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

# FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

OR

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

For the transition period from ____________ to ____________

Commission file number: **000-54239**

digipath, inc.
(OTCQB : DIGP)

# DIGIPATH, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **NEVADA** | **27-3601979** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**6450 Cameron Street, Suite 113**
**Las Vegas, Nevada 89118**
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(702) 527-2060**

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes [X] 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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | [ ] | Accelerated filer | [ ] |
| Non-accelerated filer | [ ] | Smaller reporting company | [ ] |
| Emerging growth company | [X] | | |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant based upon the closing price of $0.21 per share as of March 31, 2018 was approximately $8,120,756.

As of December 25, 2018, there were 43,257,277 shares of registrant’s common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE: None**

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## PART I

**Forward Looking Statements**

This Form 10-K contains "forward-looking" statements including statements regarding our expectations of our future operations. For this purpose, any statements contained in this Form 10-K that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate," or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within our control.

These risks and uncertainties include demand for our products and services, governmental regulation of the cannabis industry, our ability to maintain customer and strategic business relationships, the impact of competitive products and pricing, growth in targeted markets, the adequacy of our liquidity and financial strength to support our growth, general economic and market conditions; our ability to sustain, manage, or forecast growth, our ability to successfully make and integrate acquisitions, new product development and introduction, existing government regulations and changes in, or the failure to comply with, government regulations, adverse publicity, difficulty in forecasting operating results, change in business strategy or development plans, business disruptions, and the ability to attract and retain qualified personnel. Although the forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. In light of these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Except as required by law, we undertake no obligation to announce publicly revisions we make to these forward-looking statements to reflect the effect of events or circumstances that may arise after the date of this report. All written and oral forward-looking statements made subsequent to the date of this report and attributable to us or persons acting on our behalf are expressly qualified in their entirety by this section.

**ITEM 1. DESCRIPTION OF BUSINESS**

**Overview**

Digipath, Inc. was incorporated in Nevada on October 5, 2010. Digipath, Inc. and its subsidiaries ("Digipath," the "Company," "we," "our" or "us") supports the cannabis industry's best practices for reliable testing, cannabis education and training, and brings unbiased cannabis news coverage to the cannabis industry. Our business units as of September 30, 2018 are described below.

- Digipath Labs, Inc . Digipath Labs' mission is to provide pharmaceutical-grade analysis and testing to the cannabis industry, under ISO-17025:2017 guidelines, to ensure consumers and patients know exactly what is in the cannabis they ingest and to help maximize the quality of our clients' products through research, development, and standardization. Digipath has been operating a cannabis-testing lab in Nevada since 2015 and has plans to open labs in other states and countries that have legalized the sale of cannabis, beginning with California.

- The National Marijuana News Corp . provides a balanced and unbiased approach to cannabis news, interviews and education with a news/talk podcast, national marijuana news website and social media presence focusing on the political, economic, medicinal, scientific, and cultural dimensions of the rapidly evolving—and profoundly controversial—medicinal and recreational marijuana industry.

**Business**

Digipath Labs, Inc. - Cannabis Testing

Our cannabis testing business is operated through our wholly owned subsidiary, Digipath Labs, Inc., which performs all cannabis related testing using FDA-compliant laboratory equipment and processes. We opened our first testing lab in Las Vegas, Nevada in May of 2015 to serve the new State approved and licensed medical marijuana industry. We have plans to open labs in other legal states, assuming resources permit.

We seek to be the nation's highest standard, full-service testing lab for cannabis and ancillary cannabis infused products. We are a third party independent testing laboratory facility for cannabis, cannabis infused products and other botanical nutraceuticals to serve growers, dispensaries, caregivers, producers, patients and eventually all end users of cannabis and botanical products.

Our mission is to provide pharmaceutical-grade analysis and testing to the cannabis industry, under ISO-17025:2017 guidelines, to ensure consumers and patients know exactly what is in the cannabis they ingest and to help maximize the quality of our client's products through research, development and standardization.

As a premier cannabis testing laboratory with ISO-17025:2017 accreditation, we take a careful, strategic approach to all of our cannabis testing. A diverse array of tests combined with our lab equipment and analytical instrumentation enable us to accurately test cannabis for potency, the presence of pesticides, microbial contamination, metals and heavy metals, which include, but are not limited to, substances like arsenic, cadmium, lead, or mercury. Not only is testing for potency and Cannabidiol ("CBD") and tetrahydrocannabinol ("THC") content important, we recognize that more profound testing is needed particularly as a true national standard is developed. Digipath Labs is committed to follow Food and Drug Administration ("FDA"), Drug Enforcement Agency ("DEA"), Environmental Protection Agency ("EPA"), US Department of Agriculture ("USDA") guidelines, proprietary standard operating procedures ("SOP"), and Good Lab Practices ("GLP") that are in line with current Federal and State governing bodies. We utilize a variety of tests to safely and effectively share enhanced understanding of the cannabis plant with caregivers, dispensaries and patients. We are committed to the advancement of science by offering a method of standardization for cannabis that is intricate and accurate. This approach and our investment in state-of-the-art testing equipment is of the utmost importance.

Digipath Labs screens medicinal and recreational cannabis for potentially harmful contaminants, including:

— Residual Solvents (for extracts)
— Pesticides
— Mold and Yeast
— Heavy metals, including mercury, arsenic, lead, cadmium, chromium and nickel
— Biological toxins, such as aflatoxin and ocratoxins
— Microbial contaminants including E. coli, salmonella, Aspergillus and gram negative bacteria

Digipath Labs also tests cannabis for its quality, potency, and cannabinoid and terpene profiles, which determine the suitability of specific chemoprofiles for the treatment of specific ailments.

We utilize one of our two Ultra-High Performance Liquid Chromatographs ("UPLC"), which accurately separates and measures the cannabinoid content of any sample of flower, edible, concentrate or other cannabis product. Our Inductively Coupled Plasma Mass Spectrometer ("ICP-MS") is utilized for heavy metals testing, and provides accurate readings for harmful metals ensuring that the Parts Per Billion ("PPB") are substantially below the regulated and accepted trace amounts. Our laboratory testing equipment is calibrated using third party reference standards to ensure precision measurements throughout the testing process and has been certified by ISO-17025:2017 standards.

With accurate science becoming a major part of the cannabis industry, the major question is one of standards; we hold ourselves accountable and provide efficient and accurate research and results to our clients. Our test results are meant to help dispensaries, caregivers and patients know the concentration and quality of their cannabis without having to question the credibility of the data.

<u>*Market Overview*</u>

The United States' legal cannabis market is projected to reach $11 billion in consumer spending in 2018 and more than $23 billion by 2022, according to key insights featured in our newest report: *The State of Legal Marijuana Markets, 6th Edition* (SOLMM6), co-produced by Arcview Market Research in partnership with BDS Analytics. This growth has the potential to generate more than 467,000 full-time equivalent jobs in 2022. In addition, the Nevada Department of Taxation recently disclosed that it collected more than $5.8 million in tax revenue on the sale of nearly $38 million worth of cannabinoid-related products during the month of October 2017, and more than $69 million in tax revenue on north of $529 million of sales during the first fiscal year since the legalized sale of recreational cannabis went into effect on July 1, 2017. As the cannabis industry continues to expand, we expect to see a parallel increase in state regulations related to the testing and disclosure of cannabis and cannabis related products. We believe that there will be a strong demand for qualified laboratories to perform such testing, both to assist producers of cannabis and cannabis products to meet expected state mandated requirements, and to provide assurance to consumers and state regulators regarding the safety and composition of such products.

With increased legalization nationwide, the lab-testing sector is expected to experience substantial growth. GreenWave Advisors, an independent research and financial analyst firm, projects annual revenue of $553 million for lab testing alone if the U.S. legalizes cannabis on a federal level. When adding in related services, such as data analytics and consulting, the revenue potential could surpass $866 million annually. The data troves collected through the testing process are already creating value and could become an increasingly valuable asset and generate substantial revenue for the most accomplished laboratories. This data could also be used to determine specific genetic attributes of targeted cannabinoids and assist with maximizing medicinal benefits and individualized medicine in the future.

*Competition*

The cannabis industry in the United States is highly fragmented, rapidly expanding and evolving. The industry is characterized by new and potentially disruptive or conflicting legislation promulgated on a state-by-state basis. Our competitors include local enterprises, some of which may have financial, technical, sales, marketing and other resources greater than ours. These companies also compete with us in recruiting and retaining qualified personnel and consultants.

Our competitive position depends on our ability to attract and retain qualified scientists and other personnel, develop effective proprietary products and solutions, the personal relationships of our executive officers and directors, and our ability to secure adequate capital resources. We compete to attract and retain customers of our services. We compete in this area on the basis of price, regulatory compliance, vendor relationships, usefulness, availability, excellent customer service and ease of use of our services.

*Government Regulation*

Marijuana is categorized as a Schedule-I controlled substance by the Drug Enforcement Agency and the United States Department of Justice and is illegal to grow, possess and consume under Federal law. A Schedule-I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The Department of Justice defines Schedule 1 controlled substances as "the most dangerous drugs of all the drug schedules with potentially severe psychological or physical dependence." However, since 1995, thirty-three states and the District of Columbia have passed state laws that permit doctors to recommend prescribing cannabis for medical-use and ten states and the District of Columbia have enacted laws that legalize the adult-use of cannabis for any reason. This has created an unpredictable business-environment for dispensaries and collectives that legally operate under state-laws but in violation of Federal law. On August 29, 2013, United States Deputy Attorney General James Cole issued the Cole Memo to United States Attorneys guiding them to prioritize enforcement of Federal law away from the cannabis industry operating as permitted under state law, so long as:

- cannabis is not being distributed to minors and dispensaries are not located around schools and public buildings;
- the proceeds from sales are not going to gangs, cartels or criminal enterprises;
- cannabis grown in states where it is legal is not being diverted to other states;
- cannabis-related businesses are not being used as a cover for sales of other illegal drugs or illegal activity;
- there is not any violence or use of fire-arms in the cultivation and sale of marijuana;
- there is strict enforcement of drugged-driving laws and adequate prevention of adverse health consequences; and
- cannabis is not grown, used, or possessed on Federal properties.

The Cole Memo was meant only as a guide, not a rule of law, for United States Attorneys and did not alter in any way the Department of Justice's Federal authority to enforce Federal law, including Federal laws relating to cannabis, regardless of state law. Moreover, the Cole Memorandum also provided that it could not be used as a defense to any criminal prosecution.

On January 4, 2018, United States Attorney General Jefferson Sessions issued a Memorandum to United States Attorneys rescinding the Cole Memorandum, stating that prosecutors should follow well-established principles in effect prior to the issuance of the Cole Memorandum that govern all federal prosecutions in deciding which activities to prosecute under existing federal laws. Federal legislation has been proposed over the years to reschedule or de-schedule cannabis, as well as to transform the Cole Memorandum into a rule of law.

The National Marijuana News Corp. – Cannabis News

In May 2014, we established an online radio program called *The National Marijuana News* ("TNMNews"). TNMNews educates the public regarding the political, economic, medicinal, scientific, and cultural dimensions of the rapidly evolving and controversial medicinal and recreational marijuana industry from diverse and dissenting perspectives. We have expanded our web presence as "THE" destination for unbiased news and information on everything marijuana. As we expand TNMNews, we hope to increase advertising revenue, collect user and consumer data and continue to provide a platform for our own products and services.

TNMNews is an Internet radio news and talk show featuring unbiased reporting of the burgeoning marijuana industry. Although leaning more towards a medicinal use platform, the show seeks to foster thought-provoking discussion of both the medicinal and recreational marijuana markets.

We launched TNMNews' Internet radio program on Live 365 and several terrestrial radio stations around the country in 2014. Our Facebook page has also garnered over 172,000 page likes and TNMNews has become a leader in cannabis news, interviews and education. We now also broadcast on Facebook live and Spotify.

*Competition*

TNMNews faces competition from traditional news media as well as new publications and web sites devoted to cannabis use. However, most marijuana-themed Internet podcasts are pro-cannabis and appeal to the recreational user. In contrast, we are pioneering a new path down the middle by presenting both sides of marijuana issues in a professional and unbiased format. Major media players are hopping on the marijuana bandwagon. Local publications like the Denver Post and the San Francisco Chronicle have dedicated space to cannabis coverage. The Huffington Post and many of the other major daily newspapers cover cannabis news. MSNBC, CNN, and truTV are developing series around cannabis. We believe that increasing public interest in this topic ensures we will have an audience and be able to attract paid advertisers.

*Government Regulation*

The following is a brief summary of certain statutes, regulations, policies and proposals affecting our media business. For example, radio broadcasting is subject to the jurisdiction of the FCC under the Communications Act. This does not comprehensively cover all current and proposed statutes, regulations and policies affecting our media and business. Reference should be made to the Communications Act and other relevant statutes, regulations, policies and proceedings for further information concerning the nature and extent of regulation of our media business. Finally, several of the following matters are now, or may become, the subject of court litigation, and we cannot predict the outcome of any such litigation or its impact on our media business.

Federal law regulates the broadcast of obscene, indecent or profane material. Legislation enacted by Congress provides the FCC with authority to impose fines of up to $325,000 per utterance with a cap of $3.0 million for any violation arising from a single act. In June 2012, the U.S. Supreme Court ruled on the appeals of several FCC indecency enforcement actions. While setting aside the particular FCC actions under review on narrow due process grounds, the Supreme Court declined to rule on the constitutionality of the FCC’s indecency policies, and the FCC has since solicited public comment on those policies. We may receive in the future, letters of inquiry and other notifications from the FCC concerning complaints that programming contains indecent or profane language. We cannot predict the outcome of our outstanding letters of inquiry and notifications from the FCC or the nature or extent of future FCC indecency enforcement actions.

**Customers**

We provide cannabis lab testing services in Las Vegas to Nevada licensed Medical Marijuana Enterprises (“MMEs”), and have expanded to recreational use facilities with the recently passed legislation that allows for the recreational use of marijuana in Nevada. We sell our services to these enterprises on a fixed fee per test or panel of tests, and offer a discounted price for customers based on volume. On June 17, 2014, Clark County approved a total of 117 special use permits to cultivation and 87 production applicants. There may be some cross-over applicants in this total whereby an applicant was awarded both a cultivation and production permit, and some of these applicants will undoubtedly not be able to commence operations and will lose their permits, but this is generally our pool of customers, along with additional permit holders in the Cities of Las Vegas and North Las Vegas. As of December 25, 2018, MMEs approved by the State of Nevada include 61 dispensaries, with an additional 60 more dispensary licenses pending, 115 cultivators, 81 production facilities, 24 distributors and 11 labs. We have worked with over 85 cultivators and producers in and around Clark and Nye County. As new harvests come to market, we anticipate further customer growth, especially with last year’s legalization of recreational cannabis in the State of Nevada. We also anticipate a steady stream of new Nevada MMEs to become operational and licensed throughout 2019, which should result in additional opportunities for Digipath Labs.

**Research and Development**

We believe that our future success will be impacted by our ability to continue to enhance and broaden our services to meet the evolving needs of a relatively newly regulated cannabis services industry. Our research and development efforts are focused on developing new, complementary solutions to streamline our processes and provide optimal services to both our customers and for regulators.

When developing our technical solutions to provide cannabis testing solutions, industry regulatory requirements also dictate that substantial documentation be created to demonstrate data integrity. Our standard operating procedures include streamlined methodologies for generating and maintaining testing services that can be tailored to the variations in other State jurisdictions, as necessary.

We expect to continue to invest in our businesses and to invest further as we expand our lab business for cannabis testing to other jurisdictions.

**Marketing, Sales and Support**

We use a range of communication platforms to reach our target customers. The goal of the marketing strategy is to position us as the leading testing company in the botanical, nutraceutical, and cannabis industries in the country. Our marketing efforts include digital/online, industry conferences and affiliations, media outreach, our own TNMNews, direct response and public relations. We believe that these efforts have the ability to deliver our brand message in a powerful way to maximize audience reach.

