



ALT Distilling, Inc.
Attn: Becca Gardner

Wells Group of New York, Inc.
166 Fifth Ave
New York NY 10010

Dear Mrs. Gardner

We, Wells Group of New York, Inc. ("WGN"), have performed consulting services for ALT Distilling, Inc. ("the Client") to assess reasonableness of financial data provided for Alt Distilling, Inc ("the Company"). WGN reviewed the consolidated Profit & Loss ("P&L"), Balance Sheet and Cash Flow statements to verify that financial statements were prepared on an accrual basis and were reported with a reasonable level of accuracy (based on materiality). WGN also made efforts to differentiate between material deviations from accrual basis accounting and immaterial deviations from accrual basis accounting.

The sufficiency of the services is solely the responsibility of the Management of the Client. Consequently, we make no representations regarding the sufficiency of the procedures described herein either for the purpose for which this report has been requested or for any other purpose.

For the purpose of this engagement, we have accepted as accurate the accounting records of the Company and therefore, we are not directly responsible for such accuracy. However, we have made best efforts to assess level of accuracy. Similarly, we have relied on the accuracy of the representations provided to us by the Management of the Company. Except as otherwise stated, we did not corroborate such representations and information.

We were not engaged to, and did not perform an audit, the objective of which would be an expression of an opinion on the specific elements, accounts, or items. Accordingly, we do not express such an opinion. Also, we express no opinion on the Company's internal control systems over financial reporting or any part thereof.

In performing the specified procedures to verify balances of key General Ledger accounts, we have accumulated data and prepared various analysis. The procedures performed and related findings are presented in the attached report.

Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the use of the Client and should not be used by those who have not taken responsibility for the sufficiency of the procedures for their purposes. It may not be released to any third party without our prior written consent.

Sincerely,

A handwritten signature in black ink, appearing to read "Evan Zawatsky".

Evan
Zawatsky, CPA
Partner
November 20, 2023

NOTICE TO READER

Limits on Distribution and Scope

Limits on report distribution

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- The reader acknowledges and agrees that access to this report is being provided for informational purposes only and that the reader is responsible for determining the scope of, and performing, any other investigative procedures with respect to the matter covered by this report and otherwise.

Limited scope

The data included in this report has been extracted from information supplied to us during discussions with the Company and through records provided to us by the Company. Except where otherwise stated, our procedures focused on information provided by the Company.

The procedures we performed were limited to those which the Client determined best meet their informational needs and, as such, our procedures do not constitute an audit of the financial statements or an examination of internal controls. We have not independently verified the information gathered or contained in this report and, accordingly, express no opinion and make no representations concerning its accuracy or completeness. There may be items fulfilled in our procedures that are not reported on.

In accordance with the terms of our engagement, this report may not be suited for any purpose other than to assist the Client in their evaluation of the Company, and, as such, for the Client's internal use only or for use by any external party that his report was directly created for. Given the fact that many aspects of the transaction have either not been finalized or are not yet documented, certain changes may materially affect the financial information we have received and included in this report. We have no obligation to update our report or to revise the information contained herein because of events and transactions occurring subsequent to the date of this report.

Currency

Unless otherwise indicated, dollar amounts in this report are in US dollars and in thousands.

COMPANY OVERVIEW

Company Background and Summary Financial Information

Summary Income Statement

Income Statement			
	2021	2022	Jan-July 2023
Sales	-	97,296	140,009
Cost of Goods Sold	-	44,621	65,873
Gross Profit	-	52,675	74,136
Total Expenses	242,998	556,148	272,528
Net Operating Income	(242,998)	(503,473)	(198,393)
Other Income	-	-	197
Depreciation and Interest Expenses	10,303	45,875	30,236
Net Income	(253,301)	(549,348)	(228,431)

Basis of Presentation

The tables to the left and throughout this report present the Company's income statement and balance sheet

Company Background

- The Company produces low and zero-proof alternative beverages with a focus on Wholesale and DTC markets.
- The Company's primary source of revenue is sales of its zero-proof beverage, which is available in three flavors, Whiskey, Gin and Tequila, and is sold in single bottles or packs of six.
- The Company incurs operating expenses to manage and maintain its business. Significant expenses included payments to contractors, payroll and fulfillment costs.

