



### **Independent Accountant's Review Report**

October 12, 2016

I have reviewed the accompanying balance sheets of Proof of Concept, LLC ("Barrow's Intense" or the "Company") as of December 31, 2014 and 2015, and the related statements of operations, members' equity and cash flows for the years then ended. 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, I do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with U.S. GAAP.

Sincerely,

Glenn Ballard, CPA

# Proof of Concept, LLC

---

(dba “Barrow’s Intense”)

## Financial Statements

Years Ended December 31, 2014 and 2015

***Proof of Concept, LLC***

***(dba "Barrow's Intense")***

***Financial Statements for the Years Ended December 31, 2014 and 2015***

---

## Table of Contents

|  |        |
|--|--------|
| Balance Sheets                               | Page 2 |
| Statements of Operations and Members' Equity | Page 3 |
| Statements of Cash Flows                     | Page 4 |
| Notes to the Financial Statements            | Page 5 |

**Proof of Concept, LLC****(dba "Barrow's Intense")****Financial Statements for the Years Ended December 31, 2014 and 2015****Balance Sheets**  
**(in USD)**

|  | <b>December 31,</b> |                  |
|--|---------------------|------------------|
|  | <b>2014</b>         | <b>2015</b>      |
| <b>ASSETS</b>                                |                     |                  |
| Current assets                               |                     |                  |
| Cash   | \$ 1,944            | \$ 5,857         |
| Accounts receivable                          | 20,879              | 45,979           |
| Inventory                                    | 36,772              | 16,216           |
| Total current assets                         | 59,595              | 68,052           |
| Property & equipment                         |                     |                  |
| Equipment                                    | 27,870              | 28,504           |
| Leasehold Improvements                       | 2,300               | 2,300            |
| Less: Accumulated Deprecation                | (14,806)            | (19,202)         |
| Total net property & equipment               | 15,364              | 11,602           |
| Other assets                                 | 8,574               | 8,574            |
| <b>TOTAL ASSETS</b>                          | <b>\$ 83,533</b>    | <b>\$ 88,228</b> |
| <b>LIABILITIES and MEMBERS' EQUITY</b>       |                     |                  |
| Current liabilities                          |                     |                  |
| Accounts payable                             | \$ 25,178           | \$ 138,063       |
| Credit card payable                          | 31,766              | 48,850           |
| Other current liabilities                    | 1,965               | 1,982            |
| Current portion of long term debt            | 7,906               | 12,425           |
| Total current liabilities                    | 66,815              | 201,320          |
| Long term debt                               | 57,424              | 70,000           |
| Members' equity                              | (40,706)            | (183,092)        |
| <b>TOTAL LIABILITIES and MEMBERS' EQUITY</b> | <b>\$ 83,533</b>    | <b>\$ 88,228</b> |

**Proof of Concept, LLC****(dba "Barrow's Intense")****Financial Statements for the Years Ended December 31, 2014 and 2015**

**Statements of Operations and Members' Equity**  
**(in USD)**

|                                   | <u>2014</u>        | <u>2015</u>         |
|-----------------------------------|--------------------|---------------------|
| Net sales                         | \$ 300,519         | \$ 540,097          |
| Cost of goods sold                | <u>82,077</u>      | <u>175,898</u>      |
| Gross profit                      | <u>218,442</u>     | <u>364,199</u>      |
| Operating expenses                |                    |                     |
| Sales & marketing expenses        | 128,089            | 286,349             |
| General & administrative expenses | <u>115,680</u>     | <u>220,416</u>      |
| Total operating expenses          | <u>243,769</u>     | <u>506,765</u>      |
| Operating income (loss)           | <u>(25,327)</u>    | <u>(142,566)</u>    |
| Total Other Income(Expenses)      | <u>-</u>           | <u>180</u>          |
| Net Loss                          | <u>\$ (25,327)</u> | <u>\$ (142,386)</u> |
| Members' equity - beginning       | <u>(15,379)</u>    | <u>(40,706)</u>     |
| Members' equity - ending          | <u>\$ (40,706)</u> | <u>\$ (183,092)</u> |

**Proof of Concept, LLC****(dba "Barrow's Intense")****Financial Statements for the Years Ended December 31, 2014 and 2015**

