

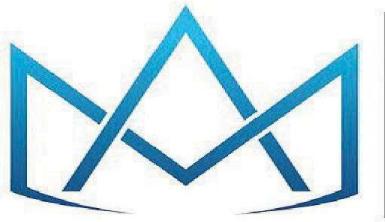


## THE BLOCK DISTILLING CO.

**The Block Distilling Company, LLC.** (the “Company”) a Colorado Limited Liability Company

Financial Statements (unaudited) and  
Independent Accountant’s Review Report

Years ended December 31, 2018 & 2019



### **INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To Management  
The Block Distilling Company, LLC

We have reviewed the accompanying financial statements of the company which comprise the balance sheet as of December 31, 2018 & 2019 and the related statements of operations, statement of cash flows, and the statement of changes in member's equity for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

#### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

#### **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

#### **Going Concern**

As discussed in Note 8, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Management has evaluated these conditions and plans to generate revenues and raise capital as needed to satisfy its capital needs.

Vince Mongio, CPA, CIA, CFE, MACC  
Miami, FL  
January 19<sup>th</sup>, 2021

*Vincenzo Mongio*

**Balance Sheet**

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2019</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 13,979	\$ 76,566
Accounts Receivable	8,993	4,932
Prepaid Expenses	-	5,931
Inventory	215,966	230,556
<b>Total Current Assets</b>	<b>238,939</b>	<b>317,985</b>
<b>Non-current Assets</b>		
Furniture, Equipment, and Leasehold Improvements, net of Accumulated Depreciation	1,089,673	1,341,067
Intangible Assets: Trademark, net of Accumulated Depreciation	705	651
Security Deposits	2,245	2,245
Other Assets	1	1
<b>Total Non-Current Assets</b>	<b>1,092,625</b>	<b>1,343,965</b>
<b>TOTAL ASSETS</b>	<b>\$1,331,564</b>	<b>\$1,661,950</b>
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 110,577	\$ 126,883
Line of Credit	44,892	50,000
Short Term Debt	5,700	377,652
Current Portion of Long-Term Debt	51,329	56,503
Deferred Rent	17,892	22,030
Deferred Revenue	16,625	24,175
Accrued Interest	78,586	150,914
Sales Tax Payable	2,711	8,727
Other Liabilities	249	7,037
<b>Total Current Liabilities</b>	<b>328,561</b>	<b>823,921</b>
<b>Long-term Liabilities</b>		
Long-Term Debt	520,812	485,920
Related Party Notes Payable	331,826	325,087
<b>Total Long-Term Liabilities</b>	<b>852,639</b>	<b>811,006</b>
<b>TOTAL LIABILITIES</b>	<b>1,181,200</b>	<b>1,634,927</b>
<b>MEMBER'S EQUITY</b>		
Class A Interests	725,000	725,000
Class AA Interests	104,068	104,068
Class AAA Interests	-	155,000
Accumulated Deficit	(678,704)	(957,046)
<b>Total Member's Equity</b>	<b>150,364</b>	<b>27,023</b>
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$1,331,564</b>	<b>\$1,661,950</b>

### Statement of Operations

	Years Ended December 31,	
	2018	2019
Revenue	\$416,713	\$ 568,476
Cost of Sales	107,350	144,482
<b>Gross Profit</b>	<b>309,363</b>	<b>423,993</b>
Operating Expenses		
Advertising and Marketing	13,853	17,726
General and Administrative	188,198	273,803
Interest	102,765	123,263
Owner Guaranteed Payments	36,800	61,063
Rent and Lease	96,621	124,230
Depreciation	88,606	102,562
Amortization	54	54
<b>Total Operating Expenses</b>	<b>526,897</b>	<b>702,701</b>
<b>Net Operating Loss</b>	<b>\$(217,535)</b>	<b>\$(278,707)</b>

