

**PHARMCHEM, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2024 and 2023  
with Report of Independent Auditors**

**PHARMCHEM, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2024 and 2023**

**Table of Contents**

Report of Independent Auditors .....	1
Consolidated Financial Statements:	
Consolidated Balance Sheets .....	3
Consolidated Statements of Income.....	4
Consolidated Statements of Changes in Stockholders' Equity .....	5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	7

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of  
PharmChem, Inc. and Subsidiary

### Opinion

We have audited the consolidated financial statements of PharmChem, Inc. and subsidiary (collectively referred to as the “Company”), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (“GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Fort Worth, Texas  
February 28, 2025

**PHARMCHEM, INC. AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,629,037	\$ 1,571,766
Accounts receivable, net of allowance for credit losses of \$15,000 in 2024 and 2023	722,339	636,336
Income tax receivable	4,168	-
Inventories	227,929	391,937
Prepaid expenses and other current assets	71,215	39,846
Total current assets	<u>2,654,688</u>	<u>2,639,885</u>
Property and equipment, net	117	287
Right-of-use asset - operating lease, net	49,128	76,853
Deferred tax assets, net	27,518	48,534
Other intangible asset - research and development	2,554	-
Total assets	<u><u>\$ 2,734,005</u></u>	<u><u>\$ 2,765,559</u></u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 189,611	\$ 160,135
Accrued expenses and other liabilities	170,664	128,141
Current portion of operating lease liabilities	29,510	26,725
Income tax payable	-	29,178
Deferred revenue	174,487	163,840
Total current liabilities	<u>564,272</u>	<u>508,019</u>
Operating lease liabilities, net of current portion	<u>21,118</u>	<u>50,628</u>
Total liabilities	585,390	558,647
Stockholders' equity:		
Common stock, \$0.001 par value, 25,000,000 shares authorized, 4,621,187 outstanding and 4,647,731 issued in 2024 and 4,647,731 outstanding and 4,767,331 issued in 2023	4,621	4,648
Additional paid-in capital	12,280,773	12,784,328
Accumulated deficit	(10,053,754)	(10,272,513)
Treasury stock, 26,544 shares in 2024 and 119,600 shares in 2023, at cost	(83,025)	(309,551)
Total stockholders' equity	<u>2,148,615</u>	<u>2,206,912</u>
Total liabilities and stockholders' equity	<u><u>\$ 2,734,005</u></u>	<u><u>\$ 2,765,559</u></u>

See accompanying notes to consolidated financial statements.

**PHARMCHEM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Year Ended December 31, 2024</b>	<b>2023</b>
Revenues, net	\$ 6,085,137	\$ 6,012,403
Cost of revenues	<u>2,207,478</u>	<u>2,107,857</u>
Gross profit	3,877,659	3,904,546
Operating expenses:		
Sales and marketing	1,028,077	1,171,974
General and administrative	<u>1,186,640</u>	<u>1,759,425</u>
Total operating expenses	<u>2,214,717</u>	<u>2,931,399</u>
Income from operations	1,662,942	973,147
Other income:		
Interest income, net of expenses	76,626	79,693
Other income	<u>1,039</u>	<u>800</u>
Total other income	<u>77,665</u>	<u>80,493</u>
Income before provision for income taxes	1,740,607	1,053,640
Income tax expense, net	<u>359,916</u>	<u>208,538</u>
Net income	<u><u>\$ 1,380,691</u></u>	<u><u>\$ 845,102</u></u>
Basic common shares outstanding - weighted average	<u>4,645,286</u>	<u>4,971,136</u>
Basic net income per common share	<u><u>\$ 0.30</u></u>	<u><u>\$ 0.17</u></u>
Diluted common shares outstanding - weighted average	<u>4,645,286</u>	<u>4,971,136</u>
Diluted net income per common share	<u><u>\$ 0.30</u></u>	<u><u>\$ 0.17</u></u>
Dividends paid per common share	<u><u>\$ 0.25</u></u>	<u><u>\$ 0.20</u></u>

See accompanying notes to consolidated financial statements.

**PHARMCHEM, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**Years Ended December 31, 2024 and 2023**

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Deficit</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance at December 31, 2022	\$ 5,059	\$ 13,735,663	\$ (10,105,816)	\$ -	\$ 3,634,906
Net income	-	-	845,102	-	845,102
Repurchase and cancellation of common stock	(291)	(717,638)	-	-	(717,929)
Dividends	-	-	(1,011,799)	-	(1,011,799)
Repurchase of treasury stock	(120)	-	-	(309,551)	(309,671)
Repurchase of stock options	-	(311,192)	-	-	(311,192)
Stock-based compensation	-	77,495	-	-	77,495
Balance at December 31, 2023	4,648	12,784,328	(10,272,513)	(309,551)	2,206,912
Net income	-	-	1,380,691	-	1,380,691
Retirement of treasury stock	-	(309,820)	-	309,551	(269)
Dividends	-	-	(1,161,932)	-	(1,161,932)
Repurchase of treasury stock	(27)	-	-	(83,025)	(83,052)
Forfeited stock options	-	(206,979)	-	-	(206,979)
Stock-based compensation	-	13,244	-	-	13,244
Balance at December 31, 2024	\$ 4,621	\$ 12,280,773	\$ (10,053,754)	\$ (83,025)	\$ 2,148,615

See accompanying notes to consolidated financial statements.

**PHARMCHEM, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31, 2024</b>	<b>2023</b>
<b>Operating Activities</b>		
Net income	\$ 1,380,691	\$ 845,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	170	170
Provision for credit losses	128	2,741
Deferred tax expense (benefit)	21,016	(18,518)
Stock-based compensation	13,244	77,495
Forfeited stock options	(206,979)	-
Non-cash lease expense	30,600	10,200
Net changes in operating assets and liabilities		
Accounts receivable	(86,131)	(71,326)
Income tax receivable	(4,168)	13,457
Inventories	164,008	(231,093)
Prepaid expenses and other current assets	(31,369)	(13,701)
Accounts payable	29,476	13,813
Accrued expenses and other liabilities	42,523	(16,289)
Operating lease liability	(29,600)	(9,700)
Income tax payable	(29,178)	29,178
Deferred revenue	10,647	7,365
Net cash provided by operating activities	<u>1,305,078</u>	<u>638,894</u>
<b>Investing Activities</b>		
Capitalized research and development expenses	(2,554)	-
Net cash used in investing activities	<u>(2,554)</u>	<u>-</u>
<b>Financing Activities</b>		
Dividends	(1,161,932)	(1,011,799)
Retirement of treasury stock	(269)	-
Repurchase of common stock	-	(717,929)
Repurchase of treasury stock	(83,052)	(309,671)
Repurchase of stock options	-	(311,192)
Net cash used in financing activities	<u>(1,245,253)</u>	<u>(2,350,591)</u>
Net increase (decrease) in cash and equivalents	57,271	(1,711,697)
Cash and equivalents at beginning of year	<u>1,571,766</u>	<u>3,283,463</u>
Cash and equivalents at end of year	<u><u>\$ 1,629,037</u></u>	<u><u>\$ 1,571,766</u></u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for taxes	<u><u>\$ 369,385</u></u>	<u><u>\$ 189,346</u></u>
<b>Supplemental Disclosure of Non-Cash Flow Information</b>		
Right-of-use asset assumed through lease liability	<u><u>\$ -</u></u>	<u><u>\$ 85,831</u></u>
Lease assumed through lease liability	<u><u>\$ -</u></u>	<u><u>\$ 85,831</u></u>

See accompanying notes to consolidated financial statements.



