

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM C-AR**

**UNDER THE SECURITIES ACT OF 1933**

(Mark one.)

- Form C: Offering Statement
- Form C-U: Progress Update
- Form C/A: Amendment to Offering Statement
  - Check box if Amendment is material and investors must reconfirm within five business days.
- Form C-AR: Annual Report
- Form C-AR/A: Amendment to Annual Report
- Form C-TR: Termination of Reporting

***Name of Issuer:***

Drink LMNT, Inc.

***Legal status of Issuer:***

***Form:***

Corporation

***Jurisdiction of Incorporation/Organization:***

Delaware

***Date of Organization:***

December 30, 2019

***Physical Address of Issuer:***

1150 Central Ave, Naples, FL 34102

***Website of Issuer:***

<https://DrinkLMNT.com>

***Current Number of Employees:***

0 full-time employees.

|                                    | <b>Most recent fiscal year-end<br/>(2021)</b> | <b>Prior fiscal year-end<br/>(2020)</b> |
|------------------------------------|---|---|
|                                    | <b>(\$000s)</b>                               | <b>(\$000s)</b>                         |
| <b>Total Assets</b>                | \$10,899                                      | \$2,648                                 |
| <b>Cash &amp; Cash Equivalents</b> | \$6,554                                       | \$1,324                                 |
| <b>Accounts Receivable</b>         | \$644   | \$184                                   |
| <b>Short-term Debt*</b>            | \$3,783                                       | \$769                                   |
| <b>Long-term Debt</b>              | \$0   | \$0                                     |
| <b>Revenues/Sales**</b>            | \$31,589                                      | \$7,053                                 |
| <b>Cost of Goods Sold</b>          | \$10,058                                      | \$1,872                                 |
| <b>Taxes Paid***</b>               | \$680   | \$251                                   |
| <b>Net Income/(Net Loss)</b>       | \$1,974                                       | \$880                                   |

\* Consists of accounts payable, accrued liabilities, sales and income tax payable and other current liabilities.

\*\* Presented net of sales returns.

\*\*\* Represents income tax expense for the respective fiscal year-end.

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April 28, 2022

Drink LMNT, Inc.



This Form C-AR (including the cover page and all exhibits attached hereto, the “**Form C-AR**”) is being furnished by Drink LMNT, Inc. (“**LMNT**,” the “**Company**,” “**we**,” “**us**,” or “**our**”) for the sole purpose of providing certain information about the Company as required by the U.S. Securities and Exchange Commission (“**SEC**” or “**Commission**”).

**No federal or state securities commission or regulatory authority has passed upon the accuracy or adequacy of this document. The SEC does not pass upon the accuracy or completeness of any disclosure document or literature. The Company is filing this Form C-AR pursuant to Regulation CF (§ 227.100 et seq.) which requires that it must file a report with the Commission and annually post the report on its website at <https://DrinkLMNT.com> no later than 120 days after the end of each fiscal year covered by the report. The Company may terminate its reporting obligations in the future in accordance with Rule 202(b) of Regulation CF (§ 227.202(b)) by (1) being required to file reports under Section 13(a) or Section 15(d) of the Exchange Act of 1934, as amended, (2) filing at least one annual report pursuant to Regulation CF and having fewer than 300 holders of record, (3) filing annual reports for three years pursuant to Regulation CF and having assets equal to or less than \$10,000,000, (4) the repurchase of all the Securities sold pursuant to Regulation CF by the Company or another party or (5) the liquidation or dissolution of the Company.**

The date of this Form C-AR is April 28, 2022.

***THIS FORM C-AR DOES NOT CONSTITUTE AN OFFER TO PURCHASE OR SELL SECURITIES.***

**ABOUT THIS FORM C-AR**

You should rely only on the information contained in this Form C-AR. We have not authorized anyone to provide any information different from that contained in this Form C-AR. If anyone provides you with different or inconsistent information, you should not rely on it. Statements contained herein as to the content of any agreements or other documents are summaries and, therefore, are necessarily selective and incomplete and are qualified in their entirety by the actual agreements or other documents.

You should assume that the information contained in this Form C-AR is accurate only as of the date of this Form C-AR, regardless of the time of delivery of this Form C-AR. Our business, financial condition, results of operations, and prospects may have changed since that date.

**FORWARD-LOOKING STATEMENTS**

This Form C-AR and any documents incorporated by reference herein or therein, including Exhibit A and Exhibit B, contain forward-looking statements and are subject to risks and uncertainties. All statements other than statements of historical fact or relating to present facts or current conditions included in this Form C-AR are forward-looking statements. Forward-looking statements give the Company’s current reasonable expectations and projections regarding its financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “should,” “can have,” “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.

The forward-looking statements contained in this Form C-AR and any documents incorporated by reference herein are based on reasonable assumptions the Company has made in light of its industry experience, perceptions of historical trends, current conditions, expected future developments and other factors it believes are appropriate under the circumstances. As you read and consider this Form C-AR, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (many of which are beyond the Company's control) and assumptions. Although the Company believes that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual operating and financial performance and cause our performance to differ materially from the performance anticipated in the forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect or change, our actual operating and financial performance may vary in material respects from the performance projected in these forward-looking statements.

Any forward-looking statements made in this Form C-AR or any documents incorporated by reference herein or therein is accurate only as of the date of this Form C-AR. Factors or events that could cause our actual operating and financial performance to differ may emerge from time to time, and it is not possible for the Company to predict all of them. Except as required by law, the Company undertakes no obligation to publicly update any forward-looking statements for any reason after the date of this Form C-AR, whether as a result of new information, future developments or otherwise, or to conform these statements to actual results or to changes in our expectations.

#### **OTHER INFORMATION**

**The Company has not failed to comply with the ongoing reporting requirements of Regulation CF § 227.202 in the past.**

#### **Bad Actor Disclosure**

The Company is not subject to any Bad Actor Disqualifications under any relevant U.S. securities laws.

**SIGNATURE**

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

The issuer also certifies that the attached financial statements are true and complete in all material respects.

/s/James Murphy  
(Signature)

James Murphy  
(Name)

Chief Executive Officer  
(Title)

Pursuant to the requirements of Sections 4(a)(6) and 4A of the Securities Act of 1933 and Regulation Crowdfunding (§ 227.100 et seq.), this Form C has been signed by the following persons in the capacities and on the dates indicated.

/s/James Murphy  
(Signature)

James Murphy  
(Name)

Director  
(Title)

April 28, 2022  
(Date)

/s/ Robb Wolf  
(Signature)

Robb Wolf  
(Name)

Director  
(Title)

April 28, 2022  
(Date)

***Instructions.***

1. The form shall be signed by the issuer, its principal executive officer or officers, its principal financial officer, its controller or principal accounting officer and at least a majority of the board of directors or persons performing similar functions.

2. The name of each person signing the form shall be typed or printed beneath the signature. Intentional misstatements or omissions of facts constitute federal criminal violations. See 18 U.S.C. 1001.

**EXHIBIT A**  
**ANNUAL REPORT**  
**(EXHIBIT A TO FORM C-AR)**  
**April 28, 2022**

**Drink LMNT, Inc.**



*The following summary is qualified in its entirety by more detailed information that may appear elsewhere in the Form C-AR and the Exhibits hereto. This summary may not contain all of the information that may be important to you. You should read the entire Form C-AR carefully, including this Exhibit A and Exhibit B therein.*

**The Company**

Drink LMNT, Inc. ("LMNT") manufactures and sells an electrolyte drink mix in support of a healthy lifestyle. The Company was originally formed in Florida on October 5, 2018 as a limited liability company, named Elemental Labs, LLC. The Company was converted to a Delaware corporation on December 30, 2019, named Drink LMNT, Inc.

The Company is located at 1150 Central Ave, Naples, FL 34102, United States.

The Company's website is <https://DrinkLMNT.com>.

The Company is headquartered and qualified to conduct business in Florida. The Company also sells its products through the Internet and throughout the United States and internationally.

The information on the Company available on or through our website is not a part of this Form C-AR.

**Description of the Business**

The Company is the manufacturer of an electrolyte drink mix with everything you need and nothing you don't - yes, that means lots of salt and zero sugar. We sell primarily online both domestically and internationally.

## RISK FACTORS

*The SEC requires the Company to identify risks that are specific to its business and financial condition. The Company is still subject to all the same risks that all companies in its business, and all companies in the economy, are exposed to. These include risks relating to economic downturns, political and economic events and technological developments (such as hacking and the ability to prevent hacking). Additionally, early-stage companies are inherently riskier than more developed companies. You should consider general risks as well as specific risks, including, but not limited to, those noted herein.*

### **Risks Related to the Company's Business and Industry**

***We have a limited operating history upon which you can evaluate our performance, and accordingly, our prospects must be considered in light of the risks that any new company encounters.***

The Company is still in an early phase and we are just beginning to implement our business plan and expand our business. The likelihood of our success should be considered in light of the problems, expenses, difficulties, complications and delays usually encountered by early-stage companies. The Company may not be successful in attaining the objectives necessary for it to overcome these risks and uncertainties.

***Global crises, such as COVID-19, can have a significant effect on our business operations and revenue projections.***

A significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the United States where we principally operate, resulting in an economic downturn that could reduce the demand for our products and services and impair our business prospects, including as a result of being unable to raise additional capital on acceptable terms to us, if at all.

***The amount of capital the Company has on hand may not be enough to sustain the Company's current business plan.***

In order to achieve the Company's near and long-term goals, the Company may need to procure additional funds. There is no guarantee the Company will be able to raise such funds on acceptable terms or at all. If we are not able to raise sufficient capital in the future, we may not be able to execute our business plan, our continued operations will be in jeopardy and we may be forced to cease operations and sell or otherwise transfer all or substantially all of our remaining assets, which could cause an Investor to lose all or a portion of their investment.

***We may face potential difficulties in obtaining capital.***

We may have difficulty raising needed capital in the future as a result of, among other factors, our revenues from sales, as well as the inherent business risks associated with our Company and present and future market conditions. Our business currently has growing sales but future sources of revenue may not be sufficient to meet our future capital requirements. We will require additional funds to execute our business strategy and conduct our operations. If adequate funds are unavailable, we may be required to delay, reduce the scope of or eliminate one or more of our research, development or commercialization programs, product launches or marketing efforts, any of which may materially harm our business, financial condition and results of operations.