### Statement of Cash Flows

	Year Ended December 31,	
	2018	2019
<b>OPERATING ACTIVITIES</b>		
Net Income	\$(217,535)	\$(278,707)
Adjustments to reconcile Net Income to Net Cash provided by operations:		
Depreciation	115,721	102,196
Amortization	101	54
Accounts Payable	(7,669)	16,305
Accrued Liabilities	57,678	79,599
Inventory	(103,477)	(14,590)
Accounts Receivable	(8,106)	4,062
Prepays		(5,931)
Deferred Expenses	17,892	4,139
Deferred Revenue	16,625	7,550
Other	(84)	(168)
Total Adjustments to reconcile Net Income to Net Cash provided by operations:		
	88,680	193,217
<b>Net Cash provided by Operating Activities</b>	<b>(128,854)</b>	<b>(85,491)</b>
<b>INVESTING ACTIVITIES</b>		
Equipment	(564)	(306,998)
Furniture & Fixtures	(31,857)	(2,634)
Leasehold Improvements	(123,781)	(43,959)
Trademark	(806)	-
<b>Net Cash provided by Investing Activities</b>	<b>(157,008)</b>	<b>(353,590)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of Class AAA Shares		155,000
Debt Issuances	223,829	346,302
Payments on Debt	(734)	(9,002)
Unclassified	6,521	9,368
<b>Net Cash provided by Financing Activities</b>	<b>229,616</b>	<b>501,668</b>
Cash at the beginning of period	70,226	13,979
Net Cash increase (decrease) for period	(56,246)	62,587
<b>Cash at end of period</b>	<b>\$ 13,979</b>	<b>\$ 76,566</b>

**Statement of Changes in Member's Equity**

	Member Capital - Class A Preferred Units	Member Capital - Class A Preferred Units	Member Capital - Class AA Preferred Units	Member Capital - Class AA Preferred Units	Member Capital - Class AAA Preferred Units	Member Capital - Class AAA Preferred Units	Member Capital - Class Common Units			
	\$ Amount	# of units	\$ Amount	# of units	\$ Amount	# of units		Accumulated Adjustments	Accumulated Deficit	Total Member Equity
Beginning Balance at 12/31/17	725,000	987,000	104,068	90,441	-	-	1,438,000	4,826	(465,995)	829,068
Issuance of Membership Interests	-	-	-	-	-	-	62,000	-	-	62,000
Net Loss	-	-	-	-	-	-	-	-	(217,535)	(217,535)
Ending Balance 12/31/2018	725,000	987,000	104,068	90,441	-	-	1,500,000	4,826	(683,530)	150,364
Issuance of Membership Interests	-	-	-	-	155,000	57,072	-	-	-	212,072
Net Loss	-	-	-	-	-	-	-	-	(278,707)	(278,707)
Prior Period Adjustment	-	-	-	-	-	-	-	366	366	366
Ending Balance 12/31/2019	725,000	987,000	104,068	90,441	155,000	57,072	1,500,000	5,192	(962,237)	27,023

**The Block Distilling Company, LLC**  
**Notes to the Unaudited Financial Statements**  
**December 31st, 2019**  
**\$USD**

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

The Block Distilling Company, LLC (“the Company”) was formed in Colorado on August 5<sup>th</sup>, 2015. The company earns revenue by operating a distillery in Denver Colorado which sells spirits and provides specialty membership subscriptions.

The company will conduct a crowdfunding campaign under regulation CF in the first two quarters of 2021.

**NOTE 2 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). Our fiscal year ends on December 31. The company has no interest in variable interest entities and no predecessor entities.

Use of Estimates and Assumptions

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances, and highly liquid investments with maturities of three months or less when purchased.

Fair Value of Financial Instruments

ASC 820 “*Fair Value Measurements and Disclosures*” establishes a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

Level 1: defined as observable inputs such as quoted prices in active markets;

Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3: defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Concentrations of Credit Risks

The Company’s financial instruments that are exposed to concentrations of credit risk primarily consist of its cash and cash equivalents. The Company places its cash and cash equivalents with financial institutions of high credit worthiness. The Company’s management plans to assess the financial strength and credit worthiness of any parties to which it extends funds, and as such, it believes that any associated credit risk exposures are limited.

