Pencilish Animation Studios Inc.

ANNUAL REPORT

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pencilish.com

This Annual Report is dated August 7, 2024.

BUSINESS

Pencilish Animation Studios is a C-Corp organized under the laws of the state of Delaware. Pencilish Animation Studios is a start-up entertainment company that is creating original animated series that we are producing/ growing independently.

The Company's business model consists of making deals with streamers, huge conglomerates, and licensing products with our characters. We believe there's never been a time when average people could invest in the next potential Mickey Mouse! Pencilish Studios, with its multi-billion-dollar hit-making advisory board, is poised to be the company to reach those goals. With four intellectual properties pilots produced, we have our sights on new hires, key co-partnership deals, and a phase 2 slate of projects that will take us into Phase 2 development/production as we build an entertainment IP library with our investors.

Previous Offerings

Name: Common Stock

Type of security sold: Equity

Final amount sold: $2,193,203.05

Number of Securities Sold: 732,100

Use of proceeds: Phase 1 of project developments

Date: October 31, 2021

Offering exemption relied upon: Regulation CF

Name: Common Stock

Type of security sold: Equity

Final amount sold: $346,140

Number of Securities Sold: 84,120

Use of proceeds: Phase 2 of project developments

Date: January 12, 2023

Offering exemption relied upon: Regulation CF

REGULATORY INFORMATION

The company has not previously failed to comply with the requirements of Regulation Crowdfunding;

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATION

Operating Results - 2023 Compared to 2022

• How long can the business operate without revenue:
We feel that at our current burn rate, and with the projects that we have in development, we could potentially operate the company for an additional 12 to 18 months without revenue generation.
• Foreseeable major expenses based on projections:
We believe that some of our major expenses will be related to developing, creating, and animating our future projects. Animation is a labor intensive and costly process, therefore the labor associated with it, whether it be hiring someone full time, part time, or hiring a third party company to assist with this process are some of our higher costs. Other major expenses could also be associated with the animated shows, such as talent costs, music, or other costs. Travel and participation in different Animation related sales events or licensing expos worldwide, is also a cost. Acquiring or licensing content could also be a future major expense.

• Future operational challenges:

Some of Pencilish's potential future operational challenges could be keeping our costs low enough to create the initial short form content to give ourselves an opportunity to monetize them and recoup our initial development costs. Animation is a competitive business with many great, large, and well capitalized companies, such as Disney, in the space. Securing the right intellectual property, the right talent, and competing in this space could be challenging for us. Also, initially monetizing short form animation could be a challenge for us with limited opportunities, such as YouTube, existing for short form monetization.

• Future challenges related to capital resources:

The current state of our economy, along with rising inflation, could hinder our ability to raise capital from traditional capital markets such as bank financing or venture capital. Currently we have relied on crowdfunding and with a vast majority of people seeing rising inflation while national wages have not kept up to the same pace as inflation, crowdfunding could be more difficult as well. Crowdfunding is also becoming a more competitive landscape as more and more companies have attempted to use this method to capitalize their companies.

• Future milestones and events:

There are multiple milestones and events that could significantly impact Pencilish in the future. One being the potential sale of our first series. We rely on a model that sees us invest into short form animated content, release it on YouTube which provides exposure and limited revenue, but our intention is to take that IP, once proven in the marketplace, and partner with larger distributors or streamers to develop them into full animated series. Selling our first series could provide us with cash flow, exposure, potential profitability, economies of scale, and other potential benefits to our company.

Liquidity and Capital Resources

At December 31, 2023, the Company had cash of $191,484.00. *[The Company intends to raise additional funds through an equity financing.]*

Debt

The Company does not have any material terms of indebtedness.

DIRECTORS, EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES

Our directors and executive officers as of the date hereof, are as follows:

Name: Tom Bancroft

Tom Bancroft's current primary role is with the Issuer.

Positions and offices currently held with the issuer:

Position: Chief Executive Officer, President, Treasurer, Secretary, Director

Dates of Service: August, 2021 - Present

Responsibilities: Vision for the company, discovering/hiring for key roles, financial overview of company revenues, creative vision for our brands and properties. Equity: 77.14%, Salary: $190k annually.

Position: Animation Director/ Creator/ Writer

Dates of Service: August, 2022 - Present

Responsibilities: Creation of two of our intellectual properties and animation direction on all Pencilish series.

Other business experience in the past three years:

Employer: Lipscomb University

Title: Program director, Animation program

Dates of Service: September, 2014 - May, 2022

Responsibilities: Teaching classes in Animation, Character Design, and Animation production. Hiring full time and adjunct professors, curriculum creation and general program events/ growth.

