



**Arolucha, Inc.** (the “Company”) a Delaware Corporation

Consolidated Financial Statements and  
Independent Auditor’s Report

Years ended December 31, 2022 & 2021

**Arolucha, Inc.**  
**Consolidated Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**

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### Consolidated Statement of Financial Position

	December 31, 2022	December 31, 2021
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 81,902	\$ 12,913
Inventory	-	6,889
Total Current Assets	81,902	19,802
Non-current Assets		
Production Assets	46,500	-
Intangible Assets: Intellectual Property & Website Development, net of Accumulated Amortization	5,580	5,580
Total Non-Current Assets	52,080	5,580
<b>TOTAL ASSETS</b>	<b>\$ 133,983</b>	<b>\$ 25,382</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 81	\$ 2,411
Accrued Interest	1,900	700
Note Payable - Short-Term	-	20,000
Accrued Interest - Related Party	54,149	40,913
Note Payable - Related Party	180,151	229,005
Due to Related Party	-	64,184
Total Current Liabilities	\$ 236,281	\$ 357,213
Long-Term Liabilities		
Note Payable - Long-Term	\$ 20,000	\$ -
Total Long-Term Liabilities	\$ 20,000	\$ -
<b>TOTAL LIABILITIES</b>	<b>\$ 256,281</b>	<b>\$ 357,213</b>
<b>SHAREHOLDERS' DEFICIT</b>		
Class A Common Stock	\$ 30	\$ 30
Class B Non-Voting Common Stock	6	2
Class A Preferred Stock	0	
Additional Paid in Capital, Net of Offering Costs	776,107	502,025
Accumulated Deficit	(898,441)	(833,888)
<b>TOTAL SHAREHOLDERS' DEFICIT</b>	<b>\$ (122,298)</b>	<b>\$ (331,831)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	<b>\$ 133,983</b>	<b>\$ 25,382</b>

The accompanying notes are an integral part of these consolidated financial statements

**Consolidated Statement of Operations**

	Year Ended December 31,	
	2022	2021
Revenue	\$ -	\$ -
Cost of Revenue	-	-
<b>Gross Profit</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Operating Expenses</b>		
Advertising and Marketing	\$ 19,262	\$ 5,600
General and Administrative	22,109	10,619
Rent and Lease	188	1,858
Depreciation	-	2,639
<b>Total Operating Expenses</b>	<b>\$ 41,559</b>	<b>\$ 20,716</b>
<b>Operating Income (loss)</b>	<b>\$ (41,559)</b>	<b>\$ (20,716)</b>
<b>Other Income</b>		
Gain on Disposal of Fixed Asset	\$ -	\$ 4,826
<b>Total Other Income</b>	<b>\$ -</b>	<b>\$ 4,826</b>
<b>Other Expense</b>		
Interest Expense	\$ 15,582	\$ 13,858
Other Expenses	7,413	10,200
<b>Total Other Expense</b>	<b>\$ 22,994</b>	<b>\$ 24,058</b>
Provision for Income Tax	-	-
<b>Net Loss</b>	<b>\$ (64,553)</b>	<b>\$ (39,948)</b>

The accompanying notes are an integral part of these consolidated financial statements

