

**VALUERICH, INC.**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2013 AND 2012**

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# D. Brooks and Associates CPA's, P.A.

Certified Public Accountants • Valuation Analyst • Advisors

Stockholders of  
ValueRich, Inc.  
West Palm Beach, Florida

We have compiled the accompanying consolidated balance sheets of ValueRich, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, and stockholders' equity and cash flows for the years then ended. We have not audited or reviewed the accompanying consolidated financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

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

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

We are not independent with respect to ValueRich, Inc.

/s/ D. Brooks and Associates CPA's, P.A.

March 31, 2014

**VALUERICH, INC.**  
**CONSOLIDATED BALANCE SHEETS - UNAUDITED**

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 531,679	\$ 18,464
Accounts receivable - related parties	32,454	7,500
Due from officer	100,000	29,625
Note receivable - related party	622,264	600,015
Deferred financing costs	-	43,662
Total current assets	<u>1,286,397</u>	<u>699,266</u>
PROPERTY AND EQUIPMENT, net	<u>172,563</u>	<u>174,110</u>
<b>OTHER ASSETS:</b>		
Real estate held for development and sale	1,406,328	1,221,775
Due from construction escrow	-	43,819
Total other assets	<u>1,406,328</u>	<u>1,265,594</u>
Total assets	<u>\$ 2,865,288</u>	<u>\$ 2,138,970</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 812,656	\$ 529,752
Current portion of notes payable, net	585,621	600,960
Total current liabilities	<u>1,398,277</u>	<u>1,130,713</u>
<b>LONG-TERM LIABILITIES:</b>		
Notes payable, net - less current portion	765,014	-
Total liabilities	<u>2,163,291</u>	<u>1,130,713</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock; \$0.01 par value; 100,000,000 shares authorized; 11,033,377 shares issued and outstanding	110,333	110,333
Additional paid-in capital	7,499,446	7,452,415
Accumulated deficit	(6,907,782)	(6,554,491)
Total stockholders' equity	<u>701,997</u>	<u>1,008,257</u>
Total liabilities and stockholders' equity	<u>\$ 2,865,288</u>	<u>\$ 2,138,970</u>

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

**VALUERICH, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**UNAUDITED**

	<b>Year Ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<u>2013</u>	<u>2012</u>
REVENUE:		
Service income	\$ 19,442	\$ 51,548
Real estate sales	255,000	266,020
Management fees - related party	180,000	180,000
Other Income	-	2,949
Net revenue	<u>454,442</u>	<u>500,518</u>
COST OF REVENUE - REAL ESTATE SALES	<u>46,903</u>	<u>36,466</u>
Gross profit	<u>407,539</u>	<u>464,052</u>
OPERATING EXPENSES:		
Salaries and wages	-	211,912
General and administrative expenses	305,972	232,146
Professional fees	137,383	125,496
Property taxes	196,792	101,041
Depreciation and amortization expense	<u>4,848</u>	<u>6,319</u>
Total operating expenses	<u>644,995</u>	<u>575,872</u>
LOSS FROM OPERATIONS	<u>(237,456)</u>	<u>(111,820)</u>
OTHER INCOME (EXPENSES):		
Interest expense	(164,559)	(52,556)
Interest income	<u>48,725</u>	<u>46,636</u>
Net other expense	<u>(115,834)</u>	<u>(5,920)</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(353,290)	(117,740)
INCOME TAX PROVISION	<u>-</u>	<u>-</u>
NET LOSS	<u>\$ (353,290)</u>	<u>\$ (117,740)</u>
NET LOSS PER SHARE - BASIC AND DILUTED	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED	<u>11,033,377</u>	<u>10,974,199</u>

