

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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, appearing to read "M. Swain" followed by a flourish.

Lacey, Washington
April 24, 2018

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2018 AND 2017

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and equivalents	\$ 117,360	\$ 152,619
Accounts receivable	1,221,915	1,618,370
Federal income tax refund receivable	67,106	-
Inventories	965,594	1,050,867
Current portion of deferred slotting costs	46,667	-
Prepaid expenses	<u>41,898</u>	<u>14,852</u>
 Total Current Assets	 <u>2,460,540</u>	 <u>2,836,708</u>
 PROPERTY AND EQUIPMENT, NET	 <u>40,879</u>	 <u>44,165</u>
OTHER ASSETS		
Goodwill	3,899,996	3,899,996
Deferred slotting costs, net of current portion	140,001	-
Deferred income tax asset, long-term	39,279	71,085
Refundable deposits	<u>30,181</u>	<u>30,181</u>
	 <u>4,109,457</u>	 <u>4,001,262</u>
	 <u><u>\$ 6,610,876</u></u>	 <u><u>\$ 6,882,135</u></u>

See accompanying notes and independent auditor's report.

LIABILITIES AND STOCKHOLDERS' EQUITY

	2018	2017
CURRENT LIABILITIES		
Accounts payable	\$ 560,006	\$ 522,393
Payroll and business taxes payable	17,970	18,139
Pension contribution payable	30,193	31,793
Federal income tax payable	-	96,562
Accrued bonuses	9,375	-
Accrued vacations	77,594	91,424
Accrued interest payable	1,633	3,940
Line of credit, net of unamortized financing costs of \$17,188 and \$15,938	782,812	784,062
Current portion of deferred rent	10,691	2,231
Current maturities of notes payable, net of unamortized financing costs of \$3,750 and \$7,500	396,250	392,500
	1,886,524	1,943,044
Total Current Liabilities		
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	-	400,000
Deferred rent, net of current portion	98,756	109,447
Deferred federal income taxes	46,206	13,673
	144,962	523,120
Total Long-term Liabilities		
Total Liabilities	2,031,486	2,466,164
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	2,204,088	2,040,669
	4,579,390	4,415,971
	\$ 6,610,876	\$ 6,882,135

See accompanying notes and independent auditor's report.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
YEARS ENDED MARCH 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
GROSS SALES	\$ 9,484,291	\$ 9,146,527
Sales discounts	<u>(162,590)</u>	<u>(132,880)</u>
NET SALES	9,321,701	9,013,647
COST OF GOODS SOLD	<u>4,007,966</u>	<u>3,753,174</u>
GROSS PROFIT	5,313,735	5,260,473
OPERATING EXPENSES	<u>4,969,003</u>	<u>4,832,085</u>
INCOME FROM OPERATIONS	<u>344,732</u>	<u>428,388</u>
OTHER INCOME AND (EXPENSE)		
Interest expense	(100,729)	(94,477)
Settlement expense	(19,500)	-
Gain (loss) on exchange rate changes	(3,377)	(5,571)
Other income	<u>860</u>	<u>587</u>
TOTAL OTHER INCOME AND (EXPENSE)	<u>(122,746)</u>	<u>(99,461)</u>
INCOME BEFORE INCOME TAX	<u>221,986</u>	<u>328,927</u>
INCOME TAX PROVISIONS		
Current tax provision (benefit)	(5,772)	134,850
Deferred tax provision (benefit)	<u>64,339</u>	<u>(37,295)</u>
TOTAL INCOME TAX PROVISIONS	<u>58,567</u>	<u>97,555</u>
NET INCOME	163,419	231,372
RETAINED EARNINGS, beginning year	<u>2,040,669</u>	<u>1,809,297</u>
RETAINED EARNINGS, end of year	<u>\$ 2,204,088</u>	<u>\$ 2,040,669</u>

See accompanying notes and independent auditor's report.

**INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 163,419	\$ 231,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,083	122,297
Amortization of slotting costs	46,667	-
Amortization of loan fees	30,000	14,063
Bad debts	594	13,826
Deferred tax provision (benefit)	64,339	(37,295)
Change in assets and liabilities:		
Accounts receivable	395,861	(44,289)
Federal income tax refund receivable	(67,106)	-
Inventories	85,273	153,375
Prepaid expenses	(27,046)	25,904
Accounts payable	37,613	(100,542)
Customer deposits	-	(5,000)
Payroll and business taxes payable	(169)	(1,924)
Federal income tax payable	(96,562)	74,850
Pension contribution payable	(1,600)	31,793
Accrued bonuses	9,375	-
Accrued vacations	(13,830)	(16,576)
Accrued interest payable	(2,307)	(105)
Deferred rent	(2,231)	6,009
	<u>644,373</u>	<u>467,758</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(18,797)	(5,175)
Payments of slotting costs	(233,335)	-
Payment of loan fees	(27,500)	(9,787)
	<u>(279,632)</u>	<u>(14,962)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of notes payable	(400,000)	(300,000)
Net borrowings (payments) on line of credit	-	(125,000)
	<u>(400,000)</u>	<u>(425,000)</u>
NET CHANGE IN CASH AND EQUIVALENTS	(35,259)	27,796
Cash and equivalents, beginning of year	<u>152,619</u>	<u>124,823</u>
Cash and equivalents, end of year	<u>\$ 117,360</u>	<u>\$ 152,619</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 56,369	\$ 80,519
Income taxes	\$ 135,000	\$ 60,000

See accompanying notes and independent auditor's report.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

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, 2018 and 2017 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.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and the Allowance for Uncollectable Accounts (Continued)

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, 2018 and 2017.

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.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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 \$22,083 and \$122,297 for the years ended March 31, 2018 and 2017, respectively.

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, 2018 and 2017.

Financing Costs

Financing costs are being amortized using the straight-line method over the lives of the related debt. Amortization is included in interest expense and was \$30,000 and \$14,063 for the years ended March 31, 2018 and 2017, respectively.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Deferred Slotting Costs

The Company incurs slotting costs to establish product placements with retail customers. In prior years, slotting costs were not considered significant and were included in manufacturing charge backs. During the year ended March 31, 2018, slotting costs became more significant, and totaled \$233,335. Management estimates that the slotting costs incurred will result in increased gross sales for a five year period. Accordingly, the slotting costs were deferred, and will be recognized on a straight-line basis over five years. Slotting costs recognized for the year ended March 31, 2018 were \$46,667, and were recorded as an offset against gross sales. On an annual basis, management will assess the remaining deferred costs and determine if impairment has occurred.

Advertising Costs

The Company expenses all advertising costs as incurred. The Company expensed advertising costs of \$302,337 and \$327,109 for the years ended March 31, 2018 and 2017, 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 statements of income.

The Company realized exchange losses of \$3,377 and \$5,571 during the years ended March 31, 2018 and 2017, respectively.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 depreciation differences, deferred rent, accrued compensated absences, and recognition of slotting costs.

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.

Use of Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board 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 April 24, 2018, the date on which the financial statements were available to be issued.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

	2018	2017
Machinery and equipment	\$ 2,695,075	\$ 2,683,236
Computers and software	111,516	104,558
Office equipment and furniture	23,393	23,393
	2,829,984	2,811,187
Less accumulated depreciation	(2,789,105)	(2,767,022)
	\$ 40,879	\$ 44,165

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 on March 31, 2018 and 2017. The line matures on January 31, 2019. Interest is payable monthly at 2.25% plus the one month LIBOR rate (4.13% at March 31, 2018). The line is supported by a standby letter of credit with a maximum facility of \$1,500,000 issued by the commercial bank providing the note payable described in Note 4.

NOTE 4 LONG-TERM DEBT

The Company had a note payable to a commercial bank of \$400,000 and \$800,000 at March 31, 2018 and 2017, respectively. Interest is payable quarterly at 4.0% plus the six month LIBOR rate (4.9% at March 31, 2018). 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 \$200,000 due on August 31, 2018 and February 28, 2019.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

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, 2018, was \$25,884. 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, 2018, 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, 2018 and 2017, including charges for pro rata landlord costs, were \$476,171 and \$441,171, respectively.

The Company had an operating lease in effect at March 31, 2018, for office equipment. Total monthly rent under the lease is \$405. The lease expires on April 19, 2021.

