

CAO PHARMACEUTICALS, INC.

Unaudited Financial Statements For The Years Ended December 31, 2020 and 2019



INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To Management
CAO Pharmaceuticals, Inc.
Webster, TX

We have reviewed the accompanying financial statements of CAO Pharmaceuticals, Inc. (a corporation), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, We do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether We are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of Our procedures provide a reasonable basis for Our conclusion.

Accountant's Conclusion

Based on Our review, We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B, certain conditions raise an uncertainty about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note B. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Jason M. Tyra, CPA, PLLC
Dallas, TX
February 21, 2022

**CAO PHARMACEUTICALS, INC.
BALANCE SHEET
DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 54,884	\$ 78,415
Inventory	2,500,000	2,500,000
TOTAL CURRENT ASSETS	2,554,884	2,578,415
NON-CURRENT ASSETS		
Fixed Assets, Net	174,091	174,091
Accumulated Depreciation	(106,857)	(58,678)
TOTAL NON-CURRENT ASSETS	67,234	115,413
TOTAL ASSETS	2,622,118	2,693,828
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accrued Expenses	2,433	2,878
TOTAL CURRENT LIABILITIES	2,433	2,878
TOTAL LIABILITIES	2,433	2,878
STOCKHOLDERS' EQUITY		
Common Stock (1,000,000 shares authorized; 11,773 issued; \$1.00 par value)	11,773	11,770
Additional Paid In Capital	734,483	609,486
Retained Earnings	1,873,429	2,069,694
TOTAL STOCKHOLDERS' EQUITY	2,619,685	2,690,950
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,622,118	\$ 2,693,828

CAO PHARMACEUTICALS, INC.
INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Expense		
Payroll	70,681	229,189
Depreciation	48,179	58,678
Research and Development	46,294	134,838
Legal & Professional	30,475	23,565
Rent	27,016	35,466
Other Operating Expenses	25,921	147,250
General & Administrative	1,966	15,400
	250,531	644,386
Net Loss from Operations	(250,531)	(644,386)
Other Income		
Other Income	54,266	39,990
Net Loss	\$ (196,265)	\$ (604,397)
Net Loss Per Share		
Weighted average common shares outstanding - Basic	11,773	11,770
Net loss per share	\$ (17)	\$ (51)

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

CAO PHARMACEUTICALS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Cash Flows From Operating Activities		
Net Loss For The Period	\$ (196,265)	\$ (604,397)
Depreciation	40,060	50,559
Amortization	8,119	8,119
Change in Accrued Expenses	(445)	2,878
Net Cash Flows From Operating Activities	(148,531)	(542,841)
Cash Flows From Financing Activities		
Increase in Additional Paid In Capital	125,000	621,244
Issuance of Common Stock	-	12
Net Cash Flows From Financing Activities	125,000	621,256
Cash at Beginning of Period	78,415	-
Net Increase (Decrease) In Cash	(23,531)	78,415
Cash at End of Period	\$ 54,884	\$ 78,415

CAO PHARMACEUTICALS, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock		Additional		Retained Earnings	Total Stockholders'
	Number	Amount	Paid In Capital			Equity
Balance at December 31, 2018	-	\$ -	\$ -	-	\$ 2,674,091	\$ 2,674,091
Issuance of Stock	11,770	11,770	609,486			621,256
Net Loss					(604,397)	(604,397)
Balance at December 31, 2019	11,770	\$ 11,770	\$ 609,486	\$	2,069,694	\$ 2,690,950
Issuance of Stock	3	3	124,997			125,000
Net Loss					(196,265)	(196,265)
Balance at December 31, 2020	11,773	\$ 11,773	\$ 734,483	\$	1,873,429	\$ 2,619,685

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

CAO PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2020 & 2019

NOTE A- ORGANIZATION AND NATURE OF ACTIVITIES

Cao Pharmaceuticals, Inc. (“the Company”) is a corporation organized in the State of Texas. The Company operates as an early clinical-stage drug development company that develops drugs from natural plants for the treatment of all solid tumors and lymphoma.

NOTE B- GOING CONCERN MATTERS

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operation for the foreseeable future. However, management has identified the following conditions and events that created an uncertainty about the ability of the Company to continue as a going concern. The Company recorded net operating losses in 2020 of \$196,265 and 2019 of \$604,397.

The following describes management's plans that are intended to mitigate the conditions and events that raise substantial doubt about the Company's ability to continue as a going concern. The Company plans to raise funds to continue operations through a Reg CF offering. The Company's ability to meet its obligations as they become due is dependent upon the success of management's plans, as described above.

These conditions and events create an uncertainty about the ability of the Company to continue as a going concern through February 17, 2023 (one year after the date that the financial statements are available to be issued). The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

NOTE C- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The Company’s fiscal year ends December 31.

Significant Risks and Uncertainties

The Company is subject to customary risks but not limited to, the need for protection of intellectual property, dependence on key personnel, costs of services provided by third parties, approval from the Food and Drug Administration (FDA), the need to obtain additional financing, and limited operating history.