**VALUERICH, INC.**  
**STATEMENT OF STOCKHOLDERS' EQUITY - UNAUDITED**

	<u>Common Stock</u>		<u>Additional</u>	<u>Treasury</u>	<u>Accumulate d</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Stock</u>	<u>Deficit</u>	
Balance - December 31, 2011	9,683,377	\$ 96,833	\$7,420,635	\$(25,100)	\$ (6,436,752)	\$ 1,055,616
Repurchase of common stock	-	-	-	(24,000)	-	(24,000)
Issuance of common stock for extension of debt maturity	150,000	1,500	6,000	-	-	7,500
Stock-based compensation	1,200,000	12,000	25,780	49,100	-	86,880
Net loss	-	-	-	-	(117,740)	(117,740)
Balance - December 31, 2012	<u>11,033,377</u>	<u>110,333</u>	<u>7,452,415</u>	<u>-</u>	<u>(6,554,492)</u>	<u>1,008,256</u>
Stock-based compensation	-	-	47,031	-	-	47,031
Net loss	-	-	-	-	(353,290)	(353,290)
Balance - December 31, 2013	<u>11,033,377</u>	<u>\$ 110,333</u>	<u>\$ 7,499,446</u>	<u>\$ -</u>	<u>\$ (6,907,782)</u>	<u>\$ 701,997</u>

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

**VALUERICH, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED**

	<b>For Years Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (353,290)	\$ (117,740)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,848	6,319
Stock-based compensation	47,031	86,880
Amortization of deferred financing costs	43,662	23,446
Amortization of debt discount	1,605	9,105
Accrued interest on notes payable	-	15,828
Accrued interest on note receivable - related party	(58,249)	(45,987)
Changes in operating assets and liabilities:		
Decrease (increase) in trade accounts receivable	(24,954)	7,500
Increase in real estate held for development and sale	(184,553)	(9,747)
Increase in accounts payable and accrued expenses	282,903	63,010
Net cash provided by (used in) operating activities	(240,997)	38,614
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(3,301)	(1,622)
Advances for clubhouse construction	43,819	(1,277)
Advance to officer	(70,375)	(29,625)
Principal payments received on note receivable	36,000	32,500
Net cash used in investing activities	6,143	(24)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Purchase of treasury stock	-	(24,000)
Principal payments on notes payable	(200,439)	(190,000)
Proceeds from issuance of notes payable	948,509	-
Net cash (used in) provided by financing activities	748,070	(214,000)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	513,216	(175,410)
<b>CASH AND CASH EQUIVALENTS, Beginning of period</b>	18,464	193,874
<b>CASH AND CASH EQUIVALENTS, End of period</b>	\$ 531,679	\$ 18,464
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ 177,541	\$ 45,372
Income taxes paid	\$ -	\$ -
<b>SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Settlement of note payable by principal stockholder	\$ -	\$ 17,500

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

**VALUERICH, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years ended December 31, 2013 and 2012**

**Note 1 - Organization and Basis of Presentation**

ValueRich, Inc. (the “Company”) was incorporated under the laws of the state of Florida on July 11, 2003 and reincorporated in Delaware on March 3, 2006.

ValueRich is a Multi-Industry Company. The ValueRich business model is to Build, Buy and Invest in companies that add to the asset base, produce net profits and increase Shareholder Value. Currently the Company owns and operates real estate assets in Florida and the Company is currently seeking to establish itself in the legal and legitimate emerging Cannabis Industry. The company currently owns and operates a 350-acre development consisting of two communities named Ravello and Visconti. The communities are comprised of 440 build-ready lots, located along the St Lucie River in Port St. Lucie, Florida.

The Company is currently exploring various opportunities in the legal, legitimate and transparent emerging cannabis industry. There are currently numerous factors converging to induce the legalization of cannabis throughout the United States. We believe there is vast opportunity by establishing a footprint in this new emerging Industry while the laws, regulation, public education and awareness are not fully understood or comprehended by the majority of the general public. After a great deal of research and due diligence, it is our opinion that this new industry lacks experienced, business leadership and clearly defined investment opportunities. The Company is engaged in multiple dialogues with some of the prominent and leading companies currently doing business in and around Denver, Colorado. The Company will continue to explore opportunities that could range from retail products, to scientific development, all encompassing around the emerging legal and legitimate Cannabis industry.