**PHARMCHEM, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2024 and 2023**

**1. Nature of Business**

PharmChem, Inc. (“PharmChem”) sells and distributes the PharmChek<sup>®</sup> Sweat Patch Device (the “Sweat Patch” or “PharmChek<sup>®</sup>”). PharmChek<sup>®</sup> is a system that uses sweat to detect the presence of illegal drugs. It consists of a transparent polyurethane outer covering, a small absorbent pad, and a release liner. A unique number is printed on the Sweat Patch for identification and anti-counterfeiting purposes. Unlike urinalysis, flushing or employing a diuretic to rid the body of drugs of abuse does not affect PharmChek<sup>®</sup> test results, since the drugs in the sweat simply collect on the absorption pad until the pad is removed for analysis.

The Food and Drug Administration (“FDA”) has cleared PharmChek<sup>®</sup> for detecting the use of cocaine, opiates (including heroin), amphetamines (including methamphetamine), phencyclidine, and marijuana. Once the Sweat Patch is removed from the donor, it is sent to a third-party, certified laboratory for screening and, if necessary, confirmation. PharmChem’s customers include federal, state, and local governments, state and local drug courts, as well as independent companies which provide drug rehabilitation and other related services.

PharmChek<sup>®</sup> is a registered trademark owned by PharmChem. PharmChem was incorporated in California in 1987 and reincorporated in Delaware in 2000. The corporate offices are located in Fort Worth, Texas.

During December 2022, PharmChem formed Chemiclear Testing LLC (“Chemiclear” and when combined with PharmChem, the “Company”), a wholly owned subsidiary. Chemiclear is a Delaware LLC formed for the purpose of marketing and distributing the TruPatch<sup>™</sup> sweat patch kit, for over-the-counter use.

**2. Summary of Significant Accounting Policies**

A summary of the Company’s significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

**Basis of Accounting**

The accounts are maintained and the consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**Principles of Consolidation**

The consolidated financial statements include the accounts of the PharmChem and its subsidiary, which is wholly owned. Significant intercompany accounts and transactions have been eliminated in consolidation.

## **PHARMCHEM, INC. AND SUBSIDIARY**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)***

#### **2. Summary of Significant Accounting Policies – continued**

##### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates and assumptions.

##### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains deposits in various financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The money market account is insured by the Securities Investor Protection Corporation (“SIPC”). The Company has not experienced any losses related to amounts in excess of FDIC and SIPC limits.

##### **Accounts Receivable and Allowance for Credit Losses**

Accounts receivable are stated at amounts management expects to collect for providing services to consumers. The Company regularly monitors and assesses its risk of not collecting amounts owed by customers. At each balance sheet date, the Company recognizes an expected allowance for credit losses. In addition, at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded.

The allowance estimate is derived from a review of the Company’s historical losses based on the aging of receivables. This estimate is adjusted for management’s assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Company’s portfolio segments have remained constant since the Company’s inception.

The allowance for credit losses was \$15,000 for the years ended December 31, 2024 and 2023.

The Company writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income in the year of recovery, in accordance with the entity’s accounting policy election. The total amount of write-offs was immaterial to the consolidated financial statements as a whole for the years ended December 31, 2024 and 2023.

##### **Inventories**

Inventories consist of the Sweat Patch, packaging, and other related materials. Inventories are valued at the lower of cost or net realizable value using average cost.

## PHARMCHEM, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 2. Summary of Significant Accounting Policies – continued

##### Property and Equipment

Property and equipment are stated at cost. Office equipment is depreciated using the straight-line method over a four-to-ten-year useful life for financial reporting purposes. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lives of the respective leases or the service lives of the improvements. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Depreciation expense during 2024 and 2023 was approximately \$200 and is included in general and administrative expenses in the accompanying consolidated statements of income. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts, and any resulting gains or losses are reflected in the operating results of the respective period.

##### Leases

The Company has a lease for its office space. A lease provides the lessee the right to control the use of an identified asset for a period of time in exchange for consideration. Operating lease right-of-use assets (“ROU assets”) represent the Company’s right to use an underlying asset for the lease term. Operating lease liabilities (“lease liabilities”) represent the Company’s obligation to make lease payments arising from the lease. The Company determines if an arrangement is a lease at inception. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company excludes short-term leases having initial terms of 12 months or less from ROU assets and lease liabilities and recognizes rent expense on a straight-line basis over the lease term.

Operating leases are included in right-of-use asset – operating lease and operating lease liabilities on the accompanying consolidated balance sheets.

The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Company utilizes the applicable risk-free rate in effect at the time of the lease inception. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. The Company’s lease agreement does not contain lease incentives, significant residual value guarantees, restrictions, or covenants.

The Company has a lease agreement with lease and non-lease components, which are generally accounted for separately. For these leases, there may be variability in future lease payments as the amount of non-lease component is typically revised from one period to the next. These variable lease payments, which are primarily comprised of common area maintenance, utilities, taxes, and other related fees that are passed on from the lessor in proportion to the leased space, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

**PHARMCHEM, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)***

**2. Summary of Significant Accounting Policies – continued**

**Revenue Recognition**

Revenue is recognized when performance obligations under the terms of a contract with customers are satisfied. For Sweat Patch and TruPatch™ product sales, this typically occurs at the time the product is shipped to the customer, and for Sweat Patch and TruPatch™ screening, this occurs upon completion of the lab screening. Revenue is measured at the amount of consideration expected to be received in exchange for transferring the products to the customer or at the amount of consideration expected to be received upon completion of the lab screening of the TruPatch™ and the Sweat Patch. The lab screening for Sweat Patch is due within 30 days of performance obligation completion. The pricing for the Sweat Patch is separate from the pricing for the screening and, as such, revenue is not allocated between the two. Rebates are offered to certain customers and are earned only after achieving specified purchase targets. The amounts of rebates which will be taken by customers are calculated and recorded as a reduction from revenue and are included in net revenue in the accompanying consolidated statements of income. The TruPatch™ product and screen are sold together as a kit. The TruPatch™ product revenue is recognized immediately with rebates and discounts offered to customers, during certain online promotions, recorded as a reduction from revenue and included in net revenue in the accompanying consolidated statements of income.

