

Compilation Report on Consolidated Financial Statements of

Emergent Health Corporation and Subsidiaries

*as of and for the three months ended March 31, 2022
and as of and for the year ended December 31, 2021*



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Accountant's Compilation Report

To Management and the Shareholders
Emergent Health Corporation and Subsidiaries
King of Prussia, Pennsylvania

Management is responsible for the accompanying consolidated financial statements of Emergent Health Corporation (a Wyoming corporation) and subsidiaries, which comprise the consolidated balance sheet as of March 31, 2022, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the three months ended March 31, 2022, and the related notes to the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the consolidated financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these consolidated financial statements.

The financial statements of the Company as of and for the year ended December 31, 2021, were prepared by management.

We are not independent with respect to Emergent Health Corporation and subsidiaries, because we performed certain accounting services, including bookkeeping, that impaired our independence.

Scott and Company LLC

Columbia, South Carolina
June 17, 2022

Emergent Health Corporation
Consolidated Balance Sheets
as of,

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 96,252	\$ 240,043
Inventories	65,084	69,618
Total current assets	<u>161,336</u>	<u>309,661</u>
Noncurrent assets:		
Intangible asset, net	121,065	100,000
Security deposit	1,500	1,500
Total noncurrent assets	<u>122,565</u>	<u>101,500</u>
TOTAL ASSETS	<u>\$ 283,901</u>	<u>\$ 411,161</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 60,387	\$ 4,872
Note payable, net of discount	361,258	362,663
Total liabilities	<u>421,645</u>	<u>367,535</u>
Stockholders' equity:		
Series A Preferred Stock, 100 shares authorized, 100 shares issued and outstanding, par value \$.001	-	-
Series B Convertible Preferred Stock, 25,000,000 shares authorized, 25,000,000 shares issued and outstanding, par value \$.001	25,000	25,000
Series C Preferred Stock, 6,000,000 shares authorized, 3,000,000 issued and outstanding, par value \$.001	3,000	-
Common stock, 200,000,000 shares authorized, 73,101,111 shares issued and outstanding, par value \$.001	73,101	58,101
Additional paid-in capital	1,207,424	1,072,424
Noncontrolling interest in consolidated subsidiaries	86,847	87,174
Accumulated deficit	(1,533,116)	(1,199,073)
Total stockholders' equity	<u>(137,744)</u>	<u>43,626</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 283,901</u>	<u>\$ 411,161</u>

See accompanying accountant's compilation report. The accompanying notes are an integral part of these consolidated financial statements.

Emergent Health Corporation
Consolidated Statements of Operations

	3 Months Ended March 31, 2022	Year Ended December 31, 2021
Sales	\$ 14,267	\$ 119,567
Cost of sales	4,533	40,090
Gross profit	<u>9,733</u>	<u>79,477</u>
Operating expenses:		
Sales commissions	3,124	29,507
Salaries	15,000	7,500
Research and development	600	2,086
Fulfillment	1,116	18,133
Office supplies	474	11,270
Professional fees	67,675	68,841
Consulting fees	183,429	85,000
Credit card fees and bank service charges	2,131	2,605
Occupancy	1,500	8,250
Marketing	20,645	7,202
Website	1,342	18,661
Interest	1,268	1,250
Amortization	5,000	44,258
Other selling, general and administrative expenses	42,050	16,300
Total operating expenses	<u>345,354</u>	<u>320,863</u>
Loss from operations	<u>(335,620)</u>	<u>(241,386)</u>
Other (Income) Expense		
Interest income	1,250	1,250
Total Other (Income) Expense	<u>1,250</u>	<u>1,250</u>
Loss before income taxes	(334,370)	(240,136)
Provision for income taxes	-	-
Net loss	<u>(334,370)</u>	<u>(240,136)</u>
Net loss attributable to noncontrolling interest	327	1,083
Net loss attributable to Emergent Health Corporation	<u><u>\$ (334,043)</u></u>	<u><u>\$ (239,053)</u></u>
Net loss per common share:		
Basic	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Diluted	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Weighted average number of common shares outstanding:		
Basic	<u>73,101,111</u>	<u>58,101,111</u>
Diluted	<u><u>98,101,211</u></u>	<u><u>83,101,211</u></u>

See accompanying accountant's compilation report. The accompanying notes are an integral part of these consolidated financial statements.