**Note 2 – Summary of Significant Accounting Policies**

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. The Company bases its estimates on historical experience, management expectations for future performance, and other assumptions as appropriate. Key areas affected by estimates include the assessment of the recoverability of long-lived assets, which is based on such factors as estimated future cash flows. The Company re-evaluates its estimates on an ongoing basis; actual results may vary from those estimates.

Principles of Consolidation

The consolidated financial statements (“financial statements”) include the accounts of ValueRich, Inc. and its wholly-owned subsidiaries; Tesoro Preserve Development, LLC, Tesoro Preserve Opportunity Fund, LLC, Tesoro Club, LLC, VR Circle Holdings, LLC, VR Premier Holdings, LLC, VRPT, LLC, JAMO Development, LLC, Via Visconti, LLC and NOBO Group, LLC and have been prepared in accordance with U.S. generally accepted accounting principles. All intercompany transactions and balances have been eliminated in consolidation.

### Investment in Real Estate Held for Development and Sale

Costs incurred that are directly attributable to the acquisition, development, and construction of real estate are capitalized. The carrying amount of real estate held for development and sale is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the real estate may not be recoverable. An impairment loss is recognized if the carrying amount of the real estate is not recoverable. The carrying amount is not recoverable if it exceeds the undiscounted sum of cash flows expected to result from the disposition of the real estate. If the carrying value is not recoverable, an impairment loss is recorded equal to the excess of the carrying amount of the real estate over its fair value. There have been no events or changes in circumstances that indicate that the carrying amount of the real estate may not be recoverable.

### Revenue Recognition

The Company recognizes revenue and profit in full on the sale of real estate when 1) a sale is consummated as indicated by a binding agreement, the exchange of all consideration, arrangement of permanent financing, if any, and all conditions precedent to the closing having been met; 2) the buyer's commitment to pay has been demonstrated and collectability of the sales price is reasonably assured or the amount that will not be collected can be reasonably estimated; 3) any receivable from the buyer is collateralized by the property and not subject to subordination other than by existing or contemplated liens; and 4) the Company has transferred the usual risks and rewards of ownership to the buyer, is not obligated to perform significant activities after the sale without compensation, and does not otherwise have substantial continuing involvement in the property.

The Company recognizes consulting and management fee revenue when persuasive evidence of an arrangement exists, performance has occurred according to the terms of the relevant agreement, the price is fixed and determinable, and collectability is reasonably assured.

### Deferred Financing Costs

Direct costs incurred in connection with the issuance of debt are capitalized and amortized into interest expenses over the term of the related debt.

### Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and cash equivalents. The Company places its cash and cash equivalents with high quality financial institutions which at times may exceed the FDIC insurance limit.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

### Property, Plant and Equipment

Property and equipment are stated at historical cost and are depreciated using the straight-line method over their estimated useful lives. The useful life and depreciation method are reviewed periodically to ensure that the depreciation method and period are consistent with the anticipated pattern of future

economic benefits. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains and losses on disposals are included in the results of operations.

The Company provides for depreciation over the assets' estimated lives as follows:

Building	40 years
Computers, software and equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	Lesser of lease life or economic life

#### Impairment or Disposal of Long-lived Assets

The Company applies the provisions of Accounting Standards Codification (“ASC”) Topic 360, “Property, Plant, and Equipment,” which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets’ carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. The Company has determined that there were no impairments of its long-lived assets during the years ended December 31, 2013 and 2012.

#### Fair Value of Financial Instruments

On January 1, 2008, the Company adopted FASB ASC 820-10, “Fair Value Measurements and Disclosures.” FASB ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company did not identify any assets or liabilities that are required to be presented on the balance sheets at fair value as of December 31, 2012 or September 30, 2013 in accordance with FASB ASC Topic 815.

