

NUZEE, INC.

FORM 8-K (Current report filing)

Filed 01/13/17 for the Period Ending 01/05/17

Address	2865 SCOTT STREET SUITE 101 VISTA, CA 92081
Telephone	858-385-9090
CIK	0001527613
Symbol	NUZE
SIC Code	5900 - Retail-Miscellaneous Retail
Industry	Home Furnishings Retailers
Sector	Consumer Cyclical
Fiscal Year	09/30

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): January 5, 2017 (June 30, 2016)

NUZEE, INC.
(Exact name of registrant as specified in its Charter)

Commission File No. 333-176684

NEVADA

(State or other jurisdiction of incorporation)

38-3849791

(I.R.S. Employer Identification Number)

**2865 Scott Street
Suite 101
Vista, CA 92081**

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code -- **(760)295-2408**

n/a

(Former Name or Former Address, in Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation to the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

Audited financial statements of NuZee JAPAN Co., Ltd for the fiscal years ended January 31, 2016 and 2015 filed as Exhibit 99.1 hereto.

(b) Interim Financial Statement of Business Acquired.

Unaudited financial statements of NuZee JAPAN Co., Ltd for the period ended July 31, 2016 filed as Exhibit 99.2 hereto.

(c) Pro Forma Financial Information.

Unaudited Pro Forma, Consolidation Financial Statements of the Company and the accompanying notes as of June 30, 2016 filed as Exhibit 99.3 hereto.

(d) Exhibits.

The exhibits listed in the following Exhibit Index are files as part of this current report.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Audited financial statements of NuZee JAPAN Co., Ltd for the fiscal years ended January 31, 2016 and 2015
99.2	Unaudited financial statements of NuZee JAPAN Co., Ltd for the period ended July 31, 2016
99.3	Unaudited Pro Forma, Consolidation Financial Statements of the Company and the accompanying notes

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed hereunto duly authorized.

NuZee, Inc.

January 5, 2016

By: /s/ Masateru Higashida

Name: Masateru Higashida

Title: President, Chief Executive Officer (Principal Executive Officer),
Chief Financial Officer (Principal Financial Officer), Secretary,
Treasurer, COO and Director

NuZee JAPAN Co., Ltd

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
NuZee JAPAN Co., Ltd:

We have audited the accompanying balance sheets of NuZee JAPAN Co., Ltd (the "Company") as of January 31, 2016 and 2015 and the related statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the two-year period ended January 31, 2016. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as January 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended January 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

/s/ Farber Hass Hurley LLP
Camarillo, California

NuZee JAPAN Co., Ltd
BALANCE SHEETS

	<u>January 31,</u> <u>2016</u>	<u>January 31,</u> <u>2015</u>
ASSETS		
Current assets:		
Cash	\$ 152,190	\$ 154,151
Accounts receivable	79,194	140,132
Inventories	87,793	101,611
Other current assets	118,610	113,958
Total current assets	<u>437,787</u>	<u>509,852</u>
Equipment, net	<u>16,005</u>	<u>38,571</u>
Total assets	<u>\$ 453,792</u>	<u>\$ 548,423</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 690	\$ 2,687
Accounts payable - related party	113,556	5,644
Current portion of capital lease obligation	3,028	3,028
Loan payable - short term - related party	57,438	100,629
Other current liabilities	23,206	27,712
Other current liabilities - related party	3,180	889
Total current liabilities	<u>201,098</u>	<u>140,589</u>
Non-current liabilities:		
Loan payable - long term - related party	-	58,700
Capital lease obligations, net of current portion	15,181	16,907
Total non-current liabilities	<u>15,181</u>	<u>75,607</u>
Stockholders' equity:		
Capital stock	545,844	545,844
Retained earnings (deficit)	(248,092)	(160,624)
Accumulated other comprehensive loss	(60,239)	(52,993)
Total stockholders' equity	<u>237,513</u>	<u>332,227</u>
Total liabilities and stockholders' equity	<u>\$ 453,792</u>	<u>\$ 548,423</u>

See independent auditors' report and accompanying notes to financial statements

NuZee JAPAN Co., Ltd
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	<u>Year Ended January 31, 2016</u>	<u>Year Ended January 31, 2015</u>
Revenues	\$ 800,586	\$ 386,070
Cost of sales	<u>524,862</u>	<u>244,817</u>
Gross Profit	275,724	141,253
Operating expenses	<u>363,480</u>	<u>282,252</u>
Loss from operations	(87,756)	(140,999)
Other income	22,823	25
Other expense	<u>(22,535)</u>	<u>(19,546)</u>
Net loss	<u>(87,468)</u>	<u>(160,520)</u>
Foreign currency translation	<u>(7,246)</u>	<u>(51,179)</u>
Comprehensive loss	<u>\$ (94,714)</u>	<u>\$ (211,699)</u>