**Statements of Cash Flows**  
**(in USD)**

|   | <u><b>2014</b></u> | <u><b>2015</b></u> |
|---|--------------------|--------------------|
| CASH FLOW FROM OPERATING ACTIVITIES       |                    |                    |
| Net income (loss)                         | \$ (25,327)        | \$ (142,386)       |
| Add non-cash expenses:                    |                    |                    |
| Depreciation expense                      | 3,449              | 4,396              |
| Changes in operating assets & liabilities |                    |                    |
| Account receivable                        | (7,682)            | (25,100)           |
| Inventory                                 | (35,753)           | 20,556             |
| Other assets                              | (4,413)            | -                  |
| Accounts payable                          | 25,178             | 112,885            |
| Other liabilities                         | 1,965              | 17                 |
| Cash used in operating activities         | <u>(42,583)</u>    | <u>(29,632)</u>    |
| CASH FLOW FROM INVESTING ACTIVITIES       |                    |                    |
| Purchase of equipment                     | <u>(29,024)</u>    | <u>(634)</u>       |
| Cash used in operating activities         | <u>(29,024)</u>    | <u>(634)</u>       |
| CASH FLOW FROM FINANCING ACTIVITIES       |                    |                    |
| Increase in credit card balance           | 21,901             | 17,084             |
| Increase in debt financing                | 45,330             | 17,095             |
| Cash provided by investing activities     | <u>67,231</u>      | <u>34,179</u>      |
| Net increase (decrease) in cash           | (4,376)            | 3,913              |
| Beginning cash balance                    | 6,320              | 1,944              |
| Ending cash balance                       | <u>\$ 1,944</u>    | <u>\$ 5,857</u>    |

**Proof of Concept, LLC****(dba "Barrow's Intense")****Financial Statements for the Years Ended December 31, 2014 and 2015**

---

**NOTE 1 – COMPANY**

Proof of Concept, LLC ("Barrow's Intense" or the "Company") was formed on April 22, 2011 and conducts business at its production facility in Brooklyn, New York. The Company is a New York Limited Liability Company and is a distiller of specialty spirits. The Company manufactures and bottles its flagship product, a ginger lacquer known as Barrow's Intense.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

All equipment is depreciated over its useful life.

The members have elected to be taxed as a Partnership for both Federal and State Income Tax purposes. The profits or losses of a Partnership are passed through to the members. The Partner is responsible for income taxes based on the profits of the Partnership and, in turn, receives the tax benefits of any loss of the Partnership. Therefore, no provision for income taxes has been made.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Inventories**

Inventories are stated at the lower of cost or market value. Inventory is comprised of the following:

|                  | 2014             | 2015             |
|------------------|------------------|------------------|
| Raw Materials    | \$ 2,983         | \$ 1,393         |
| Work in Progress | 3,610            | 2,973            |
| Finished Goods   | 30,179           | 11,850           |
| Total            | <u>\$ 36,772</u> | <u>\$ 16,216</u> |

***Proof of Concept, LLC***  
***(dba "Barrow's Intense")***

***Financial Statements for the Years Ended December 31, 2014 and 2015***

---

Concentration of Credit Risk

The company utilizes an exclusive distributor for substantially all its sales. Substantially all revenues are generated thru this distributor and substantially all accounts receivable are from this distributor. The distributor has exclusive rights to distribute in the United States of America for 5 years ending April of 2019 with an option to renew for up to five additional years. The agreement provides for a distribution fee and an additional equity incentive. The equity incentive is based on cases sold and ranges from two to ten percent. The equity grant would come in the form of non-voting, non-transferrable membership units and each grant would vest three years after it is granted provided relevant sales volumes are maintained.

**NOTE 3 - FIXED ASSETS**

The following is a list of fixed assets owned by the corporation at December 31:

|                                 | 2014      | 2015      |
|---------------------------------|-----------|-----------|
| <b>Distillery Equipment</b>     | \$ 27,870 | \$ 28,504 |
| <b>Leasehold Improvement</b>    | 2,300     | 2,300     |
| <b>Total</b>                    | 30,170    | 30,804    |
| <b>Accumulated Depreciation</b> | (14,806)  | (19,202)  |
| <b>Net Fixed Asset</b>          | \$ 15,364 | \$ 11,602 |

Both the Distillery Equipment and Leasehold Improvements have estimated useful lives of 5 years.

**NOTE 4 - DEBT**

Loans payable consist of the following.

A related party (a close relative of one of the founders) extended a loan to the Company with monthly interest payments at 2.75% and balloon payment due in 2023 and no penalty for early prepayment. Balances outstanding under this loan at December 31, 2014 and 2015 were \$50,000 and \$70,000, respectively.