PRINCIPAL SECURITY HOLDERS

Set forth below is information regarding the beneficial ownership of our Common Stock, our only outstanding class of capital stock, as of December 31, 2022, by (i) each person whom we know owned, beneficially, more than 10% of the outstanding shares of our Common Stock, and (ii) all of the current officers and directors as a group. We believe that, except as noted below, each named beneficial owner has sole voting and investment power with respect to the shares listed. Unless otherwise indicated herein, beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to shares beneficially owned.

Title of class: Class A Common Stock

Stockholder Name: Tom Bancroft

Amount and nature of Beneficial ownership: 120,000

Percent of class: 77.14

Title of class: Class B Common Stock

Stockholder Name: Tom Bancroft

Amount and nature of Beneficial ownership: 1,710,000

Percent of class: 77.14

Title of class: Class B Common Stock

Stockholder Name: Ash Greyson

Amount and nature of Beneficial ownership: 450,000

Percent of class: 20.0

RELATED PARTY TRANSACTIONS

Name of Entity: Arolucha Inc

Names of 20% owners: Jason Brown

Relationship to Company: Controlled by majority shareholder in Pencilish

Nature / amount of interest in the transaction: The amounts were loaned to fund the creation of an animated series.

Material Terms: In 2021 the Company loaned $20,000 to a Company controlled by a shareholder at 6% interest deferred until maturity in 2024. The amounts were loaned to fund the creation of an animated series. Additionally, in exchange for the loan, the Company will receive 33% of the revenue from the animated series and other connected ancillary revenue streams, excluding live events and live action television show.

Name of Entity: Called Higher Studios Inc

Names of 20% owners: Jason Brown

Relationship to Company: company controlled by a majority shareholder

Nature / amount of interest in the transaction: Promissory note for $30,000 & 4% equity participation

Material Terms: In 2020 the Company entered into a promissory note with a company controlled by a majority shareholder for an amount of $30,000. Additionally, in exchange for the loan, the note holder also received a 4% equity participation in the Company's shares of Class B common stock, for a total of 120,000 shares. The loan was repaid in 2021.

Name of Entity: Ribbow Media Group, LLC

Names of 20% owners: Ash Greyson

Relationship to Company: Company controlled by a shareholder.

Nature / amount of interest in the transaction: Expenses paid for marketing

Material Terms: The Company incurred $333k in marketing expenses in 2021 related to its equity crowdfunding campaign. These expenses were paid to a Company controlled by a shareholder.

OUR SECURITIES

The company has authorized Class A Common Stock, Class B Common Stock, and Preferred Stock. As part of the Regulation Crowdfunding raise, the Company will be offering up to 575,163 of Class A Common Stock.

Class A Common Stock

The amount of security authorized is 3,000,000 with a total of 1,681,220 outstanding.

Voting Rights

One vote per share. Please see voting rights of securities sold in this offering below.

Material Rights

Voting Rights of Securities Sold in this Offering

Voting Proxy. Each Subscriber shall appoint the Chief Executive Officer of the Company (the "CEO"), or his or her successor, as the Subscriber's true and lawful proxy and attorney, with the power to act alone and with full power of substitution, to, consistent with this instrument and on behalf of the Subscriber, (i) vote all Securities, (ii) give and receive notices and communications, (iii) execute any instrument or document that the CEO determines is necessary or appropriate in the exercise of its authority under this instrument, and (iv) take all actions necessary or appropriate in the judgment of the CEO for the accomplishment of the foregoing. The proxy and power granted by the Subscriber pursuant to this Section are coupled with an interest. Such proxy and power will be irrevocable. The proxy and power, so long as the Subscriber is an individual, will survive the death, incompetency and disability of the Subscriber and, so long as the Subscriber is an entity, will survive the merger or reorganization of the Subscriber or any other entity holding the Securities. However, the Proxy will terminate upon the closing of a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933 covering the offer and sale of Common Stock or the effectiveness of a registration statement under the Securities Exchange Act of 1934 covering the Common Stock.

Dividend Rights

Holders of Class A shall be entitled to receive such dividends a may be declared from time to time by the Board of Directors with respect to the Class B Common Stock out of any assets of the Corporation legally available therefore.

Except as expressly set forth in Exhibit F, Articles of Incorporation, Class A shall have the same rights and powers of, rank equally to, share ratably with and be identical in all respects and as to all matters to Class B Common Stock.

Class B Common Stock

The amount of security authorized is 3,000,000 with a total of 2,160,000 outstanding.

Voting Rights

Ten votes per share.

Material Rights

There are no material rights associated with Class B Common Stock.

Preferred Stock

The amount of security authorized is 3,000,000 with a total of O outstanding.