Cash receipts for future Sweat Patch screenings are recognized as a contract liability. The contract liability is classified as deferred revenue in the accompanying consolidated balance sheets when sold and as revenue when the related screening has occurred. As of December 31, 2024 and 2023 and January 1, 2023, deferred revenues for future Sweat Patch screenings were approximately \$174,000, \$164,000, and \$156,000, respectively. During 2024, approximately \$103,000 of deferred revenue at December 31, 2023, was recognized as revenue. During 2023, approximately \$90,000 of deferred revenue at December 31, 2022, was recognized as revenue. As of December 31, 2024 and 2023 and January 1, 2023, the Company had accounts receivable, net of approximately \$722,000, \$636,000, and \$568,000, respectively.

TruPatch™ screen revenue is recognized as a contract liability, classified as deferred revenue in the accompanying consolidated balance sheets, when sold and as a revenue when the screening has occurred. As of December 31, 2024, deferred revenue for future TruPatch™ screenings was \$0. As of December 31, 2023, deferred revenue for future TruPatch™ screenings was approximately \$700. There are no related accounts receivable for TruPatch™ since the kits are sold directly to the end user and are paid in full, before they are shipped.

The Company invoices its customers for shipping and handling, which it records as revenues once the goods are shipped to the customer. Expenses for shipping costs are expensed as incurred and are included in the cost of revenues in the accompanying consolidated statements of income. Such shipping costs approximated \$44,000 and \$42,000, respectively, for the years ended December 31, 2024 and 2023.

## **PHARMCHEM, INC. AND SUBSIDIARY**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)***

#### **2. Summary of Significant Accounting Policies – continued**

##### **Advertising and Marketing**

Advertising and marketing expenses are expensed as incurred and are included in sales and marketing expenses in the accompanying consolidated statements of income. Such amounts approximated \$146,000 and \$253,000, respectively, for the years ended December 31, 2024 and 2023.

##### **Income Taxes**

The Company accounts for income taxes under the liability method, which requires recognition of deferred tax assets and liabilities for the future tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are measured using enacted tax rates expected to apply to taxable income in years in which such temporary differences are expected to be recovered or settled. The effect on deferred income taxes of a change in tax rates is recognized in the operating results of the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more likely than not threshold, it is then measured to determine the amount of expense to record in the consolidated financial statements. The tax position is measured as the largest amount of expense that is greater than 50 percent likely to be realized upon ultimate settlement. The Company recognizes the potential accrued interest and penalties related to unrecognized tax benefits within income tax expense. The Company has not recorded any liability related to uncertain tax positions.

The Company files income tax returns in the United States federal jurisdiction and various state jurisdictions within the United States. For the years ended December 31, 2024 and 2023, the Company incurred approximately \$600 and \$14,000, respectively, in penalties and interest related to such tax returns.

##### **Stock-Based Compensation**

The Company accounts for stock-based compensation, which consists primarily of share-based payments for employee services using a fair value-based method. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and has elected to account for forfeitures as they occur.

**PHARMCHEM, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**2. Summary of Significant Accounting Policies – continued**

**Net Income Per Share**

Basic net income per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if non-qualified options to purchase shares of common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. For the years ended December 31, 2023 and 2024, there were no potentially dilutive shares included in the diluted net income per share calculated.

**Recently Issued Accounting Pronouncements**

In November 2023, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2023-07, *Improvements to Reportable Segment Disclosures* (Topic 280). ASU 2023-07 modifies reportable segment disclosure requirements, primarily through enhanced disclosures about segment expenses categorized as significant or regularly provided to the Chief Operating Decision Maker (“CODM”). In addition, the amendments clarify circumstances in which an entity can disclose multiple segment measures of profit or loss and contain other disclosure requirements. The purpose of the amendments is to enable investors to better understand an entity’s overall performance and assess potential future cash flows. This ASU is effective for annual periods beginning after December 15, 2023, with early adoption permitted. The Company currently operates as one reportable segment and does not believe there will be a material impact on the related disclosure in the consolidated financial statements.

**3. Inventories**

Inventories consisted of the following at December 31,:

	<u>2024</u>	<u>2023</u>
Sweat Patch	\$ 181,230	\$ 306,233
Other Sweat Patch kit components	<u>46,699</u>	<u>85,704</u>
Total inventories	<u>\$ 227,929</u>	<u>\$ 391,937</u>

**PHARMCHEM, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**4. Income Taxes**

Net income tax expense reflects the net tax effects of temporary differences in the recognition of revenue and expenses for tax and financial statement purposes. Components of the Company's net income tax expense consisted of the following for the years ended December 31,:

	<u><b>2024</b></u>	<u><b>2023</b></u>
Current	\$ 338,900	\$ 227,056
Deferred	<u>21,016</u>	<u>(18,518)</u>
Income tax expense, net	<u><u>\$ 359,916</u></u>	<u><u>\$ 208,538</u></u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used from income tax purposes. The primary components of the deferred tax assets were as follows at December 31,:

	<u><b>2024</b></u>	<u><b>2023</b></u>
Deferred tax assets (liabilities):		
Allowance for doubtful accounts	\$ 3,150	\$ 3,150
Operating leases	315	105
Property and equipment	2,329	2,392
Research and development	23,966	3,273
Stock-based compensation	-	40,684
Unrealized gain on cash equivalents	<u>(2,242)</u>	<u>(1,070)</u>
Total deferred tax assets	27,518	48,534
Less valuation allowance	<u>-</u>	<u>-</u>
Deferred tax assets, net	<u><u>\$ 27,518</u></u>	<u><u>\$ 48,534</u></u>

The Company has approximately \$278,000 of business tax credits for state purposes which, if unused, will expire in 2027.

A reconciliation of the income tax provision with the amount of tax computed by applying the U.S. federal statutory rate to pretax income follows for the years ended December 31,:

	<u><b>2024</b></u>	<u><b>2023</b></u>
Consolidated income before tax	\$ 1,740,607	\$ 1,053,640
Statutory rate	21%	21%
Statutory tax expense	365,527	221,264
State taxes	12,694	36,976
Permanent differences due to other items	5,209	(54,713)
Other	<u>(23,514)</u>	<u>5,011</u>
Tax expense	<u><u>\$ 359,916</u></u>	<u><u>\$ 208,538</u></u>

**PHARMCHEM, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**5. Leases**

The Company has an operating lease for its office space. Previously, the impacts of the lease being included in the balance sheet were considered immaterial. On September 1, 2023, the Company's office lease space lease agreement was renewed for three years.