***We may implement new lines of business or offer new products and services within existing lines of business.***

As an early-stage company, we may implement new lines of business at any time. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. We may not be successful in introducing new products and services in response to industry trends or developments in technology, or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients or be subject to cost increases. As a result, our business, financial condition or results of operations may be adversely affected.

***We rely on other companies to provide components for our products.***

We depend on suppliers and contractors to meet our contractual obligations to our customers and conduct our operations. Our ability to meet our obligations to our customers may be adversely affected if suppliers or contractors do not provide the agreed-upon supplies in compliance with customer requirements and in a timely and cost-effective manner. Likewise, the quality of our products may be adversely impacted if companies to whom we delegate manufacture of major components for our products, or from whom we acquire such items, do not provide components which meet required specifications and perform to our, and our customers', expectations. Our suppliers may also be unable to quickly recover from natural disasters and other events beyond their control and may be subject to additional risks such as financial problems that limit their ability to conduct their operations. The risk of these adverse effects may be greater in circumstances where we rely on only one or two contractors or suppliers for a particular component. Our products may utilize custom components available from only one source. Continued availability of those components at acceptable prices, or at all, may be affected for any number of reasons, including if those suppliers decide to concentrate on the production of common components instead of components customized to meet our requirements. The supply of components for a new or existing product could be delayed or constrained, or a key manufacturing vendor could delay shipments of completed products to us adversely affecting our business and results of operations.

***We rely on various intellectual property rights, including trademarks, in order to operate our business.***

The Company relies on certain intellectual property rights to operate its business. The Company's intellectual property rights may not be sufficiently broad or otherwise may not provide us a significant competitive advantage. In addition, the steps that we have taken to maintain and protect our intellectual property may not prevent it from being challenged, invalidated, circumvented or designed-around, particularly in countries where intellectual property rights are not highly developed or protected. In some circumstances, enforcement may not be available to us because an infringer has a dominant intellectual property position or for other business reasons, or countries may require compulsory licensing of our intellectual property. Our failure to obtain or maintain intellectual property rights that convey competitive advantage, adequately protect our intellectual property or detect or prevent circumvention or unauthorized use of such property, could adversely impact our competitive position and results of operations. We also rely on nondisclosure and noncompetition agreements with employees, consultants and other parties to protect, in part, trade secrets and other proprietary rights. There can be no assurance that these agreements will adequately protect our trade secrets and other proprietary rights and will not be breached, that we will have adequate remedies for any breach, that others will not independently develop substantially equivalent proprietary information or that third parties will not otherwise gain access to our trade secrets or other proprietary rights. As we expand our business, protecting our intellectual property will become increasingly important. The protective steps we have taken may be inadequate to deter our competitors from using our proprietary information. In order to protect or enforce our intellectual property rights, we may be required to initiate litigation against third parties, such as infringement lawsuits. Also, these third parties may assert claims against us with or without provocation. These lawsuits could be expensive, take significant time and could divert management's attention from other business concerns. We cannot assure you that we will prevail in any of these potential suits or that the damages or other remedies awarded, if any, would be commercially valuable.

***The Company's success depends on the experience and skill of its executive officers and key employees.***

In particular, we are dependent James Murphy, our Chief Executive Officer, Robb Wolf, our Vice President, and Brianna Segerson, our Chief Operating Officer. The Company does not have employment agreements with Mr. Murphy, Mr. Wolf and Ms. Segerson, and there can be no assurance that it will do so or that any or all of them will continue to be employed by the Company for a particular period of time. Moreover, each of our executives are involved with other initiatives and may not devote their full time to the Company. The loss of Mr. Murphy, Mr. Wolf or Ms. Segerson, or any key employee, could harm the Company's business, financial condition, cash flow and results of operations.

***Although dependent on certain key personnel, the Company does not have any key person life insurance policies on any such people.***

We are dependent on certain key personnel in order to conduct our operations and execute our business plan, however, the Company has not purchased any insurance policies with respect to those individuals in the event of their death or disability. Therefore, if any of these personnel die or become disabled, the Company will not receive any compensation to assist with such person's absence. The loss of such person could negatively affect the Company and our operations. We have no way to guarantee key personnel will stay with the Company, as many states do not enforce non-

competition agreements, and therefore acquiring key man insurance will not ameliorate all of the risk of relying on key personnel.

***In order for the Company to compete and grow, it must attract, recruit, retain and develop the necessary personnel who have the needed experience.***

Recruiting and retaining highly qualified personnel is critical to our success. These demands may require us to hire additional personnel and will require our existing management and other personnel to develop additional expertise. We face intense competition for personnel, making recruitment time-consuming and expensive. The failure to attract and retain personnel or to develop such expertise could delay or halt the development and commercialization of our product candidates. If we experience difficulties in hiring and retaining personnel in key positions, we could suffer from delays in product development, loss of customers and sales and diversion of management resources, which could adversely affect operating results. Our consultants and advisors may be employed by third parties and may have commitments under consulting or advisory contracts with third parties that may limit their availability to us, which could further delay or disrupt our product development and growth plans.

***We need to rapidly and successfully develop and introduce new products in a competitive, demanding and rapidly changing environment.***

To succeed in our intensely competitive industry, we must continually improve, refresh and expand our product and service offerings to include newer features, functionality or solutions, and keep pace with changes in the industry. Shortened product life cycles due to changing customer demands and competitive pressures may impact the pace at which we must introduce new products or implement new functions or solutions. In addition, bringing new products or solutions to the market entails a costly and lengthy process, and requires us to accurately anticipate changing customer needs and trends. We must continue to respond to changing market demands and trends or our business operations may be adversely affected.

***The development and commercialization of our products is highly competitive.***

We face competition with respect to any products that we may seek to develop or commercialize in the future. Our competitors include major companies worldwide. Many of our competitors have significantly greater financial, technical and human resources than we have and superior expertise in research and development and marketing approved products and thus may be better equipped than us to develop and commercialize products. These competitors also compete with us in recruiting and retaining qualified personnel and acquiring technologies. Smaller or early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Accordingly, our competitors may commercialize products more rapidly or effectively than we are able to, which would adversely affect our competitive position, the likelihood that our products will achieve initial market acceptance, and our ability to generate meaningful additional revenues from our products.

***We face various risks as an e-commerce retailer.***

As part of our growth strategy, we have made significant investments to grow our e-commerce business. We may require additional capital in the future to sustain or grow our e-commerce business. Business risks related to our e-commerce business include our inability to keep pace with rapid technological change, failure in our security procedures or operational controls, failure or inadequacy in our systems or labor resource levels to effectively process customer orders in a timely manner, government regulation and legal uncertainties with respect to e-commerce, and collection of sales or other taxes by one or more states or foreign jurisdictions. If any of these risks materialize, they could have an adverse effect on our business. In addition, we face competition from other internet retailers, and more retailers could enter the market. Our failure to positively differentiate our product and services offerings or customer experience from these internet retailers could have a material adverse effect on our business, financial condition and results of operations.

***Industry consolidation may result in increased competition, which could result in a loss of customers or a reduction in revenue.***

Some of our competitors have made or may make acquisitions or may enter into partnerships or other strategic relationships to offer more comprehensive services than they individually had offered or achieve greater economies of scale. In addition, new entrants not currently considered to be competitors may enter our market through acquisitions, partnerships or strategic relationships. We expect these trends to continue as companies attempt to strengthen or maintain their market positions. The potential entrants may have competitive advantages over us, such

as greater name recognition, longer operating histories, more varied services and larger marketing budgets, as well as greater financial, technical and other resources. The companies resulting from combinations or that expand or vertically integrate their business to include the market that we address may create more compelling service offerings and may offer greater pricing flexibility than we can or may engage in business practices that make it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or service functionality. These pressures could result in a substantial loss of our customers or a reduction in our revenue.

***Damage to our reputation could negatively impact our business, financial condition and results of operations.***

Our reputation and the quality of our brand are critical to our business and success in existing markets and will be critical to our success as we enter new markets. Any incident that erodes consumer loyalty for our brand could significantly reduce its value and damage our business. We may be adversely affected by any negative publicity, regardless of its accuracy. Also, there has been a marked increase in the use of social media platforms and similar devices, including blogs, social media websites and other forms of internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability of information on social media platforms is virtually immediate as is its impact. Information posted may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects or business. The harm may be immediate and may disseminate rapidly and broadly, without affording us an opportunity for redress or correction.

***Our business could be negatively impacted by cyber security threats, attacks and other disruptions.***

We may face advanced and persistent attacks on our information infrastructure where we manage and store various proprietary information and sensitive/confidential data relating to our operations. These attacks may include sophisticated malware (viruses, worms, and other malicious software programs) and phishing emails that attack our products or otherwise exploit any security vulnerabilities. These intrusions sometimes may be zero-day malware that are difficult to identify because they are not included in the signature set of commercially available antivirus scanning programs. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of our customers or other third-parties, create system disruptions, or cause shutdowns. Additionally, sophisticated software and applications that we produce or procure from third-parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of the information infrastructure. A disruption, infiltration or failure of our information infrastructure systems or any of our data centers as a result of software or hardware malfunctions, computer viruses, cyber-attacks, employee theft or misuse, power disruptions, natural disasters or accidents could cause breaches of data security, loss of critical data and performance delays, which in turn could adversely affect our business.

***Security breaches of confidential customer information, in connection with our electronic processing of credit and debit card transactions, or confidential employee information may adversely affect our business.***

Our business requires the collection, transmission and retention of personally identifiable information, in various information technology systems that we maintain and in those maintained by third parties with whom we contract to provide services. The integrity and protection of that data is critical to us. The information, security and privacy requirements imposed by governmental regulation are increasingly demanding. Our systems may not be able to satisfy these changing requirements and customer and employee expectations, or may require significant additional investments or time in order to do so. A breach in the security of our information technology systems or those of our service providers could lead to an interruption in the operation of our systems, resulting in operational inefficiencies and a loss of profits. Additionally, a significant theft, loss or misappropriation of, or access to, customers’ or other proprietary data or other breach of our information technology systems could result in fines, legal claims or proceedings.

