

Pennexx Foods, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Pennexx Foods, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheet of Pennexx Foods, Inc. (the Company) as of December 31, 2020, and the related statement of operations, changes in stockholders' deficit, and cash flows for the year then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company had a net loss and net cash used in operating activities of approximately \$645,000 and \$421,000, respectively for the year ended of December 31, 2020 and accumulated deficit of approximately \$36,300,000 at December 31, 2020. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Software Development

Description of the Matter

During 2020, the Company paid approximately \$284,000 to an entity controlled by family members of the Company's Chief Executive Officer for software development expenses. All amounts paid were expensed as research and development in the accompanying statement of operations based on the development stage status of the Company's revenue source.

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included the following: obtaining and discussing with management an understanding of these transactions and the modules developed, reviewed project timelines, confirmed that other members of the management team had reviewed the status of the project and the amounts spent. We analyzed the Company's assumptions and data used to compute these expenses and corresponding balances and tested the accuracy of the Company's disclosures.

We have served as the Company's auditor since 2021.

Margate, Florida

August 23, 2021

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Pennexx Foods, Inc.
Balance Sheet
December 31, 2020

Assets

Current Assets

Cash	\$ 1,679
Total Current Assets	<u>1,679</u>

Property and equipment - net	12,750
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Total Assets	<u><u>\$ 14,429</u></u>
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Liabilities and Stockholders' Deficit

Current Liabilities

Accounts payable and accrued expenses	\$ 118,741
Convertible notes payable - net	428,859
Total Current Liabilities	<u>547,600</u>

Stockholders' Deficit

Common stock, \$0.01 par value, 70,000,000 shares authorized	
40,297,161 shares issued and outstanding	402,971
Common stock issuable (10,270,000 shares)	102,700
Additional paid-in capital	35,261,166
Accumulated deficit	<u>(36,300,008)</u>
Total Stockholders' Deficit	(533,171)

Total Liabilities and Stockholders' Deficit	<u><u>\$ 14,429</u></u>
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The accompanying notes are an integral part of these financial statements

Pennexx Foods, Inc.
Statement of Operations
For the Year Ended December 31, 2020

Sales	\$ 20,173
Operating Expenses	
Research and development	283,930
General and administrative expenses	152,394
Total Operating Expenses	<u>436,324</u>
Loss from operations	<u>(416,151)</u>
Other Expense	
Interest expense	(46,592)
Amortization of debt discount	(182,589)
Total Other Expense	<u>(229,181)</u>
Net loss	<u><u>\$ (645,332)</u></u>
Loss per share - basic and diluted	<u><u>\$ (0.01)</u></u>
Weighted average number of shares - basic and diluted	<u><u>53,171,461</u></u>

The accompanying notes are an integral part of these financial statements

Pennexx Foods, Inc.
Statement of Changes in Stockholders' Deficit
For the Year Ended December 31, 2020

	<u>Common Stock</u>		<u>Common Stock Issuable</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Stockholders'</u>
					<u>Capital</u>		<u>Deficit</u>
December 31, 2019	46,057,322	\$460,573	16,580,769	\$165,808	\$ 34,942,045	\$ (35,654,676)	\$ (86,250)
Stock issued for cash (\$0.13/share)	269,231	2,692		-	32,308	-	35,000
Issuance of common stock previously issuable (\$0.01/share)	6,480,769	64,808	(6,480,769)	(64,808)	-	-	-
Cancellation of shares (\$0.01/share)	(12,510,161)	(125,102)	-	-	125,102	-	-
Stock issued as debt issuance costs in connection with convertible notes (\$0.01/share)	-	-	170,000	1,700	-	-	1,700
Debt discount recorded in connection with convertible notes (beneficial conversion feature)	-	-			161,711	-	161,711
Net loss - 2020	-	-	-	-	-	(645,332)	(645,332)
December 31, 2020	40,297,161	\$402,971	10,270,000	\$102,700	\$ 35,261,166	\$ (36,300,008)	\$ (533,171)

The accompanying notes are an integral part of these financial statements

Pennexx Foods, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2020

Operating activities

Net loss	\$ (645,332)
Adjustments to reconcile net loss to net cash used in operations	
Amortization of debt discount/issue costs	182,589
Depreciation	3,400
Changes in operating assets and liabilities	
Increase (decrease) in	
Accounts payable and accrued expenses	38,102
Net cash used in operating activities	<u>(421,241)</u>