Profit and Loss Statement

Income Statement

Income Statement			
	2021	2022	Jan-July 2023
Sales	-	97,296	140,009
Cost of Goods Sold	-	44,621	65,873
Gross Profit	-	52,675	74,136
Expenses			
Advertising & Marketing	13,359	70,080	8,394
Payroll and Benefits	83,195	259,072	120,289
Professional Fees	76,885	80,739	110,145
Fulfillment	128	12,243	20,559
Bank Charges & Fees	659	436	851
Office, Software, and Supplies Expense	1,728	8,261	6,597
General and Administrative	25,437	104,690	4,152
Research and Development	41,607	20,627	1,541
Total Expenses	242,998	556,148	272,528
Net Operating Income	(242,998)	(503,473)	(198,393)
Other Income	-	-	197
Depreciation and Interest Expenses	10,303	45,875	30,236
Net Income	(253,301)	(549,348)	(228,431)

P&L Commentary

- P&L is, within reason, reported on an accrual basis. The Company makes its best efforts to prepare accrual financials on a monthly and annual basis.
- **Revenue** is predominantly made up of beverage sales and is recognized upon shipment. WGNV reviewed DTC and Wholesale source data and confirmed it aligned with the financial statements. In addition, WGNV inquired within the Company for material transactions and confirmed the ship date to ensure revenue was recognized in the appropriate period.
- **Costs of Goods Sold** includes the unit cost of sold product. This unit cost includes raw materials, production, and freight. WGNV recalculated the cost of goods sold expense for the 2023 year and ensured expenses were appropriately classified in the correct period.
- WGNV reviewed the **Payroll and Benefits** account and found that the amounts within are reasonable and consistent with normal payroll operations.
- The Company's **Fulfillment** expenses include the cost of storing, packing, and distributing the product from the company's third-party warehouse to the customer. WGNV reviewed this activity for reasonableness noting it is within the scope of business operations.
- The **Professional Fees** account consists of legal, professional, and contractor fees. WGNV reviewed these expenses for reasonableness and noted all expenses were within the scope of business operations.
- WGNV reviewed the remaining **Operating Expenses** for reasonableness and found that amounts recorded for operating expenses were in line with a Company in the business line of selling non-alcoholic beverages. WGNV reviewed the general ledger detail to assess the reasonableness of vendors recorded as well as the timing of expenses to assess adherence to accrual standards.
- **Depreciation and Interest Expense** is for a piece of equipment known as a Rotovap, which is used in production of the non-alcoholic beverages. This asset has a useful life of 5 years and is carried on the balance sheet at cost less accumulated depreciation. Prior to 2023, depreciation expense was booked on a yearly basis using the straight-line method. In 2023, depreciation is booked monthly. WGNV recalculated depreciation and tied out to the financial statements without exception. Interest Expense relates to accrued interest on the outstanding Convertible Notes. WGNV recalculated accrued interest and tied to the financial statements.

Balance Sheet

Balance Sheet

Balance Sheet				
As of:	Dec 31 2021	Dec 31 2022	July 31 2023	
ASSETS				
Current Assets				
Cash and Cash Equivalents	588,964	290,714	288,622	
Accounts Receivable	-	15,389	44,579	
Inventory	79,055	254,103	192,498	
Other Current Assets	2,473	-	728	
Total Current Assets	670,492	560,206	526,427	
Fixed Assets (Net)	3,912	7,200	6,150	
TOTAL ASSETS	674,404	567,406	532,577	
LIABILITIES AND EQUITY				
Liabilities				
Current Liabilities				
Accounts Payable	10,827	6,606	13,970	
Other Current Liabilities	14,988	8,112	15,318	
Total Current Liabilities	25,815	14,718	29,289	
Convertible Notes	935,303	1,314,326	1,493,357	
Total Liabilities	961,118	1,329,044	1,522,646	
Equity				
Retained Earnings	(48,159)	(301,459)	(850,807)	
Net Income	(253,301)	(549,348)	(228,431)	
Stockholders Equity	14,746	89,169	89,169	
Total Equity	(286,713)	(761,638)	(990,069)	
TOTAL LIABILITIES AND EQUITY	674,404	567,406	532,577	

Balance Sheet Commentary

- WGNV reviewed all material GL accounts of the Balance Sheet and obtained supporting work papers and methodology and/or support for each:
- **Cash and Cash Equivalents:** Bank reconciliations were obtained and reviewed for all bank and lockbox accounts, allowing WGNV to deem balances as per the balance sheet to be reasonable.
- **Accounts Receivables:** The Company's accounts receivables are mainly with Wholesale partners. The typical terms of these sales are net 30. The Company has had limited collections issues and therefore does not have an allowance for doubtful accounts. WGNV reviewed the outstanding receivables for reasonableness and ensured that there were no long outstanding balances.
- **Inventory:** The company's inventory is broken down into two categories, finished goods and materials. Finished goods include products that are readily available for sale, while materials include any raw materials or work in process. WGNV reviewed transaction-level details and confirmed that the items were correctly categorized between raw materials and finished goods.
- **Fixed Assets (Net):** WGNV obtained the support for the fixed asset, a Rotovap, and verified that the amounts recorded for fixed asset on the balance sheet, totaling \$6k as of July 2023, were within a reasonable variance of the purchases amount. Additionally, WGNV reperformed the depreciation calculation for the years 2021 to July 2023. WGNV assumed a useful life of 5 years for the equipment. WGNV estimated accumulated depreciation to be \$4.6k from 2021 to July 2023.
- **Other Current Liabilities:** WGNV reviewed the other current liabilities account consisting of Credit Card expenses and Accrued Expenses which are for contractor fees. WGNV tied out the credit card to statements from Chase Bank noting they agreed within a reasonable amount. Accrued Expenses were reviewed for reasonableness with no exceptions noted.
- **Convertible Notes:** The convertible notes account contains the balance of convertible notes held with shareholders as well as the related accrued interest. WGNV reviewed the original documentation for the convertible notes and tied out all but \$25k relating to an entry outside the period in scope. WGNV noted no cash flow implications with the \$25k entry. WGNV also recalculated the accrued interest on the convertible notes without exception.
- **Stockholders Equity:** WGNV reviewed shareholders' equity activity from 2021 through July 2023 for accuracy and tied out all to supporting documentation.