Voting Rights

There are no voting rights associated with Preferred Stock.

Material Rights

There are no material rights associated with Preferred Stock.

What it means to be a minority holder

As a minority holder you will have limited ability, if at all, to influence our policies or any other corporate matter, including the election of directors, changes to our company's governance documents, additional issuances of securities, company repurchases of securities, a sale of the company or of assets of the company or transactions with related parties.

Dilution

Investors should understand the potential for dilution. The investor's stake in a company could be diluted due to the company issuing additional shares. In other words, when the company issues more shares, the percentage of the company that you own will decrease, even though the value of the company may increase. You will own a smaller piece of a larger company. This increase in number of shares outstanding could result from a stock offering (such as an initial public offering, another crowdfunding round, a venture capital round or angel investment), employees exercising stock options, or by conversion of certain instruments (e.g. convertible notes, preferred shares or warrants) into stock.

If we decide to issue more shares, an investor could experience value dilution, with each share being worth less than before, and control dilution, with the total percentage an investor owns being less than before. There may also be earnings dilution, with a reduction in the amount earned per share (though this typically occurs only if we offer dividends, and most early stage companies are unlikely to offer dividends, preferring to invest any earnings into the company).

The type of dilution that hurts early-stage investors most occurs when the company sells more shares in a "down round," meaning at a lower valuation than in earlier offerings.

If you are making an investment expecting to own a certain percentage of the company or expecting each share to hold a certain amount of value, it's important to realize how the value of those shares can decrease by actions taken by the company. Dilution can make drastic changes to the value of each share, ownership percentage, voting control, and earnings per share.

RISK FACTORS

- Uncertain Risk

An investment in the Company (also referred to as “we”, “us”, “our”, or “Company”) involves a high degree of risk and should only be considered by those who can afford the loss of their entire investment. Furthermore, the purchase of any of the Class A Voting Common Stock should only be undertaken by persons whose financial resources are sufficient to enable them to indefinitely retain an illiquid investment. Each investor in the Company should consider all of the information provided to such potential investor regarding the Company as well as the following risk factors, in addition to the other information listed in the Company’s Form C. The following risk factors are not intended, and shall not be deemed to be, a complete description of the commercial and other risks inherent in the investment in the Company.

- Any valuation at this stage is difficult to assess

The valuation for the offering was established by the Company. Unlike listed companies that are valued publicly through market-driven stock prices, the valuation of private companies, especially startups, is difficult to assess and you may risk overpaying for your investment.

- The transferability of the Securities you are buying is limited

Any Class A Voting Common Stock purchased through this crowdfunding campaign is subject to SEC limitations of transfer. This means that the stock/note that you purchase cannot be resold for a period of one year. The exception to this rule is if you are transferring the stock back to the Company, to an “accredited investor,” as part of an offering registered with the Commission, to a member of your family, trust created for the benefit of your family, or in connection with your death or divorce.

- Your investment could be illiquid for a long time

You should be prepared to hold this investment for several years or longer. For the 12 months following your investment there will be restrictions on how you can resell the securities you receive. More importantly, there is no established market for these securities and there may never be one. As a result, if you decide to sell these securities in the future, you may not be able to find a buyer. The Company may be acquired by an existing player in the family entertainment industry. However, that may never happen or it may happen at a price that results in you losing money on this investment.

- We may not have enough capital as needed and may be required to raise more capital.

We anticipate needing access to credit in order to support our working capital requirements as we grow. Although interest rates are low, it is still a difficult environment for obtaining credit on favorable terms. If we cannot obtain credit when we need it, we could be forced to raise additional equity capital, modify our growth plans, or take some other action. Issuing more equity may require bringing on additional investors. Securing these additional investors could require pricing our equity below its current price. If so, your investment could lose value as a result of this additional dilution. In addition, even if the equity is not priced lower, your ownership percentage would be decreased with the addition of more investors. If we are unable to find additional investors willing to provide capital, then it is possible that we will choose to cease our sales activity. In that case, the only asset remaining to generate a return on your investment could be our intellectual property. Even if we are not forced to cease our sales activity, the unavailability of credit could result in the Company performing below expectations, which could adversely impact the value of your investment.

- Terms of subsequent financings may adversely impact your investment

We will likely need to engage in common equity, debt, or preferred stock financings in the future, which may reduce the value of your investment in the Common Stock. Interest on debt securities could increase costs and negatively impact operating results. Preferred stock could be issued in series from time to time with such designation, rights, preferences, and limitations as needed to raise capital. The terms of preferred stock could be more advantageous to those investors than to the holders of Common Stock. In addition, if we need to raise more equity capital from the sale of Common Stock, institutional or other investors may negotiate terms that are likely to be more favorable than the terms of your investment, and possibly a lower purchase price per share.

