

FARADAY LABS, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT ACCOUNTANT'S REVIEW REPORT
DECEMBER 31, 2020 and 2019

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MB&F

Mayne, Blumstein & Fingold CPAs LLP

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To Management
Faraday Labs, Inc
Santa Monica, CA

We have reviewed the accompanying financial statements of Faraday Labs, Inc (a C corporation), which comprise the balance sheets as of December 31, 2020, and December 31, 2019, and the related statements of income and retained earnings and cash flows 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 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.

We are required to be independent of Faraday Labs, Inc and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

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.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 7, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Mayne, Blumstein & Fingold CPAs LLP

Mayne, Blumstein & Fingold CPAs LLP
Merrick, New York

February 17, 2022

Faraday Labs, Inc.
Balance Sheet
Statement of Income / (Loss)

	<u>2020</u>	<u>2019</u>
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 193,245	\$ 177,373
Accounts Receivable	89	-
Inventory	355,010	12,525
Other current Assets	7,678	-
Total current assets	<u>556,022</u>	<u>189,898</u>
<u>Long-Term Assets</u>		
Fixed Assets, Net	3,920	-
Intangible Assets, Net	190	5,949
Total long-term assets	<u>4,110</u>	<u>5,949</u>
Total Assets	<u>560,132</u>	<u>195,847</u>
<u>Current Liabilities:</u>		
Accounts Payable	185,203	-
Accrued Expenses	4,745	10,488
Credit Cards Payable	58,706	3,688
Gift Cards Payable	2,585	-
Payroll Liabilities	420	-
Loans Payable	138,854	159,565
PPP Loan	64,140	-
Sales Tax Payable	19,598	3,424
Total current liabilities	474,251	177,165
<u>Long Term Liabilities</u>		
Convertible Notes	-	650,000
Total Liabilities	<u>474,251</u>	<u>827,165</u>
<u>Stockholder's Equity:</u>		
Common Stock	1,700	-
Preferred Stock	538	-
Safe Notes	-	127,723
Additional Paid-in-capital	1,835,342	-
Retained Earnings	(1,751,699)	(759,041)
Total Stockholders' Equity	<u>85,881</u>	<u>(631,318)</u>
Total Liabilities & Equity	<u>\$ 560,132</u>	<u>\$ 195,847</u>

See independent accountant's review report and accompanying notes to financial statements.

Faraday Labs, Inc.
Statement of Income / (Loss)
For the Year Ended December 31, 2020

	<u>2020</u>	<u>2019</u>
Net Revenues	\$ 2,869,831	\$ 433,942
Cost of Revenues	1,504,782	384,124
Gross Profit	<u>1,365,049</u>	<u>49,818</u>
Operating Expenses:		
Sales and Marketing	1,381,597	308,826
General and Administrative	953,173	444,140
Total Operating Expenses	<u>2,334,770</u>	<u>752,966</u>
Operating Loss	(969,721)	(703,148)
Other Income / (Expense):		
Interest Income	63	-
Interest Expense	(20,247)	(9,612)
Amortization Expense	(429)	(481)
Depreciation Expense	(1,224)	-
Fines and Penalties	(1,101)	-
Total Other (Expense)	<u>(22,938)</u>	<u>(10,093)</u>
Net Loss	<u>\$ (992,659)</u>	<u>\$ (713,241)</u>

See independent accountant's review report and accompanying notes to financial statements.