Financing activities

Proceeds from issuance of convertible notes payable	252,700
Stock issued for cash	35,000
Net cash provided by financing activities	<u>287,700</u>

Net increase in cash (133,541)

Cash - beginning of year 135,220

Cash - end of year \$ 1,679

Supplemental disclosure of cash flow information

Cash paid for interest	<u>\$ -</u>
Cash paid for income tax	<u><u>\$ -</u></u>

Supplemental disclosure of non-cash investing and financing activities

Issuance of common stock previously issuable	<u>\$ 64,808</u>
Cancellation of shares	<u>\$ 125,102</u>
Debt issue costs recorded in connection with convertible notes	<u>\$ 1,700</u>
Debt discount recorded in connection with convertible notes	<u><u>\$ 161,711</u></u>

The accompanying notes are an integral part of these financial statements

PENNEXX FOODS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 1 - Organization and Nature of Operations

Organization and Nature of Operations

Pennexx Foods, Inc. (collectively, “PTI”, “we”, “us”, “our” or the “Company”), was incorporated in Pennsylvania on July 20, 1999. The Company opened an office in Florida on December 5, 2019.

The Company was in the food industry through 2019. In 2020, the Company shifted its focus to technology related to software and the internet for the purpose of utilizing artificial intelligence to gather information for targeted marketing; specifically, the Company is developing websites and related smartphone apps.

In April 2021, the Company’s Board approved a name change to Pennexx Technology, Inc. Approval of the name change is pending State approval to the Company’s amended Articles of Incorporation.

Impact of COVID-19

The ongoing COVID-19 global and national health emergency has caused significant disruption in the international and United States economies and financial markets. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability. The COVID-19 pandemic has the potential to significantly impact the Company’s supply chain, distribution centers, or logistics and other service providers.

In addition, a severe prolonged economic downturn could result in a variety of risks to the business, including weakened demand for products and services and a decreased ability to raise additional capital when needed on acceptable terms, if at all. As the situation continues to evolve, the Company will continue to closely monitor market conditions and respond accordingly.

We have implemented adjustments to our operations designed to keep employees safe and comply with federal, state, and local guidelines, including those regarding social distancing. The extent to which COVID-19 may further impact the Company’s business, results of operations, financial condition and cash flows will depend on future developments, which are highly uncertain and cannot be predicted with confidence. In response to COVID-19, the United States government has passed legislation and taken other actions to provide financial relief to companies and other organizations affected by the pandemic.

PENNEXX FOODS, INC.
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The ultimate impact of the COVID-19 pandemic on the Company's operations is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak, new information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or the Company, may direct, which may result in an extended period of continued business disruption, reduced customer traffic and reduced operations.

Any resulting financial impact cannot be reasonably estimated at this time but is anticipated to have a material adverse impact on our business, financial condition, and results of operations.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Liquidity, Going Concern and Management's Plans

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

As reflected in the accompanying financial statements, for the year ended December 31, 2020, the Company had:

- Net loss of \$645,332; and
- Net cash used in operations was \$421,241

Additionally, for the year ended December 31, 2020, the Company had:

- Accumulated deficit of \$36,300,008
- Stockholders' deficit of \$533,171; and
- Working capital deficit of \$545,921

The Company has cash on hand of \$1,679 at December 31, 2020. Although the Company intends to raise additional debt (third party and related party lenders) or equity capital, the Company expects to incur losses from operations and have negative cash flows from operating activities for the near-term. These losses could be significant as the Company executes its business plan.

PENNEXX FOODS, INC.
NOTES TO FINANCIAL STATEMENTS
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These factors create substantial doubt about the Company's ability to continue as a going concern within the twelve month period subsequent to the date that these financial statements are issued. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Accordingly, the financial statements have been prepared on a basis that assumes the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

Management's strategic plans include the following:

- Pursuing additional capital raising opportunities,
- Executing and commercializing its business operations,
- Continuing to explore and execute prospective partnering or distribution opportunities; and
- Identifying unique market opportunities that represent potential positive short-term cash flow.

