with any other party unless, in the case of a merger, the Company is the surviving entity, incur any indebtedness except as defined in the agreement, create or allow a lien on any of its assets or collateral that has been pledged to the Lender, make any loans to any person, except for prepaid items or deposits incurred in the ordinary course of business, or make any material capital expenditures. To secure the payment of all obligations to the Lender, the Company granted the Lender a continuing security interest and first lien on all of the assets of the Company.

As of April 30, 2023 and 2022, the Company’s related-party unsecured notes payable totaled \$15,000 and \$22,860, respectively.

As of April 30, 2023 and 2022, the company owed \$0 and \$300,000 in convertible notes payable. On July 14, 2022, the Company issued 93,432 shares of common stock valued at \$266,272 to retire the \$300,000 in convertible promissory notes plus accrued interest of \$10,192.

The Company also owes \$34,324 as of April 30, 2023 and 2022 to Chase Bank. For the loan from Chase Bank, the Company pays interest only on a monthly basis, which is calculated at a rate of 10.0% per annum as of April 30, 2023.

On May 6, 2020, the Company borrowed \$1,885,800 (the “May Loan”), on June 17, 2020 the Company borrowed \$500,000 (the “June Loan”), and on February 2, 2021, the Company borrowed \$1,885,800 (the “February Loan”) from a U.S. Small Business Administration (“SBA”) loan program.

The May loan bore interest at a rate of 1% per annum and the SBA postponed any installment payments until September 6, 2021. In November 2021 the May Loan was forgiven in its entirety, including accrued interest of \$18,502. As a result, the Company recognized debt forgiveness of \$1,904,296 in the year ended April 30, 2022.

The June Loan required installment payments of \$2,594 monthly, beginning on June 17, 2021, over a term of thirty years. However, the SBA postponed the first installment payment for 18 months and the first payment became due on December 17, 2022. The monthly payments of \$2,594 are first applied to accrued interest payable. The monthly payments will not be applied to any of the outstanding principal balance until August of 2026. Consequently, the entire loan balance of \$500,000 is classified as a long term liability. Interest accrues at a rate of 3.75% per annum. The Company agreed to grant a continuing security interest in its assets to secure payment and performance of all debts, liabilities, and obligations to the SBA.

The February loan bears interest at a rate of 1% per annum and the due date of the first payment has been postponed by the SBA because the Company has applied for forgiveness of the February Loan in its entirety.

As of April 30, 2023, future payments under debt obligations over each of the next five years and thereafter were as follows:

Twelve months ended April 30:		
2024	\$	2,285,124
2025		—
2026		—
2027		9,837
2028		13,971
Thereafter		476,192
Minimum future payments of principal	\$	2,785,124

#### 4. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures of financial instruments on a recurring basis.

##### *Cash and cash equivalents, accounts receivable, and accounts payable*

In general, carrying amounts approximate fair value because of the short maturity of these instruments.

##### *Fair Value Hierarchy*

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Financial assets measured at fair value on a recurring basis are summarized below as of April 30, 2023 and 2022:

	Level 1	Level 2	Level 3	Total
April 30, 2023				
Equity securities at fair value	\$ —	\$ 22,955,445	\$ —	\$ 22,955,445
April 30, 2022				
Equity securities at fair value	\$ —	\$ 12,861,253	\$ —	\$ 12,861,253

##### *Determination of Fair Value*

Under the Fair Value Measurements Topic of the FASB Accounting Standards Codification, the Company bases its fair value on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

See Note 1 for a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value where it is practicable to do so for financial instruments not recorded at fair value (disclosures required by the Fair Value Measurements Topic of the FASB Accounting Standards Codification).

#### 5. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of April 30, 2023 and 2022 were as follows:

##### *Schedule of Income Taxes*

	2023	2022
Deferred tax assets, net:		
Net operating loss carryforwards	\$ —	\$ 322,000
Bad debt allowance	27,000	40,000
Stock-based compensation	433,000	357,000
Deferred tax assets	460,000	719,000
Deferred tax liability		
Unrealized gain	2,117,000	1,696,000
Total deferred tax liability	2,117,000	1,696,000
Total net deferred tax assets (liabilities)	\$ (1,657,000)	\$ (977,000)

For fiscal 2023, our income tax expense was \$854,000, with an effective tax rate of 22%. Our effective tax rate and the resulting provision for income taxes were impacted by tax benefits related to a net operating loss carryforward of \$1.6 million.

For fiscal 2022, our income tax expense was \$544,000, with an effective tax rate of 13%. Our effective tax rate and the resulting provision for income taxes were impacted by tax benefits related to a net operating loss carryforward of \$1.1 million and non-taxable debt forgiveness of \$1.9 million.

The Company did not have any material unrecognized tax benefits as of April 30, 2023 and 2022. The Company does not expect the unrecognized tax benefits to significantly increase or decrease within the next twelve months. The Company recorded no interest and penalties relating to unrecognized tax benefits as of and during the years ended April 30, 2023 and 2022. The Company is subject to U.S. federal income tax, as well as taxes by various state jurisdictions. The Company is currently open to audit under the statute of limitations by the federal and state jurisdictions for the years ending April 30, 2020 through 2023.

## **6. Commitments and Contingencies**

### ***Litigation***

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability, if any, is not likely to have a material effect on the financial condition, results of operations or liquidity of the Company. However, as the outcome of litigation or legal claims is difficult to predict, significant changes in the estimated exposures could occur. There are no known legal complaints or claims against the Company.