***The use of individually identifiable data by our business, our business associates and third parties is regulated at the state, federal and international levels.***

The regulation of individual data is changing rapidly, and in unpredictable ways. A change in regulation could adversely affect our business, including causing our business model to no longer be viable. Costs associated with information security – such as investment in technology, the costs of compliance with consumer protection laws and costs resulting from consumer fraud – could cause our business and results of operations to suffer materially. Additionally, the success of our online operations depends upon the secure transmission of confidential information over public networks, including the use of cashless payments. The intentional or negligent actions of employees, business associates or third parties may undermine our security measures. As a result, unauthorized parties may obtain

access to our data systems and misappropriate confidential data. There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography or other developments will prevent the compromise of our customer transaction processing capabilities and personal data. If any such compromise of our security or the security of information residing with our business associates or third parties were to occur, it could have a material adverse effect on our reputation, operating results and financial condition. Any compromise of our data security may materially increase the costs we incur to protect against such breaches and could subject us to additional legal risk.

***The Company is not subject to Sarbanes-Oxley regulations and may lack the financial controls and procedures of public companies.***

The Company may not have the internal control infrastructure that would meet the standards of a public company, including the requirements of the Sarbanes Oxley Act of 2002. As a privately-held (non-public) Company, the Company is currently not subject to the Sarbanes Oxley Act of 2002, and its financial and disclosure controls and procedures reflect its status as a development stage, non-public company. There can be no guarantee that there are no significant deficiencies or material weaknesses in the quality of the Company's financial and disclosure controls and procedures. If it were necessary to implement such financial and disclosure controls and procedures, the cost to the Company of such compliance could be substantial and could have a material adverse effect on the Company's results of operations.

***Changes in federal, state or local laws and government regulation could adversely impact our business.***

The Company is subject to legislation and regulation at the federal and local levels and, in some instances, at the state level. New laws and regulations may impose new and significant disclosure obligations and other operational, marketing and compliance-related obligations and requirements, which may lead to additional costs, risks of non-compliance, and diversion of our management's time and attention from strategic initiatives. Additionally, federal, state and local legislators or regulators may change current laws or regulations which could adversely impact our business. Further, court actions or regulatory proceedings could also change our rights and obligations under applicable federal, state and local laws, which cannot be predicted. Modifications to existing requirements or imposition of new requirements or limitations could have an adverse impact on our business.

***We operate in a highly regulated environment, and if we are found to be in violation of any of the federal, state, or local laws or regulations applicable to us, our business could suffer.***

We are also subject to a wide range of federal, state, and local laws and regulations. The violation of these or future requirements or laws and regulations could result in administrative, civil, or criminal sanctions against us, which may include fines, a cease and desist order against the subject operations or even revocation or suspension of our license to operate the subject business. As a result, we may incur capital and operating expenditures and other costs to comply with these requirements and laws and regulations.

***Changes in employment laws or regulation could harm our performance.***

Various federal and state labor laws govern our relationship with our employees and affect operating costs. These laws include minimum wage requirements, overtime pay, healthcare reform and the implementation of the Patient Protection and Affordable Care Act, unemployment tax rates, workers' compensation rates, citizenship requirements, union membership and sales taxes. A number of factors could adversely affect our operating results, including additional government- imposed increases in minimum wages, overtime pay, paid leaves of absence and mandated health benefits, mandated training for employees, increased tax reporting and tax payment requirements for employees who receive tips, a reduction in the number of states that allow tips to be credited toward minimum wage requirements, changing regulations from the National Labor Relations Board and increased employee litigation including claims relating to the Fair Labor Standards Act.

## BUSINESS

### Description of the Business

The Company is the manufacturer of an electrolyte drink mix with everything you need and nothing you don't - yes, that means lots of salt and zero sugar. We sell primarily online both domestically and internationally.

### Business Plan

The Company plans to significantly expand its business by increasing sales and marketing and increasing inventory. The Company is currently profitable and aims to expand its reach.

### The Company's Products and/or Services

| Product / Service | Description           | Current Market  |
|-------------------|-----------------------|---|
| LMNT              | Electrolyte drink mix | Health-seeking consumers and sells primarily direct to consumers online |

### Competition

The markets in which our products are sold are highly competitive. Our products compete against similar products of many large and small companies, including well-known global competitors. In many of the markets and industry segments in which we sell our products, we compete against other branded products as well as retailers' private-label brands. Product quality, performance, value and packaging are also important differentiating factors.

We compete directly with sports drink companies as well as energy drink brands. The majority of the market sells products that are high in sugar and woefully low in electrolytes, in particular sodium. The Company's products are high in electrolytes and have zero sugar.

### Customer Base

Our primary target market are health-seeking consumers looking to support their electrolyte needs.

### Supply Chain

Although the Company is dependent upon certain third party vendors, the Company has access to alternate service providers in the event its current third-party vendors are unable to provide services or any issues arise with its current vendors where a change is required to be made. As the Company's products include ingredients that are not proprietary and are readily available to source, the Company does not believe the loss of a current third-party vendor or service provider would cause a major disruption to its business, although it could cause short-term limitations or disruptions.

## Intellectual Property

| Application or Registration # | Title  | Description                                     | File Date          | Grant Date    | Country |
|-------------------------------|--|---|--------------------|---------------|---------|
| 6098916                       | "LMNT Elemental Labs"  | Mark: Design Plus Words, Letters and/or Numbers | June 3, 2019       | July 14, 2020 | USA     |
| 88456799                      | "LMNT ELEMENTAL LABS"  | Mark: Design Plus Words, Letters and/or Numbers | June 3, 2019       | Pending       | USA     |
| 6099594                       | "LMNT ELEMENTAL LABS CITRUS SALT RECHARGE ELECTROLYTE DRINK MIX 1000 MG SODIUM 200 MG POTASSIUM 60 MG MAGNESIUM NO SUGAR 2G CARBS" | Mark: Design Plus Words, Letters and/or Numbers | September 24, 2019 | July 14, 2020 | USA     |

All other intellectual property is in the form of trade secrets, business methods and know-how and is protected through intellectual assignment and confidentiality agreements with Company employees, advisors and consultants.

### ***Domain Names***

The Company owns the drinklmnt.com domain name.

### **Governmental/Regulatory Approval and Compliance**

The Company is subject to and affected by the laws and regulations of U.S. federal, state and local governmental authorities. These laws and regulations are subject to change.

### **Litigation**

The Company is not subject to any current litigation or threatened litigation.

## DIRECTORS, OFFICERS, MANAGERS AND KEY PERSONS

The directors, officers, managers and key persons of the Company are listed below along with all positions and offices held at the Company and their principal occupation and employment responsibilities for the past three (3) years.

| Name             | Positions and Offices Held at the Company                 | Principal Occupation and Employment Responsibilities for the Last Three (3) Years   | Education   |
|------------------|---|---|---|
| James Murphy     | CEO, Co-Founder and Chairman of the Board                 | <p>CEO and Co-Founder of Drink LMNT, 2018 – Present</p> <p>Responsible for sales, operations, and general CEO responsibilities</p> <p>CEO and Founder of Proton Enterprises, which includes Patch and Choose Health, 2012- Present</p> <p>Responsible for sales, operations, and general CEO responsibilities</p>   | Yale University, B.A., Humanities, 2011                     |
| Robb Wolf        | Vice President, Co-Founder and Vice Chairman of the Board | <p>Vice President and Co-Founder of Drink LMNT, 2018 – Present</p> <p>Provides critical leadership within product formulation, scientific research, and community-driven brand building to LMNT</p> <p>Healthy Rebellion Podcast Host</p> <p>Cover topics ranging from metabolic flexibility to circadian biology to gut health and much more</p>   | California State University Chico, B.S., Biochemistry, 1998 |
| Brianna Segerson | Chief Operating Officer and Corporate Secretary           | <p>COO of Drink LMNT, 2019- Present</p> <p>Responsible for supply chain, fulfillment, operations, and general responsibilities</p> <p>COO of Proton Enterprises, 2019- Present</p> <p>Responsible for supply chain, fulfillment, operations, and general responsibilities</p> <p>Director of Acquisitions, Albion Residential, 2015- 2018</p> <p>Responsible for sourcing, analyzing and the carrying out of all due diligence related to prospective acquisition targets</p> | Yale University, B.A., Psychology, 2013                     |

|                  |                           |  |   |
|------------------|---------------------------|--|---|
| Tyler Cartwright | Key Person and Co-Founder | <p>Co-Founder of Drink LMNT, 2018 – Present</p> <p>Provides critical leadership within product formulation, scientific research, and community-driven brand building to LMNT</p> <p>Co-Founder of Ketogains, 2007-Present</p> <p>Responsible for general responsibilities needed to build, maintain and grow online community following an evidence-based protocol to achieve optimal body composition and health.</p> | <p>Bellevue University, M.B.A., Finance, 2008; Mid-Continent University, B.S., Business Management, 2005</p>                        |
| Luis Villaseñor  | Key Person and Co-Founder | <p>Co-Founder of Drink LMNT, 2018 – Present</p> <p>Provides critical leadership within product formulation, scientific research, and community-driven brand building to LMNT</p> <p>Co-Founder of Ketogains, 2007-Present</p> <p>Responsible for general responsibilities needed to build, maintain and grow online community following an evidence-based protocol to achieve optimal body composition and health.</p> | <p>Universidad Iberoamericana, Mexico, B.S., Business Administration and Marketing plus Marketing post-graduation studies, 2002</p> |
| Nicki Violetti   | Key Person and Co-Founder | <p>Co-Founder of Drink LMNT, 2018 – Present</p> <p>Provides critical leadership within product formulation, scientific research, and community-driven brand building to LMNT</p> <p>Host of Healthy Rebellion podcast and platform</p> <p>Cover topics ranging from metabolic flexibility to circadian biology to gut health and much more</p>   | <p>University of California San Diego, B.A., Economics, 2001</p>  |

## **Biographical Information**

James Murphy: James' work in consumer natural products ranges from building the #1 digestive health supplement brand in the country to investments in over two dozen natural products companies, with exits to publicly traded consumer products companies. Like many on the LMNT team, James was a collegiate athlete and loves staying active in fitness pursuits.

Robb Wolf: Robb is a 2x New York Times bestselling author of *The Paleo Solution* and *Wired to Eat*, is a former research biochemist and one of the world's leading experts in Paleolithic nutrition. He has transformed the lives of tens of thousands of people around the world via his top ranked iTunes podcast and wildly popular seminar series.

Brianna Segerson: From a collegiate athlete to new mom, Brianna has been in life-long pursuit of optimal wellness. Her career started in real estate overseeing more than \$450MM in development and acquisitions before she pivoted from real estate into the consumer natural products space. Her experience valuing properties and businesses is complimented by an extensive understanding of supply chain, operations, and human-centered organizational leadership.

