

# **Highclere Castle Spirits Investments LLC**

(a Connecticut Limited Liability Company)

## **Unaudited Consolidated Financial Statements**

Period of January 1, 2019 through December 31, 2020

Reviewed by:

**TaxDrop**

TaxDrop LLC  
A New Jersey CPA Company

## Financial Statements

### Highclere Castle Spirits Investments LLC

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CPA &amp; Advisor

**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

January 5, 2022

To: Board of Directors of Highclere Castle Spirits Investments LLC  
Attn: Peter Kowalczyk, COO

Re: 2020 and 2019 Consolidated Financial Statement Review

We have reviewed the accompanying consolidated financial statements of Highclere Castle Spirits Investments LLC (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020 and December 31, 2019 and the related statements of income, equity, and cash flows for the period of January 1, 2019 through December 31, 2020, 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 limited in scope compared to 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 control 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 consolidated financial statements of Highclere Castle Spirits Investments LLC for them to be in accordance with accounting principles generally accepted in the United States of America.

Sincerely,



TaxDrop LLC

A New Jersey CPA Company

**Highclere Castle Spirits Investments LLC**  
**CONSOLIDATED BALANCE SHEET**  
**Years Ended December 31, 2020 and December 31, 2019**  
**(Unaudited)**

ASSETS	2020	2019
<b>Current Assets</b>		
Cash and cash equivalents	707,639	803,896
Accounts Receivable	249,604	304,813
Inventory	970,443	987,247
Other Assets	5,252	5,252
<b>Total Current Assets</b>	<b>1,932,938</b>	<b>2,101,208</b>
<b>Total Assets</b>	<b>1,932,938</b>	<b>2,101,208</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	134,091	120,791
Credit Card Payable	30,714	98,185
<b>Total Current Liabilities</b>	<b>164,805</b>	<b>218,976</b>
<b>Long-Term Liabilities</b>		
Loan Payable	557,383	506,712
<b>Total Long-Term Liabilities</b>	<b>557,383</b>	<b>506,712</b>
<b>Total Liabilities</b>	<b>722,188</b>	<b>725,688</b>
Stockholders' equity		
Members Contribution	5,729,600	4,262,251
Retained Earnings	(2,886,731)	(702,081)
Net Income	(1,632,120)	(2,184,650)
<b>Total Stockholders' Equity</b>	<b>1,210,750</b>	<b>1,375,520</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>1,932,938</b>	<b>2,101,208</b>

See accompanying notes to the financial statements

**Highclere Castle Spirits Investments LLC**  
**CONSOLIDATED INCOME STATEMENT**  
**Years Ended December 31, 2020 and December 31, 2019**  
**(Unaudited)**

	<b>2020</b>	<b>2019</b>
Revenues	895,860	763,728
Cost of revenues	258,859	227,436
<b>Net Profit</b>	<b>637,001</b>	<b>536,291</b>
<b>Operating Expenses</b>		
General and administrative	365,515	449,004
Payroll	537,116	896,498
Professional Services	22,091	22,142
Marketing and Advertising	1,301,376	1,191,796
Interest/Depreciation/Amortization	50,671	161,502
<b>Total Operating Expenses</b>	<b>2,276,768</b>	<b>2,720,941</b>
<b>Other Income</b>		
Other income/expense	7,648	-
<b>Total Operating Expenses</b>	<b>7,648</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>(1,632,120)</b>	<b>(2,184,650)</b>

See accompanying notes to the financial statements

**Highclere Castle Spirits Investments LLC**  
**CONSOLIDATED STATEMENT OF MEMBERS' EQUITY**  
**Years Ended December 31, 2020 and 2019**  
**(Unaudited)**

	Member Units	Member Contributions	Retained Earnings	Total Stockholders' Deficit
<b>Balance as of January 1, 2019</b>	<b>9,067</b>	<b>1,000,000</b>	<b>(702,081)</b>	<b>297,919</b>
Members Contribution	2,081	3,262,251	-	3,262,251
Net loss	-	-	(2,184,650)	(2,184,650)
<b>Balance as of December 31, 2019</b>	<b>11,148</b>	<b>4,262,251</b>	<b>(2,886,731)</b>	<b>1,375,520</b>
Members Contribution	1,029	1,467,350	-	1,467,350
Net loss	-	-	(1,632,120)	(1,632,120)
<b>Balance as of December 31, 2020</b>	<b>12,177</b>	<b>5,729,600</b>	<b>(4,518,851)</b>	<b>1,210,750</b>