The Company utilizes virtual office space in Boston, Massachusetts, at a cost of approximately \$5,700 per month under a membership agreement that ends on September 30, 2023. The membership agreement includes a deposit of \$6,300.

A novel strain of coronavirus, or COVID-19, has spread throughout the world and has been declared to be a pandemic by the World Health Organization. As of the date this report was issued, our operations have not been significantly impacted by the COVID-19 outbreak. The number of people establishing accounts on our website Netcapital.com more than doubled during the pandemic. Most of our employees work remotely from a home office to access our technology, which runs 24 hours a day on the internet. However, we cannot at this time predict the specific extent, duration, or full impact that the COVID-19 outbreak will have on our financial condition, operations, and business plans for fiscal year 2023. Our operations have adapted social distancing practices, and the next expected milestones of our product may be impacted, and we may experience delays in anticipated timelines and milestones.

## **7. Stockholders' Equity**

The Company is authorized to issue 900,000,000 shares of its common stock, par value \$0.001. As of April 30, 2023 and 2022, there were 6,440,527 and 2,934,344 shares outstanding, respectively.

In fiscal 2022, 57,186 shares of common stock were issued for stock-based compensation, 361,736 shares of common stock were issued to settle related party liabilities in conjunction with the purchase Netcapital Funding Portal Inc., 199,156 shares of common stock were sold in a private placement to accredited investors at a price of \$9 per share, 50,000 shares of common stock were issued to purchase MSG Development Corp. and 87,500 shares were issued in conjunction with the purchase of a 10% interest in Caesar Media Group Inc.

On January 27, 2022, the Company filed a Form S-8 registration statement for securities to be offered in employee benefit plans, to register 300,000 shares of common stock from the Company's 2021 Equity Incentive Plan. On February 2, 2022, the Company granted an aggregate of 272,000 options to purchase shares of common stock of the company at a price of \$10.50 per share. The options were granted to employees, consultants, and members of the board of directors. The options vest monthly on a straight-line basis over a 4-year period and expire in 10 years. As of April 30, 2023 and 2022, 252,000 and 271,000 options, respectively, were outstanding.

During the quarter ended July 31, 2022, the Company issued 39,901 shares of common stock with a value of \$113,714 to settle a related party payable of \$294,054. The Company also issued 93,432 shares of common stock valued at \$266,272 to retire \$300,000 of convertible promissory notes plus accrued interest of \$10,192. The convertible note holders also received warrants to purchase shares of common stock at a per share exercise price of \$5.19, that are exercisable immediately, and expire five years from the date of issuance. These equity issuances resulted in a gain from the conversion of debt totaling \$224,260, which is recorded as other income in the income statement.

On July 15, 2022, the Company completed an underwritten public offering of 1,205,000 shares of the Company's common stock and warrants to purchase 1,205,000 shares of the Company's common stock at a combined public offering price of \$4.15 per share and warrant. The gross proceeds from the offering were \$5,000,750 prior to deducting underwriting discounts, commissions, and other offering expenses, which resulted in net proceeds of \$3,949,117. The warrants have a per share exercise price of \$5.19, are exercisable immediately, and expire five years from the date of issuance.

In addition, the Company granted the underwriter a 45-day option to purchase up to an additional 180,750 shares of common stock and/or up to 180,750 additional warrants to cover over-allotments, if any. In connection with the closing of the offering, the underwriter partially exercised its over-allotment option and purchased an additional 111,300 warrants, and the Company issued an aggregate of warrants to purchase 60,250 shares of our common stock to the underwriter and its designees.

On December 16, 2022 the Company completed an underwritten public offering of 1,247,000 shares of the Company's common stock, at a price to the public of \$1.40 per share. Pursuant to the terms of an underwriting agreement, the Company also granted the underwriters a 45-day option to purchase up to an additional 187,000 shares of common stock solely to cover over-allotments, at the same price per share of \$1.40, less the underwriting discounts and commissions. In conjunction with this offering, the Company issued the underwriter and its designees warrants to purchase 62,350 shares of our common stock at an exercise price of \$1.75. The underwriters exercised their over-allotment option and on January 5, 2023, the Company issued an additional 187,000 shares of its common stock. The Company received net proceeds of \$1,621,459 for the issuance of a total of 1,434,000 shares of common stock for both the initial and over-allotment offering. In conjunction with the exercise of the over-allotment, the Company issued the underwriter and its designees warrants to purchase 9,350 shares of our common stock with an exercise price of \$1.75.

The Securities were offered, issued and sold to the public pursuant to the Company's shelf registration statement on Form S-3 (File No. 333-267921) previously filed with the Securities and Exchange Commission (the "Commission") on October 18, 2022 and declared effective by the Commission on October 26, 2022 and related prospectus supplements dated December 13, 2022, as amended on December 16, 2022.