Tyler Cartwright: Tyler is a key person and Co-Founder of the Company. He is also Co-Founder of Ketogains, a diet and lifestyle driven program for radically positive health outcomes. Tyler is a highly sought-after speaker on topics ranging from diet and lifestyle, technology and wellness and sustained change. His business ventures, like LMNT, are focused on health and wellness – attempting to help people get out of their own way and empowering them to succeed.

Luis Villaseñor: Luis is a key person and Co-Founder of the Company. He is also Co-Founder of Ketogains, a diet and lifestyle driven program for radically positive health outcomes. Luis is regarded as one of the most experienced and knowledgeable persons in the Low-Carb/Ketogenic dieting space and is the industry's go-to when applying a low-carb diet to effective Bodybuilding and Strength Training.

Nicki Violetti: Nicki is a key person and co-founder of LMNT. She has been at the forefront of health for two decades, founding the 4<sup>th</sup> CrossFit affiliate gym as well as leading digitally-enabled health communities. Currently, Nicki is a host of the Healthy Rebellion podcast and platform, where she and Robb cover topics ranging from metabolic flexibility to circadian biology to gut health and much more.

## **Indemnification**

Indemnification is authorized by the Company to directors, officers or controlling persons acting in their professional capacity pursuant to Delaware law. Indemnification includes expenses such as attorney's fees and, in certain circumstances, judgments, fines and settlement amounts actually paid or incurred in connection with actual or threatened actions, suits or proceedings involving such person, except in certain circumstances where a person is adjudged to be guilty of gross negligence or willful misconduct, unless a court of competent jurisdiction determines that such indemnification is fair and reasonable under the circumstances.

## **Employees**

The Company currently has 0 employees. All of the Company's employees are provided via a Services Agreement with Proton Fitness, LLC, for which James Murphy, the Company's CEO and Co-Founder, is an indirect majority owner. See the section titled "*Transactions with Related Persons and Conflicts of Interest*" for more information regarding this related party transaction.

## CAPITALIZATION, DEBT AND OWNERSHIP

### Capitalization

The Company's authorized capital stock consists of 15,000,000 shares of common stock, par value \$0.0001 per share (the "**Common Stock**") and 612,125 shares of Series A-1 preferred stock, par value \$0.0001 per share (the "**Series A-1 Preferred Stock**") and 881,000 shares of Series A-2 preferred stock, par value \$0.0001 per share (the "**Series A-2 Preferred Stock**") (the Series A-1 Preferred Stock and Series A-2 Preferred Stock, collectively, the "**Preferred Stock**"). Additionally, the Company has established the Drink LMNT Company Stock Plan for which 1,639,000 shares of Common Stock are reserved for issuance thereunder. At the filing of this Form C-AR, 8,893,921 shares of Common Stock (of which 1,423,921 shares are awards issued under the Drink LMNT Company Stock Plan), 612,125 shares of Series A-1 Preferred Stock and 881,000 shares of Series A-2 Preferred Stock are issued and outstanding. Additionally, the Company will have an additional 225,079 shares of Common Stock available for issuance under the Drink LMNT Company Stock Plan.

### Outstanding Capital Stock

The Company's outstanding capital stock consists of:

|   |  |
|---|--|
| <b>Type</b>   | Common Stock   |
| <b>Amount Outstanding</b>   | 8,893,921*   |
| <b>Par Value Per Share</b>  | \$0.0001   |
| <b>Voting Rights</b>  | 1 vote per share**   |
| <b>Anti-Dilution Rights</b>   | No   |
| <b>How this security may limit, dilute or qualify the Security issued pursuant to Regulation CF</b> | The Company may issue additional shares of Common Stock which may dilute the Security. |

\*A portion of these shares of Common Stock are subject to vesting requirements.

\*\*Common Stockholders as a class elect all of the directors of the Company.

|   |   |
|---|---|
| <b>Type</b>   | Series A-1 Preferred Stock  |
| <b>Amount Outstanding</b>   | 612,125   |
| <b>Par Value Per Share</b>  | \$0.0001  |
| <b>Voting Rights</b>  | 1 vote per share  |
| <b>Anti-Dilution Rights</b>   | Yes   |
| <b>Other Rights</b>   | <ul style="list-style-type: none"> <li>(a) Right to receive dividends payable when declared (non-cumulative), pari passu with the holders of Common Stock;</li> <li>(b) 1x Liquidation Preference of \$4.00 per share;</li> <li>(c) Right to convert into Common Stock at any time at \$4.00 per share;</li> <li>(d) Automatic conversion into Common Stock upon a public offering;</li> <li>(e) Protective provisions</li> </ul> |
| <b>How this security may limit, dilute or qualify the Security issued pursuant to Regulation CF</b> | The Company may issue additional shares of Series A-1 Preferred Stock which may dilute the Security.  |

|   |  |
|---|--|
| <b>Type</b>   | Series A-2 Preferred Stock*  |
| <b>Amount Outstanding</b>   | 881,000  |
| <b>Par Value Per Share</b>  | \$0.0001   |
| <b>Voting Rights</b>  | 1 vote per share   |
| <b>Anti-Dilution Rights</b>   | Yes  |
| <b>Other Rights</b>   | <ul style="list-style-type: none"> <li>(a) Right to receive dividends payable when declared (non-cumulative), pari passu with the holders of Common Stock;</li> <li>(b) 1x Liquidation Preference of \$1.00 per share;</li> <li>(c) Right to convert into Common Stock at any time at \$1.00 per share;</li> <li>(d) Automatic conversion into Common Stock upon a public offering at \$1.00 per share;</li> <li>(e) Protective provisions so long as 1,500,000 shares of Preferred Stock are outstanding</li> </ul> |
| <b>How this security may limit, dilute or qualify the Security issued pursuant to Regulation CF</b> | The Company may issue additional shares of Series A-2 Preferred Stock which may dilute the Security.   |

\*The Series A-2 Preferred Stock was issued on May 24, 2021 after conversion of outstanding SAFEs of the Company in the amount of \$881,000 at a conversion price of \$1.00 per share.

***Outstanding Options, Safes, Convertible Notes, Warrants***

As of the date of this Form C, the Company does not have any outstanding options, Safes, convertible notes or warrants.

|   |   |
|---|---|
| <b>Type</b>   | SAFE (Simple Agreement for Future Equity)                             |
| <b>Face Value</b>   | \$267,000   |
| <b>Voting Rights</b>  | The holders of SAFEs are not entitled to vote.                        |
| <b>Anti-Dilution Rights</b>   | None  |
| <b>Material Terms</b>   | Valuation cap of \$60,000,000   |
| <b>How this security may limit, dilute or qualify the Security issued pursuant to Regulation CF</b> | The Company may issue additional SAFEs which may dilute the Security. |

|   |   |
|---|---|
| <b>Type</b>   | Crowd SAFE Reg CF Offering (Simple Agreement for Future Equity)             |
| <b>Face Value</b>   | \$536,095   |
| <b>Voting Rights</b>  | The holders of SAFEs are not entitled to vote.                              |
| <b>Anti-Dilution Rights</b>   | None  |
| <b>Material Terms</b>   | Valuation cap of \$60,000,000   |
| <b>How this security may limit, dilute or qualify the Security issued pursuant to Regulation CF</b> | The Company may issue additional Crowd SAFEs which may dilute the Security. |

### Outstanding Debt

The Company has no debt outstanding.

### Previous Offerings of Securities

We have made the following issuances of securities within the last three years:

| <b>Security Type</b>                            | <b>Principal Amount of Securities Sold</b> | <b>Amount of Securities Issued</b> | <b>Use of Proceeds</b>  | <b>Issue Date</b>  | <b>Exemption from Registration Used or Public Offering</b> |
|---|--|------------------------------------|-------------------------|--|--|
| Common Stock                                    | \$748                                      | 7,480,000                          | N/A                     | December 30, 2019  | Section 4(a)(2)  |
| Common Stock*                                   | \$143                                      | 1,423,921                          | N/A                     | December 4, 2020-<br>March 31, 2022                          | Rule 701   |
| Series A-1 Preferred Stock                      | \$2,448,500                                | 612,125                            | General Working Capital | May 24, 2021   | Reg. D Rule 506(b)   |
| Series A-2 Preferred Stock                      | N/A**                                      | 881,000                            | General Working Capital | May 24, 2021   | Reg. D Rule 506(b)   |
| SAFES**   | \$881,000                                  | 3                                  | General Working Capital | December 18, 2019;<br>January 22, 2020;<br>February 11, 2020 | Section 4(a)(2)  |
| SAFES   | \$267,000                                  | 3                                  | General Working Capital | August 3, 2021;<br>October 15, 2021                          | Section 4(a)(2)  |
| Crowd SAFE (Simple Agreement for Future Equity) | \$536,095                                  | 608                                | General Working Capital | October 8, 2021  | Reg. CF  |

\*Issued pursuant to the Drink LMNT Company Stock Plan

\*\*Series A-2 Preferred Stock were issued on May 24, 2021 as a result of the conversion of outstanding SAFEs issued by the Company in the amount of \$881,000 at the conversion rate of \$1.00 per share.

See the section titled “*Capitalization and Ownership*” for more information regarding the securities issued in our previous offerings of securities.

### **Ownership**

The table below lists the beneficial owners of twenty percent (20%) or more of the Company’s outstanding voting equity securities, calculated on the basis of voting power, are listed along with the amount they own.

| <b>Name</b>              | <b>Amount and Type or Class Held</b> | <b>Percentage Ownership (in terms of voting power)</b> |
|--------------------------|--------------------------------------|--|
| Proton Venture CPG, LLC* | 3,740,000 shares of Common Stock     | 36.01%   |
| Salty AF LLC**           | 3,740,000 shares of Common Stock     | 36.01%   |

\*James Murphy, the Company's CEO and Co-Founder, is the sole owner of this entity.

\*\*This entity is owned by Robb Wolf, Tyler Cartwright and Luis Villaseñor, all Co-Founders of the Company.

## FINANCIAL INFORMATION

Please see the financial information listed on the cover page of this Form C-AR and in the financial statements attached hereto as Exhibit B, in addition to the following information.

### Operations

LMNT manufactures and sells an electrolyte drink mix in support of a healthy lifestyle. The Company was originally formed in Florida as Elemental Labs, LLC on October 5, 2018. The Company was converted to a Delaware corporation on December 30, 2019.

### Cash and Cash Equivalents

The Company considers short-term, highly liquid investment with original maturities of three months or less at the time of purchase to be cash equivalents. Cash consists of funds held in the Company's checking and savings accounts.