**Seasonality**

Our businesses are not subject to seasonality.

**Insurance**

We do not currently maintain property, business interruption and casualty insurance. We intend to obtain such insurance in accordance with customary industry practices when we have sufficient financial resources.

**Employees**

As of September 30, 2018, we had eighteen employees. None of our employees are members of a trade union. We believe that we maintain good relationships with our employees, and have not experienced any strikes or shutdowns and have not been involved in any labor disputes.

**Corporate Information**

Our principal executive offices are located at 6450 Cameron Street, Suite 113, Las Vegas, Nevada 89118, Telephone No.: (702) 527-2060. Our website is located at http:// *www.digipath.com* . The content on our website is available for information purposes only. It should not be relied upon for investment purposes, nor is it incorporated by reference into this Report.

**ITEM 1A. RISK FACTORS**

*The following important factors, and the important factors described elsewhere in this report or in our other filings with the SEC, could affect (and in some cases have affected) our results and could cause our results to be materially different from estimates or expectations. Other risks and uncertainties may also affect our results or operations adversely. The following and these other risks could materially and adversely affect our business, operations, results or financial condition.*

**An investment in the Company is highly speculative in nature and involves an extremely high degree of risk.**

***We have a limited operating history and if we are not successful in continuing to grow our business, then we may have to scale back or even cease our ongoing business operations.*** We have a limited operating history. Our operations are subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our company.

***Our auditor has expressed substantial doubt about our ability to continue as a going concern. We may be unable to obtain additional capital required to implement our business plan.*** As a result of recurring net losses and insufficient cash reserves, our independent certified public accountant has added a paragraph to its report on our financial statements for the year ended September 30, 2018 questioning our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional capital and to achieve sustainable revenues and profitable operations. Since inception, we have raised funds primarily through the sale of equity securities. We will need and are currently seeking additional funds to operate our business. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to us. Even if we are able to obtain additional financing, it may contain undue restrictions on our operations or cause substantial dilution for our stockholders. If we are unable to obtain additional funds, our ability to carry out and implement our planned business objectives and strategies will be significantly delayed, limited or may not occur. We cannot guarantee that we will become profitable. Even if we achieve profitability, given the competitive and evolving nature of the industry in which we operate, we may not be able to sustain or increase profitability and our failure to do so would adversely affect our business, including our ability to raise additional funds.

***Our failure to manage growth effectively could impair our business.*** Our business strategy envisions a period of rapid growth that may put a strain on our administrative, operational resources and funding requirements. Our ability to effectively manage growth will require us to continue to expand the capabilities of our operational and management systems and to attract, train, manage and retain qualified personnel. There can be no assurance that we will be able to do so, particularly if losses continue and we are unable to obtain sufficient financing. If we are unable to successfully manage growth, our business, prospects, financial condition, and results of operations could be adversely affected.

***Our plans are dependent upon key individuals and the ability to attract qualified personnel .*** In order to execute our business plan, we will be dependent on upon our executive officers and directors, as well as other key personnel. The loss of any of the foregoing individuals could have a material adverse effect upon our business prospects. Moreover our success continues to depend to a significant extent on our ability to identify, attract, hire, train and retain qualified professional, creative, technical and managerial personnel. Competition for such personnel is intense, and there can be no assurance that we will be successful in identifying, attracting, hiring, training, and retaining such personnel in the future. If we are unable to hire, assimilate and retain such qualified personnel in the future, our business, operating results, and financial condition could be materially adversely affected. We may also depend on third party contractors and other partners, to assist with the execution of our business plan. There can be no assurance that we will be successful in either attracting and retaining qualified personnel, or creating arrangements with such third parties. The failure to succeed in these endeavors would have a material adverse effect on our ability to consummate our business plans.

**Risks Related To Our Cannabis Related Businesses**

***Our business is dependent on state laws pertaining to the cannabis industry.*** As of December 25, 2018, thirty-three states and the District of Columbia allow its citizens to use medical cannabis. Additionally, ten states and the District of Columbia have legalized cannabis for adult recreational use, and additional recreational measures are expected to be pursued by other states in the future. Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further, progress in the cannabis industry, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt use of cannabis, which would negatively impact our business.

***Cannabis remains illegal under federal law and a change in federal enforcement practices could significantly and negatively affect our business.*** Despite the development of a cannabis industry legal under state laws, state laws legalizing medicinal and adult cannabis use are in conflict with the Federal Controlled Substances Act, which classifies cannabis as a Schedule-I controlled substance and makes cannabis use and possession illegal on a national level. The United States Supreme Court has ruled that it is the Federal government that has the right to regulate and criminalize cannabis, even for medical purposes, and thus Federal law criminalizing the use of cannabis preempts state laws that legalize its use. While the Obama Administration's Department of Justice adopted a policy (known as the Cole Memorandum) that effectively stated that it was not an efficient use of resources to direct Federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical cannabis, on January 4, 2018, the United States Attorney General rescinded the Cole Memorandum. The Federal government's enforcement of Federal laws could cause significant financial damage to us and our shareholders.

***The loss or temporary suspension of one or more of our licenses could significantly reduce our revenues.*** Our ability to operate our cannabis testing lab is dependent upon maintaining licenses issued by state and local regulators in Nevada. Our cannabis testing and business licenses were briefly suspended by Nevada regulators on January 19, 2018 and were reinstated on January 31, 2018. This significantly affected our financial results for the second and third fiscal quarters of 2018. In order to retain our licenses, we are required to comply with ongoing compliance and reporting requirements and ongoing regulation and oversight by governmental authorities. Any failure to comply with any such regulatory requirements or any failure to maintain any required licenses would have a material adverse effect on our business, financial condition, results of operation and, in the extreme case, require us to discontinue operations.

***As the possession and use of cannabis is illegal under the Federal Controlled Substances Act, we may be deemed to be aiding and abetting illegal activities through the services that we provide. As a result, we may be subject to enforcement actions by law enforcement authorities, which would materially and adversely affect our business.*** Under Federal law, and more specifically the Federal Controlled Substances Act, the possession, use, cultivation, and transfer of cannabis is illegal. Our business provides services to customers that are engaged in the business of possession, use, cultivation, and/or transfer of cannabis. As a result, law enforcement authorities, in their attempt to regulate the illegal use of cannabis, may seek to bring an action or actions against us, including, but not limited, to a claim of aiding and abetting another's criminal activities. The Federal aiding and abetting statute provides that anyone who "commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." 18 U.S.C. §2(a). As a result of such an action, we may be forced to cease operations and our investors could lose their entire investment. Such an action would have a material negative effect on our business and operations.

***Laws and regulations affecting the cannabis and marijuana industries are constantly changing, which could detrimentally affect our business, and we cannot predict the impact that future regulations may have on us.*** Local, state and federal cannabis laws and regulations are constantly changing and they are subject to evolving interpretations, which could require us to incur substantial costs associated with compliance or to alter one or more of our service offerings. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our revenues, profitability, and financial condition. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business. Any change in law or interpretation could have a material adverse effect on our business, financial condition, and results of operations.

***Federal enforcement practices could change with respect to services providers to participants in the cannabis industry, which could adversely impact us. If the federal government were to change its practices, or were to expand its resources attacking providers in the cannabis industry, such action could have a materially adverse effect on our operations, our customers, or the sales of our products.*** It is possible that additional Federal or state legislation could be enacted in the future that would prohibit our customers from selling cannabis, and if such legislation were enacted, such customers may discontinue the use of our services. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

***Expansion by well-established laboratory testing companies into the cannabis industry could prevent us from realizing anticipated growth in customers and revenues.*** Traditional laboratory testing companies may expand their businesses into cannabis testing. If they decided to expand into cannabis testing, this could hurt the growth of our business and cause our revenues to be lower than we expect.

***Due to our involvement in the cannabis industry, we may have a difficult time obtaining the various insurances that are desired to operate our business, which may expose us to additional risk and financial liabilities.*** Insurance that is otherwise readily available, such as workers' compensation, general liability, and directors and officers insurance, is more difficult for us to find, and more expensive, because we are service providers to companies in the cannabis industry. There are no guarantees that we will be able to find such insurances in the future, or that the cost will be affordable to us. If we are forced to go without such insurances, it may prevent us from entering into certain business sectors, may inhibit our growth, and may expose us to additional risk and financial liabilities.

***Participants in the cannabis industry have difficulty accessing the service of banks, which makes it difficult for us to operate.*** Despite rules issued by the United States Department of the Treasury mitigating the risk to banks that do business with cannabis companies permitted under state law, as well as guidance from the United States Department of Justice, banks remain wary to accept funds from businesses in the cannabis industry. In fact, we were previously notified by our bank that our deposit accounts would be closed, and we are currently looking for a replacement banking institution. Since the use of cannabis remains illegal under Federal law, there remains a compelling argument that banks may be in violation of Federal law when accepting for deposit, funds derived from the sale or distribution of cannabis. Consequently, businesses involved in the cannabis industry, including us, continue to have trouble establishing and maintain banking relationships. An inability to open and maintain bank accounts may make it difficult for us and our customers to do business. In addition, our inability to maintain a bank account has resulted in our holding large sums of cash. Although we store our cash in a secure safe, we are exposed to a greater risk of theft.

**Risks Relating To Media Business**

***We face intense competition in our media businesses.*** We operate in a highly competitive industry, and we may not be able to maintain or increase our current audience ratings and advertising and sales revenues, if any. Our media and advertising businesses compete for audiences and advertising revenues with other media businesses, as well as with other media, such as newspapers, magazines, television, direct mail, portable digital audio players, mobile devices, satellite radio, Internet-based services and live entertainment, within their respective markets. Audience ratings and market shares are subject to change, which could have the effect of reducing our revenues in that market. Our competitors may develop technology, services or advertising media that are equal or superior to those we provide or that achieve greater market acceptance and brand recognition than we achieve. It also is possible that new competitors may emerge and rapidly acquire significant market share in any of our business segments. An increased level of competition for advertising dollars may lead to lower advertising rates as we attempt to retain customers or may cause us to lose customers to our competitors who offer lower rates that we are unable or unwilling to match.

***Our business is dependent on our management team and other key individuals.*** Our media business is dependent upon the performance of our management team and other key individuals, and in particular, Todd Denkin, our Chief Executive Officer, who also acts as the host of many of our programs. We can give no assurance that all or any of our management team and other key individuals will remain with us. Competition for these individuals is intense and many of our key employees are at-will employees who are under no legal obligation to remain with us, and may decide to leave for a variety of personal or other reasons beyond our control. If members of our management or key individuals decide to leave us in the future, or if we are not successful in attracting, motivating and retaining other key employees, our business could be adversely affected.

***Extensive current government regulation, and future regulation, may limit our media operations or adversely affect our business and financial results.*** Congress and several federal agencies, including the FCC, extensively regulate the domestic radio industry. For example, the FCC could impose large fines on us if, in response to pending complaints, it finds that we broadcast indecent programming. We cannot predict whether legislation affecting our media business will be adopted. Such legislation could have a material impact on our operations and financial results. Finally, various regulatory matters relating to our media and business are now, or may become, the subject of court litigation, and we cannot predict the outcome of any such litigation or its impact on our business.

***If our security measures are breached, we may face liability and public perception of our services could be diminished, which would negatively impact our ability to attract listeners, business partners and advertisers.*** Although we have implemented physical and electronic security measures to protect against the loss, misuse and alteration of our websites, digital assets and proprietary business information as well as listener, consumer, business partner and advertiser personally identifiable information, no security measures are perfect and impenetrable and we may be unable to anticipate or prevent unauthorized access. A security breach could occur due to the actions of outside parties, employee error, malfeasance or a combination of these or other actions. If an actual or perceived breach of our security occurs, we could lose competitively sensitive business information or suffer disruptions to our business operations. In addition, the public perception of the effectiveness of our security measures or services could be harmed, we could lose listeners, consumers, business partners and advertisers and we could suffer financial exposure in connection with remediation efforts, investigations and legal proceedings and changes in our security and system protection measures.

***Additional restrictions on advertising of cannabis and other products may further restrict the categories of clients that can advertise using our products.*** For example, out-of-court settlements between the major U.S. tobacco companies and all 50 states, the District of Columbia, the Commonwealth of Puerto Rico and other U.S. territories include a ban on the outdoor advertising of tobacco products. Other products and services may be targeted in the U.S. in the future, including cannabis products. Any significant reduction in cannabis-related advertising or advertising of other products due to content-related restrictions could cause a reduction in our direct revenues from such advertisements.

**Risks Related To Our Common Stock**

***Our operating results may fluctuate causing volatility in our stock price.*** Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control. The following factors may affect our operating results causing volatility in our stock price:

- Our ability to execute our business plan, compete effectively and attract customers;
- Our ability to respond effectively to a rapidly evolving regulatory and competitive landscape;
- The amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our business, operations and infrastructure;
- Our ability to obtain working capital financing;
- Our ability to attract, motivate and retain top-quality employees;
- Investors' general perception of us; and
- General economic conditions and those economic conditions specific to cannabis industry.

***Trading in our common stock has been limited, there is no significant trading market for our common stock, and purchasers of our common stock may be unable to sell their shares.*** Our common stock is currently eligible for quotation on the OTCQB and OTCBB, however trading to date has been limited. If activity in the market for shares of our common stock does not increase, purchasers of our shares may find it difficult to sell their shares. We currently do not meet the initial listing criteria for any registered securities exchange, including the Nasdaq Stock Market. The OTCQB and OTCBB are often characterized by low trading volume and significant price fluctuations. These and other factors may further impair our stockholders' ability to sell their shares when they want to and/or could depress our stock price. As a result, stockholders may find it difficult to dispose of, or obtain accurate quotations of the price of our securities because smaller quantities of shares could be bought and sold, transactions could be delayed and security analyst and news coverage of our Company may be limited. These factors could result in lower prices and larger spreads in the bid and ask prices for our shares of common stock.

***Applicable sec rules governing the trading of "penny stocks" may limit the trading and liquidity of our common stock which may affect the trading price our common stock.*** Our common stock is a "penny stock" as defined under Rule 3a51-1 of the Exchange Act, and is accordingly subject to SEC rules and regulations that impose limitations upon the manner in which our common stock can be publicly traded. Penny stocks generally are equity securities with a per share price of less than $5.00 (other than securities registered on some national securities exchanges or quoted on NASDAQ). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, broker-dealers who sell these securities to persons other than established customers and "accredited investors" must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. Consequently, these requirements may have the effect of reducing the level of trading activity, if any, of our common stock and reducing the liquidity of an investment in our common stock.

***We have outstanding shares of preferred stock with rights and preferences superior to those of our common stock.*** The issued and outstanding shares of Series A Cumulative Convertible Preferred Stock grant the holders of such preferred stock liquidation rights that are superior to those held by the holders of our common stock.

***We have not paid dividends in the past and do not expect to pay dividends in the future. Any return on investment may be limited to the value of our common stock .*** We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our common stock depends on earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our principal executive offices are located at 6450 Cameron Street, Suite 113, Las Vegas, Nevada 89118, Telephone No.: (702) 527-2060. Our leased premises are 6,000 square feet and are utilized for corporate business offices and a cannabis testing lab. Our premises are subject to a lease agreement expiring June 14, 2021. Our anticipated future lease commitments on a calendar year basis, including common area maintenance, are as follows:

| | | |
|---|---|---|
| 2018 | $ | 48,872 |
| 2019 | | 198,904 |
| 2020 | | 151,283 |
| 2021 | | 50,102 |
| Total | $ | 449,161 |

We believe that our current facilities are adequate for our current needs. We intend to secure new facilities or expand existing facilities as necessary to support future growth. We believe that suitable additional space will be available on commercially reasonable terms as needed to accommodate our operations.