The following tables summarize information about warrants outstanding as of April 30, 2023 and 2022:

Range of Exercise Prices	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number Outstanding	Weighted- Average Exercise Price
As of April 30, 2023					
\$1.75 - \$5.19	1,541,682	4.25	\$ 5.03	1,469,982	\$ 5.19
As of April 30, 2022					
—	—	—	\$ —	—	\$ —
		Number of Shares	Exercise Price Per Share		Average Exercise Price
Outstanding May 1, 2021		—	—	\$	—
Issued during year ended April 30, 2022		—	—	\$	—
Exercised/canceled during year ended April 30, 2022		—	—	\$	—
Outstanding April 30, 2022		—	—	\$	—
Issued during year ended April 30, 2023		1,541,682	\$1.75 - \$5.19	\$	5.03
Exercised/canceled during year ended April 30, 2023		—	—	\$	—
Warrants outstanding April 30, 2023		<u>1,541,682</u>	<u>\$ 1.75 - \$5.19</u>	<u>\$</u>	<u>5.03</u>
Warrants exercisable, April 30, 2023		<u>1,469,982</u>	<u>\$ 5.19</u>	<u>\$</u>	<u>5.19</u>

As a result of the two offerings, the company has warrants outstanding, with a five-year term, to purchase a total of 1,469,982 shares of its common stock at an exercise price of \$5.19 and 71,700 shares of its common stock at an exercise price of \$1.75. The warrants issued to the underwriter's representatives and to the underwriter were not part of a unit, consisting of one share of common stock and one warrant and are valued based upon unadjusted quoted prices on the Nasdaq market.

During the year ended April 30, 2023, in addition to the public offerings, the Company issued 75,000 shares of common stock, valued at \$732,751, in conjunction with the purchase of a 10% equity stake in Caesar Media Group, Inc., 300,000 shares of common stock, valued at \$435,000 to purchase the website and intellectual property of a real-time video conferencing website, 2,600 shares of common stock in conjunction with a stock subscription agreement with accredited investors, valued at \$23,400, and 6,250 shares of common stock in conjunction with an acquisition agreement that requires shares to be issued by the Company. As a result of this issuance, the value of the balance sheet account for shares to be issued decreased by \$61,063 to \$183,187 as of April 30, 2023, from a balance of \$244,250 as of April 30, 2022.

On January 5, 2023, the Company filed a Current Report on Form 8-K and announced the formation of the Netcapital Inc. 2023 Omnibus Equity Incentive Plan (the "Plan"), which has subsequently been approved by a vote of the shareholders. The purposes of the Plan are to (i) provide an additional incentive to selected employees, directors, and independent contractors of the Company or its affiliates whose contributions are essential to the growth and success of the Company, (ii) strengthen the commitment of such individuals to the Company and its affiliates, (iii) motivate those individuals to faithfully and diligently perform their responsibilities and (iv) attract and retain competent and dedicated individuals whose efforts will result in the long-term growth and profitability of the Company. In conjunction with these purposes, the Company granted stock options to four individuals to purchase an aggregate of 1,600,000 of the Company's common stock at a price of \$1.43 per share. See Note 9. The Company also granted 350,000 stock options under the Plan to employees, consultants, and directors on April 25, 2023 at an exercise price of \$1.40 per share. All stock options in the Plan vest monthly on a straight-line basis over a 4-year period and expire in 10 years.

For the years ended April 30, 2023 and 2022, the Company recorded \$269,577 and \$1,176,058, respectively, in stock-based compensation expense. As of April 30, 2023 and 2022, there was \$552,329 and \$0 of prepaid stock-based compensation expense. The prepaid balance of \$552,329 is the result of the issuance of 350,000 shares of common stock to a third-party business consultant.

The table below presents the components of stock-based compensation expense for the years ended April 30, 2023 and 2022.

Description	April 30, 2023	April 30, 2022
Chief Executive Officer, Netcapital Inc.	\$ 81,309	\$ —
Chief Financial Officer	25,927	40,608
Chief Executive Officer, Netcapital Advisors Inc.	4,833	40,608
Founder	25,927	—
Chief Marketing Officer	—	109,547
Related party consultant	—	25,908
Marketing consultant	—	5,603
Marketing consultant	—	380,441
Marketing consultant	—	118,405
Business consultant	—	25,908
Company secretary and director	—	100,000
Business development manager	—	300,000
Employee and director stock options	131,581	29,030
Total	\$ 269,577	\$ 1,176,058

The table below presents the number of shares issued as compensation for the years ended April 30, 2023 and 2022:

Description	Year Ended April 30, 2023	Year Ended April 30, 2022
Company secretary and director	—	10,000
Business development manager	—	30,000
Chief Marketing Officer	—	10,417
Business consultants	350,000	469
Total	350,000	50,886

The following tables summarize information about stock options outstanding as of April 30, 2023 and 2022:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number Outstanding	Weighted- Average Exercise Price
As of April 30, 2023					
\$1.40 - \$10.50	2,202,000	9.63	\$ 2.46	294,333	\$ 3.69
As of April 30, 2022					
\$10.50 - \$10.50	271,000	9.79	\$ 10.50	16,945	\$ 10.50

  

	Number of Shares	Exercise Price Per Share	Average Exercise Price
Outstanding April 30, 2021	—	—	\$ —
Issued during year ended April 30, 2022	272,000	\$10.50 - \$10.50	\$ 10.50
Exercised/canceled during year ended April 30, 2022	1,000	\$10.50 - \$10.50	\$ 10.50
Options outstanding April 30, 2022	271,000	\$10.50 - \$10.50	\$ 10.50
Issued during year ended April 30, 2023	1,950,000	\$1.40 - \$1.43	\$ 1.42
Exercised/canceled during year ended April 30, 2023	(19,000)	\$10.50 - \$10.50	\$ 10.50
Options outstanding April 30, 2023	2,202,000	\$1.40 - \$10.50	\$ 2.46
Options exercisable, April 30, 2023	294,333	\$1.40 - \$10.50	\$ 3.69