Note 2 - Summary of Significant Accounting Policies

Business Segments

The Company uses the "management approach" to identify its reportable segments. The management approach requires companies to report segment financial information consistent with information used by management for making operating decisions and assessing performance as the basis for identifying the Company's reportable segments. The Company has identified one single reportable operating segment. The Company manages its business on the basis of one operating and reportable segment.

Use of Estimates

Preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates, and those estimates may be material.

Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and other assumptions, which include both quantitative and qualitative assessments that it believes to be reasonable under the circumstances.

PENNEXX FOODS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Fair Value of Financial Instruments

The Company accounts for financial instruments under Financial Accounting Standards Board ("FASB") ASC 820, *Fair Value Measurements*. ASC 820 provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value.

The three tiers are defined as follows:

- Level 1 —Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2—Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

The determination of fair value and the assessment of a measurement's placement within the hierarchy requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist us in determining fair value, as appropriate.

Although the Company believes that the recorded fair value of our financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

The Company's financial instruments, including cash, prepaids, and accounts payable and accrued expenses, are carried at historical cost. At December 31, 2020, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

PENNEXX FOODS, INC.
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ASC 825-10 *“Financial Instruments”* allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (“fair value option”). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding financial instruments.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less at the purchase date and money market accounts to be cash equivalents.

At December 31, 2020, the Company did not have any cash equivalents.

Impairment of Long-lived Assets

Management evaluates the recoverability of the Company’s identifiable intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists, in accordance with the provisions of ASC 360-10-35-15 *“Impairment or Disposal of Long-Lived Assets.”* Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and changes in the Company’s business strategy. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets.

If impairment is indicated based on a comparison of the assets’ carrying values and the undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

There were no impairment losses taken during the year ended December 31, 2020.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

Expenditures for repair and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations.

PENNEXX FOODS, INC.
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Management reviews the carrying value of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

There were no impairment losses for the year ended December 31, 2020.

Derivative Liabilities

The Company analyzes all financial instruments with features of both liabilities and equity under FASB ASC Topic No. 480, ("ASC 480"), *"Distinguishing Liabilities from Equity"* and FASB ASC Topic No. 815, ("ASC 815") *"Derivatives and Hedging"*. Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The Company uses a binomial pricing model to determine fair value.

Upon conversion, exercise or repayment, the respective derivative liability is marked to fair value at the conversion, repayment, or exercise date and then the related fair value amount is reclassified to other income or expense as part of gain or loss on debt extinguishment recognized in the Company's statements of operations.

The Company has adopted ASU 2017-11, *"Earnings per share (Topic 260)"*, provided that when determining whether certain financial instruments should be classified as liability or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. If a down round feature on the conversion option embedded in the note is triggered, the Company will evaluate whether a beneficial conversion feature exists, the Company will record the amount as a debt discount and will amortize it over the remaining term of the debt.

If the down round feature in the warrants that are classified as equity is triggered, the Company will recognize the effect of the down round as a deemed dividend, which will reduce the income available to common stockholders.

At December 31, 2020, the Company did not have any derivative liabilities.

Beneficial Conversion Features

For instruments that are not considered liabilities under ASC 480 or ASC 815, the Company applies ASC 470-20 to convertible securities with beneficial conversion features that must be settled in stock. ASC 470-20 requires that the beneficial conversion feature be valued at the commitment date as the difference between the effective conversion price and the fair market value of the common stock (whereby the conversion price is lower than the fair market value) into which the security is convertible, multiplied by the number of shares into which the security is convertible limited to the amount of the loan. This amount is

PENNEXX FOODS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

recorded as a debt discount, reducing the face amount of the note, and is amortized to interest expense in the statement of operations over the life of the debt.

Original Issue Debt Discount

For certain notes issued, the Company provides the debt holder with an original issue discount. The original issue discount is recorded as a debt discount, reducing the face amount of the note, and is amortized to interest expense in the statement of operations over the life of the debt.

Debt Issue Cost

Debt issuance cost paid (in cash or stock) to lenders, or third parties are recorded as debt discounts and amortized to interest expense in the statement of operations, over the life of the underlying debt.

Revenue Recognition

Effective January 1, 2018, the Company adopted ASC 606, "Revenue from Contracts with Customers" to recognize revenues from its consulting services. There was no cumulative effect adjustment with the adoption of ASC 606.