**ITEM 3. LEGAL PROCEEDINGS**

There are no material pending legal proceedings to which we are a party or to which any of our property is subject, nor are there any such proceedings known to be contemplated by governmental authorities. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

### Market Information

Shares of our common stock trade on the over-the-counter market and are quoted on the OTCBB and OTCQB under the symbol "DIGP". As of December 25, 2018, the closing price of our common stock on the OTCQB was $0.1297.

The following table sets forth, for the fiscal quarters indicated, the high and low bid information for our common stock, as reported on the OTCQB. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

| | High | | Low | |
|---|---|---|---|---|
| **Fiscal Year Ended September 30, 2018** | | | | |
| First Quarter | $ | 0.39 | $ | 0.15 |
| Second Quarter | $ | 0.59 | $ | 0.16 |
| Third Quarter | $ | 0.25 | $ | 0.17 |
| Fourth Quarter | $ | 0.20 | $ | 0.14 |
| | | | | |
| **Fiscal Year Ended September 30, 2017** | | | | |
| First Quarter | $ | 0.29 | $ | 0.13 |
| Second Quarter | $ | 0.36 | $ | 0.17 |
| Third Quarter | $ | 0.27 | $ | 0.17 |
| Fourth Quarter | $ | 0.24 | $ | 0.15 |

As of December 25, 2018, there were approximately 119 shareholders of record of our common stock. Such number does not include any shareholders holding shares in nominee or "street name". As of December 25, 2018, there were 43,257,277 shares of common stock outstanding on record.

### Dividends

We have not declared or paid any dividends on our common stock since our inception and do not anticipate paying dividends for the foreseeable future. The payment of dividends is subject to the discretion of our board of directors and depends, among other things, upon our earnings, our capital requirements, our financial condition, and other relevant factors. We intend to reinvest any earnings in the development and expansion of our business. Any cash dividends in the future to common shareholders will be payable when, as and if declared by our board of directors, based upon the board's assessment of our financial condition and performance, earnings, need for funds, capital requirements, prior claims of preferred stock to the extent issued and outstanding, and other factors, including income tax consequences, restrictions and applicable laws. There can be no assurance, therefore, that any dividends on our common stock will ever be paid.

**Equity Compensation Plan Information**

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders [1] | 8,537,500 | $ 0.2115 | 2,962,500 |
| Equity compensation plans not approved by security holders [2] | 659,800 | 0.1901 | N/A |
| Total | 10,449,800 | $ 0.2099 | 2,208,470 |

[1] Represents awards under our 2012 Stock Incentive Plan which was initially adopted with shareholder approval, and amended on June 21, 2016 without shareholder approval (as amended, the "2012 Incentive Plan"). Below is a brief description of the material terms of the 2012 Incentive Plan and the awards that may be granted thereunder.

[2] Consists of warrants issued to consultants of the Company in consideration of services with exercise prices of $0.1901 per share. For additional details see Note 9 to the accompanying financial statements.

*2012 Incentive Plan*

*Effective Date and Expiration.* The 2012 Incentive Plan, as amended, became effective on March 5, 2012, and will terminate on March 5, 2022, unless it is terminated earlier by our board of directors. No award may be made under the Incentive Plan after its expiration date, but awards made prior thereto may extend beyond that date.

*Share Authorization.* The maximum aggregate number of Shares which may be issued pursuant to awards granted under the 2012 Incentive Plan is Eleven Million Five Hundred Thousand (11,500,000) shares. Prior to its amendment in June 2016, Three Million shares had been authorized for issuance under the 2012 Plan.

*General; Types of Awards* . The 2012 Incentive Plan provides for the grant of options to purchase shares of common stock, restricted stock, stock appreciation rights ("SARs") and restricted stock units (rights to receive, in cash or stock, the market value of one share of our commons stock). Incentive stock options ("ISOs") may be granted only to employees. Nonstatutory stock options and other stock-based awards may be granted to officers, employees, non-employee directors and consultants.

*Administration* . The 2012 Incentive Plan will be administered by our board of directors or a committee of our board of directors (the "Administrator") as provided in the 2012 Incentive Plan. The Administrator will have the authority to select the eligible participants to whom awards will be granted, to determine the types of awards and the number of shares covered and to set the terms, conditions and provisions of such awards, to cancel or suspend awards under certain conditions, and to accelerate the exercisability of awards. The Administrator will be authorized to interpret the 2012 Incentive Plan, to establish, amend, and rescind any rules and regulations relating to the 2012 Incentive Plan, to determine the terms of agreements entered into with recipients under the 2012 Incentive Plan, and to make all other determinations that may be necessary or advisable for the administration of the 2012 Incentive Plan.

*Eligibility* . Options and other awards may be granted under the 2012 Incentive Plan to directors, officers, employees and consultants of our company and any of our subsidiaries, provided that the services of such consultants are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for our securities. At the date of this prospectus, all of our officers, directors and employees would have been eligible to receive awards under the 2012 Incentive Plan.

*Stock Options* . The exercise price per share of our common stock purchasable upon exercise of any stock option or SAR will be determined by the Administrator, but cannot in any event be less than 100% of the fair market value of our common stock on the date the award is granted. The Administrator will determine the term of each stock option or SAR (subject to a maximum term of 10 years) and each option or SAR will be exercisable pursuant to a vesting schedule determined by the Administrator. The grants and the terms of ISOs will be restricted to the extent required for qualification as ISOs by the U.S. Internal Revenue Code of 1986, as amended. Subject to approval of the Administrator, options or SARs may be exercised by payment of the exercise price in cash, shares of common stock or pursuant to a "cashless exercise" through a broker-dealer under an arrangement approved by the Administrator. The Administrator may require the grantee to pay to us any applicable withholding taxes that we are required to withhold with respect to the grant or exercise of any option. The withholding tax may be paid in cash or, subject to applicable law, the Administrator may permit the grantee to satisfy these obligations by the withholding or delivery of shares of our common stock. We may withhold from any shares of our common stock that may be issued pursuant to an option or from any cash amounts otherwise due from us to the recipient of the option an amount equal to such taxes.

*Restricted Stock* . Restricted shares may be sold or awarded for consideration determined by the Administrator, including cash, full-recourse promissory notes, as well as past and future services. Any award of restricted shares will be subject to a vesting schedule determined by the Administrator. Any restricted shares that are not vested will be subject to rights of repurchase, rights of first refusal or other restrictions as determined by the Administrator. In general, holders of restricted shares will have the same voting, dividend and other rights as our other stockholders.

*Adjustments upon Changes in Capitalization* . In the event of any change affecting shares of our common stock by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distribution to stockholders other than cash dividends, the Administrator will make substitutions or adjustments in the aggregate number of shares that may be distributed under the 2012 Incentive Plan, and in the number and types of shares subject to, and the exercise prices under, outstanding awards granted under the 2012 Incentive Plan, in accordance with Section 10 and other provisions of the 2012 Incentive Plan.

*Assignment* . Unless otherwise permitted by the 2012 Incentive Plan and approved by the Administrator as permitted by the 2012 Incentive Plan, no award will be assignable or otherwise transferable by the grantee other than by will or the laws of descent and distribution and, during the grantee's lifetime, an award may be exercised only by the grantee.

*Amendment* . Our board of directors may amend the 2012 Incentive Plan in any and all respects without stockholder approval, except as such stockholder approval may be required under applicable law or pursuant to the listing requirements of any national market system or securities exchange on which our equity securities may be listed or quoted.

**Recent Sales of Unregistered Securities**

The following issuances of our securities during the three month period ended September 30, 2018 were exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(a)(2) thereof and/or Rule 506 of Regulation D promulgated thereunder. The purchasers were accredited investors, familiar with our operations, and there was no general solicitation.

On September 25, 2018, we issued 39,344 shares of common stock to Todd Denkin for his services rendered as our President and Chief Executive Officer.

On September 25, 2018, we issued 98,361 shares of common stock to Todd Peterson for his services rendered as our Chief Financial Officer.

On September 25, 2018, we issued a total of 150,000 shares of common stock to three consultants that were engaged to assist the Company with acquisition activities.

On September 12, 2018, we issued 200,000 shares of common stock to Bruce Raben in connection with his appointment to our Board of Directors.

On July 11, 2018, we sold 66.67 units, consisting of 666,667 shares of common stock and three-year warrants to purchase 333,334 shares of common stock at an exercise price $0.30 per share, in exchange for total proceeds of $100,000.

**ITEM 6. SELECTED FINANCIAL DATA**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This discussion summarizes the significant factors affecting the operating results, financial condition, liquidity and cash flows of the Company and its subsidiaries for the fiscal years ended September 30, 2018 and 2017. The discussion and analysis that follows should be read together with the section entitled "Forward Looking Statements" and our consolidated financial statements and the notes to the consolidated financial statements included elsewhere in this annual report on Form 10-K.*

*Except for historical information, the matters discussed in this section are forward looking statements that involve risks and uncertainties and are based upon judgments concerning various factors that are beyond the Company's control. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this report.*

**Overview**

Digipath, Inc. was incorporated in Nevada on October 5, 2010. Digipath, Inc. and its subsidiaries ("Digipath," the "Company," "we," "our" or "us") supports the cannabis industry's best practices for reliable testing, cannabis education and training, and brings unbiased cannabis news coverage to the cannabis industry. Our business units as of September 30, 2017 are described below.

- Digipath Labs, Inc . Digipath Labs' mission is to provide pharmaceutical-grade analysis and testing to the cannabis industry, under ISO-17025:2017 guidelines, to ensure consumers and patients know exactly what is in the cannabis they ingest and to help maximize the quality of our clients' products through research, development, and standardization. Digipath has been operating a cannabis-testing lab in Nevada since 2015 and has plans to open labs in other states and countries that have legalized the sale of cannabis, beginning with California.

- The National Marijuana News Corp . provides a balanced and unbiased approach to cannabis news, interviews and education with a news/talk podcast, national marijuana news website and social media presence focusing on the political, economic, medicinal, scientific, and cultural dimensions of the rapidly evolving—and profoundly controversial—medicinal and recreational marijuana industry.

**Critical Accounting Policies**

The establishment and consistent application of accounting policies is a vital component of accurately and fairly presenting our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"), as well as ensuring compliance with applicable laws and regulations governing financial reporting. While there are rarely alternative methods or rules from which to select in establishing accounting and financial reporting policies, proper application often involves significant judgment regarding a given set of facts and circumstances and a complex series of decisions.

Basis of Accounting

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission. Intercompany accounts and transactions have been eliminated. All references to GAAP are in accordance with The FASB Accounting Standards Codification ("ASC") and the Hierarchy of Generally Accepted Accounting Principles.

Segment Reporting

ASC Topic 280, "Segment Reporting," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has two reportable segments.

Fair Value of Financial Instruments

The Company adopted ASC 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

The carrying value of cash, accounts receivable, accounts payables and accrued expenses are estimated by management to approximate fair value primarily due to the short term nature of the instruments.

Fixed Assets

Fixed assets are stated at the lower of cost or estimated net recoverable amount. The cost of property, plant and equipment is depreciated using the straight-line method based on the lesser of the estimated useful lives of the assets or the lease term based on the following life expectancy:

| | |
|---|---|
| Software | 3 years |
| Office equipment | 5 years |
| Furniture and fixtures | 5 years |
| Lab equipment | 7 years |
| Leasehold improvements | Term of lease |

Repairs and maintenance expenditures are charged to operations as incurred. Major improvements and replacements, which extend the useful life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset. When assets are retired or sold, the cost and related accumulated depreciation and amortization are eliminated and any resulting gain or loss is reflected in operations.

Impairment of Long-Lived Assets

Long-lived assets held and used by the Company are reviewed for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable or is impaired. Recoverability is assessed using undiscounted cash flows based upon historical results and current projections of earnings before interest and taxes. Impairment is measured using discounted cash flows of future operating results based upon a rate that corresponds to the cost of capital. Impairments are recognized in operating results to the extent that carrying value exceeds discounted cash flows of future operations.

Our intellectual property is comprised of indefinite-lived brand names acquired and have been assigned an indefinite life as we currently anticipate that these brand names will contribute cash flows to the Company perpetually. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 605, Revenue Recognition. ASC 605 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery of product has met the criteria established in the arrangement or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured. This occurs when the products or services are completed in accordance with the contracts we have with clients. In connection with our products and services arrangements, when we are paid in advance, these amounts are classified as deferred revenue and amortized over the term of the agreement. With respect to our cannabis lab testing revenues, we sell our services on a determinable fixed fee per test, or panel of tests basis, and offer a discounted price for customers that agree to enter into exclusive, long term contracts or certain volume commitments. We typically require payment within thirty days of the delivery of results. Revenues are recognized upon the substantial completion of the tests when collectability is reasonably assured, which is usually upon delivery of results to the customer.

### Advertising Costs

The Company expenses the cost of advertising and promotions as incurred. Advertising and promotions expense was $108,295 and $138,026 for the years ended September 30, 2018 and 2017, respectively.

### Basic and Diluted Loss Per Share

The basic net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss adjusted on an "as if converted" basis, by the weighted average number of common shares outstanding plus potential dilutive securities. For the years ended September 30, 2018 and 2017, potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share.

### Stock-Based Compensation

The Company accounts for equity instruments issued to employees in accordance with the provisions of ASC 718 Stock Compensation (ASC 718) and Equity-Based Payments to Non-employees pursuant to ASC 505-50 (ASC 505-50). All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date at which a commitment for performance by the counterparty to earn the equity instruments is reached because of sufficiently large disincentives for nonperformance.

### Income Taxes

The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax basis of assets and liabilities using the enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered. The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

### Uncertain Tax Positions

In accordance with ASC 740, "Income Taxes" ("ASC 740"), 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 capable of withstanding examination by the taxing authorities based on the technical merits of the position. These standards prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. These standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Various taxing authorities periodically audit the Company's income tax returns. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions. In evaluating the exposures connected with these various tax filing positions, including state and local taxes, the Company records allowances for probable exposures. A number of years may elapse before a particular matter, for which an allowance has been established, is audited and fully resolved. The Company has not yet undergone an examination by any taxing authorities.

The assessment of the Company's tax position relies on the judgment of management to estimate the exposures associated with the Company's various filing positions.

Various taxing authorities periodically audit the Company's income tax returns. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions. In evaluating the exposures connected with these various tax filing positions, including state and local taxes, the Company records allowances for probable exposures. A number of years may elapse before a particular matter, for which an allowance has been established, is audited and fully resolved. The Company has not yet undergone an examination by any taxing authorities.

The assessment of the Company's tax position relies on the judgment of management to estimate the exposures associated with the Company's various filing positions.

**Results of Operations**

Our cannabis testing lab operations have steadily increased as the Nevada cannabis market has begun to mature. The following table shows operating results for the years ended September 30, 2018 and 2017.

| | Years Ended September 30, 2018 | Years Ended September 30, 2017 | Increase / (Decrease) |
|---|---|---|---|
| Revenues | $ 2,839,916 | $ 1,898,172 | $ 941,744 |
| Cost of sales | 2,069,837 | 904,166 | 1,165,671 |
| Gross profit | 770,079 | 994,006 | (223,927) |
| Operating expenses: | | | |
| General and administrative | 1,451,642 | 1,257,745 | 193,897 |
| Professional fees | 1,094,486 | 1,001,289 | 93,197 |
| Bad debts expense | (17,280) | 32,180 | (49,460) |
| Total operating expenses: | 2,528,848 | 2,291,214 | 237,634 |
| Operating loss | (1,758,769) | (1,297,208) | 461,561 |
| Total other income (expense) | 105,112 | 232,068 | (126,956) |
| Net loss | $ (1,653,657) | $ (1,065,140) | $ 588,517 |

**Revenues**

Revenues were generated by our cannabis testing lab and to a de minimis extent, from advertising on TNMNews media. Aggregate revenues for the year ended September 30, 2018 were $2,839,916, compared to revenues of $1,898,172 during the year ended September 30, 2017, an increase of $941,744, or 50%. The increase in revenue was due to the continued growth of our testing lab operations in Nevada as our customer base, consisting of production and cultivation facilities, increased their operations, particularly following the implementation of the Nevada law permitting the recreational use of marijuana, which went into effect on July 1, 2017. However, our revenues during the fiscal year were negatively impacted by the brief, temporary suspension of our testing and business licenses by Nevada regulators in January 2018.

