

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED MARCH 31, 2020

DNM & Associates, P.S.
Certified Public Accountants
Olympia, Washington

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheet	3 - 4
Consolidated Statement of Income	5
Consolidated Statement of Stockholders' Equity	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8 - 12
SUPPLEMENTARY INFORMATION	
Consolidated Schedule of Expenses	13



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 (the Company), which comprise the consolidated balance sheet as of March 31, 2020, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated 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 audit.

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 consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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, 2020, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenses on page 13 is presented for purposes of additional analysis and is 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.

DNM + Associates, P.S.

Olympia, Washington
May 20, 2020

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
MARCH 31, 2020

ASSETS

CURRENT ASSETS

Cash	\$ 712,253
Cash in escrow	350,443
Accounts receivable	20,319
Due from buyer	10,972
Federal income tax refund receivable	247,359
Prepaid expenses	<u>2,169</u>

Total Current Assets 1,343,515

OTHER ASSETS

Deferred income tax asset, long-term	18,077
Refundable deposits	<u>30,181</u>

Total Other Assets 48,258

\$ 1,391,773

See accompanying notes and independent auditor's report.

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 71,431
Pension contribution payable	3,508
Sublease tenant deposit	38,585
Accrued vacations	6,715
Current portion of deferred rent	<u>28,327</u>

Total Current Liabilities 148,566

LONG-TERM LIABILITY

Deferred rent, net of current portion	<u>51,038</u>
---------------------------------------	---------------

Total Liabilities 199,604

COMMITMENT

STOCKHOLDERS' EQUITY

Retained earnings	<u>1,192,169</u>
-------------------	------------------

\$ 1,391,773

See accompanying notes and independent auditor's report.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED MARCH 31, 2020

GROSS SALES		\$ 1,345,272
Sales discounts		<u>(67,691)</u>
NET SALES		1,277,581
COST OF GOODS SOLD		<u>618,400</u>
GROSS PROFIT		659,181
OPERATING EXPENSES		<u>1,122,033</u>
LOSS FROM OPERATIONS		<u>(462,852)</u>
OTHER INCOME AND (EXPENSE)		
Post-sale expenses		(1,242,357)
Gain on sale of business		2,102,322
Gain on sale of property and equipment		671,294
Inventory write-down		(578,879)
Loan fee abandonment		(18,300)
Interest expense		(9,512)
Gain (loss) on exchange rate changes		(4,051)
Other income		<u>9,512</u>
TOTAL OTHER INCOME AND (EXPENSE)		<u>930,029</u>
INCOME BEFORE INCOME TAX		<u>467,177</u>
INCOME TAX PROVISIONS		
Current tax provision		957,816
Deferred tax provision		<u>(45,794)</u>
TOTAL INCOME TAX PROVISIONS		<u>912,022</u>
NET LOSS		<u><u>\$ (444,845)</u></u>

See accompanying notes and independent auditor's report.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED MARCH 31, 2020

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	
BALANCE - MARCH 31, 2019	237,500	\$ 2,375,302	\$ 2,259,314	\$ 4,634,616
Net loss	-	-	(444,845)	(444,845)
Stock redemptions	<u>(237,500)</u>	<u>(2,375,302)</u>	<u>(622,300)</u>	<u>(2,997,602)</u>
BALANCE - MARCH 31, 2020	<u>-</u>	<u>\$ -</u>	<u>\$ 1,192,169</u>	<u>\$ 1,192,169</u>

See accompanying notes and independent auditor's report.

**INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (444,845)
Adjustments to reconcile net loss to net cash used by operating activities:	
Gain on sale of business	(2,102,322)
Gain on sale of property and equipment	(671,294)
Inventory write-down	578,879
Loan fee abandonment	18,300
Depreciation	2,204
Amortization of slotting costs	13,518
Amortization of loan fees	4,375
Bad debts	1,140
Deferred tax provision (benefit)	(45,794)
Changes in assets and liabilities:	
Accounts receivable	644,174
Federal income tax refund receivable	(242,184)
Inventories	240,147
Prepaid expenses	27,432
Accounts payable	(588,100)
Payroll and business taxes payable	(15,634)
Pension contribution payable	(27,356)
Sublease tenant deposit	38,585
Accrued vacations	(55,531)
Accrued interest payable	(2,989)
Deferred rent	(19,391)
	<u>(2,646,686)</u>
Net cash used by operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of business	5,661,463
Proceeds from sale of property and equipment	<u>691,382</u>
Cash provided by investing activities	<u>6,352,845</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments of stock redemptions	(2,997,602)
Net borrowings on line of credit	<u>300,000</u>
Cash used by financing activities	<u>(2,697,602)</u>
NET CHANGE IN CASH AND EQUIVALENTS	1,008,557
Cash and equivalents, beginning of year	<u>54,139</u>
Cash and equivalents, end of year	<u>\$ 1,062,696</u>
Shown on the balance sheet as:	
Cash	\$ 712,253
Cash in escrow	<u>350,443</u>
	<u>\$ 1,062,696</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	\$ 12,501
Income taxes	\$ 1,200,000

See accompanying notes and independent auditor's report.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

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 manufactured and sold organic tea and herbal products.