Future minimum lease payments under all operating leases are:

Year Ended March 31:	
2019	\$ 321,156
2020	329,856
2021	338,792
2022	343,517
2023	<u>115,400</u>
	<u>\$ 1,448,721</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, 2018, the Company had no outstanding future purchase commitments.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

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 \$889,700 and \$793,307 during the years ended March 31, 2018 and 2017, respectively. Accounts payable to this vendor were \$143,811 and \$159,936 at March 31, 2018 and 2017, respectively.

A stockholder of the Company had an ownership interest in two of the Company's customers during the years ended March 31, 2018 and 2017. Total sales to these customers were \$113,960 and \$87,021 during the years ended March 31, 2018 and 2017, respectively. Accounts receivable from these customers were \$37,387 and \$24,572 at March 31, 2018 and 2017, respectively.

As described in Note 5, the Company leases a condominium from a stockholder. Total rent expense under this lease was \$50,000 for each of the years ended March 31, 2018 and 2017. No rents were payable at March 31, 2018 or 2017.

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, 2018 and 2017, were a benefit of \$5,772 and an expense of \$134,850, respectively. The benefit for the year ended March 31, 2018, was due to recording the effect of a \$13,666 difference between estimated income taxes payable at March 31, 2017, and the actual payable determined when the income tax return was completed and filed.

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, 2018 and 2017, were derived from the balances of deferred rent and accrued vacations on the respective balance sheets, valued at the expected marginal rate to be in effect when the differences reverse.

The federal tax effects of the temporary difference that gives rise to the deferred tax liability at March 31, 2018 and 2017, were derived from the difference between the book and tax basis accumulated depreciation balances at the year ends and the recognition of slotting costs, valued at the expected marginal rate to be in effect when the differences reverse.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

NOTE 7 INCOME TAXES (CONTINUED)

The expected marginal tax rate to be effect estimated at March 31, 2018, was 21%, in accordance with changes in federal tax law. The decrease in the expected rate versus the expected rate at the prior year end resulted in a net increase in the deferred federal tax provision for the year ended March 31, 2018, of approximately \$4,100.

No valuation allowances were established against the deferred tax assets at March 31, 2018 and 2017, due to management's determination that it is more likely than not that the assets will be fully realized.

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 \$125,355 and \$208,456 for the years ended March 31, 2018 and 2017, respectively.

NOTE 9 CONTINGENCY

At March 31, 2017, the Company was a defendant in litigation occurring in the State of California that alleged 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. During the year ended March 31, 2018, management settled the litigation and a settlement expense of \$19,500 was incurred.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

NOTE 10 CONCENTRATIONS OF RISK

During the years ended March 31, 2018 and 2017, sales to two of the Company's customers exceeded 10% of the Company's annual gross revenues, and were 54.0% and 55.2% of gross revenues, respectively. Accounts receivable from these customers at March 31, 2018 and 2017, were 70.9% and 60.5% of total accounts receivable, respectively.

During the year ended March 31, 2018, purchases from three of the Company's suppliers exceeded 10% of the Company's annual purchases, and were 49.6% of purchases. Accounts payable to these suppliers at March 31, 2018, were 44.7% of total accounts payable.

During the year ended March 31, 2017, purchases from two of the Company's suppliers exceeded 10% of the Company's annual purchases, and were 27.2% of purchases. Accounts payable to these suppliers at March 31, 2017, were 30.6% 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, 2018