## 8. Earnings Per Common Share

Earnings per common share data was computed as follows:

	2023	2022
Net income	\$ 2,954,972	\$ 3,503,530
Weighted average common shares outstanding	4,677,214	2,666,173
Effect of dilutive securities	250	82,307
Weighted average dilutive common shares outstanding	4,677,464	2,748,480
Earnings per common share – basic	\$ 0.63	\$ 1.31
Earnings per common share – diluted	\$ 0.63	\$ 1.27

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of vested, unrestricted common shares outstanding during the period. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the if-converted method. Dilutive potential common shares include 250 shares and 82,307 shares, respectively for the years ended April 30, 2023 and 2022. As of April 30, 2022, 39,901 shares were issuable to satisfy a supplemental consideration liability, in addition to \$300,000 in convertible promissory notes plus \$5,326 in accrued interest payable that could convert, at a price per share of \$7.20, into 42,406 shares of common stock.

Outstanding stock options, totaling 2,202,000 and 271,000 for the years ended April 30, 2023 and 2022, respectively, were not included in the calculation of dilutive securities because their effect was anti-dilutive. Vested warrants totaling 1,469,982 and 0 shares, for the years ended April 30, 2023 and 2022, were also not included in the calculation of dilutive securities because their effect was anti-dilutive.

## 9. Related Party Transactions

The Company's largest shareholder, Netcapital Systems LLC ("Systems"), owns 1,711,261 shares of common stock, or 26.6% of the Company's 6,440,527 outstanding shares as of April 30, 2023. As of April 30, 2022, the Company accrued a payable to Systems of \$294,054 for supplemental consideration owed in conjunction with its purchase of Netcapital Funding Portal Inc., which was paid in full on July 14, 2022, with the issuance to Systems of 39,901 shares of the Company's common stock. The Company provided professional services to Systems in the years ended April 30, 2023 and 2022 and recorded revenue of \$4,660 and \$15,000, respectively, for those services.

In total, the Company owed Systems \$0 and \$294,054 as of April 30, 2023 and 2022, respectively. The company paid Systems \$430,000 and \$357,429 in the years ended April 30, 2023 and 2022, respectively, for use of the software that runs the website [www.netcapital.com](http://www.netcapital.com).

The Chief Executive Officer of our wholly owned subsidiary, Netcapital Advisors Inc., is a member of the board of directors of KingsCrowd Inc. The Company sold 606,060 shares of KingsCrowd in June 2022 for proceeds of \$200,000 and recorded a realized loss on the sale of the investment of \$406,060. As of April 30, 2023 and 2022, the Company owned 3,209,685 and 3,815,745 shares of KingsCrowd Inc., valued at \$3,209,685 and \$3,815,745, respectively.

The Chief Executive Officer of our wholly owned subsidiary, Netcapital Advisors Inc. is a member of the board of directors of Deuce Drone LLC. As of April 30, 2023 and 2022, the Company owned 2,350,000 membership interest units of Deuce Drone LLC., valued at \$2,350,000. The Company has notes receivable aggregating \$152,000 from Deuce Drone LLC as of April 30, 2023 and 2022.

Compensation expense to officers in the years ended April 30, 2023 and 2022 consisted of common stock valued at \$0 and \$190,763, respectively, cash compensation of \$598,077 and \$265,688, respectively, and options to purchase common stock valued at \$137,994 and \$3,147, respectively.

Compensation to a related party consultant in the years ended April 30, 2023 and 2022 consisted of common stock valued at \$0 and \$25,908, respectively, and cash compensation of \$60,039 and \$60,000, respectively. This consultant is also the controlling shareholder of Zelgor Inc., and the Company earned revenues from Zelgor Inc. of \$66,000 and \$5,500 in the years ended April 30, 2023 and 2022. The Company owns 1,400,000 shares of Zelgor Inc., valued at \$1,400,000 and holds a note receivable of \$50,000 as of April 30, 2023.

Cash compensation to the President of Netcapital Systems LLC amounted to \$184,808 and \$96,000, and stock-based compensation amounted to \$25,927 and \$0, in the years ended April 30, 2023 and 2022, respectively.

We owe Steven Geary, a director, \$31,680 as of April 30, 2023 and 2022. This obligation is not interest bearing. \$16,680 is recorded as a related party trade accounts payable and \$15,000 as a related party note payable. We have no signed agreements for the indebtedness to Mr. Geary.

The Company made an investment of \$240,080 in an affiliate, 6A Aviation Alaska Consortium, Inc., in conjunction with a land lease in an airport in Alaska. Our Chief Executive Officer is also the Chief Executive Officer of 6A Aviation Alaska Consortium, Inc. As a result of the investment, the Company is a 19% owner of 6A Aviation Consortium Inc.

In November 2021, we issued a member of our Board 10,000 shares of common stock for his service as a member of our board and audit committee, valued at \$100,000.

On February 2, 2022, the Company granted members of our board of directors an aggregate of 25,000 options to purchase shares of our common stock at an exercise price of \$10.50 per share. An option to purchase 10,000 shares of common stock was granted to the Chief Executive Officer of Netcapital Advisors Inc., who is also a director, and each of the three independent board members received an option to purchase 5,000 shares of common stock. The options vest on a straight-line basis over 48 months and expire in 10 years. On April 25, 2023, the Company also granted the same four members of our board of directors an aggregate of 80,000 options, or 20,000 for each board member, to purchase shares of our common stock at an exercise price of \$1.40 per share. The options vest monthly on a straight-line basis over a 4-year period and expire in 10 years.