**Cost of Sales**

Cost of sales for the year ended September 30, 2018 were $2,069,837, compared to $904,166 during the year ended September 30, 2017, an increase of $1,165,671, or 129%. Cost of sales consists primarily of labor, depreciation, maintenance on lab equipment, and supplies consumed in our testing operations. The increased cost of sales in the current year was primarily due to the cost of temporarily outsourcing our pesticide testing to a third party while we repaired and upgraded instrumentation to comply with regulators' requirements, and increased labor and supply costs required both to comply with regulators' requirements (including in connection with implementing ISO/IEC 17025 testing and calibration standards), and in anticipation of increased demand. At the end of June, our pesticide methods were certified by the State of Nevada and we were able to resume our own pesticide testing, which significantly reduced our cost of sales for the fourth quarter. Our gross margins of approximately 27%, decreased during the year ended September 30, 2018, compared to gross margins of approximately 52% during the year ended September 30, 2017, as we devoted significant resources to the improvement of operations in response to the temporary suspension of our Nevada licenses. We expect cost of sales to decrease and gross margins to increase as we continue to grow, and for gross margins to be in the neighborhood of 50%.

**General and Administrative Expenses**

General and administrative expenses for the year ended September 30, 2018 were $1,451,642, compared to $1,257,745 during the year ended September 30, 2017, an increase of $193,897, or 15%. The expenses consisted primarily of marketing, rent, salaries and wages, and travel expenses. General and administrative expenses increased primarily due to increased salaries and travel costs during the current year.

**Professional Fees**

Professional fees for the year ended September 30, 2018 were $1,094,486, compared to $1,001,289 during the year ended September 30, 2017, an increase of $93,197, or 9%. Professional fees increased primarily due to increased stock-based compensation paid to consultants during the current period, partially offset by a decrease in legal fees. Stock based compensation was $892,390 during the year ended September 30, 2018, compared to $636,116 during the year ended September 30, 2017, an increase of $256,274, or 40%.

**Bad Debt Expense (recoveries)**

Bad debt expense (recoveries) for the year ended September 30, 2018 was $(17,280), compared to $32,180 during the year ended September 30, 2017, a decrease of $49,460, or 154%. Bad debt recoveries during the current period consisted of a change in the allowance for doubtful accounts of $14,900, compared to an allowance of $32,180 as of September 30, 2017. We have not yet realized any bad debts on our trade receivables.

**Operating Loss**

Operating loss for the year ended September 30, 2018 was $1,758,769, compared to $1,297,208 during the year ended September 30, 2017, an increase of $461,561, or 36%. Operating loss increased primarily due to complying with regulators' requirements, which resulted in temporarily outsourcing our pesticide testing to a third party while we repaired and upgraded instrumentation, and increased labor and supply costs, offset in part by our increased revenues during the year ended September 30, 2018, compared to the year ended September 30, 2017.

**Other Income (Expense)**

Other income for the year ended September 30, 2018 was $105,112, compared to other income, on a net basis, of $232,068 during the year ended September 30, 2017, a decrease of $126,956. Other income during the year ended September 30, 2018, consisted of rental income of $76,800 from subleased office space and $28,312 of restitution payments received from a former employee. Other income during the year ended September 30, 2017, consisted of rental income of $20,568 from subleased office and storage space, $250,000 received pursuant to the settlement under a license agreement with GB Sciences, Inc., and $11,500 of restitution payments received from a former employee.

**Net Loss**

Net loss for the year ended September 30, 2018 was $1,653,657, compared to $1,065,140 during the year ended September 30, 2017, an increase of $588,517, or 55%. The increased net loss was primarily due to increased costs for complying with regulators' requirements as described above and in connection with increased revenues, offset in part by our increased revenues.

**Liquidity and Capital Resources**

As of September 30, 2018, the Company had current assets of $442,095, comprising of cash of $176,027, accounts receivable of $167,734, prepaid expenses of $72,690, and deposits of $25,647. The Company's current liabilities as of September 30, 2018 were $384,627, consisting of $325,864 of accounts payable, $58,238 of accrued expenses and $525 of deferred revenues.

The following table summarizes our total current assets, liabilities and working capital at September 30, 2018 and 2017.

| | September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Current Assets | $ 442,098 | $ 544,187 |
| Current Liabilities | $ 384,627 | $ 163,998 |
| Working Capital | $ 57,471 | $ 380,189 |

The following table summarizes our cash flows during the years ended September 30, 2018 and 2017, respectively.

| | Years Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Net cash used in operating activities | $ (163,405) | $ (376,877) |
| Net cash used in investing activities | (207,353) | (140,836) |
| Net cash provided by financing activities | 368,608 | 560,500 |
| Net change in cash | $ (2,150) | $ 42,787 |

The decrease in funds used in operating activities for the year ended September 30, 2018, compared to the year ended September 30, 2017, was primarily due to sales growth.

The increase in funds used in investing activities for the year ended September 30, 2018, compared to the year ended September 30, 2017, was due primarily to increased equipment purchases in the year ended September 30, 2018, as we upgraded certain instrumentation to comply with Nevada regulations.

The decrease in funds provided by financing activities for the year ended September 30, 2018, compared to the year ended September 30, 2017, was due to decreased sales of our securities through private placement offerings in the year ended September 30, 2018.

**Satisfaction of our Cash Obligations for the Next 12 Months**

As of September 30, 2018, our balance of cash on hand was $176,027. We do not currently have sufficient funds to fund our operations at their current levels for the next twelve months. As we continue to develop our lab testing business and attempt to expand operational activities, we expect to continue to experience net negative cash flows from operations in amounts not now determinable, and will be required to obtain additional financing to fund operations. Our ability to continue as a going concern is dependent upon our ability to raise additional capital and to achieve sustainable revenues and profitable operations. Since inception, we have raised funds primarily through the sale of equity securities. We will need and are currently seeking additional funds to operate our business. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to us. Even if we are able to obtain additional financing, it may contain undue restrictions on our operations or cause substantial dilution for our stockholders. If we are unable to obtain additional funds, our ability to carry out and implement our planned business objectives and strategies will be significantly delayed, limited or may not occur. We cannot guarantee that we will become profitable. Even if we achieve profitability, given the competitive and evolving nature of the industry in which we operate, we may not be able to sustain or increase profitability and our failure to do so would adversely affect our business, including our ability to raise additional funds.

**Off-Balance Sheet Arrangements**

We have no outstanding off-balance sheet guarantees, interest rate swap transactions or foreign currency contracts. We do not engage in trading activities involving non-exchange traded contracts.

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

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**DIGIPATH, INC. & SUBSIDIARIES**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Digipath, Inc.,

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Digipath, Inc. ("the Company") as of September 30, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended September 30, 2018, and the related notes and schedules (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2018, 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has recurring losses from operations and insufficient working capital, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**/s/ M&K CPAS, PLLC**
We have served as the Company's auditor since 2017.
Houston, TX
December 27, 2018

**DIGIPATH, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**

| | September 30, 2018 | September 30, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 176,027 | $ 178,177 |
| Accounts receivable | 167,734 | 266,613 |
| Prepaid expenses | 72,690 | 73,750 |
| Deposits | 25,647 | 25,647 |
| Total current assets | 442,098 | 544,187 |
| Fixed assets, net | 957,108 | 1,027,049 |
| Total Assets | $ 1,399,206 | $ 1,571,236 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 325,864 | $ 121,994 |
| Accrued expenses | 58,238 | 42,004 |
| Deferred revenues | 525 | - |
| Total current liabilities | 384,627 | 163,998 |
| Total Liabilities | 384,627 | 163,998 |
| Stockholders' Equity: | | |
| Series A convertible preferred stock, $0.001 par value, 10,000,000 shares authorized; 1,425,942 and 1,897,942 shares issued and outstanding at September 30, 2018 and 2017, respectively | 1,426 | 1,898 |
| Common stock, $0.001 par value, 90,000,000 shares authorized; 42,245,364 and 35,027,118 shares issued and outstanding at September 30, 2018 and 2017, respectively | 42,245 | 35,027 |
| Additional paid-in capital | 14,121,236 | 12,866,984 |
| Accumulated (deficit) | (13,150,328) | (11,496,671) |
| Total Stockholders' Equity | 1,014,579 | 1,407,238 |
| Total Liabilities and Stockholders' Equity | $ 1,399,206 | $ 1,571,236 |

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

**DIGIPATH, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | For the Years Ended September 30, 2018 | 2017 |
|---|---|---|
| Revenues | $ 2,839,916 | $ 1,898,172 |
| Cost of sales | 2,069,837 | 904,166 |
| Gross profit | 770,079 | 994,006 |
| | | |
| Operating expenses: | | |
| General and administrative | 1,451,642 | 1,257,745 |
| Professional fees | 1,094,486 | 1,001,289 |
| Bad debts expense (recoveries) | (17,280) | 32,180 |
| Total operating expenses | 2,528,848 | 2,291,214 |
| | | |
| Operating loss | (1,758,769) | (1,297,208) |
| | | |
| Other income: | | |
| Other income | 105,112 | 282,068 |
| Loss on impairment of securities available-for-sale | - | (50,000) |
| Total other income | 105,112 | 232,068 |
| | | |
| Net loss | $ (1,653,657) | $ (1,065,140) |
| | | |
| Weighted average number of common shares outstanding - basic and fully diluted | 39,079,547 | 29,321,193 |
| | | |
| Net loss per share - basic and fully diluted | $ (0.04) | $ (0.04) |

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

**DIGIPATH, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

| | Series A Convertible Preferred Stock | | Common Stock | | Additional Paid-in | Accumulated Other Comprehensive | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Loss | (Deficit) | Equity |
| Balance, September 30, 2016 | 3,520,442 | $ 3,520 | 22,491,041 | $ 22,491 | $ 11,681,282 | $ (40,800) | $ (10,431,531) | $ 1,234,962 |
| Units of common stock and warrants sold for cash | - | - | 3,498,577 | 3,499 | 557,001 | - | - | 560,500 |
| Common stock issued for services | - | - | 925,000 | 925 | 245,455 | - | - | 246,380 |
| Common stock options issued for services | - | - | - | - | 389,736 | - | - | 389,736 |
| Conversion of preferred stock to common stock | (1,622,500) | (1,622) | 8,112,500 | 8,112 | (6,490) | - | - | - |
| Realized loss on available-for-sale securities | - | - | - | - | - | 40,800 | - | 40,800 |
| Net loss for the year ended September 30, 2017 | - | - | - | - | - | - | (1,065,140) | (1,065,140) |
| Balance, September 30, 2017 | 1,897,942 | $ 1,898 | 35,027,118 | $ 35,027 | $ 12,866,984 | $ - | $ (11,496,671) | $ 1,407,238 |
| Units of common stock and warrants sold for cash | - | - | 2,158,934 | 2,159 | 366,449 | - | - | 368,608 |
| Common stock issued for services | - | - | 2,326,855 | 2,327 | 450,210 | - | - | 452,537 |
| Common stock options issued for services | - | - | - | - | 439,853 | - | - | 439,853 |
| Conversion of preferred stock to common stock | (472,000) | (472) | 2,360,000 | 2,360 | (1,888) | - | - | - |
| Cashless exercise of options and warrants | - | - | 372,457 | 372 | (372) | - | - | - |
| Net loss for the year ended September 30, 2018 | - | - | - | - | - | - | (1,653,657) | (1,653,657) |
| Balance, September 30, 2018 | 1,425,942 | $ 1,426 | 42,245,364 | $ 42,245 | $ 14,121,236 | $ - | $ (13,150,328) | $ 1,014,579 |

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

**DIGIPATH, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the Years Ended September 30, 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (1,653,657) | $ (1,065,140) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Change in allowance for doubtful accounts | (17,280) | 32,180 |
| Depreciation and amortization expense | 277,294 | 253,535 |
| Stock issued for services | 452,537 | 246,380 |
| Options and warrants granted for services | 439,853 | 389,736 |
| Realized loss on available-for-sale securities | - | 50,000 |
| Decrease (increase) in assets: | | |
| Accounts receivable | 116,159 | (200,352) |
| Prepaid expenses | 1,060 | (49,504) |
| Deposits | - | 14,203 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 203,870 | (35,672) |
| Accrued expenses | 16,234 | (12,243) |
| Deferred revenues | 525 | - |
| Net cash used in operating activities | (163,405) | (376,877) |
| **Cash flows from investing activities** | | |
| Purchase of fixed assets | (207,353) | (140,836) |
| Net cash used in investing activities | (207,353) | (140,836) |
| **Cash flows from financing activities** | | |
| Proceeds from sale of common stock | 368,608 | 560,500 |
| Net cash provided by financing activities | 368,608 | 560,500 |
| Net increase (decrease) in cash | (2,150) | 42,787 |
| Cash - beginning | 178,177 | 135,390 |
| Cash - ending | $ 176,027 | $ 178,177 |
| Supplemental disclosures: | | |
| Interest paid | $ - | $ - |
| Income taxes paid | $ - | $ - |
| Non-cash investing and financing activities: | | |
| Value of preferred stock converted to common stock | $ 472,000 | $ 1,622,500 |

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

**Note 1 – Nature of Business and Significant Accounting Policies**

Nature of Business

Digipath, Inc. was incorporated in Nevada on October 5, 2010. Digipath, Inc. and its subsidiaries ("Digipath," the "Company," "we," "our" or "us") supports the cannabis industry's best practices for reliable testing, cannabis education and training, and brings unbiased cannabis news coverage to the cannabis industry. Our business units are described below.

- Digipath Labs, Inc . Digipath Labs' mission is to provide pharmaceutical-grade analysis and testing to the cannabis industry, under ISO-17025:2017 guidelines, to ensure consumers and patients know exactly what is in the cannabis they ingest and to help maximize the quality of our clients' products through research, development, and standardization. Digipath has been operating a cannabis-testing lab in Nevada since 2015 and has plans to open labs in other states and countries that have legalized the sale of cannabis, beginning with California.

- The National Marijuana News Corp . provides a balanced and unbiased approach to cannabis news, interviews and education with a news/talk podcast, national marijuana news website and social media presence focusing on the political, economic, medicinal, scientific, and cultural dimensions of the rapidly evolving—and profoundly controversial—medicinal and recreational marijuana industry.

Basis of Accounting

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (SEC). Intercompany accounts and transactions have been eliminated. All references to Generally Accepted Accounting Principles ("GAAP") are in accordance with The FASB Accounting Standards Codification ("ASC") and the Hierarchy of Generally Accepted Accounting Principles.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the following entities, all of which were under common control and ownership at September 30, 2018:

| Name of Entity [1] | State of Incorporation | Relationship |
|---|---|---|
| Digipath, Inc. [2] | Nevada | Parent |
| Digipath Labs, Inc. | Nevada | Subsidiary |
| TNM News, Inc. | Nevada | Subsidiary |
| GroSciences, Inc. [3] | Colorado | Subsidiary |

[1] All entities are in the form of a corporation.
[2] Holding company, which owns each of the wholly-owned subsidiaries. All subsidiaries shown above were wholly-owned by Digipath, Inc., the parent company.
[3] Entity formed for prospective purposes, but has not incurred any income or expenses as of the end of the period.

