

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2017 AND 2016

McSwain and Company, PS
Certified Public Accountants
Lacey, Washington

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Innovative Organics, Inc.
Seattle, Washington

We have audited the accompanying consolidated financial statements of Innovative Organics, Inc. and Subsidiary, which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, and the related notes to the financial statements. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Innovative Organics, Inc. and Subsidiary as of March 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets and statements of income and retained earnings, and the consolidating schedules of operating expenses, on pages 17 through 22, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "McSwain & Company PS". The signature is written in a cursive, flowing style.

Lacey, Washington
May 5, 2017

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u> (Restated)
CURRENT ASSETS		
Cash and equivalents	\$ 152,619	\$ 124,823
Accounts receivable	1,618,370	1,587,907
Inventories	1,050,867	1,204,242
Deferred income tax asset	31,998	37,800
Prepaid expenses	14,852	40,756
	<u>2,868,706</u>	<u>2,995,528</u>
PROPERTY AND EQUIPMENT, NET	<u>44,165</u>	<u>161,287</u>
OTHER ASSETS		
Goodwill	3,899,996	3,899,996
Loan origination fees, net of accumulated amortization	23,438	27,714
Deferred income tax asset, long-term	39,087	36,984
Refundable deposits	30,181	30,181
	<u>3,992,702</u>	<u>3,994,875</u>
	<u>\$ 6,905,573</u>	<u>\$ 7,151,690</u>

See accompanying notes and independent auditor's report.

LIABILITIES AND STOCKHOLDERS' EQUITY

	2017	2016 (Restated)
CURRENT LIABILITIES		
Accounts payable	\$ 522,393	\$ 622,935
Customer deposits	-	5,000
Payroll and business taxes payable	18,139	20,063
Pension contribution payable	31,793	-
Federal income tax payable	96,562	21,712
Accrued vacations	91,424	108,000
Accrued interest payable	3,940	4,045
Line of credit	800,000	925,000
Current portion of deferred rent	2,231	-
Current maturities of notes payable	400,000	300,000
	1,966,482	2,006,755
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	400,000	800,000
Deferred rent, net of current portion	109,447	105,669
Deferred federal income taxes	13,673	54,667
	523,120	960,336
Total Liabilities	2,489,602	2,967,091
COMMITMENTS		
STOCKHOLDERS' EQUITY		
Common stock, no par value, 2,000,000 shares authorized, 237,500 shares issued and outstanding	2,375,302	2,375,302
Retained earnings	2,040,669	1,809,297
	4,415,971	4,184,599
	\$ 6,905,573	\$ 7,151,690

See accompanying notes and independent auditor's report.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
YEARS ENDED MARCH 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u> (Restated)
GROSS SALES	\$ 9,146,527	\$ 8,818,720
Sales discounts	<u>(132,880)</u>	<u>(74,903)</u>
NET SALES	9,013,647	8,743,817
COST OF GOODS SOLD	<u>3,753,174</u>	<u>3,726,206</u>
GROSS PROFIT	5,260,473	5,017,611
OPERATING EXPENSES	<u>4,846,148</u>	<u>4,911,998</u>
INCOME FROM OPERATIONS	<u>414,325</u>	<u>105,613</u>
OTHER INCOME AND (EXPENSE)		
Interest expense	(80,414)	(78,497)
Gain (loss) on exchange rate changes	(5,571)	15,015
Other income	<u>587</u>	<u>3,028</u>
TOTAL OTHER INCOME AND (EXPENSE)	<u>(85,398)</u>	<u>(60,454)</u>
INCOME BEFORE INCOME TAX	<u>328,927</u>	<u>45,159</u>
INCOME TAX PROVISIONS		
Current tax provision	134,850	104,016
Deferred tax provision (benefit)	<u>(37,295)</u>	<u>(89,163)</u>
TOTAL INCOME TAX PROVISIONS	<u>97,555</u>	<u>14,853</u>
NET INCOME	231,372	30,306
RETAINED EARNINGS, beginning year	<u>1,809,297</u>	<u>1,778,991</u>
RETAINED EARNINGS, end of year	<u>\$ 2,040,669</u>	<u>\$ 1,809,297</u>

See accompanying notes and independent auditor's report.

**INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2017 AND 2016**

	<u>2017</u>	<u>2016 (Restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 231,372	\$ 30,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	122,297	192,868
Amortization	14,063	6,037
Bad debts	13,826	22,139
Deferred tax provision (benefit)	(37,295)	(89,163)
Change in assets and liabilities:		
Accounts receivable	(44,289)	(19,348)
Inventories	153,375	(13,337)
Prepaid expenses	25,904	(22,835)
Accounts payable	(100,542)	(101,022)
Customer deposits	(5,000)	5,000
Payroll and business taxes payable	(1,924)	(4,089)
Federal income tax payable	74,850	(20,288)
Pension contribution payable	31,793	-
Accrued bonuses	-	(32,500)
Accrued vacations	(16,576)	19,700
Accrued interest payable	(105)	(3,907)
Deferred rent	6,009	96,871
Net cash provided by operating activities	<u>467,758</u>	<u>66,432</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5,175)	(12,096)
Payment of loan fees	(9,787)	(18,750)
Net cash used by investing activities	<u>(14,962)</u>	<u>(30,846)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of notes payable	(300,000)	(445,388)
Payments on capital lease obligation	-	(10,038)
Net borrowings (payments) on line of credit	(125,000)	412,534
Net cash provided (used) by financing activities	<u>(425,000)</u>	<u>(42,892)</u>
NET CHANGE IN CASH AND EQUIVALENTS	27,796	(7,306)
Cash and equivalents, beginning of year	<u>124,823</u>	<u>132,129</u>
Cash and equivalents, end of year	<u>\$ 152,619</u>	<u>\$ 124,823</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 80,519	\$ 82,404
Income taxes	\$ 60,000	\$ 121,453

See accompanying notes and independent auditor's report.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Operations

Innovative Organics, Inc. is a Washington Corporation, and was formed on January 26, 2007 for the purpose of purchasing and managing subsidiary companies. Granum, Inc. is a wholly-owned subsidiary of Innovative Organics, Inc., and manufactures and sells organic tea and herbal products. The customers of Granum, Inc. include large distribution companies in the United States, and other retailers and wholesalers located in the United States and other countries. All manufacturing and administrative facilities are located in Seattle, Washington.

The Company is authorized to issue two million shares of common stock, of which one million shares are Class A and one million shares are Class B. The 237,500 shares outstanding at March 31, 2017 and 2016 were Class A shares.

Principles of Consolidation

The consolidated financial statements include the accounts of Innovative Organics, Inc. and its wholly-owned subsidiary, Granum Inc., which are collectively referred to as “the Company”. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Revenue Recognition

The Company's revenues are primarily derived from fees for products provided, and are recognized when control of the products has been transferred to the customer.

Cash and Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and the Allowance for Uncollectable Accounts

Accounts receivable are uncollateralized customer obligations due under normal trade terms, generally requiring payment within thirty days from the invoice date. No interest or late fees are charged to late paying customers per Company policy.

Accounts receivable are stated at the unpaid contractual amount billed to the customer less an allowance for uncollectable accounts. In evaluating the collectability of receivables, management analyzes past results and identifies trends for each major payer source, for the purpose of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for bad debts. It is the Company's policy to charge off uncollectable accounts receivable when management determines the receivable will not be collected. No allowance for uncollectable accounts was considered necessary at March 31, 2017 and 2016.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist primarily of bulk teas, herbs and botanicals, packaging materials, and packaged products. Inventories are carried at the lower of cost, using the average cost method, or market.

Sales Tax

The Company excludes from its sales and cost of sales all sales taxes collected from customers and remitted to states.