See independent auditors' report and accompanying notes to financial statements

NuZee JAPAN Co., Ltd
STATEMENTS OF STOCKHOLDERS' EQUITY
For the period from February 1, 2014 to January 31, 2016

	Common Stock		Accumulated Deficit	Foreign Currency Traslation Adjustments	Total Stockholders' Equity (deficit)
	Shares	Amount			
Balance January 31, 2014	300,000	\$ 290,670	\$ (104)	\$ (1,814)	\$ 288,752
Common stock issued for cash	267,800	255,174	-	-	255,174
Net loss	-	-	(160,520)	-	(160,520)
Other comprehensive loss	-	-	-	(51,179)	(51,179)
Balance January 31, 2015	567,800	\$ 545,844	\$ (160,624)	\$ (52,993)	\$ 332,227
Net loss	-	-	(87,468)	-	(87,468)
Other comprehensive loss	-	-	-	(7,246)	(7,246)
Balance January 31, 2016	<u>567,800</u>	<u>\$ 545,844</u>	<u>\$ (248,092)</u>	<u>\$ (60,239)</u>	<u>\$ 237,513</u>

See independent auditors' report and accompanying notes to financial statements

NuZee JAPAN Co., Ltd
STATEMENTS OF CASH FLOWS

	For the Year Ended January 31, 2016	For the Year Ended January 31, 2015
Operating activities:		
Net loss	\$ (87,468)	\$ (160,520)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	7,025	286
Impairment loss	16,856	-
Change in operating assets and liabilities:		
Accounts receivable	60,937	(140,132)
Inventories	13,818	(101,611)
Other current assets	(4,652)	(29,853)
Accounts payable	105,916	8,331
Other current liabilities	(2,216)	29,307
Net cash provided by (used in) operating activities	110,216	(394,192)
Investing activities:		
Purchase of equipment	-	(19,899)
Net cash used in investing activities	-	(19,899)
Financing activities:		
Proceeds from borrowings	-	167,715
Payments on capital lease obligations	(1,726)	-
Repayment of loans - related parties	(101,891)	(8,405)
Proceeds from issuance of common stock	-	255,174
Net cash provided by (used in) financing activities	(103,617)	414,484
Net change in cash	6,599	393
Effect of foreign exchange on cash and cash equivalents	(8,560)	(51,178)
Cash, beginning of period	154,151	204,936
Cash, end of period	\$ 152,190	\$ 154,151
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ 1,526	\$ 1,730
Non-cash investing and financing activities:		
Equipment purchased via capital lease	\$ -	\$ 19,935

See independent auditors' report and accompanying notes to financial statements

NuZee Japan Co., Ltd

Notes to Financial Statements

January 31, 2016 and 2015

1. ORGANIZATION

NuZee Japan Co., Ltd. (the "Company", "we", "our") was incorporated on December 16, 2013 in Aichi, Japan. The Company's fiscal year end is January 31. The Company is a start-up organization which markets and distributes consumer products primarily in the beverage segment. The Company primarily intends to purchase and resell its proprietary products directly to consumers through its website portal as well as through online stores such as Amazon Japan, Rakuten and Japan Post online shop.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies presented below is designed to assist in understanding the Company's financial statements. Such financial statements and accompanying notes are the representations of the Company's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America ("GAAP") in all material respects, and have been consistently applied in preparing the accompanying financial statements.

Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts payable accrued liabilities and short-term debt. The estimated fair value of these instruments approximates its carrying amount due to the short maturity of these instruments.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of three months or less when purchased to be cash equivalents. The Company had \$152,190 and \$154,151 cash and no cash equivalents at January 31, 2016 and 2015, respectively.

Accounts Receivable

Trade accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Bad debts expense or write offs of receivables are determined on the basis of loss experience, known and inherent risks in the receivable portfolio and current economic conditions. There were no bad debt expenses recorded during the period reported on.

Major Customers

In the year ended January 31, 2016 and 2015, revenue was from two major customers.

Year ended January 31, 2016:

Customer Name	Sales Amounts	Percentage of Total Revenue
Customer A	\$ 268,417	34%
Customer B	\$ 36,199	5%

Year ended January 31, 2015:

Customer Name	Sales Amounts	Percentage of Total Revenue
Customer A	\$ 259,130	67%
Customer B	\$ 19,818	5%

Revenue Recognition

The Company recognizes revenue only when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The fee for the arrangement is fixed or determinable; and
- Collectability is reasonably assured.

Persuasive Evidence of an Arrangement —The Company documents all terms of an arrangement in a written contract signed by the customer prior to recognizing revenue.