The consolidated financial statements herein contain the operations of the wholly-owned subsidiaries listed above. All significant inter-company transactions have been eliminated in the preparation of these financial statements. The parent company and subsidiaries will be collectively referred to herein as the "Company", "Digipath" or "DIGP". The Company's headquarters are located in Las Vegas, Nevada and substantially all of its customers are within the United States.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for fair presentation of the information contained therein.

Reclassifications

Prior period interest income in the amount of $10,000 has been reclassified to net against the related $10,000 of bad debt expense to conform to the current period presentation. These reclassifications had no impact on net earnings, financial position or cash flows.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and 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. Actual results could differ from these estimates.

Segment Reporting

ASC Topic 280, "Segment Reporting," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company operates as a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

Fair Value of Financial Instruments

The Company adopted ASC 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

The carrying value of cash, accounts receivable, accounts payables and accrued expenses are estimated by management to approximate fair value primarily due to the short term nature of the instruments.

Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Trade accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. The Company had an allowance for doubtful accounts of $14,900 and $32,180 as of September 30, 2018 and 2017, respectively.

Fixed Assets

Fixed assets are stated at the lower of cost or estimated net recoverable amount. The cost of property, plant and equipment is depreciated using the straight-line method based on the lesser of the estimated useful lives of the assets or the lease term based on the following life expectancy:

| | |
|---|---|
| Software | 3 years |
| Office equipment | 5 years |
| Furniture and fixtures | 5 years |
| Lab equipment | 7 years |
| Leasehold improvements | Term of lease |

Repairs and maintenance expenditures are charged to operations as incurred. Major improvements and replacements, which have extend the useful life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset. When assets are retired or sold, the cost and related accumulated depreciation and amortization are eliminated and any resulting gain or loss is reflected in operations.

Impairment of Long-Lived Assets

Long-lived assets held and used by the Company are reviewed for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable or is impaired. Recoverability is assessed using undiscounted cash flows based upon historical results and current projections of earnings before interest and taxes. Impairment is measured using discounted cash flows of future operating results based upon a rate that corresponds to the cost of capital. Impairments are recognized in operating results to the extent that carrying value exceeds discounted cash flows of future operations.

Our intellectual property is comprised of indefinite-lived brand names acquired and have been assigned an indefinite life as we currently anticipate that these brand names will contribute cash flows to the Company perpetually. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired.

Revenue Recognition

Effective October 1, 2018, the Company adopted ASC 606 — Revenue from Contracts with Customers. Under ASC 606, the Company recognizes revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of service has been rendered to a customer or delivery has occurred; (3) the amount of fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured.

There was no impact on the Company's financial statements from ASC 606 for the years ended September 30, 2018 or 2017 since it was not adopted until October 1, 2018.

Revenue is primarily generated through our subsidiary, Digipath Labs, Inc., which recognizes revenue from the analytical testing of cannabis products for licensed producers and cultivators within the state of Nevada on a determinable fixed fee per test, or panel of tests basis. Revenue from the performance of those services is recognized upon completion of the tests, at which time test results are delivered to the customer, provided collectability of the fee is reasonably assured. We typically require payment within thirty days of the delivery of results. Management estimates an allowance for doubtful accounts based on the aging of its receivables.

The Company also recognizes revenue through our subsidiary, TNM News Corp., which primarily recognizes revenue from advertisements through partnered merchants. Payment for ad revenues are received prior to the distribution of the ad campaign, and the revenues are recognized ratably over the campaign. The Company defers any revenue for which the term of the campaign has not yet been realized. To date, these revenues have not been materially significant. Deferred revenues on advertisement campaigns was $525 at September 30, 2018.

Advertising Costs

The Company expenses the cost of advertising and promotions as incurred. Advertising and promotions expense was $108,295 and $138,026 for the years ended September 30, 2018 and 2017, respectively.

Basic and Diluted Loss Per Share

The basic net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss adjusted on an "as if converted" basis, by the weighted average number of common shares outstanding plus potential dilutive securities. For the years ended September 30, 2018 and 2017, potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share.

Stock-Based Compensation

The Company accounts for equity instruments issued to employees in accordance with the provisions of ASC 718 Stock Compensation (ASC 718) and Equity-Based Payments to Non-employees pursuant to ASC 505-50 (ASC 505-50). All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date at which a commitment for performance by the counterparty to earn the equity instruments is reached because of sufficiently large disincentives for nonperformance.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax basis of assets and liabilities using the enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered. The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

Uncertain Tax Positions

In accordance with ASC 740, "Income Taxes" ("ASC 740"), 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 capable of withstanding examination by the taxing authorities based on the technical merits of the position. These standards prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. These standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Various taxing authorities periodically audit the Company's income tax returns. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions. In evaluating the exposures connected with these various tax filing positions, including state and local taxes, the Company records allowances for probable exposures. A number of years may elapse before a particular matter, for which an allowance has been established, is audited and fully resolved. The Company has not yet undergone an examination by any taxing authorities.

The assessment of the Company's tax position relies on the judgment of management to estimate the exposures associated with the Company's various filing positions.

Various taxing authorities periodically audit the Company's income tax returns. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions. In evaluating the exposures connected with these various tax filing positions, including state and local taxes, the Company records allowances for probable exposures. A number of years may elapse before a particular matter, for which an allowance has been established, is audited and fully resolved. The Company has not yet undergone an examination by any taxing authorities.

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* , which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The new guidance is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118* . The amendment provides guidance on accounting for the impact of the Tax Cuts and Jobs Act (the "Tax Act") and allows entities to complete the accounting under ASC 740 within a one-year measurement period from the Tax Act enactment date. This standard is effective upon issuance. The Tax Act has several significant changes that impact all taxpayers, including a transition tax, which is a one-time tax charge on accumulated, undistributed foreign earnings. The calculation of accumulated foreign earnings requires an analysis of each foreign entity's financial results going back to 1986. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* . The guidance permits entities to reclassify tax effects stranded in Accumulated Other Comprehensive Income as a result of tax reform to retained earnings. This new guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption is permitted in annual and interim periods and can be applied retrospectively or in the period of adoption. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* , which clarifies when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. The new guidance is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* . Since ASU 2014-09 was issued, several additional ASUs have been issued to clarify various elements of the guidance. These standards provide guidance on recognizing revenue, including a five-step model to determine when revenue recognition is appropriate. The standard requires that an entity recognize revenue to depict the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted the new standard to be effective with our first interim reporting period for the three months ended December 31, 2017. We use the modified retrospective method of adoption. We have completed an initial evaluation of the potential impact from adopting the new standard, including a detailed review of performance obligations for all material revenue streams. Based on this initial evaluation, adoption does not have a material impact on our financial position, results of operations, or cash flows. Related disclosures have been expanded in line with the requirements of the standard.

There are no other recently issued accounting pronouncements that the Company has yet to adopt that are expected to have a material effect on its financial position, results of operations, or cash flows.

**Note 2 – Going Concern**

As shown in the accompanying consolidated financial statements, the Company has incurred recurring losses from operations resulting in an accumulated deficit of ($13,150,328), and as of September 30, 2018, the Company's cash on hand may not be sufficient to sustain operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management is actively pursuing new customers to increase revenues. In addition, the Company is currently seeking additional sources of capital to fund short term operations. Management believes these factors will contribute toward achieving profitability. The accompanying consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The consolidated financial statements do not include any adjustments that might result from the outcome of any uncertainty as to the Company's ability to continue as a going concern. These financial statements also do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

## Note 3 – Related Party Transactions

Stock Issued to Officers for Services

On September 25, 2018, we issued 39,344 shares of common stock to our Chief Executive Officer, Todd Denkin, for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $6,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On September 25, 2018, we issued 98,361 shares of common stock to our Chief Financial Officer, Todd Peterson, for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $15,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On June 25, 2018, we issued 118,421 shares of common stock to our then Chief Executive Officer, Joseph Bianco, for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $22,500 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On June 25, 2018, we issued 31,579 shares of common stock to our Chief Executive Officer, Todd Denkin, for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $6,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On June 25, 2018, we issued 78,947 shares of common stock to our Chief Financial Officer, Todd Peterson, for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $15,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On March 26, 2018, we issued 207,852 shares of common stock to our then Chief Executive Officer, Joseph Bianco, for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $45,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On March 26, 2018, we issued 55,427 shares of common stock to our Chief Executive Officer, Todd Denkin, for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $12,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On March 26, 2018, we issued 138,568 shares of common stock to our Chief Financial Officer, Todd Peterson, for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $30,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On December 22, 2017, we issued 300,000 shares of common stock to our Chief Financial Officer, Todd Peterson, as a bonus for services rendered. The aggregate fair value of the common stock was $78,828 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

Stock Issued to Directors for Services

On September 12, 2018, we issued 200,000 shares of common stock to Bruce Raben in connection with his appointment to our Board of Directors. The aggregate fair value of the common stock was $31,020 based on the closing price of the Company's common stock on the date of grant, and is to be expensed over the requisite service period through September 30, 2019. A total of $1,458 was expensed during the year ended September 30, 2018, and as of September 30, 2018, a total of $29,562 of unamortized expenses are expected to be expensed during the fiscal year ended September 30, 2019.

On December 22, 2017, we issued 100,000 shares of common stock to Dr. Alfredo Axtmayer for his service on our Board of Directors. The aggregate fair value of the common stock was $26,276 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

Options Issued to Officers and Directors for Services

On September 12, 2018, we granted options to purchase 200,000 shares of common stock as compensation for services to our Chief Science Officer pursuant to her appointment to the Company's Board of Directors. The options vest over a one-year period and are exercisable for a ten-year period at an exercise price of $0.16 per share. The estimated value using the Black-Scholes Pricing Model, based on a volatility rate of 107% and a call option value of $0.1245, was $24,905. The options are being expensed over the vesting period, resulting in $1,170 of stock-based compensation expense during the year ended September 30, 2018. As of September 30, 2018, options to purchase 200,000 shares of common stock remained unvested and a total of $23,735 of unamortized expense is expected to be expensed during the fiscal year ended September 30, 2019.

On December 22, 2017, we granted fully vested options to purchase 500,000 shares of common stock as compensation for services to our Chief Executive Officer, Todd Denkin. The options are exercisable over a ten-year period at an exercise price of $0.27 per share. The estimated value using the Black-Scholes Pricing Model, based on a volatility rate of 112% and a call option value of $0.2094, was $104,698, which was expensed on the grant date, resulting in $104,698 of stock-based compensation expense during the year ended September 30, 2018.

**Note 4 – Fair Value of Financial Instruments**

Under FASB ASC 820-10-5, fair value is defined as 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 (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under GAAP, certain assets and liabilities must be measured at fair value, and FASB ASC 820-10-50 details the disclosures that are required for items measured at fair value.

The Company has certain financial instruments that must be measured under the new fair value standard. The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

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

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 - Unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following schedule summarizes the valuation of financial instruments at fair value on a recurring basis in the balance sheets as of September 30, 2018 and 2017, respectively:

| | Fair Value Measurements at September 30, 2018 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **Assets** | | | |
| Cash | $ 176,027 | $ - | $ - |
| Total assets | 176,027 | - | - |
| **Liabilities** | | | |
| None | - | - | - |
| Total liabilities | - | - | - |
| | $ 176,027 | $ - | $ - |

| | Fair Value Measurements at September 30, 2017 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| **Assets** | | | |
| Cash | $ 178,177 | $ - | $ - |
| Total assets | 178,177 | - | - |
| **Liabilities** | | | |
| None | - | - | - |
| Total liabilities | - | - | - |
| | $ 178,177 | $ - | $ - |

The fair value of our intellectual properties are deemed to approximate book value, and are considered Level 3 inputs as defined by ASC Topic 820-10-35.

There were no transfers of financial assets or liabilities between Level 1, Level 2 and Level 3 inputs for the years ended September 30, 2018 or 2017.

We recognized other than temporary impairment losses of $50,000 on our available-for-sale securities during the year ended September 30, 2017.

**Note 5 – Accounts Receivable**

Accounts receivable was $167,734 and $266,613 at September 30, 2018 and 2017, respectively, net of allowance for uncollectible accounts of $14,900 and $32,180 at September 30, 2018 and 2017, respectively.

**Note 6 – Fixed Assets**

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

| | For the Years Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Software | $ 123,492 | $ 121,617 |
| Office equipment | 54,877 | 36,080 |
| Furniture and fixtures | 28,486 | 14,285 |
| Lab equipment | 1,110,930 | 938,450 |
| Leasehold improvements | 489,147 | 489,147 |
| | 1,806,932 | 1,599,579 |
| Less: accumulated depreciation | (849,824) | (572,530) |
| Total | $ 957,108 | $ 1,027,049 |

On October 1, 2016, we disposed of fixed assets with a net book value of $3,122 pursuant to the deconsolidation of Digipath Corp. The fixed assets consisted of furniture and fixtures with a historical cost basis of $48,779 and software with a historical cost basis of $10,019, and accumulated depreciation of $48,779 and $6,897, respectively. No gain or loss was recognized on the disposals.

Depreciation and amortization expense totaled $277,294 and $253,535 for the years ended September 30, 2018 and 2017, respectively.

**Note 7 – Stockholders' Equity**

Convertible Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock with a par value of $0.001 per share, of which 6,000,000 have been designated as Series A Convertible Preferred Stock ("Series A Preferred"), with the remaining 4,000,000 shares available for designation from time to time by the Board as set forth below. As of September 30, 2018, there were 1,425,942 shares of Series A Preferred issued and outstanding. The Board of Directors is authorized to determine any number of series into which the undesignated shares of preferred stock may be divided and to determine the rights, preferences, privileges and restrictions granted to any series of the preferred stock. Each share of Series A Preferred is currently convertible into five shares of common stock.

The conversion price is adjustable in the event of stock splits and other adjustments in the Company's capitalization, and in the event of certain negative actions undertaken by the Company. At the current conversion price, the 1,425,942 shares of Series A Preferred outstanding at September 30, 2018 are convertible into 7,129,710 shares of the common stock of the Company. No holder is permitted to convert its shares of Series A Preferred if such conversion would cause the holder to beneficially own more than 4.99% of the issued and outstanding common stock of the Company immediately after such conversion, unless waived by such holder by providing at least sixty-five days' notice.

Additional terms of the Series A Preferred include the following:

- The shares of Series A Preferred are entitled to dividends when, as and if declared by the Board as to the shares of the common stock of the Company into which such Series A Preferred may then be converted, subject to the 4.99% beneficial ownership limitation described above.

- Upon the liquidation or dissolution of the Company, or any merger or sale of all or substantially all of the assets, the shares of Series A Preferred are entitled to receive, prior to any distribution to the holders of common stock, 100% of the purchase price per share of Series A Preferred plus all accrued but unpaid dividends.

- The Series A Preferred plus all declared but unpaid dividends thereon automatically will be converted into common stock, at the then applicable conversion rate, upon the affirmative vote of the holders of a majority of the outstanding shares of Series A Preferred.

- Each share of Series A Preferred will carry a number of votes equal to the number of shares of common stock into which such Series A Preferred may then be converted, subject to the 4.99% beneficial ownership limitation described above. The Series A Preferred generally will vote together with the common stock and not as a separate class, except as provided below.

- Consent of the holders of the outstanding Series A Preferred is required in order for the Company to: (i) amend or change the rights, preferences, privileges or powers of, or the restrictions provided for the benefit of, the Series A Preferred; (ii) authorize, create or issue shares of any class of stock having rights, preferences, privileges or powers superior to the Series A Preferred; (iii) reclassify any outstanding shares into shares having rights, preferences, privileges or powers superior to the Series A Preferred; or (iv) amend the Company's Articles of Incorporation or Bylaws in a manner that adversely affects the rights of the Series A Preferred.

- Pursuant to the Securities Purchase Agreements, holders of Series A Preferred are entitled to unlimited "piggyback" registration rights on registrations by the Company, subject to pro rata cutback at any underwriter's discretion.