The components of lease expense during the years ended December 31, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 30,600	\$ 10,200
Variable lease cost	\$ 4,850	\$ 2,736
Short-term lease cost	\$ -	\$ 14,900

Weighted average lease term and discount rate are as follows as of December 31,:

	<u>2024</u>	<u>2023</u>
Weighted average remaining lease term (years)	1.67	2.67
Weighted average discount rate	4.57%	4.57%

Cash paid for operating leases is as follows during the years ended December 31,:

	<u>2024</u>	<u>2023</u>
Operating cash flows	\$ 29,600	\$ 9,700

Maturities of the lease liability as of December 31, 2024, are as follows:

2025	\$ 31,100
2026	<u>21,400</u>
Total lease payments	52,500
Less present value discount	<u>(1,872)</u>
Lease liabilities	<u><u>\$ 50,628</u></u>



## PHARMCHEM, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 6. Commitments and Contingencies

##### *Vendor Contracts*

The Company contracts with a certified laboratory to screen and confirm its customers' Sweat Patches. This laboratory must maintain certifications with Substance Abuse and Mental Health Services Administration, Clinical Laboratory Improvement Amendment, College of American Pathologists, and American Board of Forensic Toxicology. In addition, the laboratory must voluntarily participate in a number of external proficiency programs to maintain such licenses. After providing certain notices, this laboratory can cancel the agreement, which could severely impact the Company's ability to provide these services to its customers until another similarly certified laboratory is identified which can provide protocols and standards currently used for sweat testing at a comparable cost.

The Company needs to invest in further research and development to keep abreast of current trends, new technologies, and heavily regulated protocols to which the Company's business continues to be subjected.

#### 7. Concentrations of Credit Risk

The Company is subject to a number of risks which include, among others, development and marketing of PharmChek<sup>®</sup> and customer concentration. Financial instruments which potentially subject PharmChem to concentrations of credit risk consist principally of investments in marketable securities and trade receivables. The Company has cash investment policies that limit investments to short-term, low-risk instruments.

One customer accounted for approximately 10% of net revenues in 2024 and two customers accounted for approximately 11% each of net revenues in 2023. Further, one customer accounted for approximately 10% of accounts receivable as of December 31, 2024. There were no such concentrations as of December 31, 2023. The Company believes the risk associated with concentrations of credit for trade receivables is mitigated because (i) one of the customers is multiple federal government agencies; (ii) the remaining customer base is diversified among many corporate industries and other government agencies; (iii) the Company has an ongoing credit evaluation process; and (iv) the Company maintains an allowance for doubtful accounts. See Note 6 for disclosure regarding a significant vendor who screens and confirms customers' Sweat Patches.

#### 8. Preferred Stock

The Company is authorized to issue 5,000,000 shares of preferred stock, \$0.001 par value. No shares of this preferred stock were outstanding as of December 31, 2024 and 2023.

**PHARMCHEM, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**9. Stock Option Plan**

In January 2015, the Board of Directors (the “Board”) approved the 2015 Employee Stock Option Plan (the “Plan”) whereby non-qualified options were authorized and granted to employees to purchase 1,140,000 shares of common stock with varying vesting dates up to sixty months. The Plan is administered by the Board, which determines the term of each stock option. The exercise price cannot be less than 100% of the fair value of the common stock on the date the option is granted. As of December 31, 2023, all options from this Plan have been repurchased by the Company and the Plan has been terminated.

In June 2022, 265,000 stock options were granted under a stock option plan and agreement (the “Stock Option Plan”) to an employee with various vesting dates through 2026. Effective January 26, 2023, due to the payment of a dividend of \$0.20 per share, the exercise price was adjusted from \$4.60 to \$4.40. As a result of the modification, the Company determined the change in compensation expense immaterial and no additional expense was recognized. No options were granted during 2024 or 2023.

In February 2023, 240,000 stock options were repurchased for \$1.25 per share for a total transaction of \$300,000 plus expenses. In June 2024, all remaining 265,000 stock options were forfeited and \$206,979 of recognized stock option compensation was reversed. As of December 31, 2023, there were 265,000 stock options outstanding. There were no stock options outstanding as of December 31, 2024.

The following is a summary of options as of December 31, 2023:

	<u>Units</u>	<u>Weighted Average Grant-date Fair Value</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Outstanding options at December 31, 2023	265,000	\$ 2.80	\$ 4.40	8.5 yrs
Exercisable options at December 31, 2023	106,000	\$ 2.80	\$ 4.40	8.5 yrs
Options vested in 2023	53,000	\$ 2.80	\$ 4.40	8.5 yrs

The Company uses the Black-Scholes options pricing model to determine the fair value of options granted. No options were exercised or expired during 2024 or 2023. Compensation expense relating to option grants in 2024 and 2023 was \$13,244 and \$77,495, respectively, and was recorded in general and administrative expenses in the accompanying consolidated statements of income. At December 31, 2024 and 2023, the unrecognized expense associated with unvested options was \$0 and \$193,733, respectively.

## PHARMCHEM, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

#### 9. Stock Option Plan – continued

The calculated value of each common stock-based option payment transaction granted during the year ended December 31, 2023, was estimated on the grant date, as determined by using the Black-Scholes options pricing model with the following assumptions:

Exercise price	\$	4.60
Stock price	\$	2.80
Dividend yield		0%
Forfeiture rate		0%
Risk-free interest rate		3.14%
Expected life of options		5 years
Expected volatility		74.17%

#### 10. Stockholders' Equity

In September 2021 and October 2022, the Company announced authorization for a \$1,000,000 and \$500,000, respectively, stock repurchase program. In August 2024, the Company announced authorization for an additional \$1,000,000 to the existing stock repurchase program. During 2022, 44,278 shares were repurchased and retired for a cost of \$200,284. These shares were held at a \$.001 par value and were repurchased for prices ranging from \$4.11 to \$4.51. During 2023, 291,664 shares were repurchased and retired for a cost of \$717,929. These shares were held at a \$.001 par value and were repurchased for prices ranging from \$2.25 to \$2.61. In addition, during 2023 119,600 shares were repurchased that were not retired for a cost of \$309,671. During 2024, 119,600 shares were retired at cost and an additional 26,544 shares were repurchased and remain as Treasury Stock at the cost of \$83,025. The stock repurchase program will expire on August 31, 2026.