Shipping and Handling Costs

Shipping and handling costs for freight-in are included in the cost of products. Freight-out expenses are included in cost of sales, and billings for freight to customers are included in sales.

Property and Equipment

Property and equipment are carried at cost. When retired or otherwise disposed of, the related carrying value and accumulated depreciation are removed from the respective accounts and the difference, less any amount realized from disposition, is reflected in earnings. Maintenance and repairs are charged to operating expenses. Costs of significant improvements and renewals are capitalized.

For financial statement purposes, depreciation is provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of leasehold improvements do not exceed the remaining term of the respective lease. For federal income tax purposes, depreciation is provided using methods and lives prescribed by applicable tax laws.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Depreciation expense was \$122,297 and \$192,868 for the years ended March 31, 2017 and 2016, respectively.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill acquired is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated to cash-generating units. A cash-generating unit to which goodwill has been allocated is tested for impairment annually (and whenever there is an indication that the cash-generating unit may be impaired) by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized in the income statement. Impairment losses recognized for goodwill are not reversed in subsequent periods. When value in use calculations are performed, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Goodwill was purchased by the Company on February 20, 2007 and April 30, 2012 for a total amount of \$3,899,996. Management has determined that there was no impairment to goodwill during the years ended March 31, 2017 and 2016.

Loan Fees

Loan fees are being amortized using the straight-line method over the lives of the loans. Amortization expense was \$14,063 and \$6,037 for the years ended March 31, 2017 and 2016, respectively.

Deferred Rent

The Company has entered into an operating lease agreement for its processing and administrative facilities that contains a provision for future rent increases. In accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, the Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited, or charged to deferred rent. For income tax purposes, deferred rent is not recognized and rent expense is recorded as per the terms of the lease agreement.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Company expenses all advertising costs as incurred. The Company expensed advertising costs of \$327,109 and \$437,782 for the years ended March 31, 2017 and 2016, respectively.

Foreign Currency Translations

The company records all transactions in terms of US Dollars and reports all balances and activity in US Dollars. Transactions in foreign currencies are translated to US Dollars at exchange rates on the transaction dates. Exchange differences arising on the settlement of monetary items are recognized in the statement of income.

The Company recorded an exchange loss of \$5,571 during the year ended March 31, 2017, and an exchange gain of \$15,015 during the year ended March 31, 2016.

Income Taxes

The Company recognizes deferred tax assets and liabilities for expected future income tax consequences of events that have been recognized in the financial statements. Deferred tax assets and liabilities are determined based on the temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period combined with the change during the period in deferred tax assets and liabilities. Differences are primarily attributable to net operating loss carryforwards, depreciation differences, and accrued compensated absences.

Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements. Management has analyzed all open tax years, as defined by the statutes of limitations for all major jurisdictions.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and equivalents, receivables, prepaid expenses, payables and accrued liabilities, approximate fair value due to their short maturity periods.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through May 5, 2017, the date on which the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

	2017	2016 (Restated)
Machinery and equipment	\$ 2,683,236	\$ 2,683,236
Computers and software	104,558	99,383
Office equipment and furniture	23,393	23,393
	2,811,187	2,806,012
Less accumulated depreciation	(2,767,022)	(2,644,725)
	\$ 44,165	\$ 161,287

NOTE 3 LINE OF CREDIT

The Company maintains a \$1,500,000 revolving line of credit with a commercial bank. Balances due under the line of credit were \$800,000 and \$925,000 on March 31, 2017 and 2016, respectively. The line matures on January 31, 2018. Interest is payable monthly at 2.25% plus the one month LIBOR rate (3.23% at March 31, 2017). The line is supported by a standby letter of credit with a maximum

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 4 LONG-TERM DEBT

The Company had a note payable to a commercial bank of \$800,000 and \$1,100,000 at March 31, 2017 and 2016, respectively. Interest is payable quarterly at 4.0% plus the six month LIBOR rate (4.9% at March 31, 2017). The note is secured by all tangible assets of the Company, a pledge of 29% of the shares of the subsidiary, an assignment of brands, and a revolving letter of comfort from the majority stockholder of the Company.

