

Unaudited Financials

EVELO, INC.

Unaudited Financial Statements For The Years Ended December 31, 2015 and 2014

October 12, 2016



Independent Accountant's Review Report

To Management
Evelo, Inc.
Kent, Washington

I have reviewed the accompanying balance sheet of Evelo, Inc. as of December 31, 2015 and 2014, and the related statements of income, retained earnings, 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, I 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

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for my report.

Accountant's Conclusion

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

A handwritten signature in black ink, appearing to read 'M. Tyra', is positioned above the printed name.

Jason M. Tyra, CPA, PLLC
Dallas, TX
October 12, 2016

EVELO, INC.
BALANCE SHEET
DECEMBER 31, 2015 AND 2014

<u>ASSETS</u>		<u>2015</u>	<u>2014</u>
CURRENT ASSETS			
Cash		\$ 764,414	\$ 158,041
Inventory		324,051	212,887
Prepaid Expenses		-	72,720
TOTAL CURRENT ASSETS		1,088,465	443,648
NON-CURRENT ASSETS			
Equipment		3,134	2,229
Accumulated Depreciation		(2,999)	(2,005)
TOTAL NON-CURRENT ASSETS		135	224
TOTAL ASSETS		\$ 1,088,600	\$ 443,871
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
CURRENT LIABILITIES			
Accounts Payable		\$ 55,355	\$ 109,037
Customer Deposits		-	36,749
Short Term Borrowings		219,468	23,912
TOTAL CURRENT LIABILITIES		274,823	169,698
NON-CURRENT LIABILITIES			
Loans Payable		101,859	121,327
Notes Payable		634,238	-
TOTAL LIABILITIES		1,010,920	291,025
STOCKHOLDERS' EQUITY			
Common Stock (10,000,000 shares authorized, 5,000,000 shares outstanding \$.00004 par value)		200	200
Retained Earnings (Deficit)		77,480	152,647
TOTAL STOCKHOLDERS' EQUITY		77,680	152,847
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 1,088,600	\$ 443,871

Unaudited- See accompanying notes.

EVELO, INC.
INCOME STATEMENT
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Income		
Sales, Net	\$ 1,753,914	\$ 1,402,813
Cost of Goods Sold	850,144	704,790
Gross Profit	<hr/> 903,770	<hr/> 698,023
Operating Expense		
Employee Salaries and Benefits	382,756	192,787
Sales Related Expenses	119,139	97,681
Advertising	199,709	151,431
Product Support	90,870	53,936
General & Administrative	74,836	63,558
Computer & Internet	29,349	15,819
Professional Fees	16,860	8,743
Rent & Utilities	10,654	4,481
Travel	10,877	9,921
Depreciation	994	1,072
	<hr/> 936,045	<hr/> 599,429
Net Income from Operations	(32,275)	98,594
Other Income (Expense)		
Interest Expense	(21,936)	(9,881)
State and Local Taxes	(1,456)	(15,585)
Net Income	<hr/> <hr/> \$ (55,666)	<hr/> <hr/> \$ 73,128

EVELO, INC.
STATEMENT OF CASH FLOWS
For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Net Income (Loss) For The Period	\$ (55,666)	\$ 73,128
Change in Inventory	(111,164)	(20,013)
Change in Prepaid Expenses	72,720	(72,720)
Change in Accounts Payable	(90,431)	60,551
	<hr/>	<hr/>
Net Cash Flows From Operating Activities	(184,541)	40,946
Cash Flows From Investing Activities		
Purchase of Equipment	(905)	(924)
Depreciation	994	1,072
	<hr/>	<hr/>
Net Cash Flows From Investing Activities	89	148
Cash Flows From Financing Activities		
Change in Short Term Borrowings	195,556	(109,836)
Sale (Retirement) of Notes	614,770	121,327
Shareholder Distributions	(19,500)	(13,041)
	<hr/>	<hr/>
Net Cash Flows From Investing Activities	790,826	(1,550)
Cash at Beginning of Period	158,041	118,498
Net Increase (Decrease) In Cash	606,373	39,543
Cash at End of Period	<u>\$ 764,414</u>	<u>\$ 158,041</u>

EVELO, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

ORGANIZATION AND NATURE OF ACTIVITIES

Evelo, Inc. (“the Company”) designs and sells electric bicycles and accessories through its website and other retail partners. Evelo’s products are meant for cyclists of all ages, fitness and skill levels.