Consolidated Statements of Equity

Consolidated Statements of Equity December 31, 2021 & 2022	Common Stock		Retained Earnings (Accumulated Deficit)		Total
	Shares	Amount			
Beginning Balance, January 1, 2021	9,000,000	\$ 900	\$	(48,159)	(47,259)
Issuance of Stock	11,000,000				
Stock Based Compensation Expense		13,846			13,846
Net Loss				(253,301)	(253,301)
Ending Balance, December 31, 2021	20,000,000	\$ 14,746		(301,459)	(286,713)
Issuance of Stock	3,749,999	-			-
Repurchase/Cancellation of Common Stock	(2,307,692)	-			-
Stock Based Compensation Expense		74,423			
Net Loss				(549,348)	(549,348)
Ending Balance, December 31, 2022	21,442,307	\$ 89,169		(850,807)	(761,638)

Statement of Cashflows

Statement of Cash Flows			
	2021	2022	Jan-July 2023
OPERATING ACTIVITIES			
Net Income	(253,301)	(549,348)	(228,431)
Adjustments to Net Cash provided by operations:			
Accounts Receivable (A/R)	-	(14,444)	(28,280)
Inventory	(79,055)	(175,047)	61,605
Other Current Assets	(2,473)	2,473	(728)
Depreciation Expense	-	1,800	1,050
Accumulated Depreciation	-	-	-
Accounts Payable (A/P)	10,827	(4,221)	7,364
Other Current Liabilities	14,988	(6,876)	7,206
Total Adjustments to Net Cash provided by operations:	(55,713)	(196,315)	48,217
Net cash provided by operating activities	(309,014)	(745,663)	(180,214)
INVESTING ACTIVITIES			
PP&E	(3,912)	(5,088)	-
Net cash provided by investing activities	(3,912)	(5,088)	-
FINANCING ACTIVITIES			
Accrued Interest Expense	10,303	44,024	29,031
Convertible Notes	875,000	335,000	150,000
Common Stock	13,846	74,423	-
Net cash provided by financing activities	899,149	453,447	179,031
Net cash increase for period	586,223	(297,304)	(1,183)

Financial Disclosures

Summary of Accounting Policies

Revenue Recognition: The Company recognizes revenue when: (1) persuasive evidence exists of an arrangement with the customer reflecting the terms and conditions under which products or services will be provided; (2) delivery has occurred, or services have been provided; (3) the fee is fixed or determinable; and (4) collection is reasonably assured. Revenues are generally recognized upon shipment of a sale. The Company has recorded \$237,304 in revenue from 2021 through July 31, 2023.

Accounts Receivable: The Company's receivables are recorded when billed and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables represents their estimated net realizable value. The Company does not have an allowance for doubtful accounts nor does The Company record bad debts. As of July 31, 2023, the accounts receivable balance was \$42,723.

Fixed Assets: Equipment on the balance sheet is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset.

Inventory: Inventory is stated at cost on the balance sheet and is expensed to cost of goods sold using a weighted average costing method. As of July 2023, The Company has not performed a physical inventory count. As of July 31, 2023, the balance of inventory related to raw materials totaled \$25,090 and the balance related to finished goods inventory was \$167,407.

Advertising Expense: The Company expenses advertising costs as they are incurred.

Stockholders' Equity: Under the articles of incorporation, the total number of common shares of stock that the Company has the authority to issue is 30,000,000. As of July 31st, 2023, 21,442,307 shares are outstanding. Alt Distilling, Inc, books stock-based compensation on an annual basis. Stock based compensation expense is included in General and Administrative expenses. In 2021 and 2022 Alt Distilling, Inc incurred \$13,846 and \$74,423 in stock-based compensation expenses, respectively. Alt Distilling, Inc has not booked 2023 compensation expense in the reporting period presented.