As of March 31, 2022, the Company had an aggregate of approximately \$6,789,275 in cash and cash equivalents. The Company is currently profitable and has sufficient financial resources to continue to operate.

### Liquidity and Capital Resources

In October 2021, the Company completed an offering pursuant to Regulation CF and raised \$536,095.

### Capital Expenditures and Other Obligations

On March 30, 2022, the Company entered into a purchase agreement to acquire certain residential real estate located in Big Sky, Montana for \$2,200,000. Closing is scheduled for May 11, 2022 and is dependent on the review and approval of property inspections and other customary closing conditions. In conjunction with the purchase agreement, the Company deposited \$50,000 in earnest money and plans on using cash on-hand to fund the remainder of the purchase price at closing.

Subsequent to closing, the Company anticipates obtaining mortgage financing on the property. This acquisition is part of the Company's expansion into the Mountain West region of the United States. As part of this expansion, the Company envisions the Bozeman and Big Sky, Montana area as the home and headquarters for the Drink LMNT brand. The Company anticipates using the residential real estate property for employee, promotional, advertising and client hosting purposes.

### Valuation

The Company has ascribed no valuation to the Company; the securities are priced arbitrarily.

### Material Changes and Other Information

#### *Trends and Uncertainties*

After reviewing the above discussion of the steps the Company intends to take, potential Investors should consider whether achievement of each step within the estimated time frame will be realistic in their judgment. Potential Investors should also assess the consequences to the Company of any delays in taking these steps and whether the Company will need additional financing to accomplish them.

The financial statements are an important part of this Form C-AR and should be reviewed in their entirety. Please see the financial statements attached as Exhibit B.

#### *Restrictions on Transfer*

Any Securities sold pursuant to Regulation CF being offered may not be transferred by any Investor of such Securities during the one-year holding period beginning when the Securities were issued, unless such Securities are transferred: (1) to the Company; (2) to an accredited investor, as defined by Rule 501(d) of Regulation D promulgated under the Securities Act; (3) as part of an IPO; or (4) to a member of the family of the Investor or the equivalent, to a trust controlled by the Investor, to a trust created for the benefit of a member of the family of the Investor or the equivalent,

or in connection with the death or divorce of the Investor or other similar circumstances. "Member of the family" as used herein means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse or spousal equivalent, sibling, mother/father/daughter/son/sister/brother-in-law, and includes adoptive relationships. Each Investor should be aware that although the Securities may legally be able to be transferred, there is no guarantee that another party will be willing to purchase them.

In addition to the foregoing restrictions, prior to making any transfer of the Securities or any capital stock into which they are convertible, such transferring Investor must either make such transfer pursuant to an effective registration statement filed with the SEC or provide the Company with an opinion of counsel reasonably satisfactory to the Company stating that a registration statement is not necessary to effect such transfer.

In addition, the Investor may not transfer the Securities or any capital stock into which they are convertible to any of the Company's competitors, as determined by the Company in good faith.

Furthermore, upon the event of an IPO, the capital stock into which the Securities are converted will be subject to a lock-up period and may not be lent, offered, pledged, or sold for up to 180 days following such IPO.

### **TRANSACTIONS WITH RELATED PERSONS AND CONFLICTS OF INTEREST**

From time to time the Company may engage in transactions with related persons. Related persons are defined as any director or officer of the Company; any person who is the beneficial owner of twenty percent (20%) or more of the Company's outstanding voting equity securities, calculated on the basis of voting power; any promoter of the Company; any immediate family member of any of the foregoing persons or an entity controlled by any such person or persons.

The Company has conducted the following transactions with related persons:

- (1) The Company is a party to a Services Agreement ("Proton Services Agreement") with Proton Fitness, LLC ("Proton Fitness"). Employees of Proton Fitness provide nearly all services required for the operation of the Company (including without limitation, strategic planning, accounting, information and technology, human resources/benefits, finance and audit, software and other technology development, product development, branding, marketing and sales support, website development and maintenance, procurement, insurance risk/management, and business advisory) in return for reimbursement of all direct and indirect, fully-burdened actual operating expenses for providing the services. James Murphy is an officer and director of the Company as well as an owner of Proton Venture CPG, LLC, a major stockholder in the Company. Mr. Murphy is also a manager and member of Proton Fitness. As of December 31, 2021, payments under the Proton Services Agreement for 2021 totaled approximately \$1,905,000.
- (2) The Company sponsors Robb Wolf's podcast (The Healthy Rebellion Radio), email and social media platform by payment of a \$5,000 industry standard monthly fee to Bado Gato, LLC owned by Mr. Wolf. Mr. Wolf is an officer and director of the Company.
- (3) The Company sponsors Ketogains (Arbco Enterprises LLC) social media platform and bootcamp by payment of a \$5,000 industry standard monthly fee to Arbco Enterprises, LLC owned by Tyler Cartwright and Luis Villansenor, who are Co-Founders and indirect material stockholders of the Company.

**EXHIBIT B  
FINANCIALS (AUDITED)  
(EXHIBIT B TO FORM C-AR)  
April 28, 2022**

**Drink LMNT, Inc.**





**DRINK LMNT, INC.**

FINANCIAL STATEMENTS  
December 31, 2021 & 2020



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ALAN T. SCHIFFMAN, CPA, PC  
1166 Dimock Lane | Naples, FL 34110

To the Board of Directors,  
Drink LMNT, Inc.  
New York, New York

## **Independent Auditor's Report**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Drink LMNT, Inc. which comprise the balance sheets as of December 31, 2021 and 2020 and the related statements of operations, stockholders' equity and cash flows for the two years ended December 31, 2021 and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position Drink LMNT, Inc. as of December 31, 2021 and 2020, and the results of its operations, stockholders' equity and its cash flows for the two years ended December 31, 2021 in accordance with U.S. generally accepted accounting principles.

  
Alan T. Schiffman, CPA, PC

April 25, 2022

DRINK LMNT, INC.  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(DOLLARS IN THOUSANDS)

|                                      | <u>2021</u> | <u>2020</u> |
|--------------------------------------|-------------|-------------|
| Net sales                            | \$ 31,589   | \$ 7,053    |
| Cost of products sold                | 10,058      | 1,872       |
| Gross profit                         | 21,531      | 5,181       |
| Selling, marketing and brand expense | 17,263      | 3,358       |
| Product development expense          | 421         | 183         |
| General and administrative expense   | 781         | 415         |
| Sales and use tax expense            | 413         | 95          |
| Total operating expenses             | 18,877      | 4,050       |
| INCOME FROM OPERATIONS               | 2,654       | 1,131       |
| Income tax expense                   | 680         | 251         |
| NET INCOME                           | \$ 1,974    | \$ 880      |

**The accompanying notes are an integral part of the consolidated financial statements.**

DRINK LMNT, INC.  
BALANCE SHEETS  
AS OF DECEMBER 31, 2021 AND 2020  
(DOLLARS IN THOUSANDS, EXCEPT PAR VALUES)

|  | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| <b>ASSETS</b>  |             |             |
| Cash and cash equivalents  | \$ 6,554    | \$ 1,324    |
| Accounts receivable, net   | 644         | 184         |
| Inventories  | 3,139       | 464         |
| Prepaid and other assets   | 562         | 675         |
| Total assets   | \$ 10,899   | \$ 2,648    |
| <b>LIABILITIES</b>   |             |             |
| Accounts payable and accrued expenses  | \$ 2,492    | \$ 418      |
| Sales and income taxes payable   | 1,243       | 346         |
| Other liabilities  | 48          | 6           |
|  | 3,783       | 769         |
| Simple agreement for future equity (SAFE), net   | 770         | 881         |
| Total liabilities  | 4,553       | 1,650       |
| <b>STOCKHOLDERS' EQUITY</b>  |             |             |
| Series A-1 preferred stock, \$0.0001 par value, 1,000,000 shares authorized,<br>612,125 issued and outstanding as of December 31, 2021   | 0           | -           |
| Series A-2 preferred stock, \$0.0001 par value 881,000 shares authorized,<br>issued and outstanding as of December 31, 2021  | 0           | -           |
| Common stock, \$0.0001 par value, 15,000,000 shares authorized,<br>8,140,188 shares issued and outstanding as of December 31, 2021 and<br>7,817,179 issued and outstanding as of December 31, 2020 | 1           | 1           |
| Additional paid-in-capital   | 3,663       | 288         |
| Retained earnings  | 2,683       | 709         |
| Total stockholders' equity   | 6,347       | 998         |
| Total liabilities and stockholders' equity   | \$ 10,899   | \$ 2,648    |

**The accompanying notes are an integral part of the consolidated financial statements.**

DRINK LMNT, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY  
AS OF DECEMBER 31, 2021 AND 2020  
(DOLLARS IN THOUSANDS)

|   | Series A-1 Preferred Stock |           | Series A-2 Preferred Stock |           | Common Stock |           | Additional paid-in capital | Retained earnings (Deficit) | Total    |
|---|----------------------------|-----------|----------------------------|-----------|--------------|-----------|----------------------------|-----------------------------|----------|
|   | Shares                     | Par value | Shares                     | Par value | Shares       | Par value |                            |                             |          |
| BALANCE, December 31, 2019                          | -                          | \$ -      | -                          | \$ -      | 7,480,000    | \$ 1      | \$ 270                     | \$ -                        | \$ 270   |
| Share based compensation                            | -                          | -         | -                          | -         | 337,179      | 0         | 18                         | -                           | 18       |
| Correction of a prior period accounting error       | -                          | -         | -                          | -         | -            | -         | -                          | (170)                       | (170)    |
| Net income  | -                          | -         | -                          | -         | -            | -         | -                          | 880                         | 880      |
| BALANCE, December 31, 2020                          | -                          | \$ -      | -                          | \$ -      | 7,817,179    | 1         | 288                        | 709                         | \$ 998   |
| Proceeds from Series A-1 preferred stock issuance   | 612,125                    | 0         | -                          | -         | -            | -         | 2,449                      | -                           | 2,449    |
| Conversion of SAFEs into Series A-2 preferred stock | -                          | -         | 881,000                    | 0         | -            | -         | 881                        | -                           | 881      |
| Share based compensation                            | -                          | -         | -                          | -         | 323,009      | 0         | 46                         | -                           | 46       |
| Net income  | -                          | -         | -                          | -         | -            | -         | -                          | 1,974                       | 1,974    |
| BALANCE, December 31, 2021                          | 612,125                    | \$ 0      | 881,000                    | \$ 0      | 8,140,188    | 1         | 3,663                      | 2,683                       | \$ 6,347 |