## Income Taxes

Income taxes are provided based upon the asset and liability method of accounting in accordance with ASC Topic 740 "Income Taxes". The Company is required to compute deferred income tax assets for net operating losses carried forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The realization of deferred tax assets is assessed throughout the year and a valuation allowance is recorded if necessary to reduce net deferred tax assets to the amount more likely than not to be realized. The potential benefits of net operating losses ("NOLs") have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

The Company has an NOL carry forward for income tax reporting purposes that may be offset against future taxable income. Current tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Accordingly, the amount available to offset future taxable income may be limited. No tax benefit has been reported in the financial statements, because the Company is uncertain if they will ever be in a position to utilize the NOL carry forward. Accordingly, the potential tax benefits of the loss carry forward are offset by a valuation allowance of the same amount.

The Company is current in its filing of federal income tax returns. The Company believes that the statutes of limitations for its federal income tax returns are open for years after 2007. The Company is not currently under examination by the Internal Revenue Service or any other taxing authority.

The Company's practice is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. As of December 31, 2013 and 2012, the Company had no accrued interest or penalties.

## Basic and Diluted Losses Per Share

Earnings per share is calculated in accordance with the FASB ASC 260, "Earnings Per Share." Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. There were no potentially dilutive securities outstanding during the years ended December 31, 2012 and 2013.

## Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718, "Compensation – Stock Compensation." ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. Under ASC 718, the Company's volatility is based on the historical volatility of the Company's stock or the expected volatility of similar companies. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company uses the Black-Scholes option-pricing model which was developed for use in estimating the fair value of options. Option-pricing models require the input of highly complex and subjective variables including the expected life of options granted and the Company's expected stock price volatility over a period equal to or greater than the expected life of the options. Because changes in the subjective assumptions can materially affect the estimated value of the Company's employee stock options, it is management's opinion that the Black-Scholes option-pricing model may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with ASC 718 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. The Company did not issue any equity based compensation during the year ended December 31, 2012. During the year ended December 31, 2013, the Company recognized \$47,031 of stock-based compensation expense.

#### Subsequent Events

The Company has evaluated subsequent events through March 31, 2014 which is the date the consolidated financial statements were available for issuance.

#### Recently Issued Accounting Standards

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying consolidated financial statements.

#### **Note 3 – Note Receivable – Related Party**

On January 19, 2010, the Company entered into a four year 8% note receivable agreement with Tesoro Preserve Property Owners Association Inc. ("the POA") evidencing amounts advanced to the POA. The Note Receivable requires monthly payments of principal and interest totaling \$15,000 commencing on February 19, 2010. The note agreement required an initial payment of principal in the amount of \$120,000. Any unpaid principal or interest is due in full upon the earlier of January 14, 2014 or the turnover of the development to the property owners. As of December 31, 2013, and December 31, 2012, the note receivable balance, including accrued interest was \$622,264 and \$600,015, respectively. The Company's chief executive officer is the chairman of the board of directors of the POA.

#### Note 4 – Notes Payable

Notes payable as of December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
<p>On February 10, 2010, the Company issued a 6% one-year promissory note in the amount of \$200,000. Accrued interest is due on a monthly basis commencing on March 10, 2010. Any unpaid interest and outstanding principal balance is payable and due on the earlier of February 10, 2011 or when the Company raises a minimum of \$1,500,000 of Investor capital. In connection with the issuance of the note, the Company incurred \$18,305 of financing costs which was amortized over the one-year term of the note. The Company also agreed to issue to the holder 250,000 shares of the Company’s common stock. The Company allocated \$35,052 of the net proceeds from the note to the common stock based on their relative fair value on the date of the note issuance. The fair value of the common stock was based on quoted market prices and the amount allocated to the common stock is recorded as a discount which was amortized into expense over the one-year term of the note. In January 2012, the holder of the note agreed to extend the maturity date until August 2012 in exchange for 150,000 shares of the Company’s common stock.</p>	\$ 200,000	\$ 200,000
<p>On June 18, 2010, the Company issued a note payable in the amount of \$25,000 pursuant to a private placement offering (“Offering”) by its wholly owned subsidiary, Tesoro Preserve Opportunity Fund, LLC (“the Fund”). The proceeds of the note were used to acquire “build ready” home lots, located within the Tesoro Preserve Development that are either bank owned, in foreclosure, or impaired by liens. The note bears interest at an annual rate of 8% and matures in June 2013 unless repaid early as allowed by the terms of the note. The holder of note is entitled to 50% of a pro rate share of the profits of the Fund after repayment of all outstanding principle and interest to all investors in the Offering. Pursuant to the Offering, the Company issued to the holder of the note, 10,000 shares of common stock. The Company allocated \$1,193 of the net proceeds from the note to the common stock based on their relative fair value on the date of the note issuance. The fair value of the common stock was based on quoted market prices and the amount allocated to the common stock is recorded as a discount which will be amortized into expense over the three-year term of the note.</p>	25,000	25,000