See accompanying notes to the financial statements

**Highclere Castle Spirits Investments LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2020 and 2019**  
**(Unaudited)**

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	\$ (1,632,120)	\$ (2,184,650)
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation & Amortization	-	154,790
Accrued Interest	50,671	6,712
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	55,209	(302,072)
(Increase) Decrease in inventory	16,803	(987,247)
(Increase) Decrease in other assets	-	(2,652)
Increase (Decrease) in accounts payable	13,301	100,079
Increase (Decrease) in credit cards	(67,471)	98,185
<b>Net cash provided by (used in) operating activities</b>	<b>(1,563,607)</b>	<b>(3,116,854)</b>
<b>Cash Flows from Investing Activities</b>		
Machinery and Equipment	-	(76,358.86)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(76,359)</b>
<b>Cash Flows from Financing Activities</b>		
Members Contribution	1,467,350	3,262,251
Loans	-	500,000
Retained Earnings Adjustment	-	(2,072)
<b>Net cash used in financing activities</b>	<b>1,467,350</b>	<b>3,760,179</b>
<b>Net change in cash and cash equivalents</b>	<b>(96,257)</b>	<b>566,966</b>
Cash and cash equivalents at beginning of period	803,896	236,930
<b>Cash and cash equivalents at end of period</b>	<b>\$ 707,639</b>	<b>\$ 803,896</b>

See accompanying notes to the financial statements

**HIGHCLERE CASTLE SPIRITS INVESTMENTS LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended December 31, 2020 and December 31, 2019**  
**(unaudited)**

**NOTE 1 – NATURE OF OPERATIONS AND CONSOLIDATION**

Highclere Castle Spirits Investments LLC (which may be referred to as the “Company”, “we,” “us,” or “our”) was registered in Connecticut on December 19, 2017. The Company produces, markets, and distribute super premium Highclere Castle branded spirits, focused on gin and ultimately whiskey. The Company’s headquarters are in Essex, Connecticut and United Kingdom headquarters in Newbury, UK. The company began operations in 2018. The Company owns one wholly-owned subsidiary, Highclere Castle Spirits LLC, formed as a Connecticut Limited Liability Company on January 3, 2018.

Since Inception, the Company has relied on contributions from owners and securing loans to fund its operations. As of December 31, 2020, the Company had negative working capital and will likely incur additional losses prior to generating positive working capital. These matters raise substantial concern about the Company’s ability to continue as a going concern (see Note 8). During the next twelve months, the Company intends to fund its operations with funding from a crowdfunding campaign (see Note 9), and funds from revenue producing activities, if and when such can be realized. If the Company cannot secure additional short-term capital, it may cease operations. These financial statements and related notes thereto do not include any adjustments that might result from these uncertainties.

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

**Basis of Presentation**

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“US GAAP”). Any reference in these notes to applicable guidance is meant to refer to U.S. GAAP as found in the Accounting Standards Codification (“ASC”) and Accounting Standards Updates (“ASU”) of the Financial Accounting Standards Board (“FASB”).

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could materially differ from these estimates. It is reasonably possible that changes in estimates will occur in the near term.

Significant estimates inherent in the preparation of the accompanying financial statements include valuation of provision for refunds and chargebacks, equity transactions and contingencies.

**Risks and Uncertainties**

The Company has a limited operating history. The Company's business and operations are sensitive to general business and economic conditions in the United States. A host of factors beyond the Company's control could cause fluctuations in these conditions. Adverse conditions may include recession, downturn or otherwise, local competition or changes in consumer taste. These adverse conditions could affect the Company's financial condition and the results of its operations.

**Concentration of Credit Risk**

The Company maintains its cash with a major financial institution located in the United States of America, which it believes to be credit worthy. The Federal Deposit Insurance Corporation insures balances up to \$250,000. At times, the Company may maintain balances in excess of the federally insured limits.

