
Panacea Life Sciences Holdings, Inc.

Nevada
*(State or other jurisdiction of
incorporation or organization)*

27-1085858
*(I.R.S. Employer
Identification No.)*

5910 S University Blvd, C18-193, Greenwood Village, CO 80121
(Address of principal executive offices, Zip Code)

800-985-0515
(Registrant's telephone number, including area code)

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

Panacea Life Sciences Holdings, Inc. and Subsidiary Unaudited Condensed Consolidated Balance Sheets

Panacea Life Sciences Holdings, Inc. and Subsidiary Unaudited Condensed Consolidated Balance Sheets		
	June 30, 2024	December 31, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 189,054	\$ 100,922
Accounts receivable, net	444,429	263,970
Other receivables, related party	13,000	-
Inventory	4,031,457	4,013,525
Marketable securities related party	9,504	14,933
Prepaid expenses and other current assets	205,100	263,003
TOTAL CURRENT ASSETS	4,892,544	4,656,353
Operating lease right-of-use asset, net, related party	3,412,581	3,864,591
Property and equipment, net	5,685,982	6,448,068
Intangible assets, net	-	-
Goodwill	3,014,450	3,014,450
TOTAL ASSETS	\$ 17,005,557	\$ 17,983,462
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 5,804,811	\$ 4,629,591
Operating lease liability, current portion, related party	2,799,539	2,913,781
Note payable-current, related party	12,402,322	11,397,617
First Bank note payable	275,078	292,942
Convertible note payable, net	-	115,000
Paycheck protection loan, SBA Loan	99,100	99,100
TOTAL CURRENT LIABILITIES:	21,380,850	19,448,031
Operating lease liability, long-term portion, related party	3,136,298	3,254,021
Other long-term liabilities, related party	3,572,864	3,572,864
TOTAL LIABILITIES	28,090,012	26,274,916
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY		
Series A Preferred Stock: \$0.0001 Par Value, 1,000 shares designated; 0 and 350 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	-	-
Series B-1 Preferred: \$0.0001 Par Value, 32,000,000 shares designated; 1,500,000 and 1,500,000 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	150	150
Series B-2 Preferred: \$0.0001 Par Value, 6,000,000 shares designated; 6,000,000 and 6,000,000 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	600	600
Series C Preferred: \$0.0001 Par Value, 1,000,000 shares designated; 1,000,000 and 1,000,000 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	100	100
Series C-1 Preferred: \$0.0001 Par Value, 10,000 shares designated and 10,000 and 10,000 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	1	1
Series C-2 Preferred: \$0.0001 Par Value, 100 and 0 shares designated and 100 and 0 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	-	-
Series D Preferred: \$0.0001 Par Value, 10,000 shares designated and 10,000 and 10,000 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	1	1
Series N7 Preferred: \$0.0001 Par Value, 3,853,000 shares designated and 3,853,000 and 3,853,000 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	385	385
Common Stock: \$0.0001 Par Value, 650,000,000 shares authorized; 18,311,352 and 17,645,352 shares issued and outstanding on June 30, 2024 and December 31, 2023 respectively.	1,832	1,765
Additional paid in capital	25,743,375	25,628,442
Accumulated deficit	(36,830,899)	(33,922,898)
TOTAL STOCKHOLDERS' EQUITY	(11,084,455)	(8,291,454)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 17,005,557	\$ 17,983,462
	-	-

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

Panacea Life Sciences Holdings, Inc. and Subsidiary
Unaudited Condensed Consolidated Statements of Operations