Future payments on the note are \$400,000 during the fiscal year ending March 31, 2018, and a final payment of \$400,000 due on February 28, 2019.

NOTE 5 COMMITMENTS

The Company leases its processing and administrative facilities under an operating lease that expires July 31, 2022. The monthly lease rate at March 31, 2017, was \$25,191. The lease requires payment of a pro rata portion of the landlord's property taxes, insurance, and estimated common area maintenance charges, and includes scheduled rent increases over the lease term.

The Company also had a month-to-month operating lease in effect at March 31, 2017, for a condominium. The lease is with a stockholder of the Company, and requires monthly payments, when assessed, of \$5,000.

Total rent expense under the above leases during the years ended March 31, 2017 and 2016, including charges for pro rata landlord costs, were \$441,171 and \$421,474, respectively.

The Company had two operating leases in effect at March 31, 2017, for a vehicle and office equipment. Total monthly rents under the leases are \$651. The leases both expire during the fiscal year ended March 31, 2018.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 5 COMMITMENTS (CONTINUED)

Future minimum lease payments under all operating leases are:

Year Ended March 31:	
2018	\$ 310,869
2019	316,296
2020	324,996
2021	333,932
2022	343,112
2023	<u>115,400</u>
	<u>\$ 1,744,605</u>

The Company commits to future purchases of certain organic tea and herbal products, to help ensure that supplies will be available when needed. At March 31, 2017, the Company had outstanding future purchase commitments totaling \$193,320. Management believes that no commitments are priced below current market prices at March 31, 2017.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 6 RELATED PARTY TRANSACTIONS

A stockholder of the Company has an ownership interest in one of the Company's vendors. Purchases from this vendor were \$793,307 and \$941,128 during the years ended March 31, 2017 and 2016, respectively. Accounts payable to this vendor were \$159,936 and \$159,169 at March 31, 2017 and 2016, respectively.

A stockholder of the Company had an ownership interest in two of the Company's customers during the years ended March 31, 2017 and 2016. Total sales to these customers were \$87,021 and \$75,884 during the years ended March 31, 2017 and 2016, respectively. Accounts receivable from these customers were \$24,572 and \$26,157 at March 31, 2017 and 2016, respectively.

As described in Note 5, the Company leases a condominium from a stockholder. Total rent expense under this lease was \$50,000 and \$45,000 for the years ended March 31, 2017 and 2016, respectively. No rents were payable at March 31, 2017 or 2016.

NOTE 7 INCOME TAXES

Income of the Company is subject to federal income taxes. The current income tax provision for the years ended March 31, 2017 and 2016, were \$134,850 and \$104,016, respectively.

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities, and for the future effects from the utilization of loss carryforwards, if any.

The federal tax effects of temporary differences that give rise to deferred tax assets at March 31, 2017 and 2016, were derived from the balances of deferred rent and accrued vacations on the respective balance sheets, times an expected marginal rate of 35%.

The federal tax effects of temporary differences that give rise to deferred tax liabilities at March 31, 2017 and 2016, were derived from the differences between the book and tax basis accumulated depreciation balances at the year ends, times an expected marginal rate of 35%.

No valuation allowances were established against the deferred tax assets at March 31, 2017 and 2016, due to management's determination that it is more likely than not that the assets will be fully realized.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 8 RETIREMENT PLAN

The Company maintains an IRA plan on a calendar year. The plan allows for company contributions of up to 10% of gross wages for all employees meeting minimum length of service requirements. Contributions are at the discretion of the Board of Directors. Matching contributions were \$208,546 and \$204,654 for the years ended March 31, 2017 and 2016, respectively.