Preferred Stock Conversions for the Year Ended September 30, 2018

For the year ended September 30, 2018, a total of 472,000 shares of Series A Preferred were converted into 2,360,000 shares of common stock at a value of $0.20 per share of common stock, or a total of $472,000. The stock was converted in accordance with the conversion terms; therefore no gain or loss has been recognized.

Preferred Stock Conversions for the Year Ended September 30, 2017

For the year ended September 30, 2017, a total of 1,622,500 shares of Series A Preferred were converted into 8,112,500 shares of common stock at a value of $0.20 per share of common stock, or a total of $1,622,500. The stock was converted in accordance with the conversion terms; therefore no gain or loss has been recognized.

Common Stock

Common stock consists of $0.001 par value, 90,000,000 shares authorized, of which 42,245,364 shares were issued and outstanding as of September 30, 2018.

Common Stock Sales for the Year Ended September 30, 2018

On July 11, 2018, the Company sold 66.67 units, consisting of 666,667 shares of its common stock and warrants to purchase 333,334 shares of common stock, exercisable at $0.30 per share over a thirty-six month period, in exchange for total proceeds of $100,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On April 13, 2018, the Company sold 14 units, consisting of an aggregate of 140,000 shares of its common stock and warrants to purchase 70,000 shares of common stock, exercisable at $0.30 per share over a thirty-six month period, in exchange for total proceeds of $25,200. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On April 12, 2018, the Company sold 28 units, consisting of an aggregate of 280,000 shares of its common stock and warrants to purchase 140,000 shares of common stock, exercisable at $0.30 per share over a thirty-six month period, in exchange for total proceeds of $50,400. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On April 10, 2018, the Company sold 27.78 units, consisting of an aggregate of 277,778 shares of its common stock and warrants to purchase 138,889 shares of common stock, exercisable at $0.30 per share over a thirty-six month period, in exchange for total proceeds of $50,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On December 20, 2017, the Company sold 10 units, consisting of an aggregate of 100,000 shares of its common stock and warrants to purchase 50,000 shares of common stock, exercisable at $0.26 per share over a thirty-six month period, in exchange for total proceeds of $18,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On December 14, 2017, the Company sold 13.89 units, consisting of an aggregate of 138,889 shares of its common stock and warrants to purchase 69,445 shares of common stock, exercisable at $0.26 per share over a thirty-six month period, in exchange for total proceeds of $25,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On December 14, 2017, the Company sold 55.56 units, consisting of an aggregate of 555,600 shares of its common stock and warrants to purchase 277,800 shares of common stock, exercisable at $0.26 per share over a thirty-six month period, in exchange for total proceeds of $100,008. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

Common Stock Sales for the Year Ended September 30, 2017

On August 25, 2017, the Company sold 33.333 units, consisting of 333,334 shares of its common stock and warrants to purchase 166,667 shares of common stock, exercisable at $0.26 per share over a sixty month period, in exchange for total proceeds of $50,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On August 25, 2017, the Company sold 7 units, consisting of 70,000 shares of its common stock and warrants to purchase 35,000 shares of common stock, exercisable at $0.30 per share over a sixty month period, in exchange for total proceeds of $10,500. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On August 4, 2017, the Company sold 100 units, consisting of 1,000,000 shares of its common stock and warrants to purchase 500,000 shares of common stock, exercisable at $0.26 per share over a sixty month period, in exchange for total proceeds of $150,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On July 28, 2017, the Company sold 33.333 units, consisting of 333,334 shares of its common stock and warrants to purchase 166,667 shares of common stock, exercisable at $0.26 per share over a sixty month period, in exchange for total proceeds of $50,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On June 21, 2017, the Company sold 33.333 units, consisting of 333,334 shares of its common stock and warrants to purchase 166,667 shares of common stock, exercisable at $0.26 per share over a sixty month period, in exchange for total proceeds of $50,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis.

On February 21, 2017, the Company sold 1,428,575 units, consisting of 1,428,575 shares of its common stock and warrants to purchase 714,285 shares of common stock, exercisable at $0.26 per share over a thirty-six month period, in exchange for total proceeds of $250,000. The proceeds received were allocated between the common stock and warrants on a relative fair value basis. The warrants were assigned to two individuals by the purchaser at the time of the sale.

Exercise of Options for the Year Ended September 30, 2018

On January 3, 2018, two option holders exercised options to purchase a total of 500,000 shares of common stock at $0.181 per share on a cashless basis, resulting in the issuance of 317,172 shares of common stock.

On January 2, 2018, an option holder exercised options to purchase 37,500 shares of common stock at $0.22 per share on a cashless basis, resulting in the issuance of 21,000 shares of common stock.

Exercise of Warrants for the Year Ended September 30, 2018

On January 3, 2018, a warrant holder exercised warrants to purchase 71,428 shares of common stock at $0.26 per share on a cashless basis, resulting in the issuance of 34,285 shares of common stock.

Additional Common Stock Issuances for the Year Ended September 30, 2018

On September 25, 2018, the Company issued 39,344 shares of common stock to its President and CEO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $6,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On September 25, 2018, the Company issued 98,361 shares of common stock to its CFO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $15,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On September 25, 2018, a total of 150,000 shares of common stock were issued to three consultants that were engaged to assist the Company with acquisition activities. The aggregate fair value of the common stock was $22,875 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On September 12, 2018, the Company issued 193,424 shares of common stock to another consultant for business development services. The fair value of the common stock was $30,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On September 12, 2018, the Company issued 200,000 shares of common stock to Bruce Raben in connection with his appointment to our Board of Directors. The aggregate fair value of the common stock was $31,020 based on the closing price of the Company's common stock on the date of grant, and is to be expensed over the requisite service period through September 30, 2019. A total of $1,458 was expensed during the year ended September 30, 2018, and as of September 30, 2018, a total of $29,562 of unamortized expenses are expected to be expensed during the fiscal year ended September 30, 2019.

On June 25, 2018, the Company issued 118,421 shares of common stock to its then CEO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $22,500 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On June 25, 2018, the Company issued 31,579 shares of common stock to its then President and COO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $6,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On June 25, 2018, the Company issued 78,947 shares of common stock to its CFO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $15,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On June 25, 2018, the Company issued 131,579 shares of common stock to a consultant for business development services. The fair value of the common stock was $25,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On June 25, 2018, the Company issued 100,000 shares of common stock to another consultant for business development services. The fair value of the common stock was $19,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On March 26, 2018, the Company issued 207,852 shares of common stock to its then CEO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $45,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On March 26, 2018, the Company issued 55,427 shares of common stock to its then President and COO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $12,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On March 26, 2018, the Company issued 138,568 shares of common stock to its CFO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $30,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On March 26, 2018, the Company issued 69,284 shares of common stock to a consultant for business development services. The fair value of the common stock was $15,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

On December 22, 2017, the Company issued 300,000 shares of common stock to its CFO as a bonus for services rendered. The aggregate fair value of the common stock was $78,828 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

On December 22, 2017, the Company issued 100,000 shares of common stock to Dr. Alfredo Axtmayer for his service on our Board of Directors. The aggregate fair value of the common stock was $26,276 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

On November 29, 2017, a total of 314,069 shares of common stock were issued to three consultants that were engaged to assist the Company with acquisition activities. The aggregate fair value of the common stock was $82,600 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2018.

Additional Common Stock Issuances for the Year Ended September 30, 2017

On May 2, 2017, the Company issued 100,000 shares of common stock to Dr. John Abroon in connection with his appointment to our newly created Advisory Board. The aggregate fair value of the common stock was $20,900 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

On May 2, 2017, the Company issued 140,000 shares of common stock to a consultant in consideration of services rendered from April 1, 2017 through May 31, 2017. The aggregate fair value of the common stock was $29,260 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

On March 1, 2017, the Company issued 25,000 shares of common stock to its CFO as a bonus for services rendered. The aggregate fair value of the common stock was $6,623 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

On March 1, 2017, the Company issued 50,000 shares of common stock to its Chief Scientist as a bonus for services rendered. The aggregate fair value of the common stock was $13,245 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

On February 23, 2017, the Company issued 100,000 shares of common stock to a consultant for services to be rendered over a six month period. The aggregate fair value of the common stock was $29,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2017.

On February 22, 2017, the Company issued 100,000 shares of common stock to Dr. Alfredo Axtmayer in connection with his appointment to our Board of Directors. The aggregate fair value of the common stock was $34,000 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

On February 22, 2017, the Company issued 40,000 shares of common stock to a consultant for services rendered. The aggregate fair value of the common stock was $13,600 based on the closing price of the Company's common stock on the date of grant, and was expensed in full.

On February 7, 2017, a total of 370,000 shares of common stock were issued to six consultants that were engaged to assist the Company with acquisition activities over a six month period. The aggregate fair value of the common stock was $82,251 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period that ended on September 30, 2017.

**Note 8 – Common Stock Options**

Stock Incentive Plan

On June 21, 2016, we amended and restated our 2012 Stock Incentive Plan (the "2012 Plan"), which was originally adopted on March 5, 2012 and previously amended on May 20, 2014. As amended, the 2012 Plan provides for the issuance of up to 11,500,000 shares of common stock pursuant to the grant of options or other awards, including stock grants, to employees, officers or directors of, and consultants to, the Company and its subsidiaries. Options granted under the 2012 Plan may either be intended to qualify as incentive stock options under the Internal Revenue Code of 1986, or may be non-qualified options, and are exercisable over periods not exceeding ten years from date of grant. Options to purchase a total of 8,537,500 shares of common stock were outstanding as of September 30, 2018

Common Stock Option Issuances for the Year Ended September 30, 2018

On September 12, 2018, we granted options to purchase 200,000 shares of common stock as compensation for services to our Chief Science Officer pursuant to her appointment to the Company's Board of Directors. The options vest over a one-year period, are exercisable over a ten-year period at an exercise price of $0.16 per share. The estimated value using the Black-Scholes Pricing Model, based on a volatility rate of 107% and a call option value of $0.1245, was $24,905. The options are being expensed over the vesting period, resulting in $1,170 of stock-based compensation expense during the year ended September 30, 2018. As of September 30, 2018, options to purchase 200,000 shares of common stock remained unvested and a total of $23,735 of unamortized expenses are expected to be expensed during the fiscal year ended September 30, 2019.

On December 22, 2017, we granted fully vested options to purchase 500,000 shares of common stock as compensation for services to our then President and COO. The options are exercisable over a ten-year period at an exercise price of $0.27 per share. The estimated value using the Black-Scholes Pricing Model, based on a volatility rate of 112% and a call option value of $0.2094, was $104,698. The options were expensed over the vesting period, resulting in $104,698 of stock-based compensation expense during the year ended September 30, 2018.

On November 29, 2017, we granted fully vested options to purchase 100,000 shares of common stock as compensation for services to our Chief Scientist. The options are exercisable over a ten-year period at an exercise price of $0.27 per share. The estimated value using the Black-Scholes Pricing Model, based on a volatility rate of 112% and a call option value of $0.21, was $21,004. The options were expensed over the vesting period, resulting in $21,004 of stock-based compensation expense during the year ended September 30, 2018.

On November 29, 2017, we granted fully vested options to purchase an aggregate of 205,000 shares of common stock as compensation for services to a total of ten of our employees. The options are exercisable over a ten-year period at an exercise price of $0.27 per share. The estimated value using the Black-Scholes Pricing Model, based on a volatility rate of 112% and a call option value of $0.21, was $43,057. The options were expensed over the vesting period, resulting in $43,057 of stock-based compensation expense during the year ended September 30, 2018.

Common Stock Options Exercised for the Year Ended September 30, 2018

On January 3, 2018, two option holders exercised options to purchase a total of 500,000 shares of common stock at $0.181 per share on a cashless basis, resulting in the issuance of 317,172 shares of common stock.

On January 2, 2018, an option holder exercised options to purchase 37,500 shares of common stock at $0.22 per share on a cashless basis, resulting in the issuance of 21,000 shares of common stock.

Common Stock Options Cancelled or Expired for the Year Ended September 30, 2018

During the year ended September 30, 2018, options to purchase an aggregate of 110,000 shares of common stock, exercisable over a ten-year period, at a weighted average exercise price of $0.25 per share expired.

During the year ended September 30, 2018, options to purchase an aggregate of 1,110,000 shares of common stock, exercisable over a three-year period, at a weighted average exercise price of $0.44 per share expired.

Common Stock Options Cancelled or Expired for the Year Ended September 30, 2017

On January 1, 2017, a total of 1,530 common stock options exercisable over a three-year period from the original grant date of January 1, 2014 with an exercise price of $3.30 per share expired.

The following is a summary of information about the stock options outstanding at September 30, 2018.

| Shares Underlying Options Outstanding | | | | Shares Underlying Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares Underlying Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Shares Underlying Options Exercisable | Weighted Average Exercise Price |
| $0.16 – $0.40 | 8,537,500 | 4.27 years | $ 0.20 | 8,337,500 | $ 0.21 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plan:

| | September 30, 2018 | September 30, 2017 |
|---|---|---|
| Average risk-free interest rates | 1.36% | N/A% |
| Average expected life (in years) | 5.25 | N/A |
| Volatility | 112% | N/A% |

The Black-Scholes option pricing model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's common stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its common stock options. During the years ended September 30, 2018 and September 30, 2017, there were no options granted with an exercise price below the fair value of the underlying stock at the grant date.

The weighted average fair value of options granted with exercise prices at the current fair value of the underlying stock during the year ended September 30, 2018 was approximately $0.25 per option.

The following is a summary of activity of outstanding common stock options:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Balance, September 30, 2016 | 9,291,530 | $ 0.23 |
| Options expired | (1,530) | (3.30) |
| Balance, September 30, 2017 | 9,290,000 | 0.23 |
| Options issued | 1,005,000 | 0.25 |
| Options exercised | (537,500) | (0.18) |
| Options expired | (1,220,000) | (0.42) |
| Balance, September 30, 2018 | 8,537,500 | $ 0.20 |
| Exercisable, September 30, 2018 | 8,337,500 | $ 0.21 |

Amortization of Stock Options

A total of $439,853 and $389,736 of stock-based compensation expense was recognized from the amortization of options over their vesting period during the years ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, these options in the aggregate had no intrinsic value as the per share market price of $0.15 of the Company's common stock as of such date was less than the weighted-average exercise price of these options of $0.20.

**Note 9 – Common Stock Warrants**

We issued warrants in connection with private placements of our securities as set forth in Note 8 above.

On January 3, 2018 a warrant holder exercised warrants to purchase 71,428 shares of common stock at $0.26 per share on a cashless basis, resulting in the issuance of 34,285 shares of common stock.

On December 31, 2017, warrants to purchase 200,000 shares of common stock at $0.30 per share expired, and on December 30, 2017, warrants to purchase another 300,000 shares of common stock at $0.45 per share also expired.

The following is a summary of information about our warrants to purchase common stock outstanding at September 30, 2018 (including those issued to both investors and service providers).

| Shares Underlying Warrants Outstanding | | | | Shares Underlying Warrants Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares Underlying Warrants Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Shares Underlying Warrants Exercisable | Weighted Average Exercise Price |
| $0.1901 – $0.40 | 6,450,462 | 1.65 years | $ 0.28 | 6,450,462 | $ 0.28 |

The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plan:

| | September 30, 2018 | September 30, 2017 |
|---|---|---|
| Average risk-free interest rates | 1.56% | 1.11% |
| Average expected life (in years) | 3.00 | 3.50 |
| Volatility | 110% | 145% |

The weighted average fair value of warrants granted with exercise prices at the current fair value of the underlying stock during the years ended September 30, 2018 and 2017 was approximately $0.29 and $0.26 per warrant, respectively.