- Management Discretion as to Use of Proceeds

Our success will be substantially dependent upon the discretion and judgment of our management team with respect to the application and allocation of the proceeds of this Offering. The use of proceeds described below is an estimate based on our current business plan. We, however, may find it necessary or advisable to re-allocate portions of the net proceeds reserved for one category to another, and we will have broad discretion in doing so.

- Projections: Forward Looking Information

Any projections or forward looking statements regarding our anticipated financial or operational performance are hypothetical and are based on management's best estimate of the probable results of our operations and will not have been reviewed by our independent accountants. These projections will be based on assumptions which management believes are reasonable. Some assumptions invariably will not materialize due to unanticipated events and circumstances beyond management's control. Therefore, actual results of operations will vary from such projections, and such variances may be material. Any projected results cannot be guaranteed.

- The amount raised in this offering may include investments from company insiders or immediate family members

Officers, directors, executives, and existing owners with a controlling stake in the company (or their immediate family members) may make investments in this offering. Any such investments will be included in the raised amount reflected on the campaign page.

- We are reliant on one main type of service

All of our current services are variants on one type of service, entertainment related to animation. Our revenues are therefore dependent upon the market for animated content and related products.

- Developing new products and technologies entails significant risks and uncertainties

We are currently in the research and development stage on many animated products. Delays or cost overruns in the development of our shows and content, and failure of the product to meet our performance estimates in the market, ie being sold to other companies, may be caused by, among other things, unanticipated technological hurdles, difficulties in production, a lack of buyers or too much competition in the animation space. Any of these events could materially and adversely affect our operating performance and results of operations.

- Minority Holder; Securities with Voting Rights

The security type that an investor is buying has voting rights attached to them. However, you will be part of the minority shareholders of the Company and have agreed to appoint the Chief Executive Officer of the Company (the “CEO”), or his or her successor, as your voting proxy. You are trusting in management discretion in making good business decisions that will grow your investments. Furthermore, in the event of a liquidation of our Company, you will only be paid out if there is any cash remaining after all of the creditors of our Company have been paid out.

- Insufficient Funds

The company might not sell enough securities in this offering to meet its operating needs and fulfill its plans, in which case it will cease operating and you will get nothing. Even if we sell all the common stock we are offering now, the Company will (possibly) need to raise more funds in the future, and if it can’t get them, we will fail. Even if we do make a successful offering in the future, the terms of that offering might result in your investment in the company being worth less, because later investors might get better terms.

- We are competing against other recreational activities

We face competition for our audiences from a multitude of entertainment choices including, but not limited to, social media, streaming platforms, as well as from other forms of live events, as well as televised, streamed and filmed entertainment and other leisure activities, in a rapidly changing and increasingly fragmented marketplace. Many of the companies with whom we compete have substantially greater financial resources than we do, such as Disney and Pixar. Even among fans of animated content, we compete with televised, streamed and filmed entertainment from U.S. and International companies. For the sale of our merchandise, we compete with entertainment companies, professional animation companies, and other makers of branded apparel and merchandise. Our competitors may engage in more extensive development efforts, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to existing and potential performers. Our failure to compete effectively could result in a significant disadvantage or financial losses, any of which could adversely affect our operating results.

- We are an early stage company and have not yet generated any profits

Pencilish Animation Studios, Inc has a limited history upon which an evaluation of its performance and future prospects can be made. Our current and proposed operations are subject to all business risks associated with new enterprises. These include likely fluctuations in operating results as the Company reacts to developments in its market, managing its growth and the entry of competitors into the market. We will only be able to pay dividends on any shares once our directors determine that we are financially able to do so. Pencilish has incurred a net loss and has had limited revenues generated since inception. There is no assurance that we will be profitable in the next 3 years or generate sufficient revenues to pay dividends to the holders of the shares.

- Our trademarks, copyrights and other intellectual property could be unenforceable or ineffective

Intellectual property is a complex field of law in which few things are certain. It is possible that competitors will be able to design around our intellectual property, find prior art to invalidate it, or render the patents unenforceable through some other mechanism. If competitors are able to bypass our trademark and copyright protection without obtaining a sublicense, it is likely that the Company's value will be materially and adversely impacted. This could also impair the Company's ability to compete in the marketplace. Moreover, if our trademarks and copyrights are deemed unenforceable, the Company will almost certainly lose any potential revenue it might be able to raise by entering into sublicenses. This would cut off a significant potential revenue stream for the Company.