Delivery Has Occurred or Services Have Been Performed —The Company performs all services or delivers all products prior to recognizing revenue. Monthly services are considered to be performed ratably over the term of the arrangement. Product is considered delivered upon delivery to a customer's designated location.

Collectability Is Reasonably Assured —The Company determines that collectability is reasonably assured prior to recognizing revenue. Collectability is assessed on a customer by customer basis based on criteria outlined by management. New customers are subject to a credit review process, which evaluates the customer's financial position and ultimately its ability to pay. The Company does not enter into arrangements unless collectability is reasonably assured at the outset. Existing customers are subject to ongoing credit evaluations based on payment history and other factors. If it is determined during the arrangement that collectability is not reasonably assured, revenue is recognized on a cash basis.

Cost Recognition

Cost of products sold is primarily comprised of purchased packaged coffee products. Cost of products sold also includes the cost to distribute products to customers, inbound freight costs and other shipping and handling activity.

Selling, General and Administrative Expense

Selling, general and administrative expense (SG&A) is primarily comprised of marketing expenses, sales related expense, administrative and other indirect overhead costs, depreciation expense and other miscellaneous operating items. The largest SG&A expense incurred was "Outside Service" for the period ended January 31, 2016 and 2015 and the amount was \$50,626 and \$86,673, respectively. "Outside Service" mainly relates to sales commission paid to the Japan Post which has the platform of Company's online shop.

Inventory

Inventory, consisting principally of products held for sale is stated at the lower of cost or market or net realizable value, using the First-In, First-Out method. The Company reviews inventory levels at least quarterly and records a valuation allowance when appropriate. At January 31, 2016 and 2015 the Company concluded the carrying value of the inventory of \$87,793 and \$ 101,611 respectively.

	January 31, 2016	January 31, 2015
Merchandises	\$ 79,700	\$ 101,253
Merchandises in Transit	8,093	358
Total	<u>\$ 87,793</u>	<u>\$ 101,611</u>

Related Party Transactions

Eguchi Holdings Co., Ltd. ("EHCL") is the beneficial owner of Five Hundred Thousand (500,000) common shares of the Company, which represents eighty-eight percent (88%) of all the Company's common shares outstanding. Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed by the related party.

Purchases and Operating Expenses

The Company has a payable to EHCL for cost of goods paid by them on behalf of the Company. Balance of this accounts payable was \$113,556 and \$5,644 as of January 31, 2016 and 2015. Total purchases during 2016 and 2015 amounted to \$397,176 and \$17,423, respectively. The Company has a payable to EHCL for operating expenses paid by them on behalf of the Company. Balance of this other payable was \$3,180 and \$889 as January 31, 2016 and 2015. Total operating expenses incurred from EHCL amounted to \$15,396 and \$1,546 for 2016 and 2015, respectively.

Loan Payable

During December 2014, the Company borrowed the sum of \$171,072 from EHCL. The due date of this loan is August 31, 2016. The outstanding balances at January 31, 2016 and 2015 were \$57,438 and \$159,329, respectively. Interest is calculated at annual rate of 4.3 %. During the period ended January 31, 2016 and 2015, the Company recognized interest expense of \$4,378 and \$992 relating to these related party loans.

Rent

During May 2014, the Company entered into a rental agreement for an office space and warehouse with EHCL. The Company agrees to pay approximately \$1,350 per month for office and warehouse on the last day of each month. The agreement expires on August 31, 2019. Future payments due under this lease are as follows:

2017	\$	16,200
2018	\$	16,200
2019	\$	16,200
2020	\$	7,700

Property, Plant and Equipment

Equipment is stated at cost, net of depreciation. The Company depreciates equipment on a straight line basis, over the estimated useful lives of 5 years. Depreciation expense for the years ended January 31, 2016 and 2015 was \$7,025 and \$286 respectively. Repair and maintenance costs are expensed as incurred.

The Company is the lessee of certain equipment under a capital lease extending through 2021. The asset and liability under the capital lease are recorded at the lower of the present value of the minimum lease payments, or the fair value of the asset. Leased equipment is depreciated over a 6 year life. The leased equipment has been recorded in the accompanying financial statements in equipment of \$19,507 and \$18,459 and accumulated depreciation of \$3,502 and \$256.

Future minimum lease payments under capital lease as of January 31, 2016 for each of the remaining years are as follows:

2017	\$	3,722
2018		3,722
2019		3,722
2020		3,722
2021		3,722
Total Minimum Lease Payments	\$	18,610
Less: Interest	\$	401
Total Principal	\$	18,209
Less: Current Portion	\$	3,028
Long-term Capital Lease	\$	15,181

Long-Lived Assets

The Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicated that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and a current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life.