In January 2023 we granted stock options to purchase an aggregate of 1,600,000 shares of our common stock to four related parties as follows: Our Chief Executive Officer, 1,000,000 shares; our Chief Financial Officer, 200,000 shares; our Founder, 200,000 shares; and a director of one of our subsidiaries, 200,000 shares. The options have an exercise price of \$1.43, vest monthly on a straight-line basis over a 4-year period and expire in 10 years.

Coreen Kraysler, our Chief Financial Officer, has personally guaranteed a \$500,000 promissory note from the U.S. Small Business Administration. The note bears interest at an annual rate of 3.75%, has a 30-year term, and monthly payments of \$2,594 began on December 17, 2022.

## 10. Investments

In April 2023, the Company received 2,853,659 units of HeadFarm LLC as a payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$0.41 per unit based on a sales price of \$0.41 per unit on an online funding portal. The receipt of the units satisfied an accounts receivable balance of \$1,170,000. As of April 30, 2023, the Company owned 2,856,659 units which are valued at \$1,170,000.

In April 2023, the Company received 2,853,659 units of CupCrew LLC as a payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$0.41 per unit based on a sales price of \$0.41 per unit on an online funding portal. The receipt of the units satisfied an accounts receivable balance of \$1,170,000. As of April 30, 2023, the Company owned 2,856,659 units which are valued at \$1,170,000.

In April 2023, the Company received 2,853,659 units of CountSharp LLC as a payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$0.41 per unit based on a sales price of \$0.41 per unit on an online funding portal. The receipt of the units satisfied an accounts receivable balance of \$1,170,000. As of April 30, 2023, the Company owned 2,856,659 units which are valued at \$1,170,000.

In January 2023, the Company received 2,100,000 units of Dark LLC as a payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$1.00 per unit based on a sales price of \$1.00 per unit on an online funding portal. The receipt of the units satisfied an accounts receivable balance of \$2,100,000. As of April 30, 2023, the Company owned 2,100,000 units which are valued at \$2,100,000.

In August 2022, the Company received 1,911,765 units of NetWire LLC as a payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$0.68 per unit based on a sales price of \$0.68 per unit on an online funding portal. The receipt of the units satisfied an accounts receivable balance of \$1,300,000. As of April 30, 2023, the Company owned 1,911,765 units which are valued at \$1,300,000.

In May 2022, the Company received 1,764,706 units of Reper LLC as a payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$0.68 per unit based on a sales price of \$0.68 per unit on an online funding portal. The receipt of the units satisfied an accounts receivable balance of \$1,200,000. As of April 30, 2023, the Company owned 1,764,706 units which are valued at \$1,200,000.

In April 2022, the Company received 3,000,000 units of Cust Corp. as a payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$0.40 per unit based on a sales price of \$0.40 per unit on an online funding portal. The receipt of the units satisfied an accounts receivable balance of \$1,200,000. As of April 30, 2023 and 2022, the Company owned 3,000,000 units which are valued at \$1,200,000.

In January 2022, the Company received 1,700,000 units of ScanHash LLC as a payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$0.25 per unit based on a sales price of \$0.25 per unit on an online funding portal. The receipt of the units satisfied \$425,000 of an accounts receivable balance. As of April 30, 2023 and 2022, the Company owned 1,700,000 units which are valued at \$425,000.

In January 2022, the Company received 2,850,000 units of Hiveskill LLC as payment for services rendered in conjunction with a crowdfunding offering. The units are valued at \$0.25 per unit based on a sales price of \$0.25 per unit on an online funding portal. The receipt of the units satisfied an accounts receivable balance of \$712,500. As of April 30, 2023 and 2022, the Company owned 2,850,000 units which are valued at \$712,500.

In fiscal 2022, the Company purchased a 10% interest, or 400 shares of common stock, in Caesar Media Group Inc. ("Caesar") for an initial purchase price of 50,000 shares of the Company's common stock, valued at \$500,000. Caesar is a marketing and technology solutions provider. The purchase agreement includes additional contractual requirements for the Company and Caesar, including the issuance of an additional 150,000 shares of common stock of the Company over a two-year period. The Company issued 37,500 shares of its common stock in April 2022, 25,000 shares of its common stock in September 2022, 12,500 shares of its common stock in October 2022, 18,750 shares of its common stock in January 2023 and 18,750 shares of its common stock in April 2023, as part of its contractual payment obligations. As of April 30, 2023 and 2022, there have been no observable price changes in the value of Caesar's common stock and the Company has valued its ownership in Caesar at cost, which amounted to \$1,632,751 and \$900,000 as of April 30, 2023 and 2022, respectively.

In August 2020 the Company entered a consulting agreement with C-Reveal Therapeutics LLC (“CRT”), for a \$120,000 fee over a 12-month period. \$50,000 of the fee was payable in CRT units. As of April 30, 2023 and 2022, the Company owned 5,000 units, at a value of \$50,000.