NOTE 9 CORRECTION OF AN ERROR

During the year ended March 31, 2017, management determined that prior year depreciation calculations had been incorrectly performed, including lack of depreciation for a significant production machine. This error has been corrected retroactively, and reduced retained earnings at March 31, 2015, by \$113,659, which is net of a deferred income tax effect of \$61,201. The financial statements for the year ended March 31, 2016, have been restated. The effects on these financial statements were to increase depreciation expense and accumulated depreciation by \$2,812, and to decrease the deferred income tax liability and the deferred income tax provision by \$984.

NOTE 10 CONTINGENCY

At March 31, 2017, the Company was a defendant in litigation occurring in the State of California that alleges that the Company, and other companies selling tea products, did not properly label their products with regard to disclosures required under California's Safe Drinking Water and Toxic Enforcement Act of 1986. Management believes the allegation is without merit. However, management, along with the management of other tea producing companies, is pursuing a negotiated settlement, to avoid potentially lengthy and costly litigation. The Company's attorneys cannot estimate the potential results of a settlement or further litigation. Management does not believe the results will have a significant effect on the Company's financial position.

NOTE 11 CONCENTRATIONS OF RISK

During the years ended March 31, 2017 and 2016, sales to two of the Company's customers exceeded 10% of the Company's annual gross revenues, and were 55.2% and 57.4% of gross revenues, respectively. Accounts receivable from these customers at March 31, 2017 and 2016, were 60.5% and 58.3% of total accounts receivable, respectively.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

NOTE 11 CONCENTRATIONS OF RISK (CONTINUED)

During the year ended March 31, 2017, purchases from one of the Company's suppliers exceeded 10% of the Company's annual purchases, and were 27.2% of purchases. Accounts payable to this supplier at March 31, 2017, were 30.6% of total accounts payable. During the year ended March 31, 2016, purchases from two of the Company's suppliers exceeded 10% of the Company's annual purchases, and were 42.8% of purchases. Accounts payable to these suppliers at March 31, 2016, were 35.5% of total accounts payable.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Management does not believe that the Company is exposed to any significant credit risk on cash.

SUPPLEMENTARY INFORMATION

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
MARCH 31, 2017

	<u>Innovative Organics, Inc.</u>	<u>Granum, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
CURRENT ASSETS				
Cash and equivalents	\$ 2,671	\$ 149,948	\$ -	\$ 152,619
Accounts receivable	-	1,618,370	-	1,618,370
Inventories	-	1,050,867	-	1,050,867
Deferred income tax asset	-	31,998	-	31,998
Prepaid expenses	-	14,852	-	14,852
	<u>2,671</u>	<u>2,866,035</u>	<u>-</u>	<u>2,868,706</u>
Total Current Assets				
PROPERTY AND EQUIPMENT, NET	-	44,165	-	44,165
OTHER ASSETS				
Investment in subsidiary	6,202,549	-	(6,202,549)	-
Goodwill	-	3,899,996	-	3,899,996
Loan origination fees, net of accumulated amortization	-	23,438	-	23,438
Deferred income tax asset, long-term	-	39,087	-	39,087
Refundable deposits	-	30,181	-	30,181
	<u>6,202,549</u>	<u>3,992,702</u>	<u>(6,202,549)</u>	<u>3,992,702</u>
	<u>\$ 6,205,220</u>	<u>\$ 6,902,902</u>	<u>\$ (6,202,549)</u>	<u>\$ 6,905,573</u>
CURRENT LIABILITIES				
Accounts payable	\$ -	\$ 522,393	\$ -	\$ 522,393
Payroll and business taxes payable	-	18,139	-	18,139
Pension contribution payable	-	31,793	-	31,793
Federal income tax payable	-	96,562	-	96,562
Accrued vacations	-	91,424	-	91,424
Accrued interest payable	-	3,940	-	3,940
Line of credit	-	800,000	-	800,000
Current portion of deferred rent	-	2,231	-	2,231
Current maturities of notes payable	-	400,000	-	400,000
	<u>-</u>	<u>1,966,482</u>	<u>-</u>	<u>1,966,482</u>
Total Current Liabilities				
LONG-TERM LIABILITIES				
Notes payable, net of current maturities	-	400,000	-	400,000
Deferred rent, net of current portion	-	109,447	-	109,447
Deferred federal income taxes	-	13,673	-	13,673
	<u>-</u>	<u>523,120</u>	<u>-</u>	<u>523,120</u>
Total Long-term Liabilities				
Total Liabilities	<u>-</u>	<u>2,489,602</u>	<u>-</u>	<u>2,489,602</u>
COMMITMENTS				
STOCKHOLDERS' EQUITY				
Common stock	2,375,302	6,202,549	(6,202,549)	2,375,302
Retained earnings (accumulated deficit)	3,829,918	(1,789,249)	-	2,040,669
	<u>6,205,220</u>	<u>4,413,300</u>	<u>(6,202,549)</u>	<u>4,415,971</u>
	<u>\$ 6,205,220</u>	<u>\$ 6,902,902</u>	<u>\$ (6,202,549)</u>	<u>\$ 6,905,573</u>