**Note 4 – Notes Payable (Continued)**

	<u>2013</u>	<u>2012</u>
<p>On July 22, 2010, the Company issued a note payable in the amount of \$25,000 pursuant to a private placement offering (“Offering”) by its wholly owned subsidiary, Tesoro Preserve Opportunity Fund, LLC (“the Fund”). The proceeds of the note were used to acquire “build ready” home lots, located within the Tesoro Preserve Development that are either bank owned, in foreclosure, or impaired by liens. The note bears interest at an annual rate of 8% and matures in June 2013 unless repaid early as allowed by the terms of the note. The holder of note is entitled to 50% of a pro rate share of the profits of the Fund after repayment of all outstanding principle and interest to all investors in the Offering. Pursuant to the Offering, the Company will issue to the holder of the note, 10,000 shares of common stock. The Company allocated \$1,589 of the net proceeds from the note to the common stock based on their relative fair value on the date of the note issuance. The fair value of the common stock was based on quoted market prices and the amount allocated to the common stock is recorded as a discount which will be amortized into expense over the three-year term of the note.</p>	25,000	25,000
<p>In April 2011, the Company issued a Promissory Note in the amount of \$500,000 to the investor in the Joint Venture discussed above in exchange for gross proceeds of \$500,000. The Promissory Note accrues interest at an annual rate of 15% and matures on April 8, 2013. Principal and interest payments are payable quarterly commencing in July 2011.</p>	135,621	151,060
<p>In May 2011, the Company issued a Promissory Note in the amount of \$200,000. The Promissory Note accrues interest at an annual rate of 15%, payable monthly commencing on June 2, 2011, and matures on May 15, 2013.</p>	200,000	200,000
<p>During the year ended December 31, 2013, the Company issued notes payable with an aggregate face value of \$765,014. The notes are secured by real estate, bear interest at an annual rate of 10% and mature three years from issuance.</p>	<u>765,014</u>	<u>-</u>
Total	1,350,635	601,060
Less current portion	<u>(585,621)</u>	<u>(601,060)</u>
	<u>\$ 765,014</u>	<u>\$ -</u>
<p>Future minimum payments of principal are as follows:</p>		
Twelve months ending September 30,		
2014	\$585,621	
2015	\$ -	
2016	\$765,014	

## **Note 5 – Related Party Transactions**

### ***Management Fees***

Effective July 1, 2011, the Company's wholly owned subsidiary entered into a real estate management agreement, pursuant to which the Company provides management services to the POA for a monthly fee of \$15,000. The Company's chief executive officer is the chairman of the board of the POA. The Company earned approximately \$180,000 of management fees during each of the years ended December 31, 2013 and 2012.

## **Note 6 – Litigation**

In June 2010, the Company commenced litigation against China Pharmaceuticals, a publicly traded company for breach of contract and other related claims. The Company alleges that it is entitled to ownership of 20% of the outstanding shares of China Pharmaceuticals pursuant to a May 2009 Consulting Agreement (the "Consulting Agreement") between the Company and Xian Pharmaceuticals, Ltd, the Chinese-based operating company for China Pharmaceuticals (collectively, "China Pharmaceuticals").

Pursuant to the terms of the Consulting Agreement, the Company agreed to provide assistance to China Pharmaceuticals in connection with their desire to become a publicly traded company in the United States. In exchange, China Pharmaceuticals agreed to compensate the Company with, among other things, the issuance and transfer of 20% of the shares of the proposed newly formed public company.