In May 2020, the Company entered a consulting contract with MustWatch LLC (“MW”), which allowed the Company to receive 110,000 membership interest units of MW in return for services rendered in conjunction with a crowdfunding offering. The Company earned 97,500 membership interest units in the quarter ended July 31, 2020, valued at \$2.14 per unit, or \$235,400. As of April 30, 2023, the MW units are valued at \$4 per unit based on a sales price of \$4 per unit on an online funding portal. As of April 30, 2023 and 2022, the Company owned 110,000 MW units, which are valued at \$440,000 and \$235,400, respectively. The \$204,600 increase in value of the MW units owned by the Company is recorded as an unrealized gain in the year ended April 30, 2023.

In May 2020, the Company entered into a consulting contract with ChipBrain LLC (“Chip”), which allowed the Company to receive 710,200 membership interest units of Chip in return for services rendered in conjunction with a crowdfunding offering. The Chip units were initially valued at \$0.93 per unit based on a sales price of \$0.93 per unit on an online funding portal. Subsequently, Chip sold identical units for \$4.74 per unit, and as of April 30, 2023 and April 30, 2022, the 710,200 units owned by the Company are valued at \$3,366,348 and \$1,704,480, respectively. The \$1,661,868 increase in value of the Chip units owned by the Company was recorded as an unrealized gain in the year ended April 30, 2023.

In May 2020, the Company entered a consulting contract with a related party, Zelgor Inc. (“Zelgor”), which allowed the Company to receive 1,400,000 shares of common stock of Zelgor in return for services rendered in conjunction with a crowdfunding offering. The Zelgor shares are valued at \$1.00 per share based on a sales price of \$1.00 per share on an online funding portal. As of April 30, 2023 and 2022, the Company owned 1,400,000 shares which are valued at \$1,400,000.

On January 2, 2020, the Company entered a consulting contract with Deuce Drone LLC (“Drone”), which allowed the Company to receive up to 2,350,000 membership interest units of Drone in return for consulting services. The Company earned all 2,350,000 membership interest units in fiscal 2020. The Drone units were valued at \$0.35 per unit based on a sales price of \$0.35 per unit when the units were earned, or \$822,500. Drone subsequently sold identical Drone units for \$1.00 per unit on an online funding portal and as of April 30, 2023 and 2022, the units owned by the Company are valued at \$2,350,000.

In August 2019, the Company entered a consulting contract with KingsCrowd LLC (“KingsCrowd”), which allowed the Company to receive 300,000 membership interest units of KingsCrowd in return for services rendered in conjunction with a crowdfunding offering. The KingsCrowd units were valued at \$1.80 per unit based on a sales price of \$1.80 per unit when the units were earned, or \$540,000. In December 2020, KingsCrowd converted from a limited liability company to a corporation to facilitate raising capital under Regulation A. KingsCrowd filed a Form 1-A Offering Statement under the Securities Act of 1933 and sold shares at \$1.00 per share. In connection with the conversion to a corporation, each membership interest unit converted into 12.71915 shares of common stock, and the Company recorded an unrealized gain of \$3,275,745 for the year ended April 30, 2022. The Company sold 606,060 shares of KingsCrowd in June 2022 for proceeds of \$200,000 and recorded a realized loss on the sale of the investment of \$406,060. KingsCrowd filed a post qualification offering circular amendment on July 21, 2022 and continued to sell shares of stock to the public for \$1.00 per share. As of April 30, 2023 and 2022, the Company owned 3,209,685 and 3,815,745 shares of KingsCrowd, valued at \$3,209,685 and \$3,815,745, respectively.

During fiscal 2019, the Company entered into a consulting contract with Netcapital Systems LLC, a related party, and earned membership interest units. As of April 30, 2023 and 2022, the Company owned 528 units, at a value of \$48,128.

In July 2020 the Company entered into a consulting agreement with Vymedic, Inc. for a \$40,000 fee over a 5-month period. Half the fee was payable in stock and half was payable in cash. As of April 30, 2023 and 2022, the Company owned 4,000 units, at a value of \$11,032 and \$20,000, respectively. Based upon recent sales of shares of common stock of Vymedic Inc., the per share value dropped from \$5.00 per share to \$2.758 per share, and the Company recorded an unrealized loss on equity securities of \$8,968 for the year ended April 30, 2023. This unrealized loss of \$8,968 is netted with the unrealized gains of \$204,600 and \$1,661,868 in the MW and Chip securities, respectively, and results in an unrealized gain in equity securities of \$1,857,500 in the year ended April 30, 2023.

The following table summarizes the components of equity securities as of April 30, 2023 and 2022:

	April 30, 2023	April 30, 2022
Netcapital Systems LLC	\$ 48,128	\$ 48,128
Watch Party LLC	440,000	235,400
Zelgor Inc.	1,400,000	1,400,000
ChipBrain LLC	3,366,348	1,704,480
Vymedic Inc.	11,032	20,000
C-Reveal Therapeutics LLC	50,000	50,000
Deuce Drone LLC	2,350,000	2,350,000
Hiveskill LLC	712,500	712,500
ScanHash LLC	425,000	425,000
Caesar Media Group Inc.	1,632,751	900,000
Cust Corp.	1,200,000	1,200,000
Kingscrowd Inc.	3,209,685	3,815,745
Reper LLC	1,200,000	—
Dark LLC	2,100,000	—
Netwire LLC	1,300,000	—
CountSharp LLC	1,170,000	—
CupCrew LLC	1,170,000	—
HeadFarm LLC	1,170,000	—
<b>Total</b>	<b>\$ 22,955,444</b>	<b>\$ 12,861,253</b>

The above investments in equity securities are within the scope of ASC 321. The Company monitors the investments for any changes in observable prices from orderly transactions. All investments are initially measured at cost and evaluated for impairment. No impairment expense was recognized in the years ended April 30, 2023 and 2022.