### Cash and Cash Equivalents

The Company considers short-term, highly liquid investment with original maturities of three months or less at the time of purchase to be cash equivalents. Cash consists of funds held in the Company's checking account. As of December 31, 2020 and 2019, the Company had \$707,639 and \$803,896 of cash on hand, respectively.

### Receivables and Credit Policy

Trade receivables from wholesale customers are uncollateralized customer obligations due under normal trade terms, primarily requiring pre-payment before services are rendered. Trade receivables are stated at the amount billed to the customer. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoice. The Company, by policy, routinely assesses the financial strength of its customer. As a result, the Company believes that its accounts receivable credit risk exposure is limited and it has not experienced significant write-downs in its accounts receivable balances. As of December 31, 2020 and 2019, the Company had \$249,604 and \$304,813 in accounts receivable, respectively.

### Inventory

Inventories are stated at the lower of cost or market value. Cost is determined by the average cost method.

### Fixed Assets

Property and equipment exist in the form of manufacturing tooling and are recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

Depreciation is provided using the straight-line method, based on useful lives of the assets which is three to five years.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment for December 31, 2020 and 2019.

### Fair Value Measurements

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and such principles also establish a fair value hierarchy that prioritizes the inputs used to measure fair value using the following definitions (from highest to lowest priority):

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.
- Level 3 – Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable.

### Income Taxes

Income taxes are provided for the tax effects of transactions reporting in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, inventory, property and equipment, intangible assets, and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

There is no income tax provision for the Company for the period from Inception through December 31, 2020 and 2019 as the Company had no taxable income.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2020, the unrecognized tax benefits accrual was zero.

### Revenue Recognition

Effective January 1, 2019, the Company adopted Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606"). Revenue is recognized when performance obligations under the terms of the contracts with our customers are satisfied. Prior to the adoption of ASC 606, we recognized revenue when persuasive evidence of an arrangement existed, delivery of products had occurred, the sales price was fixed or determinable and collectability was reasonably assured. The Company generates revenues by selling premium spirits such as gin and whisky. The Company's payments are generally on a Net 30 term, and may allow for longer terms depending on the customer. The Company has revenue totaling \$895,860 and \$763,728 on December 31, 2020 and 2019, respectively.

### Organizational Costs

In accordance with FASB ASC 720, organizational costs, including accounting fees, legal fee, and costs of incorporation, are expensed as incurred.

### Advertising

The Company expenses advertising costs as they are incurred. Such costs approximated \$1,301,376 and \$1,191,796, respectively, for the years ended December 31, 2020 and 2019.

### Recent Accounting Pronouncements

In February 2019, FASB issued ASU No. 2016-02, Leases, that requires organizations that lease assets, referred to as "lessees", to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with lease terms of more than 12 months. ASU 2019-02 will also require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases and will include qualitative and quantitative requirements. The new standard for nonpublic entities will be effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, and early application is permitted. We are currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

In June 2018, FASB amended ASU No. 2018-07, Compensation – Stock Compensation, to expand the scope of Topic 718, Compensation – Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The new standard for nonpublic entities will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, and early application is permitted. We are currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

In August 2018, amendments to existing accounting guidance were issued through Accounting Standards Update 2018-15 to clarify the accounting for implementation costs for cloud computing arrangements. The amendments specify that existing guidance for capitalizing implementation costs incurred to develop or obtain internal-use software

also applies to implementation costs incurred in a hosting arrangement that is a service contract. The guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, and early application is permitted. We are currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

The FASB issues ASUs to amend the authoritative literature in ASC. There have been a number of ASUs to date, including those above, that amend the original text of ASC. Management believes that those issued to date either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to us or (iv) are not expected to have a significant impact our financial statements.