	Innovative Organics, Inc.	Granum, Inc.	Eliminations	Consolidated Total
CURRENT ASSETS				
Cash and equivalents	\$ 2,527	\$ 114,833	\$ -	\$ 117,360
Accounts receivable	-	1,221,915	-	1,221,915
Federal income tax refund receivable	-	67,106	-	67,106
Inventories	-	965,594	-	965,594
Current portion of deferred slotting fees	-	46,667	-	46,667
Prepaid expenses	-	41,898	-	41,898
	<u>2,527</u>	<u>2,458,013</u>	<u>-</u>	<u>2,460,540</u>
Total Current Assets				
PROPERTY AND EQUIPMENT, NET				
	<u>-</u>	<u>40,879</u>	<u>-</u>	<u>40,879</u>
OTHER ASSETS				
Investment in subsidiary	6,202,549	-	(6,202,549)	-
Goodwill	-	3,899,996	-	3,899,996
Deferred slotting costs, net of current portion	-	140,001	-	140,001
Deferred income tax asset, long-term	-	39,279	-	39,279
Refundable deposits	-	30,181	-	30,181
	<u>6,202,549</u>	<u>4,109,457</u>	<u>(6,202,549)</u>	<u>4,109,457</u>
	<u>\$ 6,205,076</u>	<u>\$ 6,608,349</u>	<u>\$ (6,202,549)</u>	<u>\$ 6,610,876</u>
CURRENT LIABILITIES				
Accounts payable	\$ -	\$ 560,006	\$ -	\$ 560,006
Payroll and business taxes payable	-	17,970	-	17,970
Pension contribution payable	-	30,193	-	30,193
Accrued bonuses	-	9,375	-	9,375
Accrued vacations	-	77,594	-	77,594
Accrued interest payable	-	1,633	-	1,633
Line of credit, net of unamortized financing costs of \$17,188	-	782,812	-	782,812
Current portion of deferred rent	-	10,691	-	10,691
Current maturities of notes payable, net of unamortized financing costs of \$3,750	-	396,250	-	396,250
	<u>-</u>	<u>1,886,524</u>	<u>-</u>	<u>1,886,524</u>
Total Current Liabilities				
LONG-TERM LIABILITIES				
Deferred rent, net of current portion	-	98,756	-	98,756
Deferred federal income taxes	-	46,206	-	46,206
	<u>-</u>	<u>144,962</u>	<u>-</u>	<u>144,962</u>
Total Long-term Liabilities				
	<u>-</u>	<u>2,031,486</u>	<u>-</u>	<u>2,031,486</u>
COMMITMENTS				
STOCKHOLDERS' EQUITY				
Common stock	2,375,302	6,202,549	(6,202,549)	2,375,302
Retained earnings (accumulated deficit)	3,829,774	(1,625,686)	-	2,204,088
	<u>6,205,076</u>	<u>4,576,863</u>	<u>(6,202,549)</u>	<u>4,579,390</u>
	<u>\$ 6,205,076</u>	<u>\$ 6,608,349</u>	<u>\$ (6,202,549)</u>	<u>\$ 6,610,876</u>

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

	Innovative Organics, Inc.	Granum, Inc. (Restated)	Eliminations	Consolidated Total
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
Prepaid expenses	-	14,852	-	14,852
	<u>2,671</u>	<u>2,834,037</u>	<u>-</u>	<u>2,836,708</u>
PROPERTY AND EQUIPMENT, NET	<u>-</u>	<u>44,165</u>	<u>-</u>	<u>44,165</u>
OTHER ASSETS				
Investment in subsidiary	6,202,549	-	(6,202,549)	-
Goodwill	-	3,899,996	-	3,899,996
Deferred income tax asset, long-term	-	71,085	-	71,085
Refundable deposits	-	30,181	-	30,181
	<u>6,202,549</u>	<u>4,001,262</u>	<u>(6,202,549)</u>	<u>4,001,262</u>
	<u>\$ 6,205,220</u>	<u>\$ 6,879,464</u>	<u>\$ (6,202,549)</u>	<u>\$ 6,882,135</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, net of unamortized financing costs of \$15,938	-	784,062	-	784,062
Current portion of deferred rent	-	2,231	-	2,231
Current maturities of notes payable, net of unamortized financing costs of \$7,500	-	392,500	-	392,500
	<u>-</u>	<u>1,943,044</u>	<u>-</u>	<u>1,943,044</u>
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 Liabilities	<u>-</u>	<u>2,466,164</u>	<u>-</u>	<u>2,466,164</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>\$ 6,879,464</u>	<u>\$ (6,202,549)</u>	<u>\$ 6,882,135</u>