Evelo, Inc. sustained a net operating loss for the year ended December 31, 2015. Management intends to conduct an equity crowdfunding offering during the fourth quarter of 2016 for the purpose of raising additional operating capital.

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”).

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The estimated useful lives of the Company’s equipment and estimated value of inventories on hand are the only significant estimates contained in the financial statements.

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.

Inventory

Inventory is carried at historical cost and includes amounts billed and paid for stock for which the Company has not yet taken delivery. The Company’s management believes that losses due to obsolescence are likely to be rare, thus no amount has been recorded in the statements to account for impairment of inventory on hand.

Equipment

The Company capitalizes equipment with an original value of \$1,000 or greater. The Company’s fixed assets consist primarily of office equipment used in its day to day operations.

Depreciation expense is calculated on a straight-line basis. For 2015, the Company recorded depreciation expense in the amount of \$994. For 2014, the Company recorded depreciation expense in the amount of \$1,072.

EVELO, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

Short Term Borrowings

The Company has a bank line of credit which is reflected as a short term borrowing facility in the financial statements. The line of credit requires interest payments only at a rate of prime, plus 2.25%. The current interest rate is 5.5%. The line of credit must be renewed or paid in full at the end of the first quarter of each year.

Loans Payable

The Company has a loan outstanding with a term of seven years starting in 2014. The loan accrues interest at the rate of prime, plus 4.75%. The current interest rate is 7.5%.

Notes Payable

During 2015 and continuing into 2016, the Company sold a series of convertible notes ("the Notes") in order to raise operating capital. The Notes accrue interest at a rate of 4% annually and are convertible to equity in the event of a subsequent fundraising round, change of control event, or eighteen months from the date of issue, whichever comes first.

The Company has elected early adoption of the guidance specified by ASC 835-30-45-1. The Company recorded expense of \$62,262 associated with the sale of the notes in 2015 as a reduction in the face value of the notes. This amount will be amortized over the life of the notes as imputed interest.

Sales

Sales are stated net of discounts, refunds, and state sales taxes collected.

Cost of Goods Sold

Cost of Goods Sold includes items related to manufacture of the Company's products held for sale, shipping expense for transportation from the manufacturer to the Company's facilities or contractors in the United States, shipping expense from the Company's facilities in the United States to customers, and fees related to payment processing.

Product Support

Product support expenses includes the cost of maintaining call center support for the Company's customers, warehousing and fulfillment costs, and costs associated with warranty claims related to the Company's products.

Federal Income Taxes

The Company has elected to be treated as a Subchapter S Corporation and is not a tax paying entity under most circumstances for federal income tax purposes. Items of income and expense are allocated to the members of the Company and taken on their individual tax returns.

The Company's federal tax filing for fiscal year 2015 will fall within the statutory period of review by the IRS until 2019. The Company's federal tax filing for fiscal year 2014 will fall within the statutory period of review by the IRS until 2018.

EVELO, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

State Taxes

The Company is subject to Washington State Business & Occupations (“B&O”) Tax. The Company’s 2015 B&O tax filing for the State of Washington will be subject to inspection by that State until expiration of the statutory period of limitations in 2020. The Company’s 2014 B&O tax filing for the State of Washington will be subject to inspection by that State until expiration of the statutory period of limitations in 2019.

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.

GOVERNMENT PAYMENTS

At the end of the period, the Company owed no amounts with respect to government payments.

SUBSEQUENT EVENTS

Management considered events subsequent to the end of the period but before October 11, 2016, the date that the financial statements were available to be issued.