#### 11. Revenue and Segment Reporting

The Company sells its product to customers mainly in the United States, with some sales to non-US countries. The Company operates as a single reportable segment for financial reporting purposes. While revenue is disaggregated by type, customer concentration, and state, the business is managed and evaluated as a single operating segment by the CODM, the Chief Executive Officer. This is because the Company provides the same types of products and services to its customer base regardless of location, and the CODM assesses financial performance and allocates resources on a consolidated basis, rather than by individual location.

In making key decisions and allocating resources, the CODM primarily evaluates the Company's profitability, with a focus on gross profit, as this metric provides a view of operational performance. Revenue by customer concentration is reviewed to identify trends, but profitability remains the primary measure of performance. The CODM assesses performance and decides how to allocate resources based on profitability reported on the income statement.

**PHARMCHEM, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**11. Revenue and Segment Reporting – continued**

The break down by customer concentration is as follows:

	<u><b>2024</b></u>	<u><b>2023</b></u>
Federal	\$ 585,778	\$ 660,631
Non-Federal	<u>5,499,359</u>	<u>5,351,772</u>
Total revenues, net	<u><u>\$ 6,085,137</u></u>	<u><u>\$ 6,012,403</u></u>

The table below represents the Company's reportable revenues from customers by type for the years ended December 31,:

	<u><b>2024</b></u>	<u><b>2023</b></u>
Screening	\$ 4,277,520	\$ 4,213,658
Sweat Patch	<u>1,807,617</u>	<u>1,798,745</u>
Total revenues, net	<u><u>\$ 6,085,137</u></u>	<u><u>\$ 6,012,403</u></u>

The table below represents the Company's reportable revenues from customers by state for the years ended December 31,:

	<u><b>2024</b></u>	<u><b>2023</b></u>
Texas	\$ 902,928	\$ 943,824
Missouri	705,291	745,400
Montana	588,459	572,853
Nebraska	491,808	431,613
California	472,191	381,381
All remaining states	<u>2,924,460</u>	<u>2,937,332</u>
Total revenues, net	<u><u>\$ 6,085,137</u></u>	<u><u>\$ 6,012,403</u></u>

**12. Dividend**

In October 2024, the Board declared a \$0.25 per share dividend on its common stock, with dividends payable on October 17, 2024, to stockholders of record on October 10, 2024. In January 2023, the Board declared a \$0.20 per share dividend on its common stock, with dividends payable on February 8, 2023, to stockholders of record on January 31, 2023.

**PHARMCHEM, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)***

**13. Related-Party Transactions**

In June 2023, the Company opened cash accounts with a related-party financial institution for the sole purpose of facilitating the stock buyback program. During 2024 and 2023, the Company utilized this financial institution for stock repurchases.

**14. Subsequent Events**

In preparing the accompanying consolidated financial statements, management of the Company has evaluated all subsequent events and transactions for potential recognition or disclosure through February 28, 2025, the date the accompanying consolidated financial statements was available for issuance.

In February 2025, the Company announced that the Board of Directors has decided to explore strategic alternatives including acquisitions, potential sale of the Company, merger, or a debt financed special dividend.

## **Alternative Reporting Standard: Disclosure Guidelines for the Pink<sup>®</sup> Market**

Federal and state securities laws require issuers to provide *current information* to the public markets. With a view to facilitating compliance with these laws, OTC Markets Group has created these Disclosure Guidelines (“Guidelines”)<sup>1</sup> that set forth the disclosure obligations that make up the “Alternative Reporting Standard” for Pink companies. Companies on the Pink Market that do not make disclosure directly to the SEC (via EDGAR), a banking regulator, or a non-U.S. regulatory authority may provide disclosure under our “Alternative Reporting Standard.” We use information provided by companies under these Guidelines to designate the appropriate tier in the Pink Market: Current Information or Limited Information.<sup>2</sup>

### **Pink Current Information Tier**

To qualify for the Current Information Tier:

1. **Subscribe to the OTC Disclosure & News Service:** To submit an application, visit [Gateway](#) to sign in or create a new account. Allow OTC Markets Group 2-4 weeks to process your application and provide authorized user credentials to OTCIQ.

2. **Publish Initial Disclosure:** Upload the following documents through OTCIQ:

- Annual Report for the most recently completed fiscal year.
- All Quarterly Reports for the Current Fiscal Year.

*Annual or Quarterly Reports are composed of:*

- **Disclosure Statements:** Disclosure information pursuant to these Guidelines for the applicable period. Available as a fillable form beginning on page 4 of these Guidelines.
- **Financial Statements:** Qualifying Financial Statements in accordance with the Financial Statement Requirements specified in Item 9 of these Guidelines.

*Qualifying Financial Statements include:*

- Audit Letter, if audited
- Balance Sheet
- Statement of Income
- Statement of Cash Flows
- Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- Notes to Financial Statements

3. **Publish the annual Management Certification:** Companies must certify basic company information initially and annually within forty five (45) days of a company's annual report due date.

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<sup>1</sup> These Guidelines have been designed to encompass the “current information” requirements under state and federal securities laws, such as Rules 10b-5 and 15c2-11 of the Securities Exchange Act of 1934 (“Exchange Act”) as well as Rule 144 of the Securities Act of 1933 (“Securities Act”), and state Blue Sky laws. However, these Guidelines have not been reviewed by the U.S. Securities and Exchange Commission or any state securities regulator. These Guidelines do not constitute legal advice, and OTC Markets Group makes no assurance that compliance with our disclosure requirements will satisfy any legal requirements. These Guidelines may be amended from time to time, in the sole and absolute discretion of OTC Markets Group, with or without notice.

<sup>2</sup> OTC Markets Group may require companies with securities designated as “Caveat Emptor” or other compliance flags to make additional disclosures to qualify for the Pink Current Information tier.

4. **Verify Profile:** Verify the Company Profile through OTCIQ. This includes the complete list of current officers, directors, and service providers; outstanding shares; a business description; contact information; and the names of all company insiders and beneficial owners of 10% or more of the outstanding units or shares of any class of any equity security of the issuer.
5. **OTC Markets Group Processing of Reports:** Allow OTC Markets Group to process the posted documents (typically three to five business days) and provide any comments. Companies will only be evaluated for Current Information once all required documentation has been submitted.
6. **Ongoing Requirements:** To qualify for Current Information on an ongoing basis, companies must:
  - Publish reports through OTCIQ on the following schedule:
    - Quarterly Report within **45 days** of the quarter end
    - Annual Report within **90 days** of the fiscal year end
  - Complete an annual Management Certification within **45 days** of the annual report due date.
  - Maintain a Verified Profile. At least once every six months, review and verify the Company Profile through OTCIQ.
  - Maintain Transfer Agent Verified share data. If your transfer agent participates in the [Transfer Agent Verified Shares Program](#), then your securities must have current share data verified by the transfer agent.
  - Maintain an Active standing in the Company's State of Incorporation.