Recoverability is assessed based on the carrying amount of the asset and its fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. A loss of disposition of asset is recognized when the carrying amount is not recoverable and exceeds fair value. There was an impairment loss of \$16,856 recognized for the year ended January 31, 2016. This impairment loss was incurred due to the asset which is never placed in service. There was no impairment loss recognized for the year ended January 31, 2015.

Comprehensive income/loss

Comprehensive income/loss is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income/loss are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company's current component of other comprehensive income/loss is the foreign currency translation adjustment.

Income Taxes

The provision for income taxes is computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

The Company also follows the guidance related to accounting for income tax uncertainties. In accounting for uncertainty in income taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. No liability for unrecognized tax benefits was recorded as of January 31, 2016 and 2015.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company places its cash with high quality banking institutions.

3. COMMON STOCK

As of January 31, 2016, the authorized capital stock of the Company consists of 2,000,000 common shares, of which 567,800 shares of common stock are issued and outstanding.

During December 2013, the Company sold 30,000,000 shares of common stock at approximately \$0.0097 per share, for an aggregate purchase price of \$290,670.

During August 2014, the Company sold 20,000,000 shares of common stock at approximately \$0.0096 per share, for an aggregate purchase price of \$192,122.

During November 2014, the Company declared a one for one hundred reverse stock split. The total number of share issued was reduced to 500,000.

During September 2014, the Company sold 53,100 shares of common stock at approximately \$0.9505 per share, for an aggregate purchase price of \$50,730.

During December 2014, the Company sold 14,700 shares of common stock at approximately \$0.8382 per share, for an aggregate purchase price of \$12,322.

4. INCOME TAX

As of January 31, 2016 and, 2015, there were no differences between financial reporting and tax bases of assets and liabilities. The Company will have tax losses available to be applied against future years' income as result of the losses incurred. However, due to the losses incurred in the period and expected future operating results, management determined that it is more likely than not that the deferred tax asset resulting from the tax losses available for carry forward will not be realized through the reduction of future income tax payments. Accordingly a 100% valuation allowance has been recorded for deferred income tax assets. Net operating loss carry forward is \$203,101 as of January 31, 2016 and will begin expiring in 2022.

5. SUBSEQUENT EVENTS

Acquisition

On August 16, 2016, the Company entered into a Share Exchange Agreement with NuZee, Inc., a Nevada corporation ("NuZee US"), Eguchi Holdings Co., Ltd and the shareholders of the Company whereby the Company will exchange seventy percent (70%) of its issued and outstanding common stock for 1,148,734 shares of NuZee US's common stock, par value \$0.00001 per share. The remaining thirty percent (30%) of the Company's issued and outstanding common stock is, and will be at the closing, owned by the Company's current president and Chairman of its Board of Directors.

NuZee US's President and Director is the sole owner of From East Holdings Co., Ltd. ("From East"), a shareholder of the Company. From East owns 14,700 shares of the Company's common stock, or approximately 2.6% of the Company's current issued and outstanding shares. At the Closing, From East will exchange all of its shares of the Company for 42,492 shares of NuZee US's common stock.

Each issued and outstanding common share of the Company shall be converted into the right to receive NuZee US Shares pursuant to the Exchange Ratio at the Closing. Fractional shares shall be rounded up or down per the amount of the fraction. Upon the Closing (October 3, 2016), the Company shall become a majority owned subsidiary of the NuZee US.

Loan

On June 30, 2016, the Company entered into a loan agreement with Tono Shinyo Kinko bank. The Company borrowed the sum of approximately \$145,758 to be repaid on or before June 5, 2021 at an interest rate of 1.2%.

NuZee JAPAN Co., Ltd
 Unaudited Financial Statement for the Period Ended July 31, 2016

NuZee JAPAN Co., Ltd
 BALANCE SHEET
 (Unaudited)

	<u>July 31,</u> <u>2016</u>
ASSETS	
Current assets:	
Cash	\$ 165,831
Accounts receivable	59,598
Inventories	196,161
Other current assets	70,038
Total current assets	<u>\$ 491,628</u>
Equipment, net	<u>16,782</u>
Total assets	<u><u>\$ 508,410</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
Current liabilities:	
Accounts payable	\$ 4,357
Loan payable - short term - related party	9,577
Loan payable - short term	29,152
Other current liabilities	59,334
Other current liabilities - related party	17,634
Total current liabilities	<u>120,054</u>
Non-current liabilities:	
Loan payable - long term	\$ 112,104
Total non-current liabilities	<u>112,104</u>
Stockholders' equity:	
Capital stock	\$ 545,844
Retained earnings (deficit)	(249,002)
Accumulated other comprehensive loss	(20,590)
Total stockholders' equity	<u>276,252</u>
Total liabilities and stockholders' equity	<u><u>\$ 508,410</u></u>