Pursuant to ASC 606, we recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration or payment the Company expects to be entitled to receive in exchange for those goods or services. Our revenue is recognized by applying the following five steps: 1) identify the contracts with a customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) we satisfy a performance obligation.

We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit or financial information pertaining to the customer.

If a contract includes multiple promised goods or services, we apply judgment to determine whether the promised goods or services are capable of being distinct and are distinct within the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation. We determine the transaction price based on the consideration which we will be entitled to receive in exchange for transferring goods or services to our customer. We recognize revenue at the time that the related performance obligation is satisfied by transferring the promised goods or services to our customer.

PENNEXX FOODS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

The Company recognizes revenues from consulting services (including merchant fees paid for social media advertising) related to assisting companies with targeted marketing. Revenue is recognized at a point in time after services are rendered.

Research and Development

Research and development costs are charged to expense as incurred.

Stock-Based Compensation

We account for our stock-based compensation under ASC 718 *"Compensation – Stock Compensation"* using the fair value-based method. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. This guidance establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

We use the fair value method for equity instruments granted to non-employees and use the Black-Scholes pricing model for measuring the fair value of options. The stock based fair value compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

When determining fair value, the Company considers the following assumptions in the Black-Scholes pricing model:

- Exercise price,
- Expected dividends,
- Expected volatility,
- Risk-free interest rate; and
- Expected life of option

In June 2018, the FASB issued ASU No. 2018-07, *"Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting."* ASU No 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance also specifies that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards.

PENNEXX FOODS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Common Stock Awards

The Company may grant common stock awards to non-employees in exchange for services provided. The Company measures the fair value of these awards using the fair value of the services provided or the fair value of the awards granted, whichever is more reliably measurable. The fair value measurement date of these awards is generally the date the performance of services is complete. The fair value of the awards is recognized on a straight-line basis as services are rendered. The share-based payments related to common stock awards for the settlement of services provided by non-employees is recorded in accordance with ASU 2018-07 (June 2018) on the statement of operations in the same manner and charged to the same account as if such settlements had been made in cash.

Income Taxes

The Company accounts for income tax using the asset and liability method prescribed by ASC 740, *"Income Taxes"*. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of ASC 740 *"Income Taxes"*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of December 31, 2020, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Company recognizes interest and penalties related to uncertain income tax positions in other expense. No interest and penalties related to uncertain income tax positions were recorded for the period ended December 31, 2020.

As of December 31, 2020, tax years 2018-2020 remain open for IRS audit.

Basic and Diluted Earnings (Loss) per Share

Pursuant to ASC 260-10-45, basic loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the periods presented. Diluted loss per share is computed by dividing net loss by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period. Potentially dilutive common shares may consist

PENNEXX FOODS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

of common stock issuable for stock options and warrants (using the treasury stock method), convertible notes and common stock issuable. These common stock equivalents may be dilutive in the future.

At December 31, 2020, the Company had convertible notes and related accrued interest that were convertible at fixed conversion ratios of either \$0.10 or \$0.20 per share, resulting in the Company having to possibly issue an additional 2,665,055 shares of common stock to settle these potential conversions at that time. See Note 4.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs are included as a component of general and administrative expense in the statements of operations.

The Company recognized \$47,268 in marketing and advertising costs during the year ended December 31, 2020.

Accounting for Leases

In March 2016, the FASB issued ASU No. 2016-02, *Leases*. The main difference between the provisions of ASU No. 2016-02 and previous GAAP is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. ASU No. 2016-02 retains a distinction between finance leases and operating leases, and the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right-of-use assets and lease liabilities. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This ASU is effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company's adoption on January 1, 2019 did not have a material impact on the financial statements.

The Company leases its office under a short term lease (month-to-month) with no long term commitment. At December 31, 2020, the Company has no capitalizable right of use assets or liabilities. The Company incurred rent expense of \$15,000 for the year ended December 31, 2020, which is included as a component of general and administrative expenses in the statement of operations.

In February 2021, the Company executed a long term lease resulting in the recording of a Right-of-Use Asset and corresponding lease liability. See Note 7.

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Related Parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

During 2020, the Company paid \$283,930 to an entity controlled by family members of the Company's Chief Executive Officer for software development. All amounts paid were expensed as research and development in the accompanying statement of operations.