Emergent Health Corporation
Consolidated Statements of Changes in Stockholders' Equity

	Series A Preferred Stock, \$.001 Par Value		Series B Convertible Preferred Stock, \$.001 Par Value		Series C Preferred Stock, \$.001 Par Value		Common Stock, \$.001 Par Value		Additional Paid- in Capital	Noncontrolling interest	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2021	100	\$ -	25,000,000	\$ 25,000	-	\$ -	58,101,111	\$ 58,101	\$ 1,072,424	\$ 87,174	\$ (1,199,073)	\$ 43,626
Net loss attributable to noncontrolling interest	-	-	-	-	-	-	-	-	-	(327)	-	(327)
Shares Issued during period	-	\$ -	-	\$ -	3,000,000	\$ 3,000	15,000,000	\$ 15,000	\$ 135,000	0	\$ -	153,000
Net loss attributable to Emergent Health Corporation	-	-	-	-	-	-	-	-	-	-	(334,043)	(334,043)
Balance, March 31, 2022	100	\$ -	25,000,000	\$ 25,000	3,000,000	\$ 3,000	73,101,111	\$ 73,101	\$ 1,207,424	\$ 86,847	\$ (1,533,116)	\$ (137,744)

See accompanying accountant's compilation report. The accompanying notes are an integral part of these consolidated financial statements.

Emergent Health Corporation
Consolidated Statements of Cash Flows

	3 Months Ended March 31, 2022	Year Ended December 31, 2021
Cash flows from operating activities:		
Net loss	\$ (334,370)	\$ (240,136)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	5,000	44,258
Change in inventories	4,533	11,659
Change in intangible asset	76,065	-
Change in accounts payable	(46,423)	4,872
Change in note payable	1,405	-
Net cash used in operating activities	<u>(293,791)</u>	<u>(179,347)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	250,000
Proceeds from issuance of common stock	<u>150,000</u>	<u>-</u>
Net cash provided by financing activities	<u>150,000</u>	<u>250,000</u>
Net increase in cash and cash equivalents	(143,791)	70,653
Cash and cash equivalents, beginning of period	<u>240,043</u>	<u>169,390</u>
Cash and cash equivalents, end of period	<u><u>\$ 96,252</u></u>	<u><u>\$ 240,043</u></u>

See accompanying accountant's compilation report. The accompanying notes are an integral part of these consolidated financial statements.

Emergent Health Corporation
Notes to the Consolidated Financial Statements

Note 1. Organization

Emergent Health Corporation (the “Company”) was incorporated in Nevada on April 27, 2006 and was reincorporated in Wyoming on March 31, 2018. The Company manufactures and sells vitamin products to retail customers across the United States of America.

The Company has three subsidiaries, Emergent Medical Foods, Inc. (“EMF”), Emergent OTC Products, Inc. (“EOTC”), and PharmaZu, Inc. (“PharmaZu”). EMF is a Wyoming corporation incorporated on April 4, 2019. EMF was formed for the purpose of marketing a medical food for cancer and debilitated patients through medical personnel. EMF was funded with \$90,000 (900,000 preferred shares) from private investors for \$0.01 per share and issued 30 million \$.0010 common shares to the Company for payment of EMF expenses, including providing future research and development and patented products to be made on behalf of EMF. Both classes are equal as to voting rights but the preferred shares have certain liquidation preference. PharmaZu is a Delaware corporation and was funded with 500,000 shares of Series C Convertible Non-Voting Preferred stock and up to an additional 1,600,000 shares of preferred stock subject to certain terms and conditions.

On August 2, 2019, EMF transferred \$20,000 of \$.0010 common shares to form EOTC. EOTC is a Wyoming corporation incorporated on August 1, 2019. EOTC was formed for the purpose of marketing a retail version of the Company’s products. EOTC is wholly owned by EMF.