The accompanying notes are an integral part of the unaudited interim financial statements

NuZee JAPAN Co., Ltd
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Period Ended July 31, 2016
Revenues	\$ 496,314
Cost of sales	<u>366,473</u>
Gross Profit	129,841
Operating expenses	<u>148,366</u>
Loss from operations	(18,525)
Other income	19,921
Other expense	<u>(2,306)</u>
Net loss	<u>(910)</u>
Foreign currency translation	<u>39,649</u>
Comprehensive income	<u>\$ 38,739</u>

The accompanying notes are an integral part of the unaudited interim financial statements

NuZee JAPAN Co., Ltd
STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Period Ended July 31, 2016
Operating activities:	
Net loss	\$ (910)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation	2,004
Change in operating assets and liabilities:	
Accounts receivable	19,597
Inventories	(108,368)
Other current assets	48,572
Accounts payable	(109,889)
Other current liabilities	32,374
Net cash used by operating activities	(116,620)
Investing activities:	
Purchase of equipment	-
Net cash used by investing activities	-
Financing activities:	
Repayment of loan - short term	(47,862)
Proceeds from borrowings - long term	143,651
Repayment of loan - long term	(2,394)
Proceeds from issuance of common stock	-
Net cash provided by financing activities	93,395
Net change in cash	(23,225)
Effect of foreign exchange on cash and cash equivalents	36,866
Cash, beginning of period	152,190
Cash, end of period	\$ 165,831
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 2,306
Cash paid for taxes	\$ -

The accompanying notes are an integral part of the unaudited interim financial statements

NuZee JAPAN Co., Ltd
Notes to Financial Statements
July 31, 2016

1. ORGANIZATION

NuZee Japan Co., Ltd. (the "Company", "we", "our") was incorporated on December 16, 2013 in Aichi, Japan. The Company's fiscal year end is January 31. The Company is a start-up organization which markets and distributes consumer products primarily in the beverage segment. The Company primarily intends to purchase and resell its proprietary products directly to consumers through its website portal as well as through online store such as Amazon Japan, Rakuten and Japan Post online shop.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies presented below is designed to assist in understanding the Company's financial statements. Such financial statements and accompanying notes are the representations of the Company's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America ("GAAP") in all material respects, and have been consistently applied in preparing the accompanying financial statements.

Use of Estimates

In preparing these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts payable accrued liabilities and short-term debt. The estimated fair value of these instruments approximates its carrying amount due to the short maturity of these instruments.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of three months or less when purchased to be cash equivalents. The Company had \$165,831 cash and no cash equivalents at July 31, 2016.

Accounts Receivable

Trade accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Bad debts expense or write offs of receivables are determined on the basis of loss experience, known and inherent risks in the receivable portfolio and current economic conditions. There were no bad debt expenses recorded during the period reported on.

Major Customers

For the period ended July 31, 2016, revenue was from two major customers.

Customer Name	Sales Amounts	Percentage of Total Revenue
Customer A	\$ 417,922	84%
Customer B	\$ 21,604	4%

Revenue Recognition

The Company recognizes revenue only when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The fee for the arrangement is fixed or determinable; and
- Collectability is reasonably assured.

Persuasive Evidence of an Arrangement —The Company documents all terms of an arrangement in a written contract signed by the customer prior to recognizing revenue.

Delivery Has Occurred or Services Have Been Performed —The Company performs all services or delivers all products prior to recognizing revenue. Monthly services are considered to be performed ratably over the term of the arrangement. Professional consulting services are considered to be performed when the services are complete. Product is considered delivered upon delivery to a customer's designated location.

Collectability Is Reasonably Assured —The Company determines that collectability is reasonably assured prior to recognizing revenue. Collectability is assessed on a customer by customer basis based on criteria outlined by management. New customers are subject to a credit review process, which evaluates the customer's financial position and ultimately its ability to pay. The Company does not enter into arrangements unless collectability is reasonably assured at the outset. Existing customers are subject to ongoing credit evaluations based on payment history and other factors. If it is determined during the arrangement that collectability is not reasonably assured, revenue is recognized on a cash basis.

Cost Recognition

Cost of products sold is primarily comprised of direct materials consumed in the manufacturing of primary coffee blender products. Cost of products sold also includes the cost to distribute products to customers, inbound freight costs and other shipping and handling activity.

Selling, General and Administrative Expense

Selling, general and administrative expense (SG&A) is primarily comprised of marketing expenses, administrative and other indirect overhead costs, depreciation expense and other miscellaneous operating items. The largest SG&A expense incurred was "Advertising" for the period ended July 31, 2016 and the amount was \$27,928.