### **Pink Limited Information Tier**

Companies that do not meet the requirements of the Pink Current Information tier set forth above may still qualify for the Pink Limited Information Tier by meeting the following minimum disclosure requirements.

1. **Annual Financial Statements:** Publish one set of Qualifying Annual Financial Statements which cover the past 2 completed fiscal years, provided the most recently completed fiscal year is within the past 16 months.
2. **Verified Profile:** The Company must verify the Company Profile through OTCIQ, including, but not limited to, a complete list of officers, directors, and service providers; outstanding shares; a business description; contact information; and the name of all company insiders. "Company Insiders" shall include the beneficial owner of 10% or more of the outstanding units or shares of any class of any equity security of the issuer.
3. **Ongoing Requirements:** To qualify for Limited Information on an ongoing basis, companies must:
  - Publish reports on the following schedule:
    - Annual Financial Statements as outlined in Item 9 within 120 days of the fiscal year end. Should a change in FYE occur, no more than 16 months may elapse from the fiscal year end of the prior Annual Financial Statement.
  - Review and Verify the Company's profile information through OTCIQ at least once every 12 months.
  - Maintain Transfer Agent Verified share data. If your transfer agent participates in the [Transfer Agent Verified Shares Program](#), then your securities must have current share data verified by the transfer agent.

### **Current Reporting of Material Corporate Events**

In addition to the disclosure requirements above, all companies on the Pink market are expected to promptly release to the public any news or information regarding corporate events that may be material to the issuer and its securities (including adverse information). Persons with knowledge of such events are considered to be in possession of material

nonpublic information and may not buy or sell the issuer's securities until or unless such information is made public. If not included in the issuer's previous public disclosure documents, or if the material event occurs after the publication of such disclosure documents, the issuer shall publicly disclose such events by disseminating a news release **within four (4) business days** following their occurrence and posting such news release through an Integrated Newswire or the OTC Disclosure & News Service.<sup>3</sup>

Material corporate events may include:

- Changes to the company's shell status. Please refer to our [FAQ on Shell Companies](#)
- Changes in control of issuer
- Departure of directors or principal officers; election of directors; appointment of principal officers
- Entry into or termination of a material definitive agreement or material agreement not made in the ordinary course of business
- Completion of an acquisition or disposition of assets, including but not limited to merger transactions
- Creation of a direct financial obligation or an obligation under an off-balance sheet arrangement of an issuer
- Triggering events that accelerate or increase a direct or contingent financial obligation including any default or acceleration of an obligation or an obligation under an off-balance sheet arrangement
- Costs associated with exit or disposal activities including material write-offs and restructuring; Material impairments
- Unregistered sales of equity securities
- Material modification to rights of security holders
- Changes in issuer's certifying accountant
- Non-reliance on previously issued financial statements or a related audit report or completed interim review
- Change in a company's fiscal year; Amendments to articles of incorporation or bylaws that were not previously disclosed in a proxy statement or other such disclosure statement.
- Amendments to the issuer's code of ethics, or waiver of a provision of the code of ethics
- Any changes to litigation the issuer may be involved in, or any new litigation surrounding the issuer
- Officer, director, or insider transactions in the issuer's securities
- Disclosure of investor relations, marketing, brand awareness, and stock promotion activities which might reasonably be expected to materially affect the market for its securities or otherwise deemed material by the issuer
- A company's bankruptcy or receivership
- Termination or reduction of a business relationship with a customer that constitutes a specified amount of the company's revenues
- Any material limitation, restriction, or prohibition, including the beginning and end of lock-out periods, regarding the company's employee benefits, retirement and stock ownership plan
- Earnings releases
- Other materially different information regarding key financial or operation trends from that set forth in periodic reports
- Other events the issuer determines to be material

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<sup>3</sup> "Integrated Newswire" shall mean a newswire service that is integrated with the OTC Disclosure & News Service and is included on OTC Markets Group's list of Integrated Newswires, as published on <https://www.otcm Markets.com/corporate-services/ir-tools-services>



## **PHARMCHEM, INC.**

2411 E Loop 820 N, Fort Worth, TX 76118

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817-591-4100

[www.pharmchek.com](http://www.pharmchek.com)

[info@pharmchem.com](mailto:info@pharmchem.com)

# **Annual Report**

**For the period ending December 31, 2024 (the “Reporting Period”)**

### **Outstanding Shares**

The number of shares outstanding of our Common Stock was:

4,621,187 as of 12/31/2024 *(Current Reporting Period Date or More Recent Date)*

4,621,187 as of 12/31/2024 *(Most Recent Completed Fiscal Year End)*

### **Shell Status**

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

### **Change in Control**

Indicate by check mark whether a Change in Control<sup>4</sup> of the company has occurred during this reporting period:

Yes: ☐ No: ☒

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<sup>4</sup> “Change in Control” shall mean any events resulting in:

- (i) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities;
- (ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets;
- (iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or
- (iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

**1) Name and address(es) of the issuer and its predecessors (if any)**

In answering this item, provide the current name of the issuer and names used by predecessor entities, along with the dates of the name changes.

PharmChem, Inc. – current

PharmChem Laboratories, Inc – May 16, 2000

Current State and Date of Incorporation or Registration: DE - 2000

Standing in this jurisdiction: (e.g. active, default, inactive): Active

Prior Incorporation Information for the issuer and any predecessors during the past five years:

N/A

Describe any trading suspension or halt orders issued by the SEC or FINRA concerning the issuer or its predecessors since inception:

N/A

List any stock split, dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

Beginning July 2023, the company has actively begun repurchasing common shares through the Stock Repurchase Program. The program was authorized by the Board in September 2021. As of December 31, 2023, the Company had repurchased 347,354 shares at an average price of \$2.58 including commissions and fees. As of December 31, 2024, the Company had repurchased 26,544 shares at an average price of \$3.10 including commissions and fees.

In October 2024, the Board of Directors declared a \$0.25 per share special dividend on its common stock with dividends payable on October 17, 2024, to stockholders of record on October 10, 2024.