The following is a summary of activity of outstanding common stock warrants:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Balance, September 30, 2016 | 4,193,136 | $ 0.29 |
| Warrants granted | 1,749,286 | 0.26 |
| | | |
| Balance, September 30, 2017 | 5,942,422 | 0.28 |
| Warrants granted | 1,079,468 | 0.29 |
| Warrants exercised | (71,428) | (0.26) |
| Warrants expired | (500,000) | (0.36) |
| Balance, September 30, 2018 | 6,450,462 | $ 0.28 |
| Exercisable, September 30, 2018 | 6,450,462 | $ 0.28 |

**Note 10 – Commitments and Contingencies**

Lease Commitment

The Company leases space for its lab operations in Las Vegas, Nevada. Amounts of minimum future annual commitments on a calendar year basis, including common area maintenance fees, under non-cancelable operating leases are as follows:

| | | |
|---|---|---|
| 2018 | $ | 48,872 |
| 2019 | | 198,904 |
| 2020 | | 151,283 |
| 2021 | | 50,102 |
| Total | $ | 449,161 |

Rent expense was $191,751 and $210,907 for the years ended September 30, 2018 and 2017, respectively.

**Note 11 – Other Income**

Other income for the years ended September 30, 2018 and 2017 consisted of the following:

| | September 30, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Settlement income on license agreement | $ | - | $ | 250,000 |
| Rental income on subleases | | 76,800 | | 20,568 |
| Restitution income | | 28,312 | | 11,500 |
| | $ | 105,112 | $ | 282,068 |

**Note 12 - Income Tax**

The Company accounts for income taxes under FASB ASC 740-10, which requires use of the liability method. FASB ASC 740-10-25 provides that deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences.

For the years ended September 30, 2018 and 2017, the Company incurred a net operating loss and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. At September 30, 2018, the Company had approximately $7,982,500 of federal net operating losses. The net operating loss carry forwards, if not utilized, will begin to expire in 2031.

The effective income tax rate for the years ended September 30, 2018 and 2017 consisted of the following:

| | September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Federal statutory income tax rate | 21% | 35% |
| State income taxes | -% | -% |
| Change in valuation allowance | (21)% | (35)% |
| Net effective income tax rate | - | - |

The components of the Company's deferred tax asset are as follows:

| | September 30, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Deferred tax assets: | | | | |
| Net operating loss carry forwards | $ | 1,676,325 | $ | 2,531,725 |
| | | | | |
| Net deferred tax assets before valuation allowance | $ | 1,676,325 | $ | 2,531,725 |
| Less: Valuation allowance | | (1,676,325) | | (2,531,725) |
| Net deferred tax assets | $ | - | $ | - |

Based on the available objective evidence, including the Company's history of its loss, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company provided for a full valuation allowance against its net deferred tax assets at September 30, 2018 and 2017, respectively.

In accordance with FASB ASC 740, the Company has evaluated its tax positions and determined there are no uncertain tax positions.

**Note 13 – Subsequent Events**

Debt Financing

On November 8, 2018, the Company sold 8% Senior Secured Convertible Notes in the aggregate principal amount of $500,000 to two institutional investors. The Notes mature on December 31, 2020, bear interest at a rate of 8% per annum, and are convertible into shares of the Company's common stock at a fixed conversion price of $0.14 per share. The Company's obligation under the Notes are secured by a lien on the assets of the Company and its wholly-owned subsidiary Digipath Labs, Inc., pursuant to a Security Agreement between the Company, Digipath Labs, Inc. and the collateral agent for the investors.

Common Stock Issued for Services

On December 25, 2018, the Company issued 46,261 shares of common stock to its President and CEO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $6,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On December 25, 2018, the Company issued 115,652 shares of common stock to its CFO for services rendered pursuant to his employment agreement. The aggregate fair value of the common stock was $15,000 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On December 25, 2018, a total of 150,000 shares of common stock were issued to three consultants that were engaged to assist the Company with acquisition activities. The aggregate fair value of the common stock was $19,455 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On November 25, 2018, a total of 150,000 shares of common stock were issued to three consultants that were engaged to assist the Company with acquisition activities. The aggregate fair value of the common stock was $19,260 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

On October 30, 2018, the Company issued 400,000 shares of common stock to another consultant for business development services to be performed from November 1, 2018 through April 30, 2019. The fair value of the common stock was $54,120 based on the closing price of the Company's common stock on the date of grant, and is being expensed over the requisite service period.

On October 25, 2018, a total of 150,000 shares of common stock were issued to three consultants that were engaged to assist the Company with acquisition activities. The aggregate fair value of the common stock was $23,250 based on the closing price of the Company's common stock on the date of grant, and was expensed over the requisite service period.

Common Stock Option Issuances

On December 25, 2018, we granted options to purchase an aggregate of 235,000 shares of common stock as compensation for services to a total of ten of our employees, vesting twelve months from the grant date. The options are exercisable over a ten-year period at an exercise price of $0.13 per share. The estimated value using the Black-Scholes Pricing Model, based on a volatility rate of 107% and a call option value of $0.1017, was $35,078. The options are to be expensed over the vesting period.

Common Stock Warrants Expired

On December 21, 2018, warrants to purchase 166,667 shares of common stock at $0.30 per share expired.

On November 23, 2018, warrants to purchase another 100,000 shares of common stock at $0.40 per share also expired.

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

None

## ITEM 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and our Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2018 (the “Evaluation Date”). The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2018, our Principal Executive Officer and Principal Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

### Management’s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. 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 in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Principal Executive Officer and our Principal Accounting Officer, an assessment, including testing of the effectiveness, of our internal control over financial reporting as of Evaluation Date. Management’s assessment of internal control over financial reporting was conducted using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013 Framework).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with management’s assessment of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, we have not identified any material weaknesses in our internal control over financial reporting as of the Evaluation Date. We have thus concluded that our internal control over financial reporting was effective as of the Evaluation Date.

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

### Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) or in other factors that occurred during the fourth fiscal quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

## PART III

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

Set forth below are the present directors and executive officers of the Company. There are no arrangements or understandings between any of the directors, officers and other persons pursuant to which such person was selected as a director or an officer.

| Name | Age | Position |
|---|---|---|
| Todd Denkin | 55 | Chairman of the Board, CEO |
| Todd A. Peterson | 49 | CFO, Secretary |
| Cindy Orser | 62 | Director |
| Bruce Raben | 65 | Director |

**Biographies**

Set forth below are brief accounts of the business experience of each director and executive officer of the Company.

***Todd Denkin*** has over ten years of experience in the "legal" marijuana industry. Mr. Denkin joined us as the President of The National Marijuana News Corp. in August 2014 and has served as our President and Chief Executive Officer since July 3, 2018 and from October 2014 until June, 2016. From June 2016 until July 3, 2018, Mr. Denkin served as our President and Chief Operating Officer. Prior to joining Digipath, Mr. Denkin served as co-founder and president of both 10 Mile and Growopp, LLC where he created controlled environmental indoor hydroponic grow chambers from 2011 to 2013. From 2009 until 2011, Mr. Denkin was a founder and director of GrowLife, Inc. Prior to joining GrowLife, Inc., Mr. Denkin was the head of the direct sales and marketing teams from 2002 through 2008 with Digital FX International, and helped build a sales organization of over 60,000 representatives. He is a 30-year veteran of the TV and film industry, working at top companies like Dick Clark Productions, Barris/Guber/Peters, the Nickelodeon Network, Disney/MGM Studios and Time Warner. Mr. Denkin has been a key contributor to shows for ABC, NBC, CBS, ESPN and MTV. He also directed and produced "The Australian Experience," a film featured on The Today Show and screened at the opening ceremonies of the 2000 Olympics. We believe that Mr. Denkin's industry experience qualifies him to serve as our director.

***Todd Peterson, CPA*** , has been the chief financial officer of Digipath since June 19, 2015. Mr. Peterson had previously been the president of KSNE2 Enterprises, LLC, an accounting and consulting firm located in Las Vegas, Nevada specializing in publicly traded microcap companies, since August 2008. From February 2007 to August 2008, he was the senior accounting manager of Accuity Financial, an accounting firm located in Las Vegas, Nevada specializing in publicly traded microcap companies, Mr. Peterson was the audit manager of DeJoya Griffith and Company a PCAOB registered audit firm located in Las Vegas, Nevada providing audit and accounting services primarily to publicly traded microcap companies from November 2004 to February 2007, he was also the audit manager of Ocel, Heimer & Associates, Ltd., a regional audit firm located in Minneapolis, Minnesota from 1999 to 2004. Upon graduating from the University of St. Thomas with a Bachelor of Arts degree in accounting in 1997, Mr. Peterson worked as an accountant during 1998 for R.W. Ramsay & Associates, Ltd.

***Dr. Cindy Orser*** was appointed to our Board of Directors on September 12, 2018. Dr. Orser has served as our Chief Science Officer since June 1, 2014. Since 2007, she has also been the President of Big Sky Biosystems, Inc., a consulting company through which Dr. Orser provides service to us and other clients. Dr. Orser holds a Ph.D. in Genetics, Plant Pathology from the University of California, Berkeley, and a B.S. in Botany and Philosophy from Montana State University-Bozeman. We believe that Dr. Orser's experience and expertise in the cannabis testing industry qualify her to serve as our director.

***Bruce Raben*** was appointed to our Board of Directors on September 12, 2018. Mr. Raben is the Managing Member of Hudson Capital Advisors BD, LLC, a registered broker dealer that he founded in 2004. Mr. Raben has been an investment banker, merchant banker and private investor for approximately 30 years. Starting in 1979 at Drexel Burnham Lambert, he worked on many leveraged buyouts and recapitalizations including Mattel Toys, SFN Co.'s, Magma Copper, Warnaco, Mellon Bank and John Fairfax. Mr. Raben then went on to co-found the Corporate Finance Department at Jeffries & Co. in 1990. Mr. Raben opened a west coast office for CIBC's high yield finance and merchant banking activities in 1996. Mr. Raben received his A.B. from Vassar College in 1975 and his MBA from Columbia University in 1979. We believe that Mr. Raben's investment banking and financial experience qualify him to serve as our director.

**Family Relationships**

None.

**Board Committees and Audit Committee Financial Expert**

We do not currently have a standing audit, nominating or compensation committee of the board of directors, or any committee performing similar functions. Our board of directors performs the functions of audit, nominating and compensation committees. As of the date of this prospectus, no member of our board of directors qualifies as an "audit committee financial expert" as defined in Item 407(d)(5) of Regulation S-K promulgated under the Securities Act.

**Director Nominations**

As of September 30, 2018, we did not affect any material changes to the procedures by which our shareholders may recommend nominees to our board of directors. We have not established formal procedures by which security holders may recommend nominees to the Company's board of directors.

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

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and persons who own more than 10% of a registered class of the Company's securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Directors, executive officers and greater than 10% stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) reports they file. To our knowledge, based solely on the review of the copies of these forms furnished to us and representations that no other reports were required, the Company believes that all forms required to be filed under Section 16 of the Exchange Act for the year ended September 30, 2018 were filed timely, except that each of Todd Denkin, Todd Peterson and Joseph Bianco filed a Form 4 one day late in March 2018; Todd Denkin and Todd Peterson filed late Form 4s in July and December 2018, and Dr. Cindy Orser and Bruce Raben filed a late Form 4 in September 2018.

**Code of Ethics**

We have adopted a code of ethics that applies to our principal executive officers, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of our code of ethics may be obtained free of charge by contacting us at the address or telephone number listed on the cover page hereof.

**ITEM 11. EXECUTIVE COMPENSATION**

**Summary Compensation Table**

The following summary compensation table sets forth the aggregate compensation we paid or accrued during the fiscal years ended September 30, 2018 and September 30, 2017 to persons serving as our Chief Executive Officer and Chief Financial Officer who are our only executive officers, during 2018.

| Name and Financial Position | Fiscal Year | Salary | Stock Awards | Option Awards(9) | Total |
|---|---|---|---|---|---|
| Todd Denkin, | 2018 | $ 205,042 | $ 24,000(2) | $ 197,776(3) | $ 426,818 |
| President and Chief Executive Officer | 2017 | $ 201,000 | $ - | $ 124,104(3) | $ 325,104 |
| Todd A. Peterson, | 2018 | $ 99,001 | $ 138,828(4) | $ - | $ 237,829 |
| Chief Financial Officer | 2017 | $ 96,000 | $ 6,623(5) | $ - | $ 102,623 |
| Joseph J. Bianco,(1) | 2018 | $ 111,219 | $ 67,500(6) | $ 176,846(8) | $ 355,565 |
| Former Chief Executive Officer | 2017 | $ 110,135 | $ 17,500(7) | $ 235,800(8) | $ 363,435 |

(1) Mr. Bianco was our Chief Executive Officer until his passing on July 1, 2018. The Company chose to continue to pay Mr. Bianco's salary to his surviving wife through September 30, 2018.

(2) Consists of quarterly awards of stock in lieu of cash from March 26, 2018 through September 25, 2018, totaling 126,350 shares in the aggregate. The Company recognized $24,000 of stock-based compensation expense during the year ended September 30, 2018.

(3) Consists of options to purchase 500,000 shares of common stock exercisable at $0.27 per share over 10 years issued as a bonus on December 22, 2017 that vested immediately, and options to purchase 2,500,000 shares of common stock exercisable at $0.20 per share over 10 years that vest immediately as to one-half of the shares, one year from the grant date as to one-quarter of the shares, and two years following the grant date as to the remaining one-quarter of the shares issued as a signing bonus on June 21, 2016. The Company recognized $197,776 and $124,104 of stock-based compensation expense during the years ended September 30, 2018 and 2017, respectively.

(4) Consists of 300,000 shares of common stock issued as a bonus on December 22, 2017, and quarterly awards of stock in lieu of cash from March 26, 2018 through September 25, 2018, totaling 315,876 shares in the aggregate. The Company recognized $138,828 of stock-based compensation expense during the year ended September 30, 2018.

(5) Consists of 300,000 shares of common stock issued as a bonus on September 30, 2016. The Company recognized $6,623 of stock-based compensation expense during the year ended September 30, 2017.

(6) Consists of quarterly awards of stock in lieu of cash from March 26, 2018 through June 25, 2018, totaling 326,273 shares in the aggregate. The Company recognized $67,500 of stock-based compensation expense during the year ended September 30, 2018.

(7) Consists of 500,000 shares of common stock issued for service as a Director on January 1, 2016. The Company recognized $17,500 of stock-based compensation expense during the year ended September 30, 2017.

(8) Consists of options to purchase 4,750,000 shares of common stock exercisable at $0.20 per share over 10 years issued as a signing bonus on June 21, 2016. The option vests immediately as to one-half of the shares, one year from the grant date as to one-quarter of the shares, and two years following the grant date as to the remaining one-quarter of the shares. The Company recognized $176,846 and $235,800 of stock-based compensation expense during the years ended September 30, 2018 and 2017, respectively. As of September 30, 2018, the options were fully vested and will be exercisable by Mr. Bianco's heir until January 1, 2020.

(9) See Note 8 of our audited financial statements included herein for additional information on assumptions made in the valuation of option awards.