**Consolidated Statement of Cash Flows**

	Year Ended December 31,	
	2022	2021
<b>OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ (64,553)	\$ (39,948)
<b>Adjustments to reconcile Net Income to Net Cash provided by operations:</b>		
Depreciation	\$ -	\$ 2,639
Gain on Disposal of Fixed Asset	-	5,173
Accrued Interest	15,581	13,837
Accounts Payable	(2,330)	(1,230)
<b>Total Adjustments to reconcile Net Income to Net Cash provided by operations:</b>	<b>\$ 13,251</b>	<b>\$ 20,419</b>
Net Cash provided by (used in) Operating Activities	<b>\$ (51,302)</b>	<b>\$ (19,529)</b>
<b>INVESTING ACTIVITIES</b>		
Production Assets	(46,500)	-
Write off of Obsolete Inventory	6,889	-
Website Development	-	(580)
<b>Net Cash provided by (used by) Investing Activities</b>	<b>\$ (39,611)</b>	<b>\$ (580)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from Notes Payable	-	20,000
Payments for Notes Payable - Related Party	(50,000)	-
Proceeds from Notes Payable - Related Party	-	-
Payments for amounts Due to Related Party	(64,184)	-
Proceeds from amounts Due to Related Party	-	12,626
Proceeds from the sale of Class A Preferred Stock	25,000	-
Proceeds from the sale of Class B Non-Voting Common Stock	267,375	-
Payment of Offering Costs	(18,289)	-
<b>Net Cash provided by (used in) Financing Activities</b>	<b>\$ 159,902</b>	<b>\$ 32,626</b>
<b>Net Cash increase (decrease) for period</b>	<b>\$ 68,989</b>	<b>\$ 12,517</b>
Cash at the beginning of period	\$ 12,913	\$ 396
<b>Cash at end of period</b>	<b>\$ 81,902</b>	<b>\$ 12,913</b>

The accompanying notes are an integral part of these consolidated financial statements

**Statement of Changes in Shareholders' Deficit**

	Class A Common Stock		Class B Non-Voting Common Stock		Class A Preferred Stock		APIC	APIC, Offering Costs	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of December 31, 2020	3,000,000	\$ 30	152,334	\$ 2	-	\$ -	\$ 521,770	\$ (19,745)	\$ (793,940)	\$ (291,883)
Net Income (Loss)	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ (39,948)	\$ (39,948)
Balance on December 31, 2021	3,000,000	\$ 30	152,334	\$ 2	-	\$ -	\$ 521,770	\$ (19,745)	\$ (833,888)	\$ (331,831)
Shares Issued for Cash	-	\$ -	356,500	\$ 3	33,334	\$ -	\$ 292,372	\$ (18,289)	\$ -	\$ 274,086
Net Income (Loss)	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ (64,553)	\$ (64,553)
Balance on December 31, 2022	3,000,000	\$ 30	508,834	\$ 5	33,334	\$ -	\$ 814,142	\$ (38,034)	\$ (898,441)	\$ (122,298)

The accompanying notes are an integral part of these consolidated financial statements

**Arolucha, Inc.**  
**Notes to the Audited Consolidated Financial Statements**  
**December 31st, 2022**  
**\$USD**

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

Arolucha, Inc. (the “Company”) is a corporation organized on October 6, 2017 under the laws of Delaware. The Company was formed to create family friendly live event and television productions featuring Lucha Libre-style professional wrestling emanating from Mexico. ALW Events, LLC, a limited liability company formed under the laws of Tennessee on July 17, 2017, is a wholly owned subsidiary of the Company. In 2021, due to the impact Covid 19 had on live events, management made the decision to pivot and add a focus on Lucha Libre themed animated content, rebranding as Arolucha Animation and Entertainment.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Basis for Consolidation

The Company prepares consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP). In accordance with ASC 805-50-45-5, for transactions between entities under common control, consolidated financial statements and financial information presented for prior periods should be retroactively adjusted to furnish comparative information. Therefore, these consolidated financial statements include all accounts of Arolucha, Inc., along with wholly owned subsidiary ALW Events, LLC. All transactions and balances between and among the aforementioned companies have been eliminated in consolidating the accounts for consolidated financial statement presentation. The accounting and reporting policies of the Company conform to GAAP. The Company adopted the calendar year as its basis of reporting.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

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.

Fair Value of Financial Instruments

ASC 820 “*Fair Value Measurements and Disclosures*” establishes a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

Level 1: defined as observable inputs such as quoted prices in active markets;

Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3: defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.