**The accompanying notes are an integral part of the consolidated financial statements.**

DRINK LMNT, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
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|   | <u>2021</u> | <u>2020</u> |
|---|-------------|-------------|
| Cash flows from operating activities:   |             |             |
| Net income  | \$ 1,974    | \$ 880      |
| Share-based compensation  | 46          | 18          |
| Adjustments to reconcile net income to net cash provided by operating activities: |             |             |
| Effect on cash of changes in operating assets and liabilities:                    |             |             |
| Accounts receivable   | (460)       | (70)        |
| Inventories   | (2,674)     | (196)       |
| Prepaid and other assets  | 112         | (656)       |
| Accounts payable and accrued expenses   | 2,074       | 339         |
| Sales and income taxes payable  | 897         | 346         |
| Other liabilities   | 43          | (64)        |
| Net cash provided by (used for) operating activities                              | 2,012       | 596         |
| Financing Activities  |             |             |
| Issuances of simple agreements for future equity (SAFEs), net                     | 770         | 464         |
| Redemption of SAFEs   | (881)       | -           |
| Conversion of SAFEs into Series A-2 preferred stock                               | 881         | -           |
| Proceeds from of Series A-1 preferred stock issuance                              | 2,449       | -           |
| Adjustment to retained earnings, correction of prior period error                 | -           | (170)       |
| Net cash provided by financing activities   | 3,218       | 293         |
| Net increase in cash and cash equivalents   | 5,230       | 889         |
| Cash and cash equivalents, beginning of year                                      | 1,324       | 435         |
| Cash and cash equivalents, end of period  | \$ 6,554    | \$ 1,324    |

**The accompanying notes are an integral part of the consolidated financial statements.**

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**NOTE 1 – NATURE OF OPERATIONS**

Drink LMNT, Inc. (or the “Company” “our” “we”), is a Delaware corporation organized on December 30, 2019. The Company was originally formed as a limited liability company under the name Elemental Labs, LLC, on October 5, 2018 and initiated operations in December of the same year. Pursuant to Articles of Conversion filed on December 30, 2019, Elemental Labs, LLC converted into a Delaware corporation, Drink LMNT, Inc., in exchange for the issuance of 7,480,000 shares of common stock.

The Company manufactures and distributes packaged powdered electrolyte drink mix formulated to help individuals with their electrolyte needs and is suited to individuals following keto, low-carb or paleo nutritional diets. The Company’s products are formulated with a ratio of sodium, potassium and magnesium and contain no sugar, gluten, fillers or artificial ingredients. Products are primarily sold and distributed directly to consumers through large and established e-commerce platforms.

The Company is headquartered and qualified to conduct business in Florida. The Company’s principal office is in New York, New York. Our revenues are derived primarily from operations in the United States, and to a lesser extent, Canada.

The Company is considered an emerging growth company under Section 101(a) of the Jumpstart Business Act as it is an issuer that had total annual gross revenues of less than \$1 billion during its most recently completed fiscal period. As the Company is an emerging growth company, the Company is exempt from Section 404(b) of Sarbanes-Oxley Act of 2002 and Section 14A(a) and (b) of the Securities Exchange Act of 1934.

The financial statements include forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the use of words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “could,” “seeks,” “projects,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words. Such forward looking statements are subject to various risks and uncertainties, including those described under the section entitled “Risk Factors” in the Offering Statement on Form C, filed with the Securities and Exchange Commission (“SEC”). Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in our filings with the SEC. The Company does not undertake an obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

Through the Offering Circular included herein, the Company is offering Simple Agreements for Future Equity (“SAFEs” or “securities”) from a minimum of \$250 to \$5,000. Proceeds from the offering will be made immediately available to the Company once the Company raises a minimum

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of \$250 (“Minimum Offering”). The Company intends to use the proceeds from the offering for ongoing growth initiatives, working capital and general corporate purposes.

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

### *Basis of presentation*

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).

### *Transactions with affiliates*

In October 2018, the Company entered into a Services Agreement with an affiliated entity (the “Affiliate”). Under the Services Agreement, the Affiliate provides product development, marketing, management and other related to services at an amount equal to all direct and indirect, fully burdened actual operating expenses incurred by the Affiliate. Refer to Note 7 – Transactions with Affiliates for additional information.

### *Risks and uncertainties*

The Company is subject to a number of risks similar to those of other companies of similar size in its industry, including, but not limited to, competition from substitute products and services from larger companies, changes in consumer taste, dependence on key individuals and affiliate relationships, and continuation of key partnerships with third parties involved in the production, sale and distribution of our products.

The Company's business and operations are sensitive to general business and economic conditions in the United States. A host of factors beyond the Company's control could cause fluctuations in these conditions. These adverse conditions could affect the Company's financial condition and results of its operations.

### *COVID-19*

In January 2020, the World Health Organization has declared the outbreak of COVID-19 as a “Public Health Emergency of International Concern,” which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus outbreak and government responses are creating disruption in global supply chains and adversely impacting many industries.

The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Company, its performance, and its financial results

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*Use of estimates*

To prepare financial statements in conformance with GAAP, the Company's management must make informed estimates affecting how we report revenues, expenses, assets, and liabilities. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

*Cash and cash equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value. As of December 31, 2021, and 2020, cash consists of checking and savings deposits. The Company's cash balances exceed those that are federally insured. To date, the Company has not recognized any losses caused by uninsured balances.

*Accounts receivable, net*

Accounts receivable are stated at net realizable value. Most customers are not extended credit, and therefore, time to maturity for receivables is short. For a small number of customers, trade credit is extended on a short-term basis, and therefore, trade accounts receivable do not bear interest and are due under normal trade terms. On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance or if any accounts should be written off based on history of write-offs, collections and current credit conditions. A receivable is considered past due if the Company has not received payments based on agreed-upon terms. The Company believes its accounts receivable credit risk exposure is limited and has not experienced any significant write-offs throughout its operating history.

*Inventories*

Inventories are valued at the lower of cost or net realizable value. Inventories are recorded using the weighted average cost method and primarily consist of packaged finished products. Costs associated with the purchase and transport of finished products are recorded as inventory. The Company periodically reviews the value of items in inventory and if applicable, provides write-downs or write-offs of inventory based on its assessment of slow-moving inventory. As of December 31, 2021, all the Company's inventory was held by third-party warehouse and customer fulfillment service providers.

*Property and Equipment*

The Company does not have any property or equipment. When the Company invests in property and equipment it will be stated at cost less accumulated depreciation. Depreciation and

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amortization will be calculated using the straight-line method over the estimated useful life of the respective assets.

*Revenue recognition*

Effective January 1, 2019, the Company adopted *Accounting Standards Codification 606, Revenue from Contracts with Customers* ("ASC 606"). Revenue is recognized when performance obligations under the terms of the contracts with our customers are satisfied.

Our net sales predominantly reflect the sale of packaged electrolyte drink mixes. The customer is most often the end-use consumer, and to a lesser extent, wholesaler or retailer. Each contract typically includes a single performance obligation to transfer control of the products to the customer. Depending on the contract, control is transferred when the products are either shipped or delivered to the customer, at which point we recognize the transaction price for those products as net sales. The transaction price recognized at that point reflects our estimate of the consideration to be received in exchange for the products.

For product sales directly shipped to the customer, control, title and risk of loss is transferred at shipping point. For product sales directly to wholesalers or retailers, the Company recognizes revenue when persuasive evidence of an arrangement exists, which includes a purchase order, fixed price, transfer of title, collection of the resulting receivable is reasonably assured and there are no customer acceptance requirements or remaining obligations.

Net sales exclude taxes we collect from customers that are imposed by various local, state and foreign governments on our sales. Net sales include any amounts we bill customers for shipping and handling activities related to the products. We recognize the cost of those activities in cost of product sales during the same period in which we recognize the related net sales.

Sales returns are treated as a reduction of sales.

*Cost of products sold*

Cost of products sold is primarily comprised of the direct materials, supplies and costs incurred to convert purchased materials and supplies into finished products. Cost of products sold also includes inbound freight costs, internal transfer costs, warehousing, fulfillment costs and costs associated with shipping and distribution to end-use consumers.

*Selling, marketing and brand expense*

Selling, marketing and brand expense is primarily comprised of advertising, promotional and marketing placement fees paid to third-party e-commerce platforms. Also, included within selling, marketing and brand expense are fees paid to third parties to aide and develop digital sales campaigns on social media and e-commerce platforms such as Facebook, Google and Amazon.

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Advertising costs, charged to expense as incurred or when the advertisements first take place, include internet, digital and internet broadcasting advertisement placements.

Non-advertising related components reported in selling, advertising and brand expense include consumer and brand promotions, partnerships with third-party affiliates and brand representatives, product sampling and other sales aids. Product sampling costs, net of funds collected for shipping and handling, totaled \$2,404 for the twelve months ended December 31, 2021 and \$180 for the twelve months ended December 31, 2020. Accounting for endorsement and sponsorship payments are based on the specific individual contract provisions.

Selling, marketing and brand expenses, including related costs of product sampling, amounted to \$17,263 and \$3,358 for the years ended December 31, 2021 and 2020, respectively.

*Income taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all the deferred tax assets will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Management believes any such positions are immaterial to the overall financial statements of the Company as of December 31, 2021, and December 31, 2020.

The Company is currently taxed as a corporation for federal and state income tax purposes. When filed, the Company's federal and state income tax returns for the years ended December 31, 2021, and December 31, 2020, will remain subject to examination by the relevant taxing authorities.

*Concentration of risk*

Certain of the Company's products utilize components, such as raw materials, from a limited number of sources. A disruption in the supply of such materials could significantly affect the Company's revenues from those products, as alternative sources may not be available at commercially reasonable rates or within an acceptable period of time.

The Company utilizes third-party ecommerce platforms, such as Amazon and Shopify, to sell a significant majority of its products. Any disruption or non-compliance with the respective

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platforms rules and regulations could significantly affect the Company's ability to market products to end-use consumers.

*Stock-based compensation*

In June 2018, FASB amended *ASU No. 2018-07, Compensation – Stock Compensation*, to expand the scope of *Topic 718, Compensation – Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. The new standard for nonpublic entities is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company has adopted the provisions of ASU No. 2018-07. Refer to the Note 8 for more information.