The Company is pending approval from the FDA for commercialization of drug products and there can be no assurance that the Company’s research and development will be successfully commercialized. Developing and commercializing a product requires significant capital, and based on the current operating plan, the Company expects to continue to incur operating losses as well as cash outflows from operations in the near term.

CAO PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in estimates are recorded in the period they are made. Actual results could differ from those estimates.

Inventory

The Company's inventory is held for use by a storage facility located in Wisconsin. The company values inventory at the lower of cost or market value.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances, and highly liquid investments with maturities of three months or less when purchased.

Fixed Assets

The Company capitalizes assets with an expected useful life of one year or more, and an original purchase price of \$1,000 or more. The fixed assets recorded on the books are comprised of hundreds of pieces of lab equipment. Depreciation is calculated on a straight-line basis over management's estimate of each asset's useful life.

Leases

The Company currently occupies office space under a non-cancellable operating lease. The lease includes common area maintenance charges that have increased over year to year. The lease expired in October 2020 and was renewed at the then current market rate.

Other Income

The Company received funding from government grants. PPP loan and SBA loan proceeds have been recognized as an income grant as it was determined that there is "reasonable assurance" that the company met the conditions for forgiveness of the loan amount.

Income Taxes

In December 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law and the new legislation contains several key tax provisions that affected the Company, including a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. The Company is required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, remeasuring deferred tax assets and liabilities, as well as reassessing the net realizability of our deferred tax assets and liabilities. The tax rate change had no impact to the Company's net loss as the Company has not incurred a tax liability or expense for the year ended December 31, 2020 and has a full valuation allowance against its net deferred tax assets.

CAO PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

The Company applies ASC 740 Income Taxes (“ASC 740”). Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial statement reported amounts at each period end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax expense for the period, if any and the change during the period in deferred tax assets and liabilities. ASC 740 also provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position is recognized only if it is “more likely than not” that the position is sustainable upon examination by the relevant taxing authority based on its technical merit.

The Company is subject to tax filing requirements as a corporation in the federal jurisdiction of the United States. The Company sustained net operating losses during fiscal years 2020 and 2019. Net operating losses will be carried forward to reduce taxable income in future years. Due to management’s uncertainty as to the timing and valuation of any benefits associated with the net operating loss carryforwards, the Company has elected to recognize an allowance to account for them in the financial statements, but has fully reserved it. Under current law, net operating losses may be carried forward indefinitely.

The Company is subject to franchise filing requirements in the State of Texas.

Net Income Per Share

Net earnings or loss per share is computed by dividing net income or loss by the weighted-average number of common shares outstanding during the period, excluding shares subject to redemption or forfeiture. The Company presents basic and diluted net earnings or loss per share. Diluted net earnings or loss per share reflect the actual weighted average of common shares issued and outstanding during the period, adjusted for potentially dilutive securities outstanding. Potentially dilutive securities are excluded from the computation of the diluted net loss per share if their inclusion would be anti-dilutive.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or FASB, or other standard setting bodies and adopted by the Company as of the specified effective date. The Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for most leases previously classified as operating leases. Subsequently, the FASB has issued amendments to clarify the codification or to correct unintended application of the new guidance. The new standard is required to be applied using a modified retrospective approach, with two adoption methods permissible: (1) apply the leases standard to each lease that existed at the beginning of the earliest comparative period presented in the financial statements or (2) apply the guidance to each lease that had commenced as of the beginning of the reporting period in which the entity first applies the new lease standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The pronouncement changes the impairment model for most financial assets and will require the use of an “expected loss” model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected

CAO PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. Subsequently, the FASB issued an amendment to clarify the implementation dates and items that fall within the scope of this pronouncement. This standard is effective beginning in the first quarter of 2020. The adoption of ASU 2016-13 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Under this guidance, if the carrying amount of a reporting unit exceeds its estimated fair value, an impairment charge shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. This standard is effective beginning in the first quarter of 2019, with early adoption permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company's financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most requirements related to classification and measurement, applies to nonemployee share-based payment arrangements. This standard is effective beginning in the first quarter of 2019, with early adoption permitted. The adoption of ASU 2018-07 is not expected to have a material effect on the Company's financial statements.

NOTE D- EQUITY

Under the Company's articles of incorporation, the Company authorized 1,000,000 shares of \$1.00 par value Common Stock. The Company has one class of equity outstanding.

Common Stock: Common shareholders have the right to vote on certain items of Company business at the rate of one vote per share of stock. Common Stock ranks behind all issues of Preferred Stock in liquidation preference.

As of December 31, 2020, the number of shares issued and outstanding by class was as follows:

Common Stock	11,773
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NOTE E- CONCENTRATIONS OF RISK

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents with a limited number of high-quality financial institutions and at times may exceed the amount of insurance provided on such deposits.

The company faces concentration risks associated with storage of material and product loss. This stems from (1) inventory being held in a storage facility located in Wisconsin.

CAO PHARMACEUTICALS, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

NOTE F- SUBSEQUENT EVENTS

Management considered events subsequent to the end of the period but before February 21, 2022, the date that the financial statements were available to be issued.