Address of the issuer's principal executive office:

2411 E. Loop 820 N., Fort Worth, TX 76118

Address of the issuer's principal place of business:

*X Check if principal executive office and principal place of business are the same address:*

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: ☒ Yes: ☐ If Yes, provide additional details below:

\_\_\_\_\_

## 2) Security Information

### **Transfer Agent**

Name: Transfer Online  
Phone: 502-227-2950  
Email: info@transferonline.com  
Address: 512 SE Salmon St. Portland, OR 97214

### **Publicly Quoted or Traded Securities:**

*The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.*

Trading symbol:	<u>PCHM</u>	
Exact title and class of securities outstanding:	<u>Common Stock</u>	
CUSIP:	<u>717133102</u>	
Par or stated value:	<u>\$0.001</u>	
Total shares authorized:	<u>25,000,000</u>	<u>as of date: 12/31/2024</u>
Total shares outstanding:	<u>4,621,187</u>	<u>as of date: 12/31/2024</u>
Total number of shareholders of record:	<u>107</u>	<u>as of date: 12/31/2024</u>

*Please provide the above-referenced information for all other publicly quoted or traded securities of the issuer.*

N/A

### **Other classes of authorized or outstanding equity securities that do not have a trading symbol:**

*The goal of this section is to provide a clear understanding of the share information for its other classes of authorized or outstanding equity securities (e.g., preferred shares that do not have a trading symbol). Use the fields below to provide the information, as applicable, for all other authorized or outstanding equity securities.*

Exact title and class of the security:	_____	
Par or stated value:	_____	
Total shares authorized:	_____	<u>as of date: _____</u>
Total shares outstanding:	_____	<u>as of date: _____</u>
Total number of shareholders of record:	_____	<u>as of date: _____</u>

*Please provide the above-referenced information for all other classes of authorized or outstanding equity securities.*

N/A

### **Security Description:**

*The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:*

1. **For common equity, describe any dividend, voting and preemption rights.**

Common Stockholders have a right to common and special dividends when declared and paid by the company.

2. **For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.**

The Company has no preferred stock.

3. **Describe any other material rights of common or preferred stockholders.**

N/A

4. **Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.**

N/A

### **3) Issuance History**

*The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.***

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

**A. Changes to the Number of Outstanding Shares for the two most recently completed fiscal years and any subsequent period.**

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: ☐ Yes: ☒ (If yes, you must complete the table below)

Shares Outstanding <u>Opening Balance:</u> Date <u>12/31/2022</u> Common: <u>5,058,995</u> Preferred: <u>0</u>			*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to.  ***You must disclose the control person(s) for any entities listed.	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
<u>1<sup>st</sup> Qtr 2023</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>6/13/2023</u>	<u>Cancellation</u>	<u>63,910</u>	<u>Common</u>	<u>\$0.001</u>	<u>No</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>9/6/2023</u>	<u>Cancellation</u>	<u>71,455</u>	<u>Common</u>	<u>\$0.001</u>	<u>No</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>12/13/2023</u>	<u>Cancellation</u>	<u>156,299</u>	<u>Common</u>	<u>\$0.001</u>	<u>No</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>12/31/2023</u>	<u>Cancellation</u>	<u>119,600</u>	<u>Common</u>	<u>\$0.001</u>	<u>No</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>1<sup>st</sup> Qtr 2024</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>2<sup>nd</sup> Qtr 2024</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>3<sup>rd</sup> Qtr 2024</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>December 2024</u>	<u>Returned to Treasury</u>	<u>26,544</u>	<u>Common</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Shares Outstanding on Date of This Report: <u>Ending Balance:</u> Date <u>12/31/2024</u> Common: <u>4,621,187</u> Preferred: <u>0</u>									

**Example:** A company with a fiscal year end of December 31<sup>st</sup> 2024, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2023 through December 31, 2024 pursuant to the tabular format above.

Any additional material details, including footnotes to the table are below: **None**

## B. Convertible Debt

The following is a complete list of the Company's Convertible Debt which includes all promissory notes, convertible notes, convertible debentures, or any other debt instruments convertible into a class of the issuer's equity securities. The table includes all issued or outstanding convertible debt at any time during the last complete fiscal year and any interim period between the last fiscal year end and the date of this Certification.

☒ Check this box to confirm the Company had no Convertible Debt issued or outstanding at any point during this period.

Date of Note Issuance	Principal Amount at Issuance (\$)	Outstanding Balance (\$) (include accrued interest)	Maturity Date	Conversion Terms (e.g., pricing mechanism for determining conversion of instrument to shares)	# Shares Converted to Date	# of Potential Shares to be Issued Upon Conversion <sup>5</sup>	Name of Noteholder (entities must have individual with voting / investment control disclosed).	Reason for Issuance (e.g., Loan, Services, etc.)
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Total Outstanding Balance:

Total Shares:

Any additional material details, including footnotes to the table are below: **None**

### 4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. Ensure that these descriptions are updated on the Company's Profile on [www.OTCMarkets.com](http://www.OTCMarkets.com).

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

PharmChem, Inc. (the "Company" or "PharmChem") sells and distributes the PharmChek® Sweat Patch Device (the "Sweat Patch" or "PharmChek®"), which tests for drugs of abuse. Once the Sweat Patch is removed from the donor, it is sent to a third-party, certified laboratory for screening and, if necessary, confirmation. The Company's customers include federal, state, and local governments, state and local drug courts, as well as independent companies which provide drug rehabilitation and other related services.

B. List any subsidiaries, parent company, or affiliated companies.

PharmChem's wholly owned subsidiary, Chemiclear Testing LLC sells and distributes the TruPatch™ sweat patch kit, for over-the-counter use.

C. Describe the issuers' principal products or services.

PharmChek®, is a Food and Drug Administration ("FDA") cleared medical device, that uses sweat to detect the presence of illegal drugs. It consists of a transparent polyurethane outer covering, a small absorbent pad, and a release liner. A unique number is printed on the Sweat Patch for identification and anti-counterfeiting purposes. Unlike urinalysis, flushing or employing a diuretic to rid the body of drugs of abuse does not affect PharmChek® test results, since the drugs in the sweat simply collect on the absorption pad until the pad is removed for analysis. The Sweat Patch is used for detecting the use of marijuana, cocaine, opiates, amphetamine, methamphetamine, PCP, fentanyl, oxycodone, oxymorphone, hydrocodone, hydromorphone, benzodiazepines, methadone, and buprenorphine.

Chemiclear Testing LLC sells and distributes the TruPatch™ sweat patch kit, for over-the-counter use.

<sup>5</sup> The total number of shares that can be issued upon full conversion of the Outstanding Balance. The number should not factor any "blockers" or limitations on the percentage of outstanding shares that can be owned by the Noteholder at a particular time. For purposes of this calculation, please use the current market pricing (e.g. most recent closing price, bid, etc.) of the security if conversion is based on a variable market rate.