The Company accounts for stock-based compensation under the provisions of FASB ASC 718. The Company recognizes expense for non-employee restricted stock awards in the same period(s) and in the same manner as though the entity had paid cash for the underlying services provided. Accordingly, the Company recognizes the cost of non-employee restricted share awards during the period when the underlying services are received or performed by the non-employee. Compensation expense for non-employee restricted stock awards is measured based on the estimated fair value of the underlying award as of the date of grant. The Company reviews restricted stock awards on an award-by-award basis to determine if vesting of the award pertains to a service or performance condition. As such, compensation cost is recognized (1) on the date of grant for restricted share awards with no future service or performance condition, (2) at the time when the underlying service has been performed or rendered, or (3) on a straight-line basis over the defined service period. The Company accounts for forfeitures as they occur.

*Foreign currency transactions and translation*

The Company's functional and reporting currency is the US dollar.

*SAFE issuance costs*

Costs incurred in connection with the issuance of the Company's Simple Agreements for Future Equity (SAFEs) have been recorded as a direct reduction against the SAFEs issued.

*Recent accounting pronouncements*

In August 2018, amendments to existing accounting guidance were issued through *Accounting Standards Update 2018-15* to clarify the accounting for implementation costs for cloud computing arrangements. The amendments specify that existing guidance for capitalizing implementation costs incurred to develop or obtain internal-use software also applies to implementation costs incurred in a hosting arrangement that is a service contract. The guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, and early application is permitted. We are currently evaluating the effect, if any, that the updated standard will have on the financial statements and related disclosures.

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The FASB issues ASUs to amend the authoritative literature in ASC. There have been several ASUs to date, including those above, that amend the original text of ASC. Management believes that those issued to date either (1) provide supplemental guidance, (2) are technical corrections, (3) are not applicable or (4) are not expected to have a material impact on our financial statements.

**NOTE 3 – FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and such principles also establish a fair value hierarchy that prioritizes the inputs used to measure fair value using the following definitions (from highest to lowest priority):

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.
- Level 3 – Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable.

| December 31, 2021 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------|----------------|----------------|----------------|--------------|
| Cash              | \$6,554        | -              | -              | \$6,554      |

| December 31, 2020 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------|----------------|----------------|----------------|--------------|
| Cash              | \$1,324        | -              | -              | \$1,324      |

**NOTE 4 – PRIOR PERIOD ACCOUNTING ERROR**

Through a review of its books and records, the Company determined that certain expenses paid during the twelve-month period ended December 31, 2020, applied to costs incurred during the twelve-month period ended December 31, 2019. Expenses approximating \$170 were charged to opening retained earnings as of January 1, 2020.

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**NOTE 5 – INVENTORIES**

Inventories are recorded at the lower of weighted average cost or market and are comprised of packaged finished goods totaling \$3,139 and \$464 as of December 31, 2021 and 2020, respectively. All inventory is held at third-party warehouse and order fulfillment service providers.

**NOTE 6 – PREPAID EXPENSES AND OTHER ASSETS**

The Company prepays certain advertising and marketing expenses along with other general and administrative expenses. The Company amortizes the prepaid expenses over the economically beneficial periods; none of the periods exceed twelve months. As of December 31, 2021, and 2020 the company had prepaid expenses of \$237 and \$551, respectively.

**NOTE 7 – TRANSACTIONS WITH AFFILIATES**

In October 2018, the Company entered into a Services Agreement (the “Agreement”) with an affiliated entity (the “Affiliate”). The Affiliate is a provider of product development, marketing, management and related services (“Services”) to affiliated companies offering health and wellness consumer products. Under the Services Agreement, the Affiliate determines the resources and facilities to be used in rendering the Services and performs the Services by means of its employees or contractors hired by the Affiliate. The manner and means by which the Affiliate chooses to select, hire, train, assign, compensate, correct reassign or dismiss employees or contractors to perform the Services are in the sole discretion of the Affiliate. As of December 31, 2021, and December 31, 2020, the Company did not have any direct employees.

The Services provided by the Affiliate may include, but are not limited to, strategic planning, accounting, information and technology, human resources, finance and internal audit, software and other technology development, product development, branding, marketing and sales support, website development and maintenance, procurement, insurance, risk management and business advisory. In consideration of the Services performed, the Company pays the Affiliate an amount equal to all direct and indirect, fully burdened actual operating expenses for providing the Services with indirect costs allocated based on methods as mutually agreed to be consistent and reasonable.

Unless terminated, the Agreement automatically renews for consecutive three-month periods. The Company or the Affiliate may terminate this Agreement for any reason upon ninety days prior written notice or no less than ten days written notice upon either party materially breaching any term of the Agreement. The Agreement may be terminated by either party immediately on notice upon the bankruptcy or liquidation of the other party.

During the years ended December 31, 2021 and 2020, the Affiliate charged the Company \$1,905 and \$1,001, respectively, for professional services and operating expenses incurred.

The Company has also entered a Working Capital Reserve Agreement with the Affiliate. Under the Agreement, the Company shall deposit a cash reserve with the Affiliate to be used for normal

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expenses and contingencies incurred by the Affiliate. Expenses include, but are not limited to payroll, rent and other general and administrative expenses related to the day-to-day operations of the Affiliate. The cash reserve deposited with the Affiliate may be adjusted and is subject to replenishment, upon written consent, by the Company if used by the Affiliate. The Company can request an audit of the Affiliate's expenses at any time, and funds deposited will be repaid to the Company if the Affiliate is removed. As of December 31, 2021, and December 31, 2020, the Company had \$320 and \$100 held in reserve at the Affiliate.

**NOTE 8 – SHARE BASED COMPENSATION**

On December 1, 2020, Drink LMNT, inc. adopted The Company Stock Plan with the purpose of retaining the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, non-employees and consultants to promote the success of the Company's business. Options granted under the Company Stock Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined at the time of grant of an Option and subject to the applicable provisions of Section 422 of the Internal Revenue Code and the regulations promulgated thereunder. Restricted Stock may also be granted under the Plan. The maximum aggregate number of shares that may be issued under the Company Stock Plan is 1,639,000. As of December 31, 2021, all shares granted under the Company Stock Plan consisted of Restricted Stock Awards.

As of December 31, 2021, 1,306,025 shares have been granted under the Company Stock Plan with 332,975 shares available for issue. Of the 1,306,025 shares granted, 660,188 represent vested shares as of December 31, 2021.

The Company recorded \$46 and \$18 of compensation expense relating to Restricted Stock Awards during the years ended December 31, 2021 and December 31, 2020, respectively. Compensation expense is measured based on the estimated fair market value as of the grant date.

The grant date fair value of Restricted Stock Awards granted during the years ended December 31, 2021 and 2020 ranged from \$0.10 to \$0.55 per share, respectively.

As of December 31, 2021, 645,837 restricted stock awards are expected to vest with total unrecognized compensation expense of \$100, which, as applicable, is expected to be recognized when the underlying services are performed or over the remaining service period of the underlying award.

**NOTE 9 – SIMPLE AGREEMENTS FOR FUTURE EQUITY (“SAFEs”) & CROWD SAFEs**

In 2019 and 2020, the Company issued Simple Agreements for Future Equity (“SAFEs”) in the amounts of \$464 and \$418, respectively for a total of \$881. In May 2021, the Company converted all of the outstanding SAFEs into 881,000 shares of the Company's Series A-2 Preferred Stock.

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From August 2021 to October 2021, the Company issued new SAFEs in the amount of \$803, or \$770 net of issuance costs, under Section 4(a)(6), regulation Crowdfunding (“Reg CF”) of the Securities Act of 1933 (“Crowd SAFEs”). If an Equity Financing, or the next sale (or series of related sales) by the Company of its equity securities to one or more third parties following the date of this instrument from which the Company receives gross proceeds of not less than \$1,000 cash or cash equivalents (excluding the conversion of any instruments convertible into or exercisable or exchange for Capital Stock, such as SAFEs or convertible promissory notes) with the principal purpose of raising capital, occurs before the Crowd SAFEs terminate (“First Equity Financing”) the Company shall notify the Crowd SAFE Investor of the closing of the First Equity Financing and of the Company’s discretionary decision to either (1) continue the term of the Crowd SAFE without converting into Capital Stock, (2) issue to the Crowd SAFE Investor a number of shares of the CF Shadow Series of the Capital Stock (whether Preferred Stock or another class issued by the Company) sold in the First Equity Financing. The number of shares of the CF Shadow Series of such Capital Stock shall equal the quotient obtained by dividing (x) the Investor Purchase Amount by (y) the First Equity Financing Price.

The “First Equity Financing Price” shall mean (x) if the pre-money valuation of the Company immediately prior to the First Equity Financing is less than or equal to the Valuation Cap, or \$60,000, the lowest price per share of the Equity Securities sold in the First Equity Financing or (y) if the pre-money valuation of the Company immediately prior to the First Equity Financing is greater than the Valuation Cap, the SAFE Price, or the Valuation Cap divided by the Fully Diluted Capitalization. The Fully Diluted Capitalization represents the aggregate number, as of immediately prior to the First Equity Financing, of issued and outstanding shares of Capital Stock, assuming full conversion or exercise of all convertible and exercisable securities then outstanding, including shares of Preferred Stock and all outstanding vested or unvested option or warrants to purchase Capital Stock, but excluding (1) the issuance of all shares of Capital Stock reserved and available for future issuance under any of the Company’s existing equity incentive plans, (2) convertible promissory notes issued by the Company, (3) any SAFEs, and (4) any equity securities that are issuable upon conversion of any outstanding convertible promissory notes or SAFEs.

If the Company elects to continue the term of this Crowd SAFE past the First Equity Financing and another Equity Financing occurs before the termination of this Crowd SAFE in accordance with Sections 1(b)-(d) (each, a “Subsequent Equity Financing”), the Company shall promptly notify the Investor of the closing of the Subsequent Equity Financing and of the Company’s discretionary decision to either (1) continue the term of this Crowd SAFE without converting the Investor’s Purchase Amount to Capital Stock; or (2) issue to the Investor a number of shares of the CF Shadow Series of the Capital Stock (whether Preferred Stock or another class issued by the Company) sold in the Subsequent Equity Financing. The number of shares of the CF Shadow Series of such Capital Stock shall equal to the quotient obtained by dividing (x) the Purchase Amount by (y) the First Equity Financing Price.

The Crowd SAFEs terminate upon the earlier of (1) the issuance of shares, whether in Capital Stock or in the CF Shadow Series or (2) the payment or setting aside for payment of amounts due to the Crowd SAFE Investor through a Liquidity Event or Dissolution Event.

