

Apple Rush Company, Inc. and Subsidiary

Consolidated Financial Statements

For the Three Months Ended

March 31, 2012 and 2011

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APPLE RUSH COMPANY, INC. AND SUBSIDIARY

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I hereby certify that the accompanying unaudited consolidated financial statements and related consolidated footnotes and supplementary information hereto are based on the best information currently available to the Company. To the best of my knowledge, this information presents fairly, in all material respects, the financial position and stockholders' equity of Apple Rush Company, Inc. and Subsidiary as of March 31, 2012 and December 31, 2011 and the results of its operations and cash flows for the three months ended March 31, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ Robert Corr
Robert Corr, President

Apple Rush Company, Inc. and Subsidiary
Consolidated Balance Sheets
March 31, 2012 and December 31, 2011
(Unaudited)

ASSETS			
		<u>3/31/2012</u>	<u>12/31/2011</u>
Current assets			
Cash	\$	-	\$ 2
Trade accounts receivable		6,739	18,560
Notes receivable - related parties		<u>38,612</u>	<u>38,612</u>
Total current assets		<u>45,351</u>	<u>57,174</u>
Fixed assets			
Computers		5,046	5,046
Product line artwork		50,995	50,995
Furniture & fixtures		9,527	12,027
Less: accumulated depreciation		<u>(25,011)</u>	<u>(24,703)</u>
Net fixed assets		<u>40,557</u>	<u>43,365</u>
Intangible assets			
Brand names and intellectual property		<u>288,235</u>	<u>288,235</u>
Total assets	\$	<u>374,143</u>	<u>388,774</u>

LIABILITIES & STOCKHOLDERS' DEFICIT			
		<u>3/31/2012</u>	<u>12/31/2011</u>
Current liabilities			
Trade accounts payable	\$	594,631	\$ 583,331
Accrued interest		633,003	619,328
Payroll taxes payable		17,172	17,129
Other payables		107,129	107,129
Short-term notes payable		100,000	100,000
Convertible notes payable		1,400,868	1,400,868
Derivative liability portion of convertible notes		<u>1,847,743</u>	<u>1,808,568</u>
Total current liabilities		4,700,546	4,636,353
Long-term debt			
Note payable		<u>232,114</u>	<u>232,114</u>
Total liabilities		<u>4,932,660</u>	<u>4,868,467</u>
Stockholders' deficit			
Preferred A stock (no par 10,000,000 authorized, and 10,000,000 issued and outstanding)		666,667	666,667
Common stock (no par 49,830,000,000 authorized, and 4,564,689,495 issued and outstanding)		9,609,998	9,565,998
Accumulated deficit		<u>(14,835,182)</u>	<u>(14,712,358)</u>
Total stockholders' deficit		<u>(4,558,517)</u>	<u>(4,479,693)</u>
Total liabilities and stockholders' deficit	\$	<u>374,143</u>	<u>388,774</u>

See accompanying notes to financial statements.

Apple Rush Company, Inc. and Subsidiary
Consolidated Statements of Operations
For the Three Months Ended March 31, 2012 and 2011
(Unaudited)

	Three Months Ended <u>3/31/2012</u>	Three Months Ended <u>3/31/2011</u>
Sales	\$ -	\$ 11,944
Cost of sales	<u>-</u>	<u>9,568</u>
Gross profit	-	2,376
Operating expenses	<u>39,377</u>	<u>95,967</u>
Operating loss	<u>(39,377)</u>	<u>(93,591)</u>
Other expenses		
Interest expense	43,718	43,710
Capital loss	554	-
Derivative liability value adjustment	<u>39,175</u>	<u>39,175</u>
Total other expenses	<u>83,447</u>	<u>82,885</u>
Net loss	<u><u>\$ (122,824)</u></u>	<u><u>\$ (176,476)</u></u>
Weighted average number of common shares outstanding - fully diluted	<u>4,314,050,920</u>	<u>297,255</u>
Net loss per share	<u><u>\$ (0.00)</u></u>	<u><u>\$ (0.59)</u></u>

See accompanying notes to financial statements.

Apple Rush Company, Inc. and Subsidiary
Consolidated Statement of Changes in Stockholders' Equity/(Deficit)
From December 31, 2010 to March 31, 2012
(Unaudited)

	<u>Common Stock</u>		<u>Preferred Stock</u>		<u>Options</u>	<u>Accumulated (Deficit)</u>	<u>Total Stockholders' Equity/(Deficit)</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2010	369,699,668	\$ 1,846,384	-	\$ -	\$ 352,500	\$ (6,243,976)	\$ (4,045,092)
Expiration of options					(324,000)		(324,000)
Issuance of common stock for payments on convertible notes	916,250,000	101,100					101,100
Issuance of stock for services	3,292,778,448	7,546,514	10,000,000	666,667			8,213,181
Common stock (not yet issued) through exercise of options		57,000			(28,500)		28,500
Reverse stock split 1500 to 1	(1,004,069,163)						
Issuance of stock for cash	94,166,667	15,000					15,000
Net (loss) January 1, 2011 to December 31, 2011						(8,468,382)	(8,468,382)
Balance, December 31, 2011	3,668,825,620	9,565,998	10,000,000	666,667	-	(14,712,358)	(4,479,693)
Issuance of stock for previous services	215,632,996	-					-
Issuance of stock for cash	380,230,879	14,000					14,000
Issuance of common stock for payments on convertible notes	300,000,000	30,000					30,000
Net (loss) January 1, 2012 to March 31, 2012						(122,824)	(122,824)
Balance, March 31, 2012	<u>4,564,689,495</u>	<u>\$ 9,609,998</u>	<u>10,000,000</u>	<u>\$ 666,667</u>	<u>\$ -</u>	<u>\$ (14,835,182)</u>	<u>\$ (4,558,517)</u>