Cash Flow Presentation

The Statement of Cash Flows is prepared using the indirect method, which reconciles net loss to cash flow from operating activities. The reconciliation adjustments include the removal of timing differences between the occurrence of operating receipts and payments and their recognition in net loss. The adjustments also remove cash flows arising from investing and financing activities, which are presented separately from operating activities.

Inventory

Inventory, consisting principally of products held for sale is stated at the lower of cost or market or net realizable value, using the First-In, First-out method. The Company reviews inventory levels at least quarterly and records a valuation allowance when appropriate. At July 31, 2016, the Company concluded that a valuation allowance was not required.

Related Party Transactions

Eguchi Holdings Co., Ltd. ("EHCL") is the beneficial owner of Five Hundred Thousand (500,000) common shares of the Company, which represents eighty-eight percent (88%) of all the Company's common shares outstanding. Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed by the related party.

Purchases and Operating Expenses

The Company has a payable to EHCL when cost of goods is paid by them on behalf of the Company. Balance of this accounts payable was \$0 as of July 31, 2016. Total purchases during the period ended July 31, 2016 amounted to \$13,806. The Company has a payable to EHCL for operating expenses paid by them on behalf of the Company. Balance of this other payable was \$17,634 as of July 31, 2016. Total operating expenses incurred from EHCL amounted to \$29,351 for the period ended July 31, 2016.

Loan Payable

During December 2014, the Company borrowed the sum of \$171,072 from EHCL. The due date of this loan is August 31, 2016. The outstanding balance at July 31, 2016 was \$9,577. Interest of these loans calculated at annual rate of 4.3 %. During the period ended July 31, 2016, the Company recognized interest expense of \$1,834 relating to these related party loans.

Rent

During May 2014, the Company entered into a rental agreement of an office space and warehouse with EHCL. The Company agrees to pay \$1,100 per month for the office and the warehouse on the last day of each month. The agreement expires on August 31, 2019.

Future payments due under this lease are as follows for the fiscal years ended January 31:

2017	\$	16,200
2018	\$	16,200
2019	\$	16,200
2020	\$	7,700

Property, Plant and Equipment

Equipment is stated at cost, net of depreciation. The Company depreciates equipment on a straight line basis. Leased asset is depreciated over a 6 year life. Depreciation expense for the period ended July 31, 2016 was \$2,004. Repair and maintenance costs are expensed as incurred.

Long-Lived Assets

The Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicated that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and a current expectation that the asset will more likely than not be sold or disposed significantly before the end of its estimated useful life.

Recoverability is assessed based on the carrying amount of the asset and its fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. A loss of disposition of asset is recognized when the carrying amount is not recoverable and exceeds fair value. There was no impairment loss recognized for the years ended July 31, 2016.

Income Taxes

The provision for income taxes is computed using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

The Company also follows the guidance related to accounting for income tax uncertainties. In accounting for uncertainty in income taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. No liability for unrecognized tax benefits was recorded as of July 31, 2016.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company places its cash with high quality banking institutions.

Loan Payable Long-Term

On June 30, 2016, the Company entered into a loan agreement with Tono Shinyo Kinko. The Company borrowed the sum of approximately \$145,758 to be repaid on or before June 5, 2021 at an interest rate of 1.2% with monthly payment of \$2,430. During the period ended July 31, 2016, the Company recognized interest expense of \$27 relating to this loan. The outstanding balance at July 31, 2016 was \$141,256.

Future payments dues under this loan are as follows:

2017	\$	29,152
2018		29,152
2019		29,152
2020		29,152
2021		24,648
	\$	<u>141,256</u>

3. COMMON STOCK

As of January 31, 2016, the authorized capital stock of the Company consists of 2,000,000 common shares, of which 567,800 shares of common stock are issued and outstanding.

4. SUBSEQUENT EVENTS

On August 16, 2016, the Company entered into a Share Exchange Agreement with NuZee, Inc., a Nevada corporation ("NuZee US"), Eguchi Holdings Co., Ltd and the shareholders of the Company whereby the Company will exchange seventy percent (70%) of its issued and outstanding common stock for 1,148,734 shares of NuZee US's common stock, par value \$0.00001 per share. The remaining thirty percent (30%) of the Company's issued and outstanding common stock is, and will be at the Closing, owned by the Company's current president and Chairman of its Board of Directors.

NuZee US's President and Director is the sole owner of From East Holdings Co., Ltd. ("From East"), a shareholder of the Company. From East owns 14,700 shares of the Company's common stock, or approximately 2.6% of the Company's current issued and outstanding shares. At the Closing, From East will exchange all of its shares of the Company for 42,492 shares of NuZee US's common stock.