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**NOTE 10 – INCOME TAXES**

The Company filed partnership income tax returns through December 31, 2019. The partnership was a flow through entity and therefore, the partners were responsible for the related income tax liabilities arising from the Company operations.

The Company filed a corporate income tax return for the year ended December 31, 2020 and intends to file its corporate income tax return for the year ended December 31, 2021. Both tax returns will remain subject to examination by the Internal Revenue Services under the statute of limitations for a period of three years from the date the return is filed.

Certain timing differences may exist as to the accounting method applied for prepaid expenses, inventory and other costs, between capitalizing or expensing such costs. Deferred income taxes may arise because of the timing differences.

|                        | <u>2021</u>  | <u>2020</u>  |
|------------------------|--------------|--------------|
| Current tax provision: |              |              |
| Federal                | \$526        | \$209        |
| State                  | 154          | 42           |
| Total tax provision    | <u>\$680</u> | <u>\$251</u> |

**NOTE 11 – LEASES**

The Company is subject to a short-term lease of office space located in New York, New York. The Company recognizes the lease payments as an expense as incurred on a straight-line basis. During the years ended December 31, 2021 and December 31, 2020, the Company recorded rent expense of \$62 and \$44, respectively.

**NOTE 12 – STOCKHOLDERS' EQUITY**

Pursuant to Article IV, of the Amended and Restated Certificate of Incorporation of Drink LMNT, Inc. dated May 10, 2021 (“Amended and Restated Certificate”), the Company is authorized to issue two classes of stock, common stock and preferred stock. In aggregate, the Company is authorized to issue 16,881,000 shares of capital stock; consisting of 15,000,000 shares of common stock, par value of \$0.0001 per share, and 1,881,000 shares of preferred stock, par value of \$0.0001 per share, of which 1,000,000 shares are designated as Series A-1 Preferred Stock and 881,000 shares are designated as Series A-2 Preferred Stock.

In May of 2021, the Company issued 612,125 shares of Series A-1 Preferred Stock for aggregate proceeds of \$2,449. Refer to Note 9, for additional discussion on the May 2021 conversion of all outstanding 2019 and 2020 SAFEs into 881,000 shares of the Company’s Series A-2 Preferred Stock.

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*Common stock*

Pursuant to the Amended and Restated Certificate, the Company is authorized to issue 15,000,000 shares of common stock having a par value of \$0.0001. Under a Founders Agreement dated December 31, 2019, the Founders of the Company each received 3,740,000 shares of the Company's common stock.

As of December 31, 2021, only the Founders and those granted shares under the Company's Stock Plan (Note 8) have been issued shares of common stock. The voting, dividend and liquidation rights of the holders of the common stock are subject to and qualified by the rights, powers and privileges of the holders of the preferred stock set forth in the Amended and Restated Certificate. Holders of common stock are entitled to one vote for each share of common stock held at all meetings of stockholders. The number of authorized shares of common stock may be increased or decreased by the affirmative vote of the holders of shares of capital stock of the Company representing a majority of the votes represented by all outstanding shares of capital stock of the Company entitled to vote. There is no cumulative voting.

*Series A-1 and A-2 preferred stock*

The holders of Series A preferred stock shares ("Series A Holder(s)") are entitled to receive dividends, pari-passu with the holders of common stock, payable if or when declared by the Company's Board of Directors. Any dividends paid to the holders of preferred stock are not cumulative and are to be distributed among all the holders of common stock and preferred stock in proportion to the number of shares of common stock that would be held by each such holder if all shares of preferred stock were converted into common stock at the then effective conversion ratio.

Each Series A Holder has the right of first refusal to purchase the Series A Holder's Pro Rata Share of any New Securities that the Company may from time to time issue; however, the Series A Holder will have no right to purchase any New Securities if the Series A Holder cannot demonstrate to the Company that such person is an accredited investor as defined in Regulation D of the Securities Act of 1933. A Series A Holder's Pro Rata Share means the ratio of (a) the number of shares of the Company's Common Stock issued or issuable upon conversion of the shares of Series A Preferred Stock owned by such Series A Holder, to (b) the Fully-Diluted Share Number. The Fully-Diluted Share Number is the number of shares of the Company's capital stock equal to all shares of the Company's capital stock (on an as-converted basis) issued and outstanding, assuming exercise or conversion of all options, warrants and other convertible securities.

New Securities means any Common Stock or Preferred Stock, whether now authorized or not, and rights, options or warrants to purchase Common Stock or Preferred Stock, and securities of any type whatsoever that are, or may become, convertible or exchangeable into Common Stock or Preferred Stock; provided, however, that "New Securities" does not include: (a) shares of Common Stock issued or issuable upon conversion of any outstanding shares of Preferred Stock; (b) shares of Common Stock or Preferred Stock issuable upon exercise of any options, warrants, or rights to

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purchase any securities of the Company outstanding as of the Agreement Date and any securities issuable upon the conversion thereof; (c) shares of Common Stock or Preferred Stock issued in connection with any stock split or stock dividend or recapitalization; (d) shares of Common Stock (or options, warrants or rights therefor) granted or issued after the Agreement Date to employees, officers, directors, contractors, consultants or advisers to, the Company or any subsidiary of the Company pursuant to incentive agreements, stock purchase or stock option plans, stock bonuses or awards, warrants, contracts or other arrangements that are approved by the Board; (e) shares of the Company's Series A Preferred Stock issued pursuant to this Agreement; (f) any other shares of Common Stock or Preferred Stock (and / or options or warrants) issued or issuable primarily for other than equity financing purposes and approved by the Board; (g) shares of Common Stock issued or issuable by the Company to the public pursuant to a registration statement filed under the Securities Act; and (h) up to an additional \$1,000,000 aggregate purchase amount of SAFEs to be issued after the Agreement Date with a "Valuation Cap" of no less than \$50,000,000, and the Common Stock or Preferred Stock issued or issuable upon conversion of such SAFEs or upon conversion of any securities into which such SAFEs may be converted.

If the Company proposes to undertake an issuance of New Securities, it shall give notice to each Series A Holder of its intention to issue New Securities, describing the type of New Securities and the price and general terms upon which the Company proposes to issue the New Securities. Each Series A Holder will have (10) days from the date of notice to agree in writing to purchase such Series A Holder's Pro Rate Share of such New Securities form the price and upon the general terms specified in the Notice by giving written notice to the Company and stating therein the quantity of New Securities to be purchased. If the Series A Holders fail to exercise in full the right of first refusal within the 10-day period, then the Company will have (120) days thereafter to sell the New Securities with respect to which the Series A Holders' rights of first refusal were not exercised at a price and upon general terms not materially more favorable to the purchasers thereof than specified in the Company's Notice to the Series A Holders.

Each Share of Preferred Stock is convertible, at the option of the holder thereof, at any time after the date of issuance of such share into such a number of fully paid and nonassessable shares of Common Stock as is determined by dividing the applicable Original Issue Price for such series by the applicable Conversion Price for such series determined in effect on the date such shares are surrendered for conversion. The initial Conversion Price per share for each series of Preferred Stock shall be the Original Issue Price applicable to such series; provided, however, that the Conversion Price for the Preferred Stock shall be subject to adjustment as set forth within the respective agreement.

Each share of Preferred Stock shall automatically be converted into shares of Common Stock at the Conversion Rate at the time in effect for such series of Preferred Stock immediately upon the earlier of (1) the closing of the Company's sale of its Common Stock in a firm commitment underwritten public offering pursuant to a registration state on Form S-1 under the Securities Act of 1933 or (2) the date, or the occurrence of an event specified by vote or written consent or agreement of the holders of a majority of the then outstanding shares of Preferred Stock.

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Upon a liquidation event, the holders of preferred stock are entitled to receive out of the proceeds of the Company, available for distribution to its shareholders, prior and in preference to any distributions to the holders of common stock an amount per share equal to the Original Issue Price of \$4.00 per share for the Series A-1 Preferred Stock and \$1.00 per share for Series A-2 Preferred Stock, as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalizations or the like with respect to the Series A-2 Preferred Stock.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

*Sales and use tax*

The Company determined that it was required to pay sales and use tax on products sold to end-use consumers in various state jurisdictions. Accordingly, the Company recorded liabilities of \$413 as of December 31, 2021 and \$94 as of December 31, 2020, for the amount it estimates that it did not collect from customers at the time of sale, which includes estimated penalties and interest. The Company is in the process of filing voluntary disclosure agreements with certain jurisdictions, filing back returns and remitting the estimated sale and use tax that it did not collect from customers.

If these jurisdictions determine that additional amounts of sales and use tax are necessary, the Company will be required to pay accordingly.

**NOTE 14 – SUBSEQUENT EVENTS**

*Real estate investment*

On March 30, 2022, the Company entered into a purchase agreement to acquire certain residential real estate located in Big Sky, Montana for \$2,200. Closing is scheduled for May 11, 2022, and is dependent on the review and approval of property inspections and the other customary closing conditions. In-conjunction with the purchase agreement, the Company deposited \$50 in earnest money and plans on using cash on-hand to fund the remainder of the purchase price at closing. Subsequent to closing, the Company anticipates obtaining mortgage financing on the property.

This acquisition is part of the Company's expansion into the Mountain West region of the United States. As part of this expansion, the Company envisions the Bozeman and Big Sky, Montana area as the home and headquarters for the Drink LMNT brand. The Company anticipates using the residential real estate property for employee, promotional, advertising and client hosting purposes.

*Crowdfunded offering*

On February 14, 2022, the Company entered a Republic Regulation Crowdfunding Offering Agreement with OpenDeal Portal LLC dba Republic whereas the Company seeks to complete an offering of the Company's securities under Section 4(a)(6), Regulation Crowdfunding, of the

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Securities Act of 1933 (the “Offering”) up to \$5,000 in Simple Agreement(s) for Future Equity (SAFEs). The Company is attempting to raise a minimum amount of \$250 or maximum amount of \$5,000 in this offering. The Company must receive commitments from investors aggregating to the minimum amount by the offering deadline listed in the Form C, as amended, to receive any funds.

*Management’s evaluation*

The Company evaluated subsequent events from December 31, 2021, the date of these financial statements, through April 25, 2022, which represents the date the financial statements were available for issuance, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2021. The Company concluded that no events, have occurred that would require disclosure in the financial statements, with the exception of the real estate investment and the crowdfunding offering noted above.