Faraday Labs, Inc
Statement of Cash Flows

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Net Loss	\$ (992,659)	\$ (713,241)
Depreciation	1,224	-
Amortization	429	481
Adjustments to reconcile net (loss) to net cash provided		
Increase in Accounts Receivable	(89)	-
Increase in Inventory	(342,485)	(9,525)
Increase in Prepaid Expenses	(7,678)	-
Increase in Accounts Payable	185,203	-
Increase in Other Liabilities	68,457	(18,464)
Net Cash Used by Operating Activities	<u>(1,087,598)</u>	<u>(740,749)</u>
Purchase of Fixed Assets	(5,144)	-
Write Off (Payment) of Loan Fees	5,330	(5,330)
Purchase of Trademark/Patent	-	(1,100)
Net Cash Used by Investing Activities	<u>186</u>	<u>(6,430)</u>
Financing Activities		
PPP Loan Proceeds	64,140	-
(Conversion) Issuance of SAFEs	(127,723)	127,723
(Pay Down) Issuance of Loans	(20,713)	68,105
(Conversion) Issuance of Convertible Notes	(650,000)	650,000
Issuance of Common Stock	1,700	-
Issuance of Preferred Stock	538	-
Additional Paid in Capital	1,835,342	-
Net Cash Provided by Financing Activities	<u>1,103,284</u>	<u>845,828</u>
Net Increase / (Decrease) In Cash and Cash Equivalents	15,872	98,649
Cash and Cash Equivalents, Beginning of Year	177,373	78,724
Cash and Cash Equivalents, End of Year	<u>\$ 193,245</u>	<u>\$ 177,373</u>
<u>Supplemental disclosures:</u>		
Interest paid:	\$20,247	\$9,612
Taxes paid:	\$2,802	\$1,150

See independent accountant's review report and accompanying notes to financial statements.

Faraday Labs, Inc
Statements of Stockholders' Equity
For the Years Ended December 31, 2020 and 2019

	Total
	Stockholders' Equity
Balance as of January 1, 2019	\$ (45,800)
Issuance of Safe Notes	127,723
Net Income (Loss)	(713,241)
Balance as of December 31, 2019	\$ (631,318)
Common Stock	1,700
Preferred Stock	538
Conversion of SAFE Notes	(127,723)
Additional Paid-In Capital	1,835,342
Net Income (Loss)	(992,659)
Balance as of December 31, 2020	\$ 85,881

See independent accountant's review report and accompanying notes to financial statements.

Faraday Labs, Inc.
Notes to the Financial Statements for the
Years Ending December 31, 2020 and 2019

NOTE 1 – NATURE OF OPERATIONS

Faraday Labs, Inc. (which may be referred to as “the Company”, “we,” “us,” or “our”) was registered in Delaware on July 17, 2018. The Company is a direct-to-consumer that produces health enhancing apparel. The Company’s headquarters are in Santa Monica, California. The company began operations in 2018.

Since Inception, the Company has relied on contributions from owners, the issuance of convertible notes, and securing loans to fund its operations. During the next twelve months, the Company intends to fund its operations with funding from a crowdfunding campaign, and funds from revenue producing activities. 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 accompanying unaudited financial statements do not include all the information and notes required by GAAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for the fair presentation of the unaudited financial statements for the years presented have been included.

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.

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 \$193,245 and \$177,373 of cash on hand, respectively.

Receivables and Credit Policy

The company deals with one major business segment. 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 \$89 and \$0 in accounts receivable, respectively.

Inventory

Inventories are stated at the lower of cost or market value. Cost is determined by the first-in, first out (FIFO) method.

Fixed Assets

Property and equipment 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. There was \$1,224 and \$0 depreciation expense for the years ended December 31st, 2020 and 2019, respectively.

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 as of December 31, 2020 and 2019, respectively.

NOTE-2 INTANGIBLE ASSETS

IRS Section 197—Amortization of Goodwill and Certain Other Intangibles: this section relates to certain intangible assets acquired after August 10, 1993 and assets held in connection with the conduct of a trade or business or an activity described in Section 212. Section 197(a) provides that a taxpayer is entitled to an amortization deduction over a 15- year period beginning with the month in which the intangible was acquired. As of December 31, 2020 the company currently has one Patent on the books with an aggregate gross carrying amount of \$1,100 and an aggregate amortization expense for the year ending December 31, 2020 of \$429. The significant decrease in these assets is derived from the write off of loan fees.

Intangible assets on December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Patent and Loan Fees	\$1,100	\$6,430
Accumulated Amortization	<u>910</u>	<u>481</u>
Total	<u>\$190</u>	<u>\$5,949</u>

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, as the Company had no taxable income.

Revenue Recognition

The company's sales are derived from the sale of goods with revenue being recognized when persuasive evidence of an arrangement existed, the sale had occurred, the sales price was fixed or determinable and collectability was reasonably assured. In evaluating the if the Company adopted Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606") the company felt it was already recognizing revenue when performance obligations under the terms of the contracts with our customers are satisfied. The Company generates revenues by selling.