See accompanying notes to financial statements.

Apple Rush Company, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2012 and 2011
(Unaudited)

	Three Months Ended <u>3/31/2012</u>	Three Months Ended <u>3/31/2011</u>
OPERATING ACTIVITIES		
Net loss	\$ (122,824)	\$ (176,476)
Adjustment to reconcile net loss to net cash used in operations:		
Depreciation	1,454	1,454
Capital loss	554	-
Trade accounts receivable change	11,821	477
Inventory change	-	6,528
Derivative liability value adjustment	39,175	39,175
Non-cash officer compensation expense	-	50,000
Non-cash professional payments	-	28,512
Trade accounts payable change	11,300	(12,277)
Accrued interest change	13,675	43,675
Payroll taxes payable change	43	35
Other payables change	-	830
Net cash used in operating activities	<u>(44,802)</u>	<u>(18,067)</u>
INVESTING ACTIVITIES		
Sale of furniture	<u>800</u>	<u>-</u>
FINANCING ACTIVITIES		
Issuance of common stock as interest payment	30,000	-
Issuance of common stock	<u>14,000</u>	<u>20,000</u>
Net cash provided by financing activities	<u>44,000</u>	<u>20,000</u>
Net cash increase / (decrease) for the period	(2)	1,933
Cash at the beginning of period	<u>2</u>	<u>1,596</u>
Cash at the end of period	<u>\$ -</u>	<u>\$ 3,529</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

Apple Rush Company, Inc. and Subsidiary
Notes to Financial Statements

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of Apple Rush Company, Inc., (the "Company") which is a Texas corporation and its wholly owned subsidiary, Garden Distributing, Inc. ("Garden"), which is an Illinois corporation. All material inter-company balances and transactions have been eliminated in consolidation.

Nature of Business and Current Operations

The Company develops, bottles, markets, distributes and sells a variety of beverages and snacks to wholesale and retail clients throughout the United States. The Company has a branded product called Apple Rush which is a line of 100% organic sparkling juice blended beverages, with apple juice as the base.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. There were no cash equivalents as of March 31, 2012.

Trade Accounts Receivable

Trade accounts receivable is recorded at the amount the Company expects to collect on balances outstanding at the balance sheet date. The financial statements reflect bad debt expense at 2% of credit sales. This percentage is evaluated and adjusted on an annual basis.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or estimated net realizable value.

Fixed Assets

Fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance are charged to expense as incurred. Expenditures for betterments and renewals are capitalized. The cost of fixed assets and the related accumulated depreciation are removed from the accounts upon retirement or disposal with any resulting gain or loss being recorded in operations.

Intangible Assets

Intangible assets are initially assessed for impairment upon purchase, with subsequent assessments required annually. When there is reason to suspect that their values have been diminished or impaired, a write-down is recognized as necessary.

Apple Rush Company, Inc. and Subsidiary
Notes to Financial Statements

Income Taxes

Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

Loss Per Share

Loss per share is computed by dividing net income by the post reverse stock split value of weighted average number of common shares outstanding of 4,314,050,920 for the three months ended March 31, 2012, and 297,255 for the three months ended March 31, 2011. The computation of loss per share does not assume the exercise of warrants, options or convertible notes because that would have an anti-dilutive effect.

Accounting for Derivative Instruments

Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, requires all derivatives to be recorded on the balance sheet at fair value. In September 2000, the Emerging Issues Task Force ("EITF") issued EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in, a Company's Own Stock," ("EITF 00-19") which requires freestanding contracts that are settled in a company's own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of EITF 00-19, a contract designated as an asset or a liability must be carried at fair value on a company's balance sheet, with any changes in fair value recorded in the company's results of operations.

3. GOING CONCERN

As shown in the accompanying financial statements, the Company has incurred cumulative losses of \$14,835,182 since inception. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. In order to meet its upcoming continuing obligations, additional financing or new revenue growth will be needed. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

4. INCOME TAXES

For the three months ended March 31, 2012, the Company incurred a net operating loss and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. At March 31, 2012, the Company had approximately \$14,835,182 of federal and state net operating losses. The net operating loss carryforwards, if not utilized, will begin to expire in 2027.

Apple Rush Company, Inc. and Subsidiary
Notes to Financial Statements

5. INTANGIBLE ASSETS

Upon formation of the Company, one stockholder contributed licensing rights to the brand name, Apple Rush, and all related intellectual property. The fair value of this asset was determined to be \$288,235 based on the value of other cash purchases of stock.