In fiscal 2023, there were observable price changes in three securities, ChipBrain LLC, MustWatch LLC and Vymedic Inc. The result of these price changes was an increase in the fair value of the equity securities totaling \$1,857,500 in the fiscal year ended April 30, 2023, which was recorded in the income statement as an unrealized gain on equity securities.

In fiscal 2022, the Company identified that Kingscrowd Inc. had an observable price change. The result of the price change was an increase in the fair value of the equity securities totaling \$3,275,745 in the fiscal year ended April 30, 2022, which was recorded in the income statement as an unrealized gain on equity securities.

## 11. Intangible Assets

Intangible assets with defined useful lives are generally measured at cost less straight-line amortization. The useful life is determined using the period of the underlying contract or the period of time over which the intangible asset can be expected to be used. Impairments are recognized if the recoverable amount of the asset is lower than the carrying amount. The recoverable amount is the higher of either the fair value less costs to sell or the value in use. The value in use is determined on the basis of future cash inflows and outflows, and the weighted average cost of capital. Intangible assets with indefinite useful lives, such as trade names and trademarks, that have been acquired as part of acquisitions are measured at cost and tested for impairment annually, or if there is an indication that their value has declined.

In December 2022, the Company purchased the website, intellectual property, source code and domain names of ION1.FANS and ONEONONE.FANS (the “Assets”). Pursuant to the guidance of Topic 805, it was determined that the purchase of the Assets did not meet the definition of a business and the asset purchase was accounted for as an asset acquisition. The fair value of the consideration, consisting of 300,000 shares of the Company’s common stock, valued at \$435,000, was attributed to a single asset and is classified as acquired intellectual property and website.

The following table sets forth the major categories of the intangible assets as of April 30, 2023 and 2022

	April 30, 2023	April 30, 2022
Acquired users	\$ 14,288,695	\$ 14,288,695
Acquired brand	583,429	583,429
Acquired intellectual property and website	435,000	—
Professional practice	556,830	556,830
Literary works and contracts	107,750	107,750
Total intangible assets	<u>\$ 15,971,704</u>	<u>\$ 15,536,704</u>

As of April 30, 2023, the weighted average remaining useful life for technology, trade names, professional practice, literary works and domains is 14.16 years. Accumulated amortization amounted to \$96,407 as of April 30, 2023, resulting in net intangible assets of \$15,875,297.

## 12. Subsequent Events

The Company evaluated subsequent events through the date these financial statements were available to be issued.

On May 23, 2023 the Company entered into a securities purchase agreement (the “Purchase Agreement”) with certain institutional investors, pursuant to which the Company agreed to issue and sell to such investors, in a registered direct offering (the “Offering”), 1,100,000 shares (the “Shares”) of the Company’s common stock, par value \$0.001 per share (the “Common Stock”), at a price of \$1.55 per Share, for aggregate gross proceeds of \$1,705,000, before deducting the placement agent’s fees and other offering expenses payable by the Company. The Offering closed on May 25, 2023. The Shares were offered and issued and sold pursuant to the Company’s shelf registration statement on Form S-3 (File 333-267921) (the “Shelf Registration Statement”), filed by the Company with the Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “Securities Act”), on October 18, 2022 and declared effective on October 26, 2022.

Also in connection with the Offering, on May 23, 2023, the Company entered into a placement agency agreement (the “Placement Agency Agreement”) with ThinkEquity LLC (the “Placement Agent”), pursuant to which (i) the Placement Agent agreed to act as placement agent on a “best efforts” basis in connection with the Offering, (ii) the Company agreed to pay the Placement Agent an aggregate fee equal to 8.0% of the gross proceeds raised in the Offering, and to reimburse the Placement Agent for certain expenses, and (iii) the Company agreed to issue to the Placement Agent warrants to purchase up to 55,000 shares of common stock at an exercise price of \$1.94 (the “Placement Agent Warrants”), which were issued on May 25, 2023. The Placement Agent Warrants (and the shares of Common Stock issuable upon the exercise of the Placement Agent Warrants) were not registered under the Securities Act and were offered pursuant to an exemption from the registration requirements of the Securities Act provided in Section 4(a)(2) of the Securities Act and Rule 506(b) promulgated thereunder.

The Placement Agency Agreement and the Purchase Agreement contain customary representations, warranties and agreements by the Company, customary conditions to closing, indemnification obligations of the Company, the Placement Agent, or the investors, as the case may be, other obligations of the parties and termination provisions.

In conjunction with the above noted Offering, the Company paid off its secured lender, Vaxstar LLC, \$350,000 in principal plus accrued interest of \$17,167.23 to retire all outstanding obligations to Vaxstar LLC.

In July 2023, the Company issued 49,855 shares of its common stock in consideration of a release from an unrelated third party in conjunction with the settlement of an outstanding debt between such third party and Netcapital Systems LLC.

On July 24, 2023 the Company completed an underwritten public offering of 1,725,000 shares of the Company’s common stock, at a price to the public of \$0.70 per share for aggregate gross proceeds of \$1,207,500, before deducting underwriting discounts and offering expenses payable by the Company. In conjunction with this offering, the Company issued the underwriter, and its designees, warrants to purchase 86,250 shares of our common stock at an exercise price of \$0.875.