Each issued and outstanding common share of the Company shall be converted into the right to receive NuZee US Shares pursuant to the Exchange Ratio at the Closing. Fractional shares shall be rounded up or down per the amount of the fraction. Upon the Closing (October 3, 2016), the Company shall become a majority owned subsidiary of the NuZee US.

INTRODUCTION TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma condensed financial statements present NuZee, Inc. (the "Company" or the "Purchaser") and NuZee JAPAN Co., Ltd. ("NuZee JP") as follows: (i) unaudited pro forma condensed consolidated statements of operations for the year ended June 30, 2016 for NuZee, Inc. and NuZee JP; (ii) unaudited pro forma condensed statements of operations for the six (6) months ended June 30, 2016 for the Purchaser and NuZee JP (iii) unaudited pro forma condensed balance sheet as of June 30, 2016 for the Purchaser and NuZee JP. The unaudited pro forma condensed statements of operations are presented as if the acquisition had occurred on January 1, 2015. The unaudited pro forma condensed consolidated balance sheets gives effect to the transaction as if it occurred on June 30, 2016.

The unaudited pro forma condensed consolidated financial information is based on estimates and assumptions, which are preliminary and subject to change, as set forth in the notes to such statements and which are provided for informational purposes only. The unaudited pro forma condensed consolidated financial information is not necessarily indicative of the financial position or operating results that would have been achieved had the merger been consummated as of the dates indicated, nor is it necessarily indicative of future financial position or operating results. This information should be read in conjunction with the historical financial statements and related notes of NuZee, Inc. and NuZee JP included in this Form 8-K.

We anticipate that the acquisition will provide the Company the ability to integrate the business of NuZee JP into the Company's existing staffing business within the expected timeframe which would enable the Company to operate more effectively and efficiently and to create synergy hence lower costs of operations. The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of increased revenues due to synergies or cost savings on operating expenses and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during these periods.

The actual amounts recorded as of the completion of the acquisition may differ materially from the information presented in these unaudited pro forma condensed consolidated financial statements as a result of:

- changes in the trading price for NuZee, Inc.'s common stock;
- other changes in NuZee JP's net assets that occur prior to the completion of the acquisition, which could cause material changes in the information presented below;
- changes in the financial results of the combined company; and
- changes in the estimated fair value of the acquired intangible assets

The unaudited pro forma condensed consolidated financial statements are provided for informational purposes only. The unaudited pro forma condensed consolidated financial statements are not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the merger been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma condensed consolidated financial statements and related adjustments required management to make certain assumptions and estimates. The unaudited pro forma condensed consolidated financial statements should be read together with:

- the accompanying notes to unaudited pro forma consolidated financial information;
- the audited financial statements of NuZee JP for the years ended January 31, 2016 and 2015 and the notes relating thereto;
- the unaudited consolidated financial statements of NuZee, Inc. as of June 30, 2016 and the notes relating thereto;

Acquisition of NuZee JAPAN Co., Ltd.

Value of NuZee, Inc's stock	\$	258,465
Acquired Assets		508,410
Acquired Liabilities		<u>232,158</u>
Net assets acquired		276,252
70% of net assets		<u>193,377</u>
TOTAL	\$	<u>65,088</u>
<u>Breakdown of Total:</u>		
Goodwill	\$	<u>65,088</u>

Nuzee, Inc.
Pro Forma Condensed Balance Sheet
As at June 30, 2016
(Unaudited)

	Nuzee, Inc. June 30, 2016	NuZee JAPAN Co., Ltd July 31, 2016	Pro Forma Adjustment	Note Reference	Pro Forma Consolidated
ASSETS					
Current assets:					
Cash	\$ 17,047	\$ 165,831	\$ -		\$ 182,878
Accounts receivable	13,534	59,598	-		73,132
Inventories	213,684	196,161	-		409,845
Other current assets	12,938	70,038	-		82,976
Total current assets	257,203	491,628	-		748,831
Equipment, net	163,444	16,782	-		180,226
Other assets-Goodwill	-	-	65,088		65,088
Total assets	\$ 420,647	\$ 508,410	\$ 65,088		\$ 994,145
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	\$ 103,555	\$ 4,357	\$ -		\$ 107,912
Loan payable - short term - related party	45,148	9,577	-		54,725
Loan payable - short term	-	29,152	-		29,152
Convertible Notes payable	601,496	-	-		601,496
Other current liabilities	416	76,968	-		77,384
Total current liabilities	750,615	120,054	-		870,669
Non-current liabilities:					
Loan payable - long term	\$ -	\$ 112,104	\$ -		\$ 112,104
Total non-current liabilities	-	112,104	-		112,104
Stockholders' equity (deficit):					
Capital stock	\$ 311	\$ 545,844	\$ (545,844)	(1)	\$ 322
			11	(1)	
Additional paid in capital	6,752,564	-	258,454	(1)	7,011,018
			-	(1)	
Retained earnings (deficit)	(7,005,477)	(249,002)	249,002	(1)	(7,005,477)
Less: treasury stock, at cost	(77,366)	-	-	(1)	(77,366)
Accumulated other comprehensive loss	-	(20,590)	20,590	(1)	-
Noncontrolling interest	-	-	82,875	(1)	82,875
Total stockholders' equity (deficit)	(329,968)	276,252	65,088		11,372
Total liabilities and stockholders' equity (deficit)	\$ 420,647	\$ 508,410	\$ 65,088		\$ 994,145