On September 4, 2007 the Company entered into an asset purchase agreement with Garden valued at \$800,000, \$790,000 of which was allocated to the rights to the brand name. Problems with the Garden operations caused management to write down this asset to \$0. As of June 30, 2009, the Company decided to close out the Garden operations. Since June 30, 2009, Garden's vendors have tried to collect various amounts due, including Chicago International Trucks, who now have a judgement in the amount of \$277,066 against Garden. The vendors are trying to hold the Company responsible for those debts.

Management believes that the remaining intangible assets have no determinable life. Therefore, no amortization is reflected in the financial statements.

6. SHORT-TERM NOTES PAYABLE

The Company entered into two notes payable that came due in September of 2009. Interest is payable monthly at 12.63% on the \$95,000 note and 18% on the \$100,000 note. The \$100,000 note is collateralized by the Company's inventory and is now past due. The \$95,000 note was sold and changed to a convertible note.

7. CONVERTIBLE NOTE PAYABLE AND DERIVATIVE LIABILITY

On September 30, 2008, the Company extended and combined some of their secured convertible notes. There are currently convertible note agreements with five investors. A \$220,000 note came due on September 27, 2008 and has an interest rate of 10% per annum. This note was reinstated on October 31, 2011 and is now due on November 1, 2012. Another note in the amount of \$917,493 came due on September 30, 2010 and has an interest rate per month at the higher of 1% (per month), or 0.2% of the first \$1,500,000 of gross monthly sales, plus 0.3% of the next \$500,000 of gross monthly sales, plus 0.4% of the next \$500,000 of gross monthly sales, plus 0.5% of any monthly sales beyond that. This percentage of sales calculation is then multiplied by 9.17493, which is the number of \$100,000 of outstanding principle balance of the note. The third note in the amount of \$70,000 came due on December 30, 2009 and has an interest rate of 10% per annum, payable quarterly starting on April 1, 2009. The note and interest are currently past due. The Company has the option of making any payments in the Company's stock rather than cash for all of the notes. The lenders have the option to convert the notes into the Company's common stock. The conversion price for the \$220,000 note is the lesser of \$0.00001 per share or 50% of the market price of the stock. The conversion price for the \$917,493 note is the lesser of \$0.10 per share or 50% of the market price of the stock. The conversion price for the \$70,000 note is the lesser of \$0.05 per share or 50% of the market price of the stock. This conversion formula also applies to payments of interest and principle by the Company if the Company chooses to pay in shares rather than cash. The holder of the fourth note purchased a \$95,000 note and exchanged that for a convertible note on December 9, 2010. It is convertible into common stock at \$0.0001 per share. The fifth note totaling \$180,000 is related to a consulting service contract. It is convertible at the lesser of 40% of the current market price or \$0.0001 per share.

Apple Rush Company, Inc. and Subsidiary
Notes to Financial Statements

8. LONG-TERM DEBT

There is a note payable that came about from the asset purchase of Garden Beverage, Inc. and A1 Beverage, Inc. (the "Former Garden"). Payments of \$11,810 are payable monthly. Major disagreements between the Company and Former Garden have caused the Company to stop making further payments against this note. The Company expects that this note will not have to be paid in full and is attempting to collect money on a settlement with Former Garden. Due to these issues, the note will no longer accrue interest and the balance will not be adjusted until either a settlement is reached or a likely settlement amount becomes known.

9. LEGAL PROCEEDINGS

Several vendors have filed law suits against the Company to try to collect on past due amounts. Management believes the amounts shown on the balance sheet properly reflect the amounts that will have to be repaid.

10. STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred A stock. 10,000,000 shares are issued and outstanding as of the balance sheet date.

Common Stock

The Company is authorized to issue 49,830,000,000 shares of common stock. 4,564,689,495 shares are issued and outstanding as of the balance sheet date.

11. SUBSEQUENT EVENTS

There have been no significant subsequent events since the balance sheet date.

Apple Rush Company, Inc. and Subsidiary
Consolidated Schedules of Operating Expenses
For the Three Months Ended March 31, 2012 and 2011
(Unaudited)

	Three Months Ended <u>3/31/2012</u>	Three Months Ended <u>3/31/2011</u>
Advertising, marketing & tradeshow	\$ 699	\$ 3,772
Bad debt expense	2,322	239
Computer expenses	40	512
Depreciation	1,454	1,454
Insurance	-	3,104
Investor relations	-	2,770
Licenses and permits	787	652
Meals & entertainment	676	381
Office expense	1,068	1,819
Officers' compensation	9,902	57,459
Professional fees	17,766	12,150
Rent	-	3,324
Repairs & maintenance	-	209
Telephone	694	531
Transfer agent fees	-	405
Travel	519	2,525
Utilities	-	561
Wages and compensation	3,450	4,100
Total operating expenses	<u>\$ 39,377</u>	<u>\$ 95,967</u>

See accompanying notes to financial statements.