## 5) Issuer's Facilities

*The goal of this section is to provide investors with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.*

In responding to this item, please clearly describe the assets, properties or facilities of the issuer. Describe the location of office space, data centers, principal plants, and other property of the issuer and describe the condition of the properties. Specify if the assets, properties, or facilities are owned or leased and the terms of their leases. If the issuer does not have complete ownership or control of the property, describe the limitations on the ownership.

The Company's only property is a leased office in Fort Worth, TX – the lease term ends in 2026.

## 6) All Officers, Directors, and Control Persons of the Company

Using the table below, please provide information, as of the period end date of this report, regarding all officers and directors of the company, or any person that performs a similar function, regardless of the number of shares they own.

In addition, list all individuals or entities controlling 5% or more of any class of the issuer's securities.

If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity. Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

*The goal of this section is to provide investors with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial owners.*

Individual Name (First, Last) or Entity Name (Include names of control person(s) if a corporate entity)	Position/Company Affiliation (ex: CEO, 5% Control person)	City and State (Include Country if outside U.S.)	Number of Shares Owned (List common, preferred, warrants and options separately)	Class of Shares Owned	Percentage of Class of Shares Owned (undiluted)
<u>Tim Eriksen</u>	<u>Director, Owner more than 5%</u>	<u>Custer, WA</u>	<u>1,545,524</u>	Common	<u>33.4%</u>
<u>Thompson Clark</u>	<u>Director, Interim CEO</u>	<u>Raleigh, NC</u>	<u>17,000</u>	Common	<u>&lt;1%</u>
<u>James Ford</u>	<u>Director</u>	<u>Fort Mills, SC</u>	<u>120,954</u>	Common	<u>2.6%</u>
<u>Tristram Jordan</u>	<u>Owner more than 5%</u>	<u>Ft. Lauderdale, FL</u>	<u>721,576</u>	Common	<u>15.6%</u>
<u>Richard Jordan</u>	<u>Owner more than 5%</u>	<u>Ft. Lauderdale, FL</u>	<u>454,442</u>	Common	<u>9.8%</u>
<u>Kerri Wagner</u>	<u>CRO</u>	<u>Vulga, SD</u>	<u>100</u>	Common	<u>&lt;1%</u>
<u>Shana Veale</u>	<u>VP/CFO</u>	<u>Fort Worth, TX</u>	<u>20</u>	Common	<u>&lt;1%</u>

Confirm that the information in this table matches your public company profile on [www.OTCMarkets.com](http://www.OTCMarkets.com). If any updates are needed to your public company profile, log in to [www.OTCIQ.com](http://www.OTCIQ.com) to update your company profile.

## 7) Legal/Disciplinary History

A. Identify and provide a brief explanation as to whether any of the persons or entities listed above in Section 6 have, in the past 10 years:

1. Been the subject of an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);

As to the Officers, Directors, and Control Persons above, the issuer is not aware of any such proceedings.

2. Been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, financial- or investment-related, insurance or banking activities;

As to the Officers, Directors, and Control Persons above, the issuer is not aware of any such actions.

3. Been the subject of a finding, disciplinary order or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, a state securities regulator of a violation of federal or state securities or commodities law, or a foreign regulatory body or court, which finding or judgment has not been reversed, suspended, or vacated;

As to the Officers, Directors, and Control Persons above, the issuer is not aware of any such actions.

4. Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a "yes" answer to part 3 above; or

As to the Officers, Directors, and Control Persons above, the issuer is not aware of any such actions.

5. Been the subject of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

As to the Officers, Directors, and Control Persons above, the issuer is not aware of any such actions.

6. Been the subject of a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail.

As to the Officers, Directors, and Control Persons above, the issuer is not aware of any such actions.

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party to or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

**None**



## 8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Confirm that the information in this table matches your public company profile on [www.OTCMarkets.com](http://www.OTCMarkets.com). If any updates are needed to your public company profile, update your company profile.

### Securities Counsel

Name: Winstead PC  
Address 1: 600 Travis St., #5200  
Address 2: Houston, TX 77002  
Phone: 713-250-2634  
Email: wrohrlich@winstead.com

### Accountant or Auditor

Name: Jenni Barnett  
Firm: Whitley Penn, LLP  
Address 1: 640 Taylor St., #2200  
Address 2: Fort Worth, TX 76102  
Phone: 817-559-9712  
Email: jenni.barnett@whitleypenn.com

### Investor Relations

Name: None  
Firm: \_\_\_\_\_  
Address 1: \_\_\_\_\_  
Address 2: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Email: \_\_\_\_\_

### *All other means of Investor Communication:*

X (Twitter): -  
Discord: -  
LinkedIn: [www.linkedin.com/company/pharmchem](http://www.linkedin.com/company/pharmchem)  
Facebook: -  
Company Website: [www.pharmchek.com/investor-relations](http://www.pharmchek.com/investor-relations)

### Other Service Providers

Provide the name of any other service provider(s) that **that assisted, advised, prepared, or provided information with respect to this disclosure statement**. This includes counsel, broker-dealer(s), advisor(s), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

Name: None  
Firm: \_\_\_\_\_  
Nature of Services: \_\_\_\_\_  
Address 1: \_\_\_\_\_  
Address 2: \_\_\_\_\_  
Phone: \_\_\_\_\_  
Email: \_\_\_\_\_

## 9) Disclosure & Financial Information

A. This Disclosure Statement was prepared by (name of individual):

Name: Shana Veale  
Title: VP/CFO  
Relationship to Issuer: Executive

B. The following financial statements were prepared in accordance with:

☐ IFRS  
☒ U.S. GAAP

C. The following financial statements were prepared by (name of individual):

Name: Shana Veale  
Title: VP/CFO  
Relationship to Issuer: Executive

Describe the qualifications of the person or persons who prepared the financial statements:<sup>6</sup>

**Ms. Veale is a CPA with over 20 years of experience including public accounting and prior controller roles.**

Provide the following qualifying financial statements:

- Audit letter, if audited;
- Balance Sheet;
- Statement of Income;
- Statement of Cash Flows;
- Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- Financial Notes

### **Financial Statement Requirements:**

- Financial statements must be published together with this disclosure statement as one document.
- Financial statements must be "machine readable". Do not publish images/scans of financial statements.
- Financial statements must be presented with comparative financials against the prior FYE or period, as applicable.
- Financial statements must be prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS) but are not required to be audited.

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<sup>6</sup> The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.

## 10) Issuer Certification

### *Principal Executive Officer:*

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Thompson Clark certify that:

1. I have reviewed this Disclosure Statement for PharmChem, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 6, 2025 [Date]

/s/ Thompson Clark [CEO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

### *Principal Financial Officer:*

I, Shana Veale certify that:

1. I have reviewed this Disclosure Statement for PharmChem, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 6, 2025 [Date]

/s/ Shana Veale [CFO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")