### Concentrations of Credit Risks

The Company's financial instruments that are exposed to concentrations of credit risk primarily consist of its cash and cash equivalents. The Company places its cash and cash equivalents with financial institutions of high credit worthiness. The Company's management plans to assess the financial strength and credit worthiness of any parties to which it extends funds, and as such, it believes that any associated credit risk exposures are limited.

### Revenue Recognition

The Company recognizes revenue from the sale of products and services in accordance with ASC 606, "Revenue Recognition" following the five steps procedure:

- Step 1: Identify the contract(s) with customers
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to performance obligations
- Step 5: Recognize revenue when or as performance obligations are satisfied

The Company will identify and analyze its performance obligations with respect to customer contracts once the first contract is signed. Revenue generating operations have not commenced as of the period of this audit.

### Property and Equipment

Property and equipment are recorded at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment is retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income. Depreciation is provided using the straight-line method, based on useful lives of the assets.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment for December 31, 2021.

The Company sold its equipment in 2021 and realized a gain of \$4,826 as shown in other income on the consolidated statement of operations. There were no additional purchases of property and equipment in 2022.

### Capitalized Internal-Use Software Costs

We are required to follow the guidance of Accounting Standards Codification 350 ("ASC 350"), Intangibles- Goodwill and Other in accounting for the cost of computer software developed for internal-use and the accounting for web-based product development costs. ASC 350 requires companies to capitalize qualifying computer software costs, which are incurred during the application development stage, and amortize these costs on a straight-line basis over the estimated useful life of the respective asset. Because this asset has not yet been placed into service, no amortization has been recorded.

### Inventory

The Company's inventory consists of finished goods. Inventory is stated at the lower of cost or market and accounted for using the weighted average cost method. The Company's inventory had an ending balance of \$6,889 as of December 31, 2021. This inventory was deemed obsolete and written off in 2022.

### Deferred Offering Costs

The Company complies with the requirement of FASB ASC 340-10-S99-1. Deferred offering costs consist principally of legal fees incurred in connection with an offering the Company engaged in during 2018 under Regulation Crowdfunding. Prior to the completion of the offering, these costs are capitalized as deferred offering costs on the balance sheet. The deferred offering costs consisted of \$38,034 and \$19,745 as of December 31, 2022 and 2021, respectively, and were charged to stockholders' equity/(deficit) upon the completion of the offering.

### Intangible Assets

The Company's intangible asset consists of intellectual property for an animated series and web development and is recorded at cost. Because these assets have yet to be placed into service, they have not been amortized. The ending balance of this asset was \$5,580 as of December 31, 2022 and 2021.

### Advertising Costs

Advertising costs associated with marketing the Company's products and services are generally expensed as costs are incurred.

### General and Administrative

General and administrative expenses consist of payroll and related expenses for employees and independent contractors involved in general corporate functions, including accounting, finance, tax, legal, business development, and other miscellaneous expenses.

### Equity Based Compensation

In 2017, the Company issued 97,265 shares of Class B Non-Voting Common Stock under the terms of restricted stock purchases agreements and were subject to vesting terms of three years, contingent upon continuous service with the Company, which provide the Company the right to repurchase unvested shares at the original purchase price. During 2018, an additional 11,136 shares were issued under the same terms of the 2017 restricted stock purchase agreements. As of December 31, 2022 and 2021, all 108,401 shares were vested.

In February 2020, the Company engaged a third party to create intellectual property in the form of five (5) animated characters for the Company's animated series. As compensation for these services, the Company granted 166,000 shares of Class A Voting Common Stock subject to a Restricted Stock Purchase Agreement which shall vest as follows: (i) 30,000 shares upon the Company's acceptance of each character; and (ii) 16,000 shares upon completion of services, provided that the Company has accepted three (3) or more characters. As of December 31, 2022 and 2021, these services have not been completed and thus no shares have vested. In the event of voluntary or involuntary termination of the third party's continuous service, the Company has the exclusive option for a period of two months from such a date to repurchase all or a portion of the unvested shares held by the third party at a price equal to the fair market value.