Recent Accounting Standards

Changes to accounting principles are established by the FASB in the form of ASU's to the FASB's Codification. We consider the applicability and impact of all ASU's on our financial position, results of operations, stockholders' deficit, cash flows, or presentation thereof.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which supersedes current guidance by requiring recognition of credit losses when it is probable that a loss has been incurred. The new standard requires the establishment of an allowance for estimated credit losses on financial assets including trade and other receivables at each reporting date. The new standard will result in earlier recognition of allowances for losses on trade and other receivables and other contractual rights to receive cash. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842)*, which extends the effective date of Topic 326 for certain companies until fiscal years beginning after December 15, 2022. The new standard will be effective for the Company in the first quarter of fiscal year beginning October 1, 2023, and early adoption is permitted. The Company has not completed its review of the impact of this standard on its financial statements. However, based on the Company's history of immaterial credit losses from trade receivables, management does not expect that the adoption of this standard will have a material effect on the Company's financial statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes." This guidance, among other provisions, eliminates certain exceptions to existing guidance related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. This guidance also requires an entity to reflect the effect of an enacted change in tax laws or rates in its effective income tax rate in the first interim period

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that includes the enactment date of the new legislation, aligning the timing of recognition of the effects from enacted tax law changes on the effective income tax rate with the effects on deferred income tax assets and liabilities. Under existing guidance, an entity recognizes the effects of the enacted tax law change on the effective income tax rate in the period that includes the effective date of the tax law. ASU 2019-12 is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. We adopted this pronouncement on January 1, 2021; however, the adoption of this standard did not have material effect on the Company's financial statements.

In August 2020, the FASB issued ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity", to reduce complexity in applying GAAP to certain financial instruments with characteristics of liabilities and equity. ASU 2020-06 is effective for interim and annual periods beginning after December 15, 2023, with early adoption permitted. We adopted this pronouncement on January 1, 2021; however, the adoption of this standard did not have material effect on the Company's financial statements.

Note 3 – Property and Equipment

Property and equipment consisted of the following:

	<u>December 31, 2020</u>	<u>Estimated Useful Lives (Years)</u>
Office equipment	\$ 10,000	5
Furniture	3,500	5
Computers	3,500	5
	<u>17,000</u>	
Accumulated depreciation	4,250	
Property and equipment - net	<u>\$ 12,750</u>	

Depreciation expense for the year ended December 31, 2020 was \$3,400.

Note 4 – Convertible Notes Payable, Debt Discount and Debt Issue Cost

During 2020, the Company issued several one (1) year, unsecured, convertible notes. Certain of these convertible notes contained beneficial conversion features due to the existence of fixed conversion rates (\$0.10 or \$0.20/share).

Additionally, the Company paid common stock to a third party as debt issuance costs related to certain of these notes, at a rate of 1 share of common stock for each \$1 raised.

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The debt issuance costs are calculated based upon the quoted closing trading price of the common stock on the issue date. These costs are a direct reduction of the related convertible note, and the related costs are amortized over the life of the note to interest expense. See Note 5.

The following represents a summary of these convertible notes, key terms, and outstanding balances at December 31, 2020:

Terms	2019 Convertible Notes Payable	2020 Convertible Notes Payable			
Issuance date of notes	November and December 2019	January, February, July, October and December 2020			
Term	1 Year	1 Year			
Maturity dates	November and December 2020	January, February, July, October and December 2021			
Interest rate	12%	12%			
Collateral	Unsecured	Unsecured			
Conversion rate	\$0.20/share	\$0.10 - \$0.20/share			
Common stock issued as debt issuance costs	100,000 shares	120,000 shares			
Note Dates	November and December 2019	January, February, July, October and December 2020	Total	In-Default	
Principal	\$ 200,000	\$ 252,700	\$452,700		
Debt discount	(25,000)	(161,711)	(186,711)		
Debt issue costs	(22,000)	(1,700)	(23,700)		
Day 1 - net carrying amount	<u>\$ 153,000</u>	<u>\$ 89,289</u>	<u>\$242,289</u>		
Balance - December 31, 2019	\$ 156,981	\$ -	\$156,981	\$ -	
Proceeds	-	252,700	252,700		
Debt discount	-	(161,711)	(161,711)		
Debt issue costs	-	(1,700)	(1,700)		
Amortization of debt discount/issue costs	43,019	139,570	182,589		
Balance - December 31, 2020	<u>\$ 200,000</u>	<u>\$ 228,859</u>	<u>\$428,859</u>	<u>\$ 200,000</u>	

In July 2021, the Company extended all notes that had due dates on or before June 30, 2021 to December 31, 2021.