Note 2. Summary of Significant Accounting Policies

The accounting and reporting policies of the Company conform, in all material respects, to accounting principles generally accepted in the United States of America (“GAAP”). The following summarizes the more significant of these policies and practices.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, EMF, EOTC and PharmaZu. All significant intercompany balances and transactions have been eliminated in consolidation. The Company accounts for the portion of a subsidiary that is not owned as noncontrolling interests. Noncontrolling interests in a subsidiary are reported in the consolidated financial statements at the fair value of the net assets acquired by the Company at the date of acquisition, depending on the nature of the acquisition, plus the cumulative allocation of net income (loss) from that date forward to the noncontrolling interests based on its ownership percentage.

In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Section 810-10-50, *Consolidations*, and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with ASC Section 810-10-50. As of March 31, 2022 and December 31, 2021, the Company did not have any variable interest entities of which it was the primary beneficiary.

Emergent Health Corporation
Notes to the Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires that management use certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ significantly from the estimates.

Cash

The Company considers highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. At times, such cash may be in excess of the Federal Depository Insurance Corporation (“FDIC”) insured limits. As of March 31, 2022 and December 31, 2021, the Company did not have any deposits in excess of FDIC insured limits.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value).

Intangible Assets

The Company capitalized website services as an intangible asset based on the nature of the services (application development stage). See Note 5 for further details.

Income Taxes

Income taxes are accounted for under the assets and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

Net Income (Loss) Per Common Share

Basic net income (loss) per common share is calculated based upon the weighted average number of common shares outstanding. Diluted net income (loss) per common share is calculated upon the weighted average number of common shares outstanding and dilutive convertible preferred shares outstanding.

Marketing Expense

The Company expenses the cost of advertising and marketing as incurred. Marketing and advertising costs for the three months and year ended March 31, 2022 and December 31, 2021, totaled \$20,645 and \$7,202 respectively.

Emergent Health Corporation
Notes to the Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Research and Development

Research and development costs are recognized as an expense when incurred. Research and development costs for the three months and year ended March 31, 2022 and December 31, 2021, totaled \$600 and \$2,086, respectively.

Revenue Recognition

Sales - The Company sells vitamin products to retail customers across the United States of America. The Company's standard delivery method is "free on board" shipping point. Consequently, the Company considers control of products to transfer at a single point in time when control is transferred to the customer, which is generally when products are shipped in accordance with an agreement or purchase order. Control is defined as the ability to direct the use of and obtain substantially all of the remaining benefits of the product. The Company considers the customer's purchase order, and the Company's corresponding sales order acknowledgement as the contract with the customer. For each contract, the Company considers the promise to transfer products to be the identified performance obligations. The Company satisfies its performance obligations under a contract with a customer by transferring goods and services in exchange for monetary consideration from the customer. Sales taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

Deferred revenue – Revenue is deferred when the Company receives payment under a contract with a customer prior to satisfying its performance obligation. As the majority of orders are processed and shipped immediately upon receipt of payment, it is rare that revenue is deferred. There was no deferred revenue as of March 31, 2022 or December 31, 2021.

Accounts receivable – The majority of products are paid for in full prior to delivery, which occurs immediately after payment. Therefore, the Company does not have any accounts receivable as of March 31, 2022 or December 31, 2021.

Significant payment terms – The Company's contracts with its customers state the final terms of the sale, including the description, quantity, and price of each product purchased. Payments are typically due prior to delivery. Since the customer agrees to a stated rate and price in the contract that do not vary over the contract, the Company's contracts do not contain variable consideration.

Economic factors - The Company's revenues and accounts receivable are derived primarily from the United States with no particular concentration in any industry. Sales revenue is impacted by overall economic conditions, as there are fewer sales when the Company's customers are impacted by negative economic conditions.

Returns, refunds, and warranties – The Company has a 30-day return policy on all products. As the amount of returned product is minimal, management believes that returns on any goods sold subsequent to March 31, 2022 or December 31, 2021, were not material.