• The cost of enforcing our trademarks and copyrights could prevent us from enforcing them
Trademark and copyright litigation has become extremely expensive. Even if we believe that a competitor is infringing on one or more of our trademarks or copyrights, we might choose not to file suit because we lack the cash to successfully prosecute a multi-year litigation with an uncertain outcome; or because we believe that the cost of enforcing our trademark(s) or copyright(s) outweighs the value of winning the suit in light of the risks and consequences of losing it; or for some other reason. Choosing not to enforce our trademark(s) or copyright(s) could have adverse consequences for the Company, including undermining the credibility of our intellectual property, reducing our ability to enter into sublicenses, and weakening our attempts to prevent competitors from entering the market. As a result, if we are unable to enforce our trademark(s) or copyright(s) because of the cost of enforcement, your investment in the Company could be significantly and adversely affected.

• The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business
To be successful, the Company requires capable people to run its day to day operations. As the Company grows, it will need to attract and hire additional employees in sales, marketing, design, development, operations, finance, legal, human resources and other areas. Depending on the economic environment and the Company's performance, we may not be able to locate or attract qualified individuals for such positions when we need them. We may also make hiring mistakes, which can be costly in terms of resources spent in recruiting, hiring and investing in the incorrect individual and in the time delay in locating the right employee fit. If we are unable to attract, hire and retain the right talent or make too many hiring mistakes, it is likely our business will suffer from not having the right employees in the right positions at the right time. This would likely adversely impact the value of your investment.

• We rely on third parties to provide services essential to the success of our business
We rely on third parties to provide a variety of essential business functions for us, including third party animation services, music, and other animated related services. It is possible that some of these third parties will fail to perform their services or will perform them in an unacceptable manner. It is possible that we will experience delays, defects, errors, or other problems with their work that will materially impact our operations and we may have little or no recourse to recover damages for these losses. A disruption in these key or other suppliers' operations could materially and adversely affect our business. As a result, your investment could be adversely impacted by our reliance on third parties and their performance.

• The Company is vulnerable to hackers and cyber-attacks
As an internet-based business, we may be vulnerable to hackers who may access the data of our investors and the issuer companies that utilize our platform. Further, any significant disruption in service on Pencilish Studios Youtube Channel or in its computer systems could reduce the attractiveness of the platform and result in a loss of investors and companies interested in using

our platform. Further, we rely on a third-party technology provider to provide some of our back-up technology. Any disruptions of services or cyber-attacks either on our technology provider or on Pencilish Studios Youtube Channel could harm our reputation and materially negatively impact our financial condition and business.

- Our Founder, CEO and Sole Director controls the Company.

Our Founder, CEO and Sole Director controls the Company and will continue to do so after this offering. We currently have no independent directors. Tom Bancroft, our Founder, Chief Executive Officer and Sole Director, is currently also our controlling shareholder. As the majority holder of Class B Voting Common Stock, which gives him 10 votes per share, as opposed to one vote per share for holders of Class A Voting Common Stock like you, he will continue to hold a majority of the voting power of all our equity stock at the conclusion of this offering, and therefore control the board. This could lead to unintentional subjectivity in matters of corporate governance, especially in matters compensation and related party transactions. Tom's voting power through his ownership of our Class B Voting Common Stock could discourage or preclude others from initiating potential mergers, takeovers or other change of control transactions. We also do not benefit from the advantages of having any independent directors, including bringing an outside perspective on strategy and control, adding new skills and knowledge that may not be available within Pencilish Animation Studios, having extra checks and balances to prevent fraud and produce reliable financial reports. We are offering voting common stock which has one vote per share. We can issue preferred stock without stockholder approval, which could materially adversely affect the rights of common stockholders.

- Dependent on Founders

Our success will greatly depend on the skills, connections and experiences of our founders, Tom Bancroft & Ash Greyson. We are also dependent on the relationships of our Advisory Board Members. We will also need to hire additional creative talent and individuals with a track record of success and with the skills necessary to ensure that we create and sell premium original and licensed content. There is no assurance that we will be able to identify, hire and retain the right people for the various key positions. Our success depends, in large part, upon our ability to find, license and create successful intellectual property which may be difficult in our field. Any of the foregoing issues could adversely affect our operating results.

- We have or have had related party transactions.

We had a debt to a creditor that is also an equity holder in our company through that debt agreement. This could cause a conflict of interest and may give this creditor influence over our operations and financial stability if we are not able to repay the debt.

- We are not subject to Sarbanes-Oxley regulations and lack the financial controls and safeguards required of large public companies.

We do not have the internal infrastructure necessary, and are not required, to complete an attestation about our financial controls that would be required under Section 404 of the Sarbanes-Oxley Act of 2002. There can be no assurances that there are no significant deficiencies or material weaknesses in the quality of our financial controls. We expect that if and when it becomes necessary to perform the system and process evaluation, testing and remediation required in order to comply with the management certification and auditor attestation requirements, we will incur additional expenses and diversion of management's time.