The Company accounts for stock options issued to employees under ASC 718 (Stock Compensation). Under ASC 718, share-based compensation cost to employees is measured at the grant date, based on the estimated fair value of the award, and is recognized as an item of expense ratably over the employee's requisite vesting period. The Company has elected early adoption of ASU 2018-07, which permits measurement of stock options at their intrinsic value, instead of their fair value. An option's intrinsic value is defined as the amount by which the fair value of the underlying stock exceeds the exercise price of an option. In certain cases, this means that option compensation granted by the Company may have an intrinsic value of \$0.

The Company measures compensation expense for its non-employee stock-based compensation under ASC 505 (Equity). The fair value of the option issued or committed to be issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the

counterparty's performance is complete. The fair value of the equity instrument is charged directly to expense and credited to additional paid-in capital.

There is not a viable market for the Company's common stock to determine its fair value, therefore management is required to estimate the fair value to be utilized in the determining stock-based compensation costs. In estimating the fair value, management considers recent sales of its common stock to independent qualified investors, placement agents' assessments of the underlying common shares relating to our sale of preferred stock and validation by independent fair value experts. Considerable management judgment is necessary to estimate the fair value. Accordingly, actual results could vary significantly from management's estimates. Management has concluded that the estimated fair value of the Company's stock and corresponding expense is negligible.

	<b>Nonvested Shares</b>	<b>Weighted Average Fair Value</b>
Nonvested shares, January 1, 2021	166,000	
Granted	-	\$ -
Vested	-	\$ -
Forfeited	-	\$ -
Nonvested shares, December 31, 2021	166,000	\$ -
Granted	-	\$ -
Vested	-	\$ -
Forfeited	-	\$ -
Nonvested shares, December 31, 2022	166,000	\$ -

#### Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, Income Taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the consolidated financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is unlikely that the deferred tax assets will not be realized.

The Company assesses its income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, the Company's policy is to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the consolidated financial statements. The Company has evaluated its income tax positions and has determined that it does not have any uncertain tax positions.

The Company's subsidiaries are limited liability companies treated as partnerships for federal and state income tax purposes with all income tax liabilities and/or benefits of the Companies being passed through to the Company. The Company accounts for income taxes with the recognition of estimated income taxes payable or refundable on income tax returns for the current period and for the estimated future tax effect attributable to temporary differences and carryforwards. Measurement of deferred income items is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized in the immediate future. The Company estimates it will have net operating loss carryforwards of \$ 898,441 and \$ 833,888 as of December 31, 2022 and 2021, respectively. The Company pays Federal and State taxes at a combined effective tax rate of 26.1% and has used this rate to derive net deferred tax assets of \$ 234,493 and \$ 217,644 as of December 31, 2022 and 2021, respectively, resulting from its net operating loss carryforward. Due to uncertainty as to the Company's ability to generate sufficient taxable income in the future to utilize the net operating loss carryforwards before they begin to expire in 2037, the Company has recorded a full valuation allowance to reduce the net deferred tax asset to zero as of December 31, 2022 and 2021.

The Company files U.S. federal and state income tax returns. The 2022 tax returns have not yet been filed. All tax periods since inception remain open to examination by the taxing jurisdictions to which the Company is subject.

Recent accounting pronouncements

The FASB issues ASUs to amend the authoritative literature in ASC. There have been a number of ASUs to date that amend the original text of ASC. Management believes that those issued to date either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to us or (iv) are not expected to have a significant impact on our financial statements.

**NOTE 3 – RELATED PARTY TRANSACTIONS**

The Company follows ASC 850, “Related Party Disclosures,” for the identification of related parties and disclosure of related party transactions.

In June 2018, the Company entered into a loan agreement with a related party shareholder where additional funding has been added from time-to-time to the overall principal balance and bears an interest rate of 5%. On December 31, 2022, the Company amended the loan agreement to extend the maturity date to December 31, 2023. Total interest expense for the loan totaled \$13,791 and \$12,642 for the years ended December 31, 2022 and 2021, respectively. During 2022, The Company made a payment of \$50,000 towards the principal balance of this loan. the ending principal balance of this loan was \$171,010 and \$221,010 as of December 31, 2022, and 2021, respectively.