Emergent Health Corporation
Notes to the Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Recently Implemented Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is required to be implemented for fiscal periods beginning after December 15, 2021. The provisions of the ASU seek to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 requires that a lessee recognize assets and liabilities for all leases with lease terms of more than 12 months. Additionally, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. Lessor accounting will remain largely unchanged except for changes to align lessor accounting with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Company implemented this standard for the period ended March 31, 2022 and there was not impact on its consolidated financial statements.

Note 3. Revenue from Contracts with Customers

The Company had revenue from contracts with customers in the amount of \$14,267 and \$119,567 for the three months and year ended March 31, 2022 and December 31, 2021, respectively. All the revenue was recognized at a point in time at the time of transfer of goods or services. As the Company had no accounts receivable or deferred revenue as of March 31, 2022 or December 31, 2021, there were no contract assets or liabilities arising from contracts with customers.

Note 4. Inventories

Inventories consisted of the following at:

	March 31, 2022	December 31, 2021
Finished goods	\$ 65,084	\$ 69,618
Total inventory	<u>\$ 65,084</u>	<u>\$ 69,618</u>

Note 5. Intangible Assets

In July of 2019, the Company issued common shares in exchange for website services performed at the application development stage. The resulting estimated fair value of the expense of \$100,000 was capitalized. The Company paid an additional \$76,065 for website development that is not subject to amortization. The unamortized balance of the application development stage asset was \$45,000 and \$50,000 at March 31, 2022 and December 31, 2021, respectively. This remaining asset will be amortized as follows:

2022	\$ 15,000
2023	20,000
2024	<u>10,000</u>
	<u>\$ 45,000</u>

Emergent Health Corporation
Notes to the Consolidated Financial Statements

Note 6. Related Party Transactions

On August 26, 2021, the Company entered into two notes payable with two Series B Convertible Preferred Stock shareholders. See note 8 regarding information on these notes payable.

Note 7. Commitments and Contingencies

On September 26, 2019, the Company executed a lease agreement for the use of office space in King of Prussia, Pennsylvania for a three year period from November 1, 2019 to October 31, 2022, with the option to terminate the lease on or after October 31, 2020, at a monthly rate of \$750. At execution, the Company paid a \$1,500 security deposit and pre-paid the first month's rent of \$750. Future minimum lease payments subsequent to March 31, 2022 are as follows:

2022	\$ 5,250
	<u>\$ 5,250</u>

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. The Company was not aware of any pending or threatened litigation against the Company as of the nine months and year ended March 31, 2022 or December 31, 2021.

Note 8. Notes and Loans Payable

Notes payable in the amount of \$500,000 consists of the following two notes as of September 30, 2021.

The Company entered into a note payable to a Series B Convertible Preferred Stock shareholder on August 26, 2021 in the amount of \$200,000 due August 26, 2022. The note payable was issued at a discount of face value in the amount of \$100,000. The note payable is unsecured, but shall become immediately due and payable in the event of default. The current balance of this note is \$200,000 at September 30, 2021.

The Company entered into a second note payable to Cimarron Capital, Inc. on August 26, 2021 in the amount of \$300,000 due August 26, 2022. The note payable was issued at a discount of face value in the amount of \$150,000. The note payable is unsecured, but shall become immediately due and payable in the event of default. The current balance of this note is \$300,000 at September 30, 2021.

As the notes payable are noninterest bearing and issued at a discount, imputed interest was recorded using an effective rate of 50%, the amount of the issued discount. The balance of the discount on notes payable at March 31, 2022 was \$138,742.

The full note payable balances will be due in 2022.

Note 9. Stockholders' Equity

Series A Preferred Stock

Effective June 12, 2018, the Company issued a total of 100 shares of Class A Preferred Stock to the Chief Executive Officer of the Company.

Emergent Health Corporation
Notes to the Consolidated Financial Statements

Note 9. Stockholders' Equity (continued)

The Class A Preferred Shares have no dividend or conversion rights. The holder(s) of the Series A shares shall as a class have rights in all matters requiring shareholder approval to a number of votes equal to two (2) times the sum of: (i) the total number of shares of common stock which are issued and outstanding at the time of any election or vote by the shareholders; plus (ii) the number of votes allocated to shares of Preferred Stock issued and outstanding of any other class that has voting rights. These voting rights may, if required, extend to a number of votes in excess of the total number of shares authorized.