**Employment Agreements**

We entered into an Amended and Restated Employment Agreement with Todd Denkin, dated June 21, 2016, which was amended on December 22, 2017 (as amended, the "Denkin Employment Agreement"). Pursuant to the Denkin Employment Agreement:

- The term of Mr. Denkin's employment agreement is through June 21, 2019.
- Mr. Denkin's base salary is $192,000 per annum, and he receives a car allowance of $750 per month.
- Commencing with the quarter ended December 31, 2017, Mr. Denkin is awarded quarterly compensation of $6,000, payable in cash or shares of our common stock at the Company's discretion, on the fifth calendar day preceding each fiscal quarter.
- In the event of the termination of Mr. Denkin's employment by the Company other than for Cause, or by Mr. Denkin for Good Reason (as such terms are defined in the Denkin Employment Agreement), Mr. Denkin will be entitled to aggregate severance payments equal to 8-months of his base salary.
- Mr. Denkin was awarded a stock option to purchase 2,500,000 shares of the Company's common stock at an exercise price of $0.20 per share on June 21, 2016

We entered into an employment agreement with Todd Peterson on June 19, 2015 under which he serves as our Chief Financial Officer. The employment agreement provides for an initial term of three-months, which renews automatically for successive three-month periods unless either party provides written notice of non-renewal at least 10-days prior to the expiration of the then term. The employment agreement also has confidentiality and non-solicit provisions. Mr. Peterson received an initial salary of $7,500 per month and a $500 monthly stipend to cover health insurance costs, which may be increased from time to time. In addition, Mr. Peterson was issued an option to purchase 100,000 shares of common stock at an exercise price of $0.33 (the closing price of our common stock on the date of grant), vesting quarterly over the one-year period following the grant date. On December 22, 2017 the employment agreement was amended to provide for additional quarterly compensation of $15,000, payable in cash or shares of common stock at the Company's discretion, on the fifth calendar day preceding each fiscal quarter.

Prior to his passing in July 2018, Mr. Bianco was a party to an employment agreement with us that provided for a base salary of $96,000 per annum and a car allowance of $1,250 per month, the award of quarterly compensation of $22,500, payable in cash or shares of our common stock at the Company's discretion, on the fifth calendar day preceding each fiscal quarter.

**Outstanding Equity Awards**

The following table sets forth information with respect to unexercised stock options, stock that has not vested, and equity incentive plan awards held by our executive officers at September 30, 2018.

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

| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price | Option Expiration Date |
|---|---|---|---|---|
| Todd Denkin, Chief Operating Officer | 2,500,000(1) | -0-(1) | $ 0.20 | June 21, 2026 |
| | 500,000(2) | -0-(2) | $ 0.27 | December 21, 2027 |
| Todd Peterson, Chief Financial Officer | 100,000(3) | -0-(3) | $ 0.33 | June 19, 2025 |

(1) Options granted on June 21, 2016, vest immediately as to one-half of the shares, one year from the grant date as to one-quarter of the shares, and two years following the grant date as to the remaining one-quarter.

(2) Options granted on December 22, 2017, fully vested.

(3) Options granted on June 19, 2015, vest in four equal annual installments, commencing three months from the date of grant, and continuing on the next three quarters thereof until fully vested.

**Option Exercises and Stock Vested**

None of our executive officers exercised any stock options or acquired stock through vesting of an equity award during the year ended September 30, 2018.

**Director Compensation**

The following table summarizes the compensation paid or accrued by us to our directors that are not executive officers for the year ended September 30, 2018.

| Name | Fees Earned or Paid in Cash | Stock Award | Option Awards | Non-Equity Incentive Compensation | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All other Compensation | Total |
|---|---|---|---|---|---|---|---|
| Dr. Alfredo Axtmayer (1) | $ - | $ 26,276(2) | $ - | $ - | $ - | $ - | $ 26,276 |
| Dr. Cindy Orser | $ - | $ - | $ 24,905(3) | $ - | $ - | $ - | $ 24,905 |
| Bruce Raben | $ - | $ 31,020(4) | $ - | $ - | $ - | $ - | $ 1,458 |

(1) Dr. Alfredo Axtmayer resigned on August 27, 2018.

(2) Effective December 22, 2017, we issued Dr. Axtmayer 100,000 shares of our common stock. The aggregate fair value of the common stock was $26,276 based on the closing price of the Company's common stock on the date of grant.

(3) Effective September 12, 2018, upon being appointed to the board, we granted Dr. Orser an option to purchase 200,000 shares of common stock at an exercise price of $0.16 per share. The estimated value using the Black-Scholes Pricing Model, based on a volatility rate of 107% and a call option value of $0.1245, was $24,905. As of September 30, 2018, options to purchase all 200,000 shares remained unvested and a total of $23,735 of unamortized expenses are expected to be expensed during the fiscal year ended September 30, 2019. Dr. Orser is also separately compensated for her services to us as our Chief Science Officer for which she receives an annual salary of $150,000.

(4) Effective September 12, 2018, upon being named to the board, we issued Bruce Raben 200,000 shares of our common stock. The aggregate fair value of the common stock was $31,020 based on the closing price of the Company's common stock on the date of grant. As of September 30, 2018, a total of $29,562 of unamortized expense is expected to be expensed during the fiscal year ended September 30, 2019.

Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors.

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

The following table sets forth, as of December 25, 2018, certain information with regard to the record and beneficial ownership of the Company's common stock by (i) each person known to the Company to be the record or beneficial owner of 5% or more of the Company's common stock, (ii) each director of the Company, (iii) each of the named executive officers, and (iv) all executive officers and directors of the Company as a group. The address of each of our directors and executive officers named in the table is c/o Digipath, Inc., 6450 Cameron Street, Suite 113, Las Vegas, Nevada 89118:

| | Common Stock | | Series A Preferred Stock | |
|---|---|---|---|---|
| Name of Beneficial Owner (1) | Number of Shares | % of Class (2) | Number of Shares | % of Class |
| **Officers and Directors:** | | | | |
| Todd Denkin, CEO and Chairman (3) | 3,172,611 | 6.9% | - | - |
| Todd A. Peterson, CFO (4) | 1,156,528 | 2.7% | - | - |
| Dr. Cindy Orser, Director (5) | 400,000 | 0.9% | - | - |
| Bruce Raben, Director | 200,000 | 0.5% | - | - |
| Directors and Officers as a Group (4 persons) | 4,929,139 | 10.6% | - | - |
| **5% Holders** | | | | |
| Estate of Joseph Bianco (6) | 5,576,273 | 11.6% | - | - |

* less than 1%

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock or Series A Preferred Stock owned by such person.

(2) Percentage of beneficial ownership is based upon 43,257,277 shares of Common Stock outstanding as of December 25, 2018. For each named person, this percentage includes Common Stock that the person has the right to acquire either currently or within 60 days of December 25, 2018, including through the exercise of an option; however, such Common Stock is not deemed outstanding for the purpose of computing the percentage owned by any other person.

(3) Includes options to purchase 2,500,000 shares of common stock exercisable at $0.20 per share, and options to purchase 500,000 shares of common stock exercisable at $0.27 per share.

(4) Includes options to purchase 100,000 shares of common stock exercisable at $0.33 per share.

(5) Includes options to purchase 200,000 shares of common stock exercisable at $0.40 per share, options to purchase 100,000 shares of common stock exercisable at $0.27 per share, and options to purchase 50,000 shares of common stock exercisable at $0.16 per share.

(6) Includes options to purchase 4,750,000 shares of common stock exercisable at $0.20 per share.

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

**Director Independence**

Our board of directors currently consists of Todd Denkin, our President and Chief Executive Officer, Dr. Cindy Orser, our Chief Science Officer, and Bruce Raben. As executive officers, neither Mr. Denkin nor Dr. Orser qualify as “independent” under standards of independence set forth by national securities exchanges, thus we do not have a majority of our board comprised of “independent directors”. Our Board of Directors has determined that Mr. Raben is “independent” in accordance with the NASDAQ Global Market’s requirements. As our common stock is currently quoted on the OTC Bulletin Board, we are not currently subject to corporate governance standards of listed companies.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

All audit work was performed by the full-time employees of M&K CPAS, PLLC (“M&K”) for the years ended September 30, 2018 and 2017, respectively. Our board of directors does not have an audit committee. The functions customarily delegated to an audit committee are performed by our full board of directors. Our board of directors approves in advance, all services performed by M&K. Our board of directors has considered whether the provision of non-audit services is compatible with maintaining the principal accountant’s independence, and has approved such services.

The following table sets forth fees billed by our auditors during the last two fiscal years for services rendered for the audit of our annual consolidated financial statements and the review of our quarterly financial statements, services by our auditors that are reasonably related to the performance of the audit or review of our consolidated financial statements and that are not reported as audit fees, services rendered in connection with tax compliance, tax advice and tax planning, and all other fees for services rendered.

| | Years Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Audit fees: (1) | | |
| M&K CPAS, PLLC | $ 30,000 | $ 15,000 |
| Anton & Chia, LLP | - | 20,000 |
| Audit related fees | - | - |
| Tax fees | - | - |
| All other fees | - | - |
| Total | $ 30,000 | $ 35,000 |

(1) Audit fees were principally for audit services and work performed in the review of the Company’s quarterly reports on Form 10-Q

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

| Exhibit | Description |
|---|---|
| 3.1 | Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Form 10 filed with the Securities and Exchange Commission by Digipath, Inc. on July 15, 2011) |
| 3.2 | Bylaws (incorporated by reference to Exhibit 3.2 of the Form 10 filed with the Securities and Exchange Commission by Digipath, Inc. on July 15, 2011) |
| 3.3 | Certificate of Amendment to Articles of Incorporation dated April 4, 2014 (incorporated by reference to Exhibit 3.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on April 10, 2014) |
| 3.4 | Certificate of Designations, Preferences, Limitations, Restrictions and Relative Rights of Series A Convertible Preferred Stock dated April 9, 2014 (incorporated by reference to Exhibit 3.2 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on April 10, 2014) |
| 3.5 | Certificate of Amendment to Articles of Incorporation dated May 22, 2015 (incorporated by reference to Exhibit 3.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on May 26, 2015) |
| 4.1 | Form of 8% Senior Secured Convertible Notes due December 31, 2020 (incorporated by reference to Exhibit 4.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on November 21, 2018) |
| 10.1 | 2012 Stock Incentive Plan (incorporated by reference to Exhibit 4.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on March 9, 2012) |
| 10.2 | Digipath, Inc. Amended and Restated 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on June 27, 2016) |
| 10.3 | Form of Stock Option Grant Notice for grants under the Amended and Restated 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on June 27, 2016) |
| 10.4 | Form of Option Agreement for grants under the Amended and Restated 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on June 27, 2016) |
| 10.5 | Employment Agreement between Digipath, Inc. and Joseph J. Bianco, dated as of June 21, 2016 (incorporated by reference to Exhibit 10.4 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on June 27, 2016) |
| 10.6 | Amended and Restated Employment Agreement between Digipath, Inc. and Todd Denkin, dated as of June 21, 2016 (incorporated by reference to Exhibit 10.5 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on June 27, 2016) |
| 10.7 | Employment Agreement, dated as of April 9, 2014, between Digipath, Inc. and Todd Denkin (incorporated by reference to Exhibit 10.2 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on April 10, 2014) |
| 10.8 | Employment, Confidentiality and Proprietary Rights Agreement, dated as of June 19, 2015, between Digipath, Inc. and Todd A. Peterson (incorporated by reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on June 23, 2015) |
| 10.9 | Omnibus Agreement and Amendment, dated as of October 1, 2015, among Digipath, Inc., Digipath Corp. and Steven D. Barbee (incorporated by reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on October 7, 2015) |
| 10.10 | Consulting Agreement, dated as of November 23, 2015, between Digipath, Inc. and Alliance Advisory Partners, LLC whose beneficial owner is Joseph Bianco (incorporated by reference to Exhibit 10.2 of the Report on Form 10-Q filed with the Securities and Exchange Commission by Digipath, Inc. on February 19, 2016) |
| 10.11 | Amendment to Employment Agreement between Digipath, Inc. and Joseph J. Bianco, dated as of December 22, 2017 (incorporated by reference to Exhibit 10.11 of the Form 10-K filed with the Securities and Exchange Commission by Digipath, Inc. on December 29, 2017) |
| 10.12 | Amendment to Employment Agreement between Digipath, Inc. and Todd Denkin, dated as of December 22, 2017 (incorporated by reference to Exhibit 10.12 of the Form 10-K filed with the Securities and Exchange Commission by Digipath, Inc. on December 29, 2017) |
| 10.13 | Amendment to Employment Agreement between Digipath, Inc. and Todd Peterson, dated as of December 22, 2017 (incorporated by reference to Exhibit 10.13 of the Form 10-K filed with the Securities and Exchange Commission by Digipath, Inc. on December 29, 2017) |
| 10.14 | Master Joint Venture Agreement, dated as of March 20, 2017, between Digipath, Inc. and OC Testing LLC (incorporated by reference to Exhibit 10.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on February 23, 2017) |
| 10.15 | Operating Agreement of Humboldt Botanical, LLC, dated as of August 31, 2017, between Digipath, Inc. and Don Ashley (incorporated by reference to Exhibit 10.15 of the Form 10-K filed with the Securities and Exchange Commission by Digipath, Inc. on December 29, 2017) |

| | |
|---|---|
| 10.16 | Security Agreement, between Digipath, Inc. Digipath Labs, Inc., and collateral agent for the holders of the 8% Senior Secured Convertible Notes due December 31, 2020 (incorporated by reference to Exhibit 4.1 of the Report on Form 8-K filed with the Securities and Exchange Commission by Digipath, Inc. on November 21, 2018) |
| 21.1 | Subsidiaries (incorporated by reference to Exhibit 21.1 of the Form 10-K filed with the Securities and Exchange Commission by Digipath, Inc. on December 29, 2017) |
| 31.1* | Section 302 Certification of Principal Executive Officer |
| 31.2* | Section 302 Certification of Principal Financial Officer |
| 32.1* | Section 906 Certification of Principal Executive Officer |
| 32.2* | Section 906 Certification of Principal Financial Officer |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Schema Document |
| 101.CAL* | XBRL Calculation Linkbase Document |
| 101.DEF* | XBRL Definition Linkbase Document |
| 101.LAB* | XBRL Labels Linkbase Document |
| 101.PRE* | XBRL Presentation Linkbase Document |

* Filed herewith.

## 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.

**DIGIPATH, INC.**
(Registrant)

By: */s/ Todd Denkin*
Todd Denkin
Chief Executive Officer

Dated: December 27, 2018

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:

| Signature | Title | Date |
|---|---|---|
| */s/ Todd Denkin*<br>Todd Denkin | Chief Executive Officer and Chairman<br>(Principal Executive Officer) | December 27, 2018 |
| */s/ Todd A. Peterson*<br>Todd A. Peterson | Chief Financial Officer and Secretary<br>(Principal Financial Officer and Principal Accounting Officer) | December 27, 2018 |
| */s/ Cindy Orser*<br>Cindy Orser | Chief Science Officer, Director | December 27, 2018 |
| */s/ Bruce Raben*<br>Bruce Raben | Director | December 27, 2018 |

**Exhibit 31.1**

**DIGIPATH, INC.**

**CERTIFICATIONS PURSUANT TO
RULE 13A-14(A) OR RULE 15D-14(A),
AS ADOPTED PURSUANT TO
RULE 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Todd Denkin, certify that:

1. I have reviewed this Form 10-K of Digipath, 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 presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

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

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

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

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

*/s/ Todd Denkin*
Todd Denkin
Chief Executive Officer

Dated: December 27, 2018

**Exhibit 31.2**

**DIGIPATH, INC.**

**CERTIFICATIONS PURSUANT TO
RULE 13A-14(A) OR RULE 15D-14(A),
AS ADOPTED PURSUANT TO
RULE 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Todd A. Peterson, certify that:

1. I have reviewed this Form 10-K of Digipath, 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 presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

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

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

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

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

*/s/ Todd A. Peterson*

Todd A. Peterson
Principal Financial Officer

Dated: December 27, 2018

**EXHIBIT 32.1**

**DIGIPATH, 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 the Annual Report of Digipath, Inc. (the "Company") on Form 10-K for the year ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd Denkin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| | */s/ Todd Denkin* |
| | Todd Denkin |
| Date: December 27, 2018 | Principal Executive Officer |

**EXHIBIT 32.2**

**DIGIPATH, 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 the Annual Report of Digipath, Inc. (the "Company") on Form 10-K for the year ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd A. Peterson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| | */s/ Todd A. Peterson* |
| | Todd A. Peterson |
| Date: December 27, 2018 | Principal Financial Officer |