- Natural disasters, such as Covid-19, and other events beyond our control could materially adversely affect us.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Such events could make it difficult or impossible for us to deliver our products or services to our customers or could decrease the demand for our products and content. They could also result in us not being able to continue with our various projects or in making it difficult or impossible for us to create new products or content to be monetized or to provide new services. In December 2019, a novel strain of coronavirus, COVID-19, was reported in Wuhan, China. The World Health Organization has since declared the outbreak a Pandemic and we are still feeling the adverse effects of the Covid 19 outbreak across the global economy. The full extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, which could last for many years to come, the impact on our customers and our sales cycles, the impact on customer, employee or industry events, and the effect it will have on our vendors and industry, all of which are uncertain and cannot be predicted. The exact impact of COVID-19 disruptions on our overall and future financial condition and results of operations is difficult to predict. The overall impact of this cannot be predicted or foreseen, but it is highly probable that this could have a negative effect on our industry as a whole, and therefore our company specifically, for years to come. The overall unpredictability of public sentiment, fear of gathering in large groups, employment and future disposable income for our intended audiences, the financial health of other companies such as theater chain owners in our industry, and other unforeseen variables all make it very difficult to predict when, or if, our industry will recover from the COVID-19 pandemic. There is also a risk that in the future something similar could happen again with these, and other unintended, consequences. There is no certainty that another outbreak might occur which could adversely affect our financial operations.

- Animation Risks

Animation and Animated Content has an intense core fan base, but it is very expensive and competitive. The lack of awareness of our brand and projects, among fans who have a large number of entertainment choices, may adversely affect our operating results. We must build and maintain a strong brand identity to attract and retain a broad fan base for our projects. The creation, marketing and distribution of animated content and digital programming that our fans value and enjoy is at the core of our business and is critical to our ability to generate revenues. Also important are effective consumer communications, such as marketing, customer service and public relations. The role of social media by fans and by us is an increasingly important factor in our brand perception. If our efforts to create compelling content, goods, merchandise, and/or otherwise promote and maintain our brand or projects, services and merchandise are not successful, our ability to attract and retain fans may be adversely affected. Such a result would likely lead to a decline in demand and viewership of our content and the sale of our merchandise, and in the future, impact our projects, animated series, television and/or film viewership, which would adversely affect our operating results. We may be associated with actors, voice over artists, and writers who are subject to changing public perceptions. The public perception of the persona depends on the social and political climate of the day, of which we have no control over, and personas that have previously been objects of derision may take on social significance that was never intended. Social media enables perceptions to spread quickly, whether accurate or not. This could impact our reputation and, depending on the severity, could adversely affect event ticket sales and our operating results.

- There is no current market for Pencilish Animation Studios, Inc's shares.

There is no formal marketplace for the resale of our securities. Shares of our Class A Voting Common Stock may be traded to the extent any demand and/or trading platform(s) exists. However, there is no guarantee there will be demand for the shares, or a trading platform that allows you to sell them. We do not have plans to apply for or otherwise seek trading or quotation of our Class A Voting Common Stock on an over-the-counter market. It is also hard to predict if we will ever be acquired by a bigger company. Investors should assume that they may not be able to liquidate their investment or pledge their shares as collateral for some time.

RESTRICTIONS ON TRANSFER

The common stock sold in the Regulation CF offering, may not be transferred by any purchaser, for a period of one-year beginning when the securities were issued, unless such securities are transferred:

(1) to the Company;

(2) to an accredited investor;

(3) as part of an offering registered with the SEC; or

(4) to a member of the family of the purchaser or the equivalent, to a trust controlled by the purchaser, to a trust created for the benefit of a member of the family of the purchaser or the equivalent, or in connection with the death or divorce of the purchaser or other similar circumstance.

SIGNATURES

Pursuant to the requirements of Sections 4(a)(6) and 4A of the Securities Act of 1933 and Regulation Crowdfunding (§ 227.100-503), the issuer certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form C and has duly caused this Form to be signed on its behalf by the duly authorized undersigned, on August 7, 2024.

Pencilish Animation Studios Inc.

By /s/ Tom Bancroft

Name: Pencilish Animation Studios Inc

Title: CEO

Exhibit A

FINANCIAL STATEMENTS

Pencilish Animation Studios, Inc. (the "Company") a Delaware Corporation

Financial Statements (unaudited) and
Independent Accountant's Review Report

Year ended December 31, 2023

Mongio & Associates CPAs LLC
Tax - Accounting - Advisory
Saving Time, Money, & Stress

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To Management
Pencilish Animation Studios, Inc.