In the event of liquidation, dissolution, or winding up of the Corporation, either voluntary or involuntary, the holder(s) of the Series A shares will be entitled to receive out of the assets of the Company, prior and in preference to any distribution of the assets or surplus funds of the Company to the holders of any other class of preferred stock or the Common Stock, the amount of \$100.00 per share, and will not be entitled to receive any portion of the remaining assets of the Company except by reason of ownership of shares of any other class of the Company's stock.

Series B Convertible Preferred Stock

On July 19, 2018, the Company closed on the sale of 20,000,000 shares of Series B Convertible Preferred Stock to an investor at a price of \$0.00225 per share for proceeds of \$45,000.

On July 25, 2018, the Company closed on the sale of 5,000,000 shares of Series B Convertible Preferred Stock to the same investor discussed in the preceding paragraph at a price of \$0.011 per share for proceeds of \$55,000.

The holders of Series B Convertible Preferred Stock have no voting rights prior to conversion and are not entitled to any manner of liquidation preference payment. Each share of Series B Convertible Preferred Stock is convertible into one (1) share of the Company's common stock at any time after the first anniversary of issuance.

Series C Preferred Stock

As of March 31, 2022, the Company has issued 3,000,000 shares of Series C Preferred Stock.

The Class C Preferred Shares have no dividend or conversion rights. The holder(s) of the Series C shares shall as a class have rights in all matters requiring shareholder approval to a number of votes equal to two (2) times the sum of: (i) the total number of shares of common stock which are issued and outstanding at the time of any election or vote by the shareholders; plus (ii) the number of votes allocated to shares of Preferred Stock issued and outstanding of any other class that has voting rights. These voting rights may, if required, extend to a number of votes in excess of the total number of shares authorized.

In the event of liquidation, dissolution, or winding up of the Corporation, either voluntary or involuntary, the holder(s) of the Series C shares will be entitled to receive out of the assets of the Company, prior and in preference to any distribution of the assets or surplus funds of the Company to the holders of any other class of preferred stock or the Common Stock, the amount of \$100.00 per share, and will not be entitled to receive any portion of the remaining assets of the Company except by reason of ownership of shares of any other class of the Company's stock.

Emergent Health Corporation
Notes to the Consolidated Financial Statements

Note 9. Stockholders' Equity (continued)

Common Stock

The Company issued a total of 15,000,000 shares of common stock to three different investors at a price of \$.01 per share for proceeds of \$150,000.

Note 10. Income Taxes

For the three months and year ended March 31, 2022 and December 31, 2021, the Company's effective tax rate differed from the United States Federal income tax rate for the following reasons:

	Three Months Ended March 31, 22	Year Ended December 31, 2021
Expected Federal income tax benefit at 21%	\$ 70,149	\$ 50,429
Increase in valuation allowance	(70,149)	(50,429)
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

Based on management's present assessment, the Company has not yet determined it to be more likely than not that a deferred tax asset of up to \$177,138 attributable to the future utilization of the \$844,000 combined current and prior net operating loss carryforwards will be realized. Accordingly, the Company has maintained a 100% allowance against the deferred tax asset in the consolidated financial statements at March 31, 2022 and December 31, 2021. The Company will continue to review this valuation allowance and make adjustments as appropriate. The net operating loss carryforwards expire in varying amounts from 2026 to 2041.

At March 31, 2022 and December 31, 2021, deferred tax assets consisted of:

Net operating loss carryforwards	\$ 177,138
Valuation allowance	(177,138)
Deferred tax assets - net	<u>\$ -</u>

Current United States income tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount available to offset future taxable income may be limited.

Tax years ending December 31, 2019, 2020, and 2021 are open and subject to examination by the Internal Revenue Service. Management has evaluated tax positions taken and determined that there are no uncertain positions taken or expected to be taken that would require disclosure in the consolidated financial statements.

Emergent Health Corporation
Notes to the Consolidated Financial Statements

Note 11. Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2022, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through June 17, 2022, the date these consolidated financial statements were available to be issued, and nothing of significance was noted.