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
MARCH 31, 2016

	Innovative Organics, Inc.	Granum, Inc. (Restated)	Eliminations	Consolidated Total
CURRENT ASSETS				
Cash and equivalents	\$ 2,815	\$ 122,008	\$ -	\$ 124,823
Accounts receivable	-	1,587,907	-	1,587,907
Inventories	-	1,204,242	-	1,204,242
Deferred income tax asset	-	37,800	-	37,800
Prepaid expenses	-	40,756	-	40,756
	<u>2,815</u>	<u>2,992,713</u>	<u>-</u>	<u>2,995,528</u>
Total Current Assets				
PROPERTY AND EQUIPMENT, NET	<u>-</u>	<u>161,287</u>	<u>-</u>	<u>161,287</u>
OTHER ASSETS				
Investment in subsidiary	6,202,549	-	(6,202,549)	-
Goodwill	-	3,899,996	-	3,899,996
Loan origination fees, net of accumulated amortization	-	27,714	-	27,714
Deferred income tax asset, long-term	-	36,984	-	36,984
Refundable deposits	-	30,181	-	30,181
	<u>6,202,549</u>	<u>3,994,875</u>	<u>(6,202,549)</u>	<u>3,994,875</u>
	<u>\$ 6,205,364</u>	<u>\$ 7,148,875</u>	<u>\$ (6,202,549)</u>	<u>\$ 7,151,690</u>
CURRENT LIABILITIES				
Accounts payable	\$ -	\$ 622,935	\$ -	\$ 622,935
Customer deposits	-	5,000	-	5,000
Payroll and business taxes payable	-	20,063	-	20,063
Federal income tax payable	-	21,712	-	21,712
Accrued vacations	-	108,000	-	108,000
Accrued interest payable	-	4,045	-	4,045
Line of credit	-	925,000	-	925,000
Current maturities of notes payable	-	300,000	-	300,000
	<u>-</u>	<u>2,006,755</u>	<u>-</u>	<u>2,006,755</u>
Total Current Liabilities				
LONG-TERM LIABILITIES				
Notes payable, net of current maturities	-	800,000	-	800,000
Deferred rent	-	105,669	-	105,669
Deferred federal income taxes	-	54,667	-	54,667
	<u>-</u>	<u>960,336</u>	<u>-</u>	<u>960,336</u>
Total Long-term Liabilities				
Total Liabilities	<u>-</u>	<u>2,967,091</u>	<u>-</u>	<u>2,967,091</u>
COMMITMENTS				
STOCKHOLDERS' EQUITY				
Common stock	2,375,302	6,202,549	(6,202,549)	2,375,302
Retained earnings (accumulated deficit)	3,830,062	(2,020,765)	-	1,809,297
	<u>6,205,364</u>	<u>4,181,784</u>	<u>(6,202,549)</u>	<u>4,184,599</u>
	<u>\$ 6,205,364</u>	<u>\$ 7,148,875</u>	<u>\$ (6,202,549)</u>	<u>\$ 7,151,690</u>