On May 31, 2019, Granum, Inc. entered into an Asset Purchase Agreement (the Agreement) with Doh Cup Chai, LLC (the Buyer) and ceased its operations. Under the Agreement, Granum, Inc. received \$5,500,000 for its intellectual property, goodwill, and private label business, \$500,000 under a noncompete covenant, and \$472,435 for its inventory. Proceeds from the sale of \$800,000 were directly applied to close a line of credit with a commercial bank. Proceeds of \$10,972 remained due from the Buyer at March 31, 2020. Proceeds of \$350,443 were held in an escrow account at March 31, 2020.

All property and equipment was sold at auction, and trade accounts receivable and accounts payable were substantially cleared in due course.

The customers of Granum, Inc. included 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 were located in Seattle, Washington.

The Company was 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, 2019, were redeemed during the year ended March 31, 2020.

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. Innovative Organics, Inc. had no assets at March 31, 2020, other than its investment in Granum, Inc., and no liabilities.

Revenue Recognition

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

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Company's 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, 2020.

Sales Tax

The Company excluded 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 were included in the cost of products. Freight-out expenses were included in cost of sales, and billings for freight to customers were included in sales.

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 CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Company expensed all advertising costs as incurred. The Company expensed advertising costs of \$320,508 for the year ended March 31, 2020.

Foreign Currency Translations

The Company recorded all transactions in terms of US Dollars and reported all balances and activity in US Dollars. Transactions in foreign currencies were translated to US Dollars at exchange rates on the transaction dates. Exchange differences arising on the settlement of monetary items were recognized in the statements of income.

The Company realized exchange losses of \$4,051 during the year ended March 31, 2020.

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.

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 CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 May 20, 2020, the date on which the financial statements were available to be issued.

NOTE 2 COMMITMENT

The Company leases its processing and administrative facilities under an operating lease that expires July 31, 2022. The monthly lease rate at March 31, 2020, was \$27,327. 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.

Total rent expense during the year ended March 31, 2020, including charges for pro rata landlord costs, was \$288,076.

Future minimum lease payments under the operating lease are:

Year Ended March 31:	
2021	\$ 333,932
2022	343,112
2023	<u>115,400</u>
	<u>\$ 792,444</u>

The Company has sub-leased its facilities for a period of 28 months effective April 1, 2020. The monthly sub-lease rental is \$27,480.

INNOVATIVE ORGANICS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 3 RELATED PARTY TRANSACTIONS

A stockholder of the Company had an ownership interest in one of the Company's customers during the year ended March 31, 2020. Total sales to this customer were \$48,541 during the year ended March 31, 2020. Accounts receivable from this customer were \$20,319 at March 31, 2020, which comprises all of the Company's accounts receivable.

The Company leased a condominium from a stockholder. Total rent expense under this lease was \$5,000 for the year ended March 31, 2020.

NOTE 4 INCOME TAXES

Income of the Company is subject to federal income taxes. The current income tax provision for the year ended March 31, 2020, was \$957,816. The provision differs from the amount that would be expected based on the statutory rate of 21% primarily due to non-deductibility of goodwill of \$3,899,996. The goodwill was created based on prices paid between third parties for purchases and sales of stock when changes in control occurred in prior years.

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.

The federal tax effect of the temporary difference that gives rise to the deferred tax asset at March 31, 2020, was derived from the balances of deferred rent and accrued vacations valued at the expected marginal rate to be in effect when the difference reverses.

No valuation allowances were established against the deferred tax asset at March 31, 2020, due to management's determination that it is more likely than not that the asset will be fully realized.

NOTE 5 CONCENTRATION OF RISK

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
CONSOLIDATED SCHEDULE OF EXPENSES
YEAR ENDED MARCH 31, 2020

	<u>Operations</u>	<u>Post-Sale Expenses</u>	<u>Total</u>
Salaries and wages	\$ 266,791	\$ 631,030	\$ 897,821
Advertising and promotional	320,508	-	320,508
Rent	48,013	240,063	288,076
Professional fees	115,502	59,668	175,170
Pension contribution	7,016	100,828	107,844
Commissions	105,714	-	105,714
Manufacturing charge backs	76,295	-	76,295
Payroll taxes	25,781	49,462	75,243
Bank service fees	14,622	41,136	55,758
Medical insurance	22,303	31,807	54,110
Business taxes	34,312	-	34,312
Miscellaneous	17,023	11,805	28,828
Equipment repairs and maintenance	11,585	16,971	28,556
Utilities	9,866	14,531	24,397
Certification fees	22,824	1,451	24,275
Office supplies	3,990	19,829	23,819
Communications	2,427	5,743	8,170
Facilities maintenance	2,951	3,838	6,789
Meals and entertainment	1,024	5,617	6,641
Warehouse and production supplies	4,159	461	4,620
Equipment rentals	-	2,834	2,834
Insurance	829	1,676	2,505
Dues and subscriptions	632	1,588	2,220
Depreciation	2,204	-	2,204
Product development	1,857	324	2,181
Travel	2,096	12	2,108
Contributions	1,635	-	1,635
Bad debts	9	1,131	1,140
Vehicle expenses	-	400	400
Postage	65	152	217
	<u>65</u>	<u>152</u>	<u>217</u>
Total Operating Expenses	<u>\$ 1,122,033</u>	<u>\$ 1,242,357</u>	<u>\$ 2,364,390</u>