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Note 5 – Stockholders’ Deficit

The Company has one (1) class of stock:

Common Stock

- 70,000,000 shares authorized
- \$0.01 par value
- Voting at 1 vote per share

Equity Transactions for the Year Ended December 31, 2020

Stock Issued for Cash

The Company issued 269,231 shares of common stock for \$35,000 (\$0.13/share).

Stock Issued related to Common Stock Issuable

The Company owed common stock to various parties in years prior to December 31, 2020. These shares were issued separately for cash, services rendered, and research and development expenses. These shares of common stock were never issued yet remained due. These shares are considered issuable and are included as a component of earnings (loss) per share. Once the related common stock is issued, the common stock issuable is reduced accordingly at par value.

Common stock issuable at December 31, 2020 was as follows:

	<u>Shares</u>	<u>Amount</u>
Balance - December 31, 2019	16,580,769	\$ 165,808
Issuance of common stock previously issuable	(6,480,769)	(64,808)
Stock issued for debt issue costs related to convertible notes payable	170,000	1,700
Balance - December 31, 2020	<u>10,270,000</u>	<u>\$ 102,700</u>

Cancellation of Common Stock

During 2020, the Company cancelled 12,510,161 shares of common stock, at par value of \$125,102 (\$0.01/share). The net effect on stockholders’ deficit was \$0.

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Note 6 – Income Taxes

The Company's tax expense differs from the "expected" tax expense for the period (computed by applying the blended corporate and state tax rates of 28.89% to loss before taxes), are approximately as follows:

	<u>December 31, 2020</u>
Federal income tax benefit - net of state tax benefit - 18.9%	\$ (122,000)
State income tax - 9.99%	(64,000)
Tax effect of timing differences for income tax purposes	<u>52,000</u>
Subtotal	(134,000)
Valuation allowance	<u>134,000</u>
	<u>\$ -</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2020, are approximately as follows:

	<u>December 31, 2020</u>
Amortization of debt discount/debt issue costs	54,000
Net operating loss carryforwards	<u>10,294,000</u>
Total deferred tax assets	10,348,000
Less: valuation allowance	<u>(10,348,000)</u>
Net deferred tax asset recorded	<u>\$ -</u>

Deferred tax assets and liabilities are computed by applying the federal and state income tax rates in effect to the gross amounts of temporary differences and other tax attributes, such as net operating loss carryforwards. In assessing if the deferred tax assets will be realized, the Company considers whether it is more likely than not that some or all of these deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which these deductible temporary differences reverse.

During the year ended December 31, 2020, the valuation allowance increased by approximately \$173,000. The total valuation allowance results from the Company's estimate of its uncertainty in being unable to recover its net deferred tax assets.

At December 31, 2020, the Company has federal and state net operating loss carryforwards, which are available to offset future taxable income, of approximately \$35,629,000. The Company is in the process of analyzing their NOL and has not determined if the Company has had any change of control issues that could limit the future use of these

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NOL's. NOL carryforwards that were generated after 2017 of approximately \$518,000 may only be used to offset 80% of taxable income and are carried forward indefinitely. NOL's generated prior to December 31, 2017 expire through 2037.

These carryforwards may be subject to an annual limitation under Section 382 and 383 of the Internal Revenue Code of 1986, and similar state provisions if the Company experienced one or more ownership changes which would limit the amount of NOL and tax credit carryforwards that can be utilized to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382 and 383, results from transactions increasing ownership of certain stockholders or public groups in the stock of the corporation by more than 50 percentage points over a three-year period. The Company has not completed an IRC Section 382/383 analysis. If a change in ownership were to have occurred, NOL and tax credit carryforwards could be eliminated or restricted.

If eliminated, the related asset would be removed from the deferred tax asset schedule with a corresponding reduction in the valuation allowance. Due to the existence of the valuation allowance, limitations created by future ownership changes, if any, will not impact the Company's effective tax rate.