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED MARCH 31, 2017

	Innovative Organics, Inc.	Granum, Inc.	Eliminations	Consolidated Total
GROSS SALES	\$ -	\$ 9,146,527	\$ -	\$ 9,146,527
Sales discounts	-	(132,880)	-	(132,880)
NET SALES	-	9,013,647	-	9,013,647
COST OF GOODS SOLD	-	3,753,174	-	3,753,174
GROSS PROFIT	-	5,260,473	-	5,260,473
OPERATING EXPENSES	144	4,846,004	-	4,846,148
INCOME FROM OPERATIONS	(144)	414,469	-	414,325
OTHER INCOME AND (EXPENSE)				
Interest expense	-	(80,414)	-	(80,414)
Gain (loss) on exchange rate changes	-	(5,571)	-	(5,571)
Other income	-	587	-	587
TOTAL OTHER INCOME AND (EXPENSE)	-	(85,398)	-	(85,398)
INCOME (LOSS) BEFORE INCOME TAX	(144)	329,071	-	328,927
INCOME TAX PROVISIONS				
Current tax provision	-	134,850	-	134,850
Deferred tax provision (benefit)	-	(37,295)	-	(37,295)
TOTAL INCOME TAX PROVISIONS	-	97,555	-	97,555
NET INCOME (LOSS)	(144)	231,516	-	231,372
RETAINED EARNINGS (ACCUMULATED DEFICIT), beginning of year	3,830,062	(2,020,765)	-	1,809,297
Dividends paid and received	-	-	-	-
RETAINED EARNINGS (ACCUMULATED DEFICIT), end of year	<u>\$ 3,829,918</u>	<u>\$ (1,789,249)</u>	<u>\$ -</u>	<u>\$ 2,040,669</u>

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED MARCH 31, 2016

	Innovative Organics, Inc.	Granum, Inc. (Restated)	Eliminations	Consolidated Total
GROSS SALES	\$ -	\$ 8,818,720	\$ -	\$ 8,818,720
Sales discounts	-	(74,903)	-	(74,903)
NET SALES	-	8,743,817	-	8,743,817
COST OF GOODS SOLD	-	3,726,206	-	3,726,206
GROSS PROFIT	-	5,017,611	-	5,017,611
OPERATING EXPENSES	144	4,911,854	-	4,911,998
INCOME FROM OPERATIONS	(144)	105,757	-	105,613
OTHER INCOME AND (EXPENSE)				
Interest expense	-	(78,497)	-	(78,497)
Gain (loss) on exchange rate changes	-	15,015	-	15,015
Other income	-	3,028	-	3,028
TOTAL OTHER INCOME AND (EXPENSE)	-	(60,454)	-	(60,454)
INCOME (LOSS) BEFORE INCOME TAX	(144)	45,303	-	45,159
INCOME TAX PROVISIONS				
Current tax provision	-	104,016	-	104,016
Deferred tax provision (benefit)	-	(89,163)	-	(89,163)
TOTAL INCOME TAX PROVISIONS	-	14,853	-	14,853
NET INCOME (LOSS)	(144)	30,450	-	30,306
RETAINED EARNINGS (ACCUMULATED DEFICIT), beginning of year, as previously stated	3,053,716	(1,161,066)	-	1,892,650
Correction of an error, see Note 9	-	(113,659)	-	(113,659)
RETAINED EARNINGS (ACCUMULATED DEFICIT), beginning of year, as restated	3,053,716	(1,274,725)	-	1,778,991
Dividends paid and received	776,490	(776,490)	-	-
RETAINED EARNINGS (ACCUMULATED DEFICIT), end of year	\$ 3,830,062	\$ (2,020,765)	\$ -	\$ 1,809,297