## Revenue Recognition

The Company recognizes revenue from the sale of products and services in accordance with ASC 606, "Revenue Recognition" following the five steps procedure:

- Step 1: Identify the contract(s) with customers
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to performance obligations
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Company recognizes revenue when it satisfies its obligation by transferring control of the good or service to the customer. A performance obligation is satisfied over time if one of the following criteria are met:

- a. the customer simultaneously receives and consumes the benefits as the entity performs;
- b. the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- c. the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

The Company's obligations to customers with respect to the sale of products on and off premises is fulfilled when customers are provided their bottle of spirits. Club memberships create an obligation for the company to provide 2 bottles of 4 separate releases throughout the course of a year. The company defers and subsequently recognizes revenue for the club subscriptions as the bottles are provided to customers.

<b>Revenue Component</b>	<b>2018</b>	<b>2019</b>
Tasting Room Sales	\$315,654	\$390,723
Sales of Spirits	\$ 88,579	\$103,802
Other (specialty sales, service fees, events, merchandise, etc.)	\$ 12,479	\$ 73,950
<b>Total</b>	<b>\$416,713</b>	<b>\$568,476</b>

## Inventories

Inventory is recorded at production cost including materials, labor, and allocations of overhead. Inventory typically turns month over month and management believes there are no obsolescence issues.

<b>Inventory Detail</b>		
<b>Component</b>	<b>2018</b>	<b>2019</b>
Finished Goods	\$ 10,496	\$ 7,782
Raw Materials	\$ 45,748	\$ 12,919
Packaging	\$ 64,037	\$ 70,140
Work in Process	\$ 94,166	\$139,233
<b>Total</b>	<b>\$214,447</b>	<b>\$230,074</b>

### Cost of Sales

Cost of Sales consists of the average cost basis of finished spirits delivered to customers, bar consumables used in the ordinary course of business that are expensed as incurred, and delivery and other charges associated with the delivery of spirits.

Cost of Sales Component	2018	2019
Finished Spirits	\$72,714	\$109,893
Bar Consumables	\$27,953	\$33,266
Merchandise, shipping, freight, delivery, and other	\$6,683	\$1,324
Total	\$107,350	\$144,482

### Property Plant and Equipment (PP&E)

The company's PP&E consists primarily of distillery machines, leasehold improvements, and peripheral equipment. The cost basis of the equipment is expensed on a straight-line basis over the asset's useful life.

### Property, Plant, and Equipment Summary

Category	Useful Life	Beginning Balance (2019)	Additions	Removals	Beginning Balance of Accumulated Depreciation	Current Period Depreciation	Ending Balance (2019)
Equipment	5-15 years	\$316,272	\$306,998		\$40,165	\$42451.25	\$540,654
Furniture and Fixtures	10 Years	\$104,148	\$2,634		\$11,422	\$10936.29	\$84,423
Leasehold Improvements	15 Years	\$784,975	\$37,785		\$63,768	\$49174.26	\$709,818
Total		\$1,205,395	\$347,417	\$-	\$115,355	\$102561.8	\$1,334,894

### Advertising Costs

Advertising costs associated with marketing the Company's products and services are generally expensed as costs are incurred.

### General and Administrative

General, and administrative expenses consist of payroll and related expenses for employees and independent contractors involved in general corporate functions, including accounting, finance, tax, legal, business development, and other miscellaneous expenses.

### Income Taxes

The Company is a multimember LLC taxed as a partnership for tax purposes. Profits and losses are allocated to each member bases on their pro rate capital investment. As such, any expense or benefit arising from the results of operations will be reported on and taxed on each member's tax return.

### Recent accounting pronouncements

Management has considered all recent accounting pronouncements issued. The Company's management believes that these recent pronouncements will not have a material effect on the Company's financial statements.

### **NOTE 3 – RELATED PARTY TRANSACTIONS**

The Company follows ASC 850, “Related Party Disclosures,” for the identification of related parties and disclosure of related party transactions.

During the year ended December 31<sup>st</sup>, 2018 and 2019, the Company had outstanding Notes Payable to managing members and investors totaling \$333K and \$326K respectively. The balances accrue interest ranging from 2.3% - 12%. Accrued interest for the years ended 2018 and 2019 was \$55k and \$84k respectively.