The Company files corporate income tax returns in the United States and State of Florida jurisdictions. Due to the Company's net operating loss posture, all tax years are open and subject to income tax examination by tax authorities. The Company's policy is to recognize interest expense and penalties related to income tax matters as tax expense. At December 31, 2020, there are no unrecognized tax benefits, and there are no significant accruals for interest related to unrecognized tax benefits or tax penalties.

Note 7 – Subsequent Events

Increase of Authorized Shares and Corporate Name Change

In March 2021, the Company's Board approved an amendment to its Articles of Incorporation to increase its authorized shares of common stock from 50,000,000 to 70,000,000 shares. In July 2021, the amendment was formally approved by the State.

In April 2021, the Company's Board approved a name change to Pennexx Technology, Inc. Approval of the name change is pending State approval to the Company's amended Articles of Incorporation.

Stock Issued for Services

The Company issued 3,260,000 shares of common stock for services rendered, having a fair value of \$1,179,090 (\$0.2644-\$0.44/share), based upon the quoted closing trading price of the Company's common stock.

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Convertible Debt

In January 2021, the Company converted accounts payable of \$31,808 (recorded at December 31, 2020), and received an additional \$28,192, combining the total into a \$60,000, one (1) year convertible note. The note is unsecured, bears interest at 5% and is convertible at \$0.04/share. The Company has also determined that a beneficial conversion feature exists at the commitment date.

In July 2021, the Company issued several one (1) year, 12%, unsecured, convertible notes for \$200,000. These convertible notes contained beneficial conversion features due to the existence of fixed conversion prices of \$0.20/share, which at the time of issuance were lower than the quoted closing trading price of the Company's common stock, resulting in the recording of a beneficial conversion feature at the commitment date.

In July 2021, the Company issued 280,414 shares of common stock, having a fair value of \$112,166 (\$0.40/share), based upon the quoted closing trading price, in connection with previously issued convertible notes and related accrued interest of \$27,956, resulting in a loss on debt extinguishment of \$84,210.

Conversion of Convertible Debt into Common Stock

In March 2021, the Company issued 56,250 shares of common stock to settle the conversion of a convertible note and related accrued interest of \$11,350. The fair value of the common stock was \$16,307 (\$0.2899/share), based upon the quoted closing trading price, resulting in a loss on debt extinguishment of \$4,958.

Stock Issued for Services and Related Common Stock Issuable

During 2021, the Company executed consulting agreements:

General Business Advisory and Public Relations

In January 2021, the Company entered into a six (6) month agreement to issue up to 400,000 shares of common stock, payable as follows:

100,000 shares at the inception of the agreement (earned January 2021),
100,000 shares when the stock price equals \$0.25 (earned January 2021),
100,000 shares when the stock price equals \$0.35(earned January 2021); and
100,000 shares when the stock price equals \$0.50 (earned July 2021).

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As of June 30, 2021, the Company issued 100,000 shares of common stock having a fair value of \$44,000 based upon the quoted closing trading price (\$0.44/share) and owed 200,000 shares of common stock having a fair value of \$88,000, based upon the quoted closing trading price (\$0.44/share).

The final 100,000 shares were earned on July 1, 2021, as this represented the first day where the stock closed above \$0.50. On this date, the stock had a quoted closing trading price of \$0.69/share, resulting in a fair value of \$69,000. These shares are due and considered common stock payable.

Website and Application Product Development

In March 2021, the Company entered into a one (1) year agreement to issue up to 500,000 shares of common stock, payable as follows:

100,000 shares at the inception of the agreement (earned March 2021),
400,000 shares when all services have been rendered in full (not yet earned).

The Company owed 100,000 shares of common stock having a fair value of \$33,800, based upon the quoted closing trading price (\$0.338/share). These shares have not yet been issued to the consultant and are a component of common stock payable.

Common Stock Issuable from Prior Years

In January 2021, the Company issued 6,000,000 shares of common stock that were previously issuable.

Right of Use Operating Lease

In February 2021, the Company executed a two (2) year lease for its office space. The first year requires payments of \$18,400. The second year requires payments of \$21,216. The lease has an option to renew for 3 additional one (1) year periods with an increase of 4% in annual rent. At this time, based on historical operations, the Company does not believe the renewal options would be executed.