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED MARCH 31, 2018

	Innovative Organics, Inc.	Granum, Inc.	Eliminations	Consolidated Total
GROSS SALES	\$ -	\$ 9,484,291	\$ -	\$ 9,484,291
Sales discounts	-	(162,590)	-	(162,590)
NET SALES	-	9,321,701	-	9,321,701
COST OF GOODS SOLD	-	4,007,966	-	4,007,966
GROSS PROFIT	-	5,313,735	-	5,313,735
OPERATING EXPENSES	144	4,968,859	-	4,969,003
INCOME (LOSS) FROM OPERATIONS	(144)	344,876	-	344,732
OTHER INCOME AND (EXPENSE)				
Interest expense	-	(100,729)	-	(100,729)
Settlement expense	-	(19,500)	-	(19,500)
Gain (loss) on exchange rate changes	-	(3,377)	-	(3,377)
Other income	-	860	-	860
TOTAL OTHER INCOME AND (EXPENSE)	-	(122,746)	-	(122,746)
INCOME (LOSS) BEFORE INCOME TAX	(144)	222,130	-	221,986
INCOME TAX PROVISIONS				
Current tax provision (benefit)	-	(5,772)	-	(5,772)
Deferred tax provision	-	64,339	-	64,339
TOTAL INCOME TAX PROVISIONS	-	58,567	-	58,567
NET INCOME (LOSS)	(144)	163,563	-	163,419
RETAINED EARNINGS (ACCUMULATED DEFICIT), beginning of year	3,829,918	(1,789,249)	-	2,040,669
Dividends paid and received	-	-	-	-
RETAINED EARNINGS (ACCUMULATED DEFICIT), end of year	\$ 3,829,774	\$ (1,625,686)	\$ -	\$ 2,204,088

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

	Innovative Organics, Inc.	Granum, Inc. (Restated)	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	4,831,941	-	4,832,085
INCOME (LOSS) FROM OPERATIONS	(144)	428,532	-	428,388
OTHER INCOME AND (EXPENSE)				
Interest expense	-	(94,477)	-	(94,477)
Gain (loss) on exchange rate changes	-	(5,571)	-	(5,571)
Other income	-	587	-	587
TOTAL OTHER INCOME AND (EXPENSE)	-	(99,461)	-	(99,461)
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	\$ 3,829,918	\$ (1,789,249)	\$ -	\$ 2,040,669

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF OPERATING EXPENSES
YEAR ENDED MARCH 31, 2018

	Innovative Organics, Inc.	Granum, Inc.	Eliminations	Consolidated Total
Salaries and wages	\$ -	\$ 1,661,345	\$ -	\$ 1,661,345
Manufacturing charge backs	-	818,524	-	818,524
Rent	-	476,171	-	476,171
Commissions	-	425,707	-	425,707
Advertising and promotional	-	302,337	-	302,337
Medical insurance	-	207,868	-	207,868
Payroll taxes	-	187,413	-	187,413
Professional fees	-	125,752	-	125,752
Pension contribution	-	125,355	-	125,355
Certification fees	-	96,574	-	96,574
Business taxes	-	86,228	-	86,228
Utilities	-	62,182	-	62,182
Equipment repairs and maintenance	-	53,586	-	53,586
Miscellaneous	-	39,520	-	39,520
Warehouse and production supplies	-	36,725	-	36,725
Bank service fees	144	33,707	-	33,851
Temporary labor	-	32,050	-	32,050
Office supplies	-	30,752	-	30,752
Travel	-	29,824	-	29,824
Insurance	-	27,909	-	27,909
Depreciation	-	22,083	-	22,083
Facilities maintenance	-	16,319	-	16,319
Communications	-	15,682	-	15,682
Contributions	-	14,501	-	14,501
Dues and subscriptions	-	11,372	-	11,372
Product development	-	10,312	-	10,312
Meals and entertainment	-	9,209	-	9,209
Postage	-	4,174	-	4,174
Equipment rentals	-	1,982	-	1,982
Vehicle expenses	-	1,944	-	1,944
Seminars and classes	-	1,158	-	1,158
Bad debts	-	594	-	594
	<u>144</u>	<u>4,968,859</u>	<u>-</u>	<u>4,969,003</u>
Total Operating Expenses	\$ 144	\$ 4,968,859	\$ -	\$ 4,969,003

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

	Innovative Organics, Inc.	Granum, Inc. (Restated)	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
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>\$ 4,831,941</u>	<u>\$ -</u>	<u>\$ 4,832,085</u>