#### NOTE 3 – INVENTORIES

At December 31, 2020 and 2019 inventories consist of the following:

	<b>2020</b>	<b>2019</b>
Finished goods and packaging	970,443	987,247
Total Inventory	<u>\$ 970,443</u>	<u>\$ 987,247</u>

#### NOTE 4 – LOANS

In 2019, the Company entered into a promissory note for \$500,000 with maturity dates of November 12, 2024, accruing at 10% interest per annum. The balance of the note and accrued interest as of December 31, 2020 and December 31, 2019 is \$557,383 and \$506,712.

#### NOTE 5 – INCOME TAXES

The Company has filed its income tax return for the period ended December 31, 2020 and 2019, which will remain subject to examination by the Internal Revenue Service under the statute of limitations for a period of three years from the date it is filed. The Company is taxed as a partnership.

#### NOTE 6 – MEMBERS EQUITY

##### Member Units

The Company has authorized 25,000 units available to issue. In 2019, the Company issued 2,081 units for \$3,262,251. In 2020, the Company issued 1,029 member units for \$1,467,350. As of December 31, 2020, the Company had 12,117 units outstanding. As of December 31, 2019, the Company had 11,148 units outstanding.

#### NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Company is not currently involved with and does not know of any pending or threatening litigation against the Company as of December 31, 2020 and 2019 (see Note 13 – Subsequent Events).

The Company entered into a Commercial Lease in January 2018 with Macbeth Ventures, LLC for an office space located in Connecticut. The term of the lease is one (3) year term, commencing March 1, 2018 and terminating February 28, 2021. The lease expense for the years ended December 31, 2020 and 2019 totaled \$27,108 and \$24,096, respectively.

#### COVID-19

In January 2020, the World Health Organization has declared the outbreak of a novel coronavirus (COVID-19) as a “Public Health Emergency of International Concern,” which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus outbreak and government responses are creating disruption in global supply chains and

adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Company, its performance, and its financial results.

#### NOTE 8 – GOING CONCERN

These financial statements are prepared on a going concern basis. The Company began operation in 2018 and incurred a loss since inception. The Company's ability to continue is dependent upon management's plan to raise additional funds and achieve profitable operations. The financial statements do not include any adjustments that might be necessary if the Company is not able to continue as a going concern.

#### NOTE 9 – SUBSEQUENT EVENTS

##### Litigation

As of December 2021, the Company is currently in receipt of a Notice of Violation from the Commonwealth of Massachusetts Alcoholic Beverages Control Commission. A hearing is scheduled for January 25, 2022. The alleged violation involves the online sale of a bottle of Highclere Castle Gin to an individual consumer (the "Sale"). The Sale, though facilitated through the Company's website, was in all respects handled by licensed third-parties, and the Company strongly believes no actual violation has occurred. The Company has retained local counsel in Massachusetts to represent the Company at the hearing.

##### Convertible Notes

In 2021 the Company issued \$400,000 of 6% unsecured convertible notes (the "Notes") due in 2026. The Notes are due on the Maturity Date with accrued interest if the Notes do not convert prior to the maturity date. The Notes are automatically convertible into preferred stock on the completion of an equity offering.

##### Promissory Note

The Company entered into a loan agreement with Navigant Oak, LLC for \$500,000 at 10% interest with a maturity date of January 1, 2023. There are no prepayment penalties, but repayment is conditioned on the Company raising money prior to repayment. In order to repay up to \$250,000, the Company must raise \$1,000,000. In order to repay in full, the Company must raise \$2,000,000. Failure to raise those minimums means the loan balance will convert to equity in the Company on the maturity date.

##### Crowdfunded Offering

The Company is offering (the "Crowdfunded Offering") up to \$1,070,000 in direct equity member units. The Company is attempting to raise a minimum amount of \$50,000 in this offering and up to \$1,070,000 maximum. The Company must receive commitments from investors totaling the minimum amount by the offering deadline listed in the Form C, as amended in order to receive any funds.

The Crowdfunded Offering is being made through WeFunder Portal LLC (the "Intermediary" aka "Republic" or "Republic.co"). The Intermediary will be entitled to receive a 5% cash commission fee of total proceeds received in this offering.

##### Management's Evaluation

Management has evaluated subsequent events through January 5, 2022, the date the financial statements were available to be issued. Based on this evaluation, no additional material events were identified which require adjustment or disclosure in the financial statements.