In July of 2009, upon the filing of a Form-S1 registration statement under the guidance of the Company, China Pharmaceuticals was fully positioned to become a publicly traded company, accomplishing the goals and objectives of the parties set forth in the Consulting Agreement. However, despite the Company's good faith performance under the Consulting Agreement, the public offering contemplated by China Pharmaceuticals was never consummated. Instead, China Pharmaceuticals terminated the agreement, cancelled shares validly issued to the Company in the proposed new public company, and then proceeded to go public through another source while refusing to compensate the Company.

The Company believes that the attempted "termination" by China Pharmaceuticals is a transparent attempt to circumvent their obligations to the Company in connection with the Consulting Agreement. In 2008, China Pharmaceuticals, with the assistance of the Company, converted its ownership structure to become wholly foreign-owned enterprise ("WFOE") through the organization of Xian Development Co., Ltd. ("Xian Development") as a wholly foreign-owned enterprise ("WFOE") organized under the laws of the People's Republic of China. Xian Development was wholly owned by China Qinba Pharmaceuticals, Inc. ("China Qinba"), its holding company in the United States. China Qinba later merged with a Nevada public corporation known as Allstar Restaurants, which changed its name to China Pharmaceuticals. Thus, the Company alleges that Xian Pharmaceuticals and China Pharmaceuticals have reaped the full benefit of the services provided by the Company under the Consulting Agreement to become a publicly traded company in the United States. The Company therefore seeks full compensation for the services it provided.

The Company was successful at a December 6, 2011 arbitration hearing against China Pharmaceuticals, Inc. (CPI) and the Company was awarded 1,250,000 shares of registered CPI common stock. CPI has not yet satisfied the award and we are continuing to pursue delivery of the shares through discussion with their counsel, and by court intervention if necessary.

On or about September 30, 2009, DTRS InterContinental Miami, LLC ("DTRS") filed a complaint against ValueRich in the Florida Circuit Court in Miami-Dade County (Case No: 09-88423-CA) alleging

breach of a contract for hotel services. DTRS is the operating entity for the InterContinental Hotel in downtown, Miami, Florida (the "Hotel.") DTRS seeks damages in the approximate amount of \$158,500, which the Company has accrued and is included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. ValueRich denies liability in this matter and is vigorously defending against the lawsuit.

#### Note 7 - Income Taxes

The actual income tax expense for the years ended December 31, 2013 and 2012 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 34% to income before provision for income taxes) as follows:

	<u>2013</u>	<u>2012</u>
Federal taxes at statutory rate	34.00%	34.00%
State income taxes, net of federal tax benefit	3.60	3.60
Other permanent differences	(0.08)	(0.33)
Change in valuation allowance	<u>(37.52)</u>	<u>(37.27)</u>
Total	<u>      -</u>	<u>      -</u>

The Company's deferred tax assets as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Deferred tax assets:		
Stock based compensation	\$ 50,391	32,693
Deferred officer's wages	-	-
Net operating loss carryover	<u>2,398,984</u>	<u>2,297,412</u>
	2,449,375	2,329,306
Less: Valuation allowance	<u>(2,449,375)</u>	<u>(2,329,306)</u>
Net deferred tax asset	\$ <u>          -</u>	\$ <u>          -</u>

As of December 31, 2013, the Company has available approximately \$6,378,000 of operating loss carryforwards, which may be used in the future filings of the Company's tax returns to offset future taxable income for United States income tax purposes. Net operating losses begin to expire in the year 2025. As of December 31, 2013, the Company has determined that due to the uncertainty regarding profitability in the near future, a 100% valuation allowance is needed with regards to the deferred tax assets. Changes in the estimated tax benefit that will be realized from the tax loss carryforwards and other temporary differences will be recognized in the financial statement in the years in which those changes occur.

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the company files income tax returns. The Company does not anticipate U.S. Federal or State examinations by tax authorities for years before 2009.