We have reviewed the accompanying financial statements of the Company which comprise the statement of financial position as of December 31, 2023 and the related statements of operations, statement of changes in shareholder equity, and statement of 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 controls 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.

Emphasis of Matter Regarding Going Concern
As discussed in Note 7, certain conditions indicate substantial doubt that the Company will be able to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Management has evaluated these conditions and plans to generate revenues and raise capital as needed to satisfy its capital needs.

On behalf of Mongio and Associates CPAs, LLC

Vince Mongio, CPA, EA, CIA, CFE, MACC
Miami, FL
June 10, 2024
Vincenzo Mongio

Statement of Financial Position

	As of December 31,	
	2023	**2022**
ASSETS		
Current Assets		
Cash and Cash Equivalents	191,484	409,063
Restricted Cash	-	46,585
Accounts Receivable	1,382	30,000
Interest Receivable	3,100	1,900
Inventory	4,037	4,160
Loan Receivable - Related Party	20,000	20,000
Other	3,465	596
Total Current Assets	223,467	512,303
Non-current Assets		
Intangible Assets: Patents and Trademarks, net of Accumulated Amortization	1,750	1,750
Total Non-Current Assets	1,750	1,750
TOTAL ASSETS	225,217	514,053
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable	924	35,708
Total Current Liabilities	924	35,708
TOTAL LIABILITIES	924	35,708
EQUITY		
Class A Common Stock, Voting, $0.0001 Par Value - 3,000,000 Shares Authorized, 1,681,220 Shares Issued and Outstanding as of December 31, 2023	168	167
Class B Common Stock, Voting, $0.0001 Par Value - 3,000,000 Shares Authorized, 2,160,000 Shares Issued and Outstanding as of December 31, 2023	216	216
Additional Paid in Capital, net of Offering Costs	2,384,957	2,350,637
Accumulated Deficit	(2,161,048)	(1,872,675)
Total Equity	224,293	478,345
TOTAL LIABILITIES AND EQUITY	225,217	514,053

Statement of Operations

	Year Ended December 31,	
	2023	2022
Revenue	336,573	62,705
Cost of Revenue	300,983	395,355
Gross Profit	35,590	(332,651)
Operating Expenses		
Advertising and Marketing	17,547	21,063
Advertising and Marketing - Related Party	8,025	21,556
Payroll	219,869	703,213
General and Administrative	67,817	53,420
Total Operating Expenses	313,258	799,252
Operating Income (loss)	(277,667)	(1,131,903)
Other Income		
Interest Income	1,200	1,200
Other	-	-
Total Other Income	1,200	1,200
Other Expense		
Interest Expense	-	-
Other - Scholarships and Franchise Taxes	11,906	3,459
Total Other Expense	11,906	3,459
Earnings Before Income Taxes	(288,373)	(1,134,162)
Provision for Income Tax Expense/(Benefit)		
Net Income (loss)	(288,373)	(1,134,162)

Statement of Changes in Shareholder Equity

	Class A Common Stock		Class B Common Stock				
	# of Shares	$ Amount	# of Shares	$ Amount	APIC	Accumulated Deficit	Total Shareholder Equity
Beginning Balance at 1/1/2022	1,597,100	160	2,160,000	216	2,111,989	(738,513)	1,373,852
Issuance of Common Stock	77,243	7	-	-	293,344	-	293,351
Offering Costs	-	-	-	-	(54,695)	-	(54,695)
Net Income (Loss)	-	-	-	-	-	(1,134,162)	(1,134,162)
Ending Balance 12/31/2022	1,674,343	167	2,160,000	216	2,350,638	(1,872,675)	478,346
Issuance of Common Stock	6,877	1	-	-	42,789	-	42,789
Offering Costs	-	-	-	-	(8,468)	-	(8,468)
Net Income (Loss)	-	-	-	-	-	(288,373)	(288,373)
Ending Balance 12/31/2023	1,681,220	168	2,160,000	216	2,384,958	(2,161,048)	224,294

Statement of Cash Flows

	Year Ended December 31,	
	2023	**2022**
OPERATING ACTIVITIES		
Net Income (Loss)	(288,373)	(1,134,162)
Adjustments to reconcile Net Income to Net Cash provided by operations:		
Accounts Payable	(34,783)	(10,652)
Interest Receivable	(1,200)	(1,200)
Inventory	123	(2,982)
Accounts Receivable	28,618	(29,200)
Change in Production Costs	-	47,327
Escrow Receivable	46,585	(46,585)
Other	(2,870)	(596)
Total Adjustments to reconcile Net Income to Net Cash provided by operations:	36,473	(43,887)
Net Cash provided by (used in) Operating Activities	(251,901)	(1,178,049)
INVESTING ACTIVITIES		
Net Cash provided by (used by) Investing Activities	-	-
FINANCING ACTIVITIES		
Issuance of Class A and B Common Stock, net of Offering Costs	34,321	238,656
Net Cash provided by (used in) Financing Activities	34,321	238,656
Cash at the beginning of period	409,063	1,348,456
Net Cash increase (decrease) for period	(217,579)	(939,394)
Cash at end of period	191,484	409,063