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF OPERATING EXPENSES
YEAR ENDED MARCH 31, 2017

	Innovative Organics, Inc.	Granum, Inc.	Eliminations	Consolidated Total
Salaries and wages	\$ -	\$ 1,584,655	\$ -	\$ 1,584,655
Manufacturing charge backs	-	647,562	-	647,562
Rent	-	441,171	-	441,171
Commissions	-	392,563	-	392,563
Advertising and promotional	-	327,109	-	327,109
Medical insurance	-	213,881	-	213,881
Pension contribution	-	208,546	-	208,546
Payroll taxes	-	138,724	-	138,724
Certification fees	-	122,736	-	122,736
Depreciation	-	122,297	-	122,297
Business taxes	-	75,171	-	75,171
Travel	-	56,433	-	56,433
Utilities	-	54,860	-	54,860
Professional fees	-	49,084	-	49,084
Bank service fees	144	48,139	-	48,283
Office supplies	-	47,085	-	47,085
Miscellaneous	-	40,031	-	40,031
Product development	-	38,329	-	38,329
Equipment repairs and maintenance	-	38,295	-	38,295
Temporary labor	-	34,764	-	34,764
Warehouse and production supplies	-	33,091	-	33,091
Insurance	-	32,616	-	32,616
Contributions	-	14,924	-	14,924
Amortization	-	14,063	-	14,063
Bad debts	-	13,826	-	13,826
Communications	-	13,773	-	13,773
Facilities maintenance	-	11,574	-	11,574
Vehicle expenses	-	10,010	-	10,010
Meals and entertainment	-	9,822	-	9,822
Postage	-	4,290	-	4,290
Dues and subscriptions	-	3,469	-	3,469
Equipment rentals	-	2,436	-	2,436
Seminars and classes	-	675	-	675
Total Operating Expenses	<u>\$ 144</u>	<u>\$ 4,846,004</u>	<u>\$ -</u>	<u>\$ 4,846,148</u>

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF OPERATING EXPENSES
YEAR ENDED MARCH 31, 2016

	Innovative Organics, Inc.	Granum, Inc. (Restated)	Eliminations	Consolidated Total
Salaries and wages	\$ -	\$ 1,683,515	\$ -	\$ 1,683,515
Manufacturing charge backs	-	458,322	-	458,322
Advertising and promotional	-	437,782	-	437,782
Rent	-	421,474	-	421,474
Commissions	-	391,596	-	391,596
Medical insurance	-	229,058	-	229,058
Pension contribution	-	204,654	-	204,654
Depreciation	-	192,868	-	192,868
Payroll taxes	-	162,072	-	162,072
Certification fees	-	128,835	-	128,835
Equipment repairs and maintenance	-	70,191	-	70,191
Business taxes	-	68,098	-	68,098
Utilities	-	59,289	-	59,289
Professional fees	-	53,862	-	53,862
Miscellaneous	-	43,818	-	43,818
Travel	-	40,311	-	40,311
Warehouse and production supplies	-	39,581	-	39,581
Product development	-	34,855	-	34,855
Office supplies	-	32,749	-	32,749
Contributions	-	26,221	-	26,221
Bank service fees	144	23,203	-	23,347
Bad debts	-	22,139	-	22,139
Insurance	-	19,147	-	19,147
Vehicle expenses	-	12,157	-	12,157
Meals and entertainment	-	11,319	-	11,319
Communications	-	11,125	-	11,125
Facilities maintenance	-	9,988	-	9,988
Amortization	-	6,037	-	6,037
Temporary labor	-	5,775	-	5,775
Postage	-	4,704	-	4,704
Dues and subscriptions	-	2,902	-	2,902
Equipment rentals	-	2,648	-	2,648
Seminars and classes	-	1,559	-	1,559
Total Operating Expenses	\$ 144	\$ 4,911,854	\$ -	\$ 4,911,998