In 2018, a minority shareholder lent the Company \$9,141. The note bears an interest rate of 5%. Total interest expense for the loan totaled \$589 and \$516 for the years ended December 31, 2022 and 2021, respectively. The ending balance of the note totaled \$9,141 for the years ended December 31, 2022 and 2021.

During 2021, the Company received advances from a shareholder in the amount of \$12,626 which were received in the form of payment for Company expenses for the purposes of funding operations. This payable bears no interest rate and is due upon demand. The ending balance of this payable was \$64,184 as of December 31, 2021. In 2022, the Company repaid this amount to the shareholder.

**NOTE 4 – CONTINGENCIES, COMPLIANCE WITH LAWS AND REGULATIONS**

We are currently not involved with or know of any pending or threatening litigation against the Company or any of its officers. Further, the Company is currently complying with all relevant laws and regulations.

**NOTE 5 – DEBT**

In May 2021, the entered into a loan agreement for \$20,000 with an interest rate of 6% and maturity date in May 2022. This loan is being used to develop an animated series for the Company’s intellectual property. The holder of this note shall receive 33% of the animated series and other connected ancillary revenue streams, excluding live events and live action television shows. The ending principal balance of this loan was \$20,000 as of December 31, 2022 and 2021.

Please see “Note 3” for further details.

**Debt Principal Maturities 5  
Years Subsequent to 2021**

Year	Amount
2023	180,151
2024	20,000
2025	-
2026	-
2027	-
Thereafter	-

## **NOTE 6 – EQUITY**

The Company has authorized 5,000,000 shares of Class A Voting Common Stock with a par value of \$0.00001 per share. 3,000,000 shares were issued and outstanding as of 2022 and 2021.

The Company has authorized 10,000,000 shares of Class B Non-Voting Common Stock with a par value of \$0.00001 per share. During 2022, the Company sold a total of 356,500 shares of Class B Non-Voting Common Stock at a price of \$0.75 per share, raising a total of \$267,375 in investment capital. A total of 508,834 and 152,330 shares were issued and outstanding as of 2022 and 2021, respectively.

The Company has authorized 5,000,000 shares of Preferred Stock with a par value of \$0.00001 per share. During 2022, the Company sold a total of 33,334 shares of Class A Preferred Stock at a price of \$0.75 per share, raising a total of \$25,000 in investment capital. A total of 33,334 and 0 shares were issued and outstanding as of 2022 and 2021, respectively.

Class A and Class B Common Stockholders have identical rights, with the exception of voting rights, to which Class B stockholders have no voting rights.

## **NOTE 7 – SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to December 31, 2022 to assess the need for potential recognition or disclosure in this report. Such events were evaluated through April 28, 2023, the date these financial statements were available to be issued and no events required additional disclosure.

## **NOTE 8 – GOING CONCERN**

The accompanying balance sheet has been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The entity has not commenced principal operations and will likely realize losses prior to generating positive working capital for an unknown period of time. During the next twelve months, the Company intends to finance its operations with funds from a crowdfunding campaign and revenue producing activities. The Company's ability to continue as a going concern in the next twelve months following the date the financial statements were available to be issued is dependent upon its ability to produce revenues and/or obtain financing sufficient to meet current and future obligations and deploy such to produce profitable operating results. Management has evaluated these conditions and plans to generate revenues and raise capital as needed to satisfy its capital needs. No assurance can be given that the Company will be successful in these efforts. These factors, among others, raise substantial doubt about the ability of the Company to continue as a going concern for a reasonable period of time. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities.

## **NOTE 9 – RISKS AND UNCERTAINTIES**

### ***COVID-19***

The spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses remains unclear currently. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.