### **NOTE 4 – CONTINGENCIES, COMPLIANCE WITH LAWS AND REGULATIONS**

We are currently not involved with or know of any pending or threatening litigation against the Company or any of its officers. Further, the Company is currently complying with all relevant laws and regulations.

### **NOTE 5 – LONG TERM DEBT**

Related Party Notes – See note 3.

SBA Loan – The company has a \$350K note with JP Morgan with partial guarantee by the SBA bearing interest of LIBOR + 1.98% maturing September 28, 2026.

Colorado Enterprise Fund Loan – The company has a \$78K loan bearing interest at 10% and maturing in 2024.

3<sup>rd</sup> Party Notes – The company has various loans with several 3<sup>rd</sup> parties totaling \$111,000 bearing interest of 20.8% and maturing in 2021.

#### **Debt Principal Maturities 5 Years Subsequent to 2019**

<b>Debt</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Thereafter</b>
SBA loan	\$ 36,842	\$ 36,842	\$ 36,842	\$ 36,842	\$115,356
Related Party Notes	\$ 6,255	\$ 6,400	\$351,355	\$ 57,826	\$109,364
Colorado Enterprise Fund	\$ 9,944	\$ 10,985	\$ 12,136	\$ 13,407	\$ 16,667
3rd Party Notes	-	\$111,000	-	-	-
Forklift lease	\$ 3,604	\$ 3,873	\$ 3,093	-	-
<b>Total</b>	<b>\$ 56,645</b>	<b>\$169,101</b>	<b>\$403,426</b>	<b>\$108,075</b>	<b>\$241,386</b>

#### Guarantees

The company’s machinery and equipment are collateral for one or more notes above.

### **NOTE 6 - EQUITY**

As of December 31<sup>st</sup>, 2019, the company had 1,500,000 common units issued and 1,134,456 preferred units issued. The common units are the only voting units of which the managing member’s hold a majority interest of 52%. The preferred units are non-voting and receive priority return on investment in the event of a company sale or financing transaction.

## **NOTE 7- SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to December 31, 2019 to assess the need for potential recognition or disclosure in this report. Such events were evaluated through January 19<sup>th</sup>, 2021, the date these financial statements were available to be issued. In 2020, the company issued additional preferred shares with the same rights mentioned in note 6 for consideration of \$175k. Additionally, the company received \$61,642 from the Paycheck Protection Program which is expected to be forgiven. Additionally, the company received an Economic Injury Disaster Loan in the amount of \$150,000 and will begin to make payments beginning May 2021. The loan bears interest at 3.75% with a term of 30 years.

## **NOTE 8 – GOING CONCERN**

The accompanying balance sheet has been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The entity has not commenced principal operations and realized losses every year since inception and may continue to generate losses.

The Company's ability to continue as a going concern in the next twelve months following the date the financial statements were available to be issued is dependent upon its ability to produce revenues and/or obtain financing sufficient to meet current and future obligations and deploy such to produce profitable operating results. Management has evaluated these conditions and plans to generate revenues and raise capital as needed to satisfy its capital needs. No assurance can be given that the Company will be successful in these efforts. These factors, among others, raise substantial doubt about the ability of the Company to continue as a going concern for a reasonable period of time. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities.

## **NOTE 9 – RISKS AND UNCERTAINTIES**

### ***COVID-19***

Since December 31, 2020 the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses remains unclear currently. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods. Note: this disclosure assumes there is no significant doubt about the entity's ability to continue as a going concern.

*We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.*

We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including: not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act; reduced disclosure obligations regarding executive compensation in our periodic reports and annual report on Form 10-K; and exemptions from the requirements of holding nonbinding advisory votes on executive compensation and stockholder approval of any golden parachute payments not previously approved. We can continue to be an emerging growth company, as defined in the JOBS Act, for up to five years following our IPO.

### ***Concentration Risk: Liquor License***

Our ability to generate revenue is only possible with an active liquor license. Should we be unable to afford this license or should it be revoked for any reason we would not be able to continue operations.