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 \$1,381,597 and \$308,826 for the years ended December 31, 2020, and December 31, 2019, respectively.

Recent Accounting Pronouncements

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 – FIXED ASSETS

Property and equipment 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.

Fixed assets on December 31, 2020 and 2019 consisted of the following:

	2020	2019
Computers	\$2,870	\$ -
Furniture and Equipment	2,274	-
Accumulated Depreciation	(1,224)	(-)
Total	<u>\$ 3,920</u>	<u>\$ -</u>

NOTE 4 – INCOME TAXES

The Company has filed its income tax return for the period ended December 31, 2020, which will remain subject to examination by the Internal Revenue Service under the statute of limitations for a period of three years from October 15th, 2021, the date it was filed. The Company is taxed as a C corporation.

NOTE 5 – EQUITY

In 2019, the Company issued Simple Agreements for Future Equity (“SAFEs”) totaling \$127,723. The SAFEs were converted in February 2020. The SAFEs are automatically convertible into a series of preferred stock on the completion of a bona fide transaction with the principal purpose of raising capital where the Company issues and sells preferred stock at a fixed valuation, including but not limited to, a pre-money or post-money valuation (“Equity Financing”).

In 2020, in addition to the conversion of the \$127,723 in Safe Notes there was another round of investments totaling an aggregate additional Paid-In Capital of \$1,707,619 bringing Paid-In Capital to \$1,835,342.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

The Company received a loan from the Small Business Administration in the amount of \$64,140 under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relieve and Economic Security (CARES) Act. The loan is subject to a note dated May 4, 2020, has an interest rate of 1%. As of November 25th, 2020 this loan has been forgiven.

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 December 31st, 2019, respectively.

NOTE 7 – GOING CONCERN-SUBSTANTIAL DOUBT ALLEVIATED

These financial statements are prepared on a going concern basis. The Company began operation in 2018 and has incurred net losses since inception. The losses were anticipated and approved by the Company’s board to accelerate Company’s growth and R&D. The company’s ability to continue was dependent upon management’s plan to raise additional funds and achieve profitable operations. Management has evaluated these conditions and raised and additional \$1,190,651 in 2021. As of January 2022, the Company achieved profitable operations. Management has determined that these factors alleviate the going concern uncertainty.

NOTE 8 - 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. However, the company has not experienced any material adverse impact and grew seven-fold in 2020. Management has evaluated that these factors show that the company operations are not directly impacted by the pandemic.

NOTE 9 – SUBSEQUENT EVENTS

Effective as of January 10, 2022, the Company entered into an agreement with OpenDeal Portal LLC d/b/a Republic, a Delaware limited liability company. Faraday Labs, Inc together with Republic, pursuant to which Faraday Labs, Inc will prepare and launch a Regulation Crowdfunding securities-offering facilitated by Republic on a website owned by OpenDeal Inc, and hosted by Republic Core LLC (collectively, the “Portal”). Faraday Labs, Inc seeks to complete an offering of the Company’s securities under Section 4(a)(6), Regulation Crowdfunding (Reg CF), of the Securities Act of 1933 (the “Crowdfunded Offering”) up to \$1,070,000 of simple agreement for future equity. The Company is attempting to raise a minimum amount of \$25,000 in this offering and up to \$1,070,000 maximum. The Company must receive commitments from investors totaling the minimum by the offering deadline. The offering is still ongoing as of February 12th, 2022, the date the financial statements were available to be issued.

In 2021 the Company issued several Convertible Promissory Notes totaling an aggregate of \$1,190,651. In the event the Company issues and sells shares of its equity securities to investors while these notes remain outstanding in an equity financing with total proceeds to the Company of not less than \$1,000,000 (excluding the conversion of the Notes or other convertible securities issued for capital raising purposes (e.g., Simple Agreements for Future Equity) (a “Qualified Financing”) then the outstanding principal amount of the notes and any unpaid accrued interest shall automatically convert in whole without any further action by the Holder into Equity Securities sold in the Qualified Financing at a conversion price equal to the lesser of the cash price paid per share for Equity Securities by the Investors in the Qualified Financing.

Management’s Evaluation

Management has evaluated subsequent events through February 17th, 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.