**DESCRIPTION OF CAPITAL STOCK****General**

Our articles of incorporation authorize the issuance of up to 900,000,000 shares of common stock, par value of \$0.001 per share.

As of July 26, 2023, there were 9,415,382 shares of our common stock outstanding.

The following description is only a summary. You should also refer to our articles of incorporation and bylaws, both of which have been filed with the SEC as exhibits to the Annual Report on Form 10-K of which this exhibit forms a part.

**Common Stock**

The holders of shares of our common stock are entitled to one vote per share. In addition, the holders of our common stock will be entitled to receive ratably such dividends, if any, as may be declared by our Board out of legally available funds; however, the current policy of our Board is to retain earnings, if any, for operations and growth. Upon liquidation, dissolution or winding-up, the holders of our common stock will be entitled to share ratably in all assets that are legally available for distribution. The holders of our common stock will have no preemptive rights.

**Warrants**

As of July 28, 2023, we have warrants to purchase up to 1,541,682 shares of our common stock issued and outstanding at a weighted average exercise price of \$5.03 per share.

**Options**

As of July 28, 2023, we have options to purchase 2,202,000 shares of our common stock issued and outstanding at a weighted average exercise price of \$2.46 per share.

**Anti-Takeover Effects of Utah Law and Our Articles of Incorporation and Bylaws**

The provisions of Utah law, our articles of incorporation and our bylaws may have the effect of delaying, deferring or discouraging another person from acquiring control of our Company. These provisions, which are summarized below, may have the effect of discouraging takeover bids. They are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our Board. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

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### ***Articles of Incorporation and Bylaw Provisions***

Our articles of incorporation and our bylaws include several provisions that could deter hostile takeovers or delay or prevent changes in control of our management team, including the following:

- **Board of directors' vacancies.** Our articles of incorporation and bylaws provide that newly created directorships resulting from an increase in the number of directors and vacancies occurring in the board for any reason except the removal of directors without cause may be filled by a vote of the majority of directors then in office, although less than a quorum exists. Vacancies occurring by reason of the removal of directors without cause shall be filled by vote of the stockholders. A director elected to fill a vacancy caused by resignation, death or removal shall be elected to hold office for the unexpired term of his predecessor. In addition, the number of directors constituting our Board is permitted to be set only by a resolution adopted by our Board. These provisions prevent a stockholder from increasing the size of our Board and then gaining control of our Board by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our Board but promotes continuity of management.
- ***Special meeting of stockholders.*** Our bylaws provide that special meetings of our stockholders may be called only by our president or any two directors, thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.
- ***No cumulative voting.*** The Utah Business Corporation Act provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's articles of incorporation provide otherwise. Our articles of incorporation do not provide for cumulative voting.

### **Limitations of Liability and Indemnification Matters**

For a discussion of liability and indemnification, please see the section titled "*Management—Limitation of Liability and Indemnification.*"

### **Transfer Agent**

The transfer agent and registrar for our common stock is Equity Stock Transfer LLC with its business address at 237 W 37<sup>th</sup> Street, Suite 602, New York, NY 10018. Its telephone number is (212) 575-5757 and its email address is [info@equitystock.com](mailto:info@equitystock.com).

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements to Form S-8 (File No 333-271120 and 333-262373) of our audit report dated July 26, 2023, with respect to the consolidated balance sheets of Netcapital Inc. as of April 30, 2023 and 2022, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended April 30, 2023.

We also consent to the reference to us under the heading "Interest of Named Experts and Counsel" in such Registration Statements.

*Fruci & Associates II, PLLC*

Fruci & Associates II, PLLC – PCAOB ID #05525  
Spokane, Washington  
July 26, 2023

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Martin Kay, certify that:

1. I have reviewed this annual report on Form 10-K of Netcapital Inc.;

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 present 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 our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2023

By: /s/ Martin Kay  
Martin Kay  
Principal Executive Officer,  
Netcapital Inc.

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**AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Coreen Kraysler, certify that:

1. I have reviewed this annual report on Form 10-K of Netcapital Inc.;

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 present 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 our supervision, to ensure that material information relating to the registrant, including its subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2023

By: /s/ Coreen Kraysler

Coreen Kraysler  
Principal Financial Officer and  
Principal Accounting Officer  
Netcapital Inc.

**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 this Annual Report of Netcapital Inc. (the "Company"), on Form 10-K for the year ended April 30, 2023, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Cecilia Lenk, Principal Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) Such Annual Report on Form 10-K for the year ended April 30, 2023, 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 such Annual Report on Form 10-K for the year ended April 30, 2022, 3fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 26, 2023

By: /s/ Martin Kay  
Martin Kay  
Principal Executive Officer,  
Netcapital Inc.

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**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 this Annual Report of Netcapital Inc. (the "Company"), on Form 10-K for the year ended April 30, 2023, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Coreen Kraysler, Principal Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (3) Such Annual Report on Form 10-K for the year ended April 30, 2023, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (4) The information contained in such Annual Report on Form 10-K for the year ended April 30, 2023, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 26, 2023

By: /s/ Coreen Kraysler

Coreen Kraysler  
Principal Financial Officer and  
Principal Accounting Officer  
Netcapital Inc.

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