Pencilish Animation Studios, Inc.
Notes to the Unaudited Financial Statements
December 31st, 2023
$USD

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Pencilish Animation Studios, Inc. ("the Company") is a corporation formed under the laws of the State of Delaware on October 8th, 2020. The Company is the world's first crowd owned animation studio. The Company exists to create licensed and owned intellectual property in the animation space for monetization through licensing, merchandising, and other revenue streams.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Our fiscal year ends on December 31. The Company has no interest in variable interest entities and no predecessor entities.

<u>Use of Estimates and Assumptions</u>

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.

<u>Cash and Cash Equivalents</u>

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

<u>Fair Value of Financial Instruments</u>

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.

<u>Concentrations of Credit Risks</u>

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's primary objective is to generate revenue via the distribution and peripheral revenues of its animated content that is under production. The Company's primary performance obligation for this type of service is to deliver animation services in accordance with the service contracts, and revenue is recognized as the services are delivered to the satisfaction of the customer.

The Company also generates revenue via the sale of merchandise. The Company's primary performance obligation for this type of service is the delivery of the product that is being purchased. Revenue is recognized at the time of shipment, net of estimated returns. Coincident with revenue recognition, the Company establishes a liability for expected returns and records an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

Revenue Type	**2023**	**2022**
Animation Services	$ 335,140	$ 60,304
Merchandise Sales	$ 1,433	$ 2,400
Grand Total	**$ 336,573**	**$ 62,705**

All revenue amounts were earned at a point in time.

Inventory

The Company's inventory consists of finished goods that are stated at the lower of cost or net realizable value. Cost is determined using the average costing method. The total ending balance of the Company's inventory was $4,037 and $4,160 as of December 31, 2023 and 2022, respectively.

Accounts Receivable

Trade receivables due from customers are uncollateralized customer obligations due under normal trade terms. Trade receivables are stated at the amount billed to the customer. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Payments are generally collected upfront, but some of the merchants that products are sold through have a delay between collecting from the customer and sending to the Company.

The Company estimates an allowance for doubtful accounts based upon an evaluation of the current status of receivables, historical experience, and other factors as necessary. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change.

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.

Income Taxes

The Company is subject to corporate income and state income taxes in the state it does business. We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company does not have any uncertain tax provisions. The Company's primary tax jurisdictions are the United States and Delaware. The Company's primary deferred tax assets are its net operating loss (NOL) carryforwards which approximates its retained earnings as of the date of these financials. A deferred tax asset as a result of NOLs have not been recognized due to the uncertainty of future positive taxable income to utilize the NOL.

The Company has not filed its 2023 tax return as of the date of these financials.

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 2021, the Company loaned $20,000 to a company controlled by a shareholder to fund the creation of an animated series. The note bears interest at a rate of 6%, with interest and principal deferred until maturity in 2022. The maturity date and all related terms have been extended to 2024. In addition to repayment of the loan, the Company will receive 33% of the revenue from the animated series and other connected ancillary revenue streams, excluding live events and live action television shows. There have been no such revenues to date.

The Company incurred $8,025 and $21,556 in 2023 and 2022, respectively, for marketing expenses related to its equity crowdfunding campaign. A portion of these expenses was paid to a company controlled by a shareholder.

NOTE 4 – COMMITMENTS, 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. The Company does not have any long-term commitments or guarantees.

NOTE 5 – EQUITY

The Company has authorized 6,000,000 shares of common stock and 3,000,000 shares of preferred stock with a par value of $.0001 each. Common stock is further separated into common stock Class A and Class B with 3,000,000 shares of each. Class B common stock shares are convertible into 10 shares of class A common stock. Class A common stock is entitled to 1 vote per share and Class B is entitled to 10 votes per share.

NOTE 6 – SUBSEQUENT EVENTS

The Company has evaluated events subsequent to December 31, 2023 to assess the need for potential recognition or disclosure in this report. Such events were evaluated through June 10, 2024, the date these financial statements were available to be issued. No events require recognition or disclosure.

NOTE 7 – 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 realized losses every year since inception, may continue to generate losses, and has experienced negative cash flows from operating activities during 2023 and 2022. 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.