**Proof of Concept, LLC****(dba "Barrow's Intense")****Financial Statements for the Years Ended December 31, 2014 and 2015**

Another loan had balances outstanding at December 31, 2014 and 2015 of \$0 and \$5,000, respectively. This loan was advanced by one of the founders of the Company. There are no set repayment terms, and it accrues no interest.

The Company entered into a capital lease arrangement with Universal Capital for equipment, with payments of \$631.67 for 36 months ending January 24, 2017 at 18.6%. Balances outstanding at December 31, 2014 and 2015 were \$15,300 and \$7,425, respectively.

The Companies outstanding debt obligations are reported the balance sheet

|                                       | 2014             | 2015            |
|---------------------------------------|------------------|-----------------|
| Current Portion of Long Term Debt     | \$ 7,906         | \$12,425        |
| Long Term Debt Net of Current Portion | 57,424           | 70,000          |
| Total Debt                            | <u>\$ 65,330</u> | <u>\$82,425</u> |

**NOTE 5 – COST OF GOODS SOLD RECONCILIATION**

|                                    | 2014             | 2015              |
|------------------------------------|------------------|-------------------|
| <b>Cost of Goods Sold</b>          |                  |                   |
| Beginning inventory                | \$ 1,019         | \$ 36,772         |
| Inventory added during the year    |                  |                   |
| Raw materials                      | 87,850           | 95,092            |
| Direct labor                       | 28,299           | 54,682            |
| Overhead                           | <u>1,681</u>     | <u>5,568</u>      |
| Total inventory available for sale | 118,849          | 192,114           |
| Ending Inventory                   | <u>36,772</u>    | <u>16,216</u>     |
| Total Cost of Goods Sold           | <u>\$ 82,077</u> | <u>\$ 175,898</u> |

**NOTE 6 – SALES & MARKETING EXPENSE BREAKDOWN**

|                                       | 2014              | 2015              |
|---------------------------------------|-------------------|-------------------|
| <b>Sales &amp; Marketing Expenses</b> |                   |                   |
| Sales                                 | \$ 58,433         | \$ 114,857        |
| Marketing & advertising               | <u>69,656</u>     | <u>171,492</u>    |
| Total sales & marketing expenses      | <u>\$ 128,089</u> | <u>\$ 286,349</u> |

**Proof of Concept, LLC****(dba "Barrow's Intense")****Financial Statements for the Years Ended December 31, 2014 and 2015****NOTE 7 – OTHER OPERATING EXPENSE DETAIL**

|                                 | <u>2014</u>       | <u>2015</u>       |
|---------------------------------|-------------------|-------------------|
| <b>Other Operating Expenses</b> |                   |                   |
| Bad Debt                        | \$ -              | \$ 758            |
| Bank Charges                    | 2,930             | 494               |
| Certification                   | 2,610             | 3,105             |
| Charitable Contributions        | 365               | 202               |
| Commissions & Fees              | 312               | 1,120             |
| Credit Card Fees                | 30                | -                 |
| Depreciation Expense            | 3,449             | 4,396             |
| Dues & Subscriptions            | 329               | 718               |
| Freight & Delivery              | 74                | -                 |
| Gifts                           | -                 | 520               |
| Health Insurance                | -                 | 22,230            |
| Insurance                       | 13,654            | 18,001            |
| Interest Expense                | 2,140             | 6,078             |
| Job Materials                   | 97                | 109               |
| Legal & Professional Fees       | 1,137             | 473               |
| Meals & Entertainment           | 1,848             | 1,106             |
| Miscellaneous                   | 354               | 232               |
| Non-Production Labor            | -                 | 30,000            |
| Office Expense                  | 2,261             | 1,810             |
| Other General Admin             | 2,507             | 4,617             |
| Online Services                 | 3,021             | 5,729             |
| Parking                         | 3,108             | 3,289             |
| Rent Expense                    | 35,354            | 40,682            |
| Repair & Maintenance            | 880               | 1,804             |
| Research & Development          | -                 | 62                |
| Shipping & Delivery             | 915               | 2,127             |
| Stationery & Printing           | 19                | -                 |
| Subcontractors                  | -                 | 773               |
| Supplies                        | 8,218             | 4,599             |
| Taxes & License                 | 19,811            | 35,669            |
| Tools                           | 1,977             | 420               |
| Travel                          | 8,280             | 24,582            |
| Utilities                       | -                 | 4,711             |
| Total other operating expenses  | <u>\$ 115,680</u> | <u>\$ 220,416</u> |