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements

Nuzee, Inc.
Pro Forma Condensed Statement of Operations
Six months ended June 30, 2016
(Unaudited)

	Nuzee, Inc. Six Months Ended June 30, 2016	NuZee JAPAN Co., Ltd Six Months Ended July 31, 2016	Pro Forma Adjustment	Note Reference	Pro Forma Consolidated
Revenues	\$ 187,222	\$ 496,314	\$ -		\$ 683,536
Cost of sales	<u>102,820</u>	<u>366,473</u>	-		<u>469,293</u>
Gross Profit	84,402	129,841	-		214,243
Operating expenses	<u>757,853</u>	<u>148,366</u>	-		<u>906,219</u>
Loss from operations	(673,451)	(18,525)	-		(691,976)
Other income	11,605	19,921			31,526
Other expense	<u>(912)</u>	<u>(2,306)</u>	-		<u>(3,218)</u>
Net loss	<u>(662,758)</u>	<u>(910)</u>	-		<u>(663,668)</u>
Net loss attributable to noncontrolling interest	-	-	273		273
Net loss attributable to the Company	<u>\$ (662,758)</u>	<u>\$ (910)</u>	<u>\$ 273</u>		<u>\$ (663,395)</u>
Net loss per share, basic and fully diluted					(0.02)
Weighted average of shares outstanding					31,730,747

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements

Nuzee, Inc.
Pro Forma Condensed Statement of Operations
Year Ended December 31, 2015
(Unaudited)

	<u>Nuzee, Inc.</u>	<u>NuZee JAPAN Co., Ltd</u>	<u>Pro Forma Adjustment</u>	<u>Note Reference</u>	<u>Pro Forma Consolidated</u>
Revenues	\$ 118,466	\$ 800,585	\$ -		\$ 919,051
Cost of sales	65,620	503,790	-		569,410
Gross Profit	52,846	296,795	-		349,641
Operating expenses	1,471,860	363,480	45,000	(2)	1,880,340
Loss from operations	(1,419,014)	(66,685)	(45,000)		(1,530,699)
Other income	669	22,823	-		23,492
Other expense	58,325	22,535	-		80,860
Net loss	<u>(1,476,670)</u>	<u>(66,397)</u>	<u>(45,000)</u>		<u>(1,588,067)</u>
Net loss attributable to noncontrolling interest	-	-	19,919		19,919
Net loss attributable to the Company	<u>\$ (1,476,670)</u>	<u>\$ (66,397)</u>	<u>\$ (25,081)</u>		<u>\$ (1,568,148)</u>
Net loss per share, basic and fully diluted					(0.05)
Weighted average of shares outstanding					31,153,074

The accompanying notes are an integral part of the unaudited pro forma condensed consolidated financial statements

Notes to the Unaudited Pro Forma Condensed Financial Statements

To reflect the acquisition of NuZee JAPAN Co., Ltd. ("NuZee JP") through a Stock Exchange. NuZee, Inc. (the "Company") entered into a Share Exchange Agreement with NuZee JP and its shareholders whereby the Company exchanged 1,148,734 shares of its Common Stock, par value \$0.00001 per share, for seventy percent (70%) of the issued and outstanding common stock of NuZee JP. The fair market value of the Company's common stock was \$0.225 per share.

The resultant Goodwill from the acquisition of NuZee JP has been deemed cost in excess of assets. The value of stock was \$258,465 and net assets of Japan at seventy percent (70%) was \$193,377. The difference of these amounts is Goodwill. The resultant of Noncontrolling interest is calculated at thirty percent (30%) of net assets of NuZee JP.

Entry #1	Dr.	Cr.
Common Stock-NuZee JAPAN Co., Ltd	\$ 545,844	
Goodwill	65,088	
Retained Earnings		\$ 249,002
Common stock		11
Additional paid in capital		258,454
Accumulated Other Comprehensive Income		20,590
Noncontrolling interest		82,875

To reflect professional fees associated with acquisition of NuZee Japan Co., Ltd.

Entry #2	Dr.	Cr.
Operating expenses	\$ 45,000	
Accounts payable		\$ 45,000