Panacea Life Sciences Holdings, Inc. and Subsidiary Unaudited Condensed Consolidated Statements of Operations				
	Three months ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
REVENUE	\$ 1,174,165	\$ 399,128	\$ 2,230,612	\$ 1,076,609
COST OF SALES	453,049	196,314	843,331	648,186
GROSS PROFIT	721,116	202,814	1,387,281	428,423
OPERATING EXPENSES				
Production related operating expenses	1,479,572	1,131,711	2,954,047	2,389,870
General and administrative expenses	245,868	145,213	494,906	402,626
TOTAL OPERATING EXPENSES	1,725,440	1,276,924	3,448,953	2,792,496
LOSS FROM OPERATIONS	(1,004,324)	(1,074,110)	(2,061,672)	(2,364,073)
OTHER INCOME (EXPENSES)				
Interest expense	(459,983)	(366,944)	(889,655)	(747,101)
Unrealized gain (loss) on marketable securities, net	-	(464,719)	5,053	(646,974)
Realized gain (loss) on sale of securities	-	-	(376)	-
Other income (loss)	-	-	-	-
Employer retention credit	-	-	-	-
Rental Income	2,380	41,531	38,649	101,863
Gain on extinguishment of debt	-	-	-	748
TOTAL OTHER INCOME (EXPENSE)	(457,603)	(790,132)	(846,329)	(1,291,464)
INCOME (LOSS) BEFORE INCOME TAXES	(1,461,927)	(1,864,242)	(2,908,001)	(3,655,537)
TAXES	-	-	-	-
NET INCOME (LOSS)	\$ (1,461,927)	\$ (1,864,242)	\$ (2,908,001)	\$ (3,655,537)
Per-share data				
Basic and diluted loss per share	\$ (0.07)	\$ (0.11)	\$ (0.14)	\$ (0.21)
Weighted average number of common shares outstanding	20,759,288	17,645,352	20,759,288	17,645,352

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

PANACEA LIFE SCIENCES HOLDINGS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
(unaudited)

PANACEA LIFE SCIENCES HOLDINGS, INC. AND SUBSIDIARY CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY (unaudited)								
Six Months Ended June 30, 2024								
	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity	
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2023	12,838,350	\$ 1,238	17,645,352	\$ 1,765	\$ 25,628,442	\$ (33,922,898)	\$ (8,291,454)	
Shares issued in respect of the merger	-	-	-	-	-	-	-	
Shares issued	-	-	3,113,936	67	114,933	-	115,000	
Net Loss	-	-	-	-	-	-	(2,908,001)	
Balance as of June 30, 2024	12,838,350	\$ 1,238	20,759,288	\$ 1,832	\$ 25,743,375	\$ (33,922,898)	\$ (11,084,455)	
Three Months Ended June 30, 2024								
	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity	
	Shares	Amount	Shares	Amount				
Balance as of March 31, 2024	12,838,350	\$ 1,238	17,645,352	\$ 1,832	\$ 25,743,375	\$ (33,922,898)	\$ (9,622,528)	
Sale of shares to investors	-	-	-	-	-	-	-	
Shares issued	-	-	3,113,936	-	114,933	-	-	
Net Loss	-	-	-	-	-	-	(1,461,927)	
Balance as of June 30, 2024	12,838,350	\$ 1,238	20,759,288	\$ 1,832	\$ 25,858,308	\$ (33,922,898)	\$ (11,084,455)	
Six Months Ended June 30, 2023								
	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity	
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2022	8,530,000	\$ 853	14,965,317	\$ 1,497	\$ 23,760,704	\$ (25,907,597)	\$ (2,144,544)	
Sale of shares to investors	-	-	454,545	46	74,955	-	75,000	
Issuance of common shares for services	-	-	275,490	28	23,069	-	23,097	
Issuance of restricted shares to employees	-	-	1,410,000	141	(141)	-	-	
Shares issued in settlement of convertible note	-	-	540,000	54	134,946	-	135,000	
Net Loss	-	-	-	-	-	(3,655,537)	(3,655,537)	
Balance as of June 30, 2023	8,530,000	\$ 853	17,645,352	\$ 1,765	\$ 23,993,533	\$ (29,563,134)	\$ (5,566,984)	
Three Months Ended June 30, 2023								
	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity	
	Shares	Amount	Shares	Amount				
Balance as of March 31, 2023	8,530,350	\$ 853	15,505,317	\$ 1,550	\$ 23,895,650	\$ (27,698,892)	\$ (3,800,839)	
Sale of shares to investors	-	-	454,545	46	74,955	-	75,000	
Issuance of common shares for services	-	-	275,490	28	23,069	-	23,097	
Issuance of restricted shares to employees	-	-	1,410,000	141	(141)	-	-	
Net Income (Loss)	-	-	-	-	-	(1,864,242)	(1,864,242)	
Balance as of June 30, 2023	8,530,000	\$ 853	17,645,352	\$ 1,765	\$ 23,993,533	\$ (29,563,134)	\$ (5,566,984)	

The accompanying notes are an integral part of these financial statements

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

Panacea Life Sciences, Inc.
Statements of Cash Flows

	For the months ended June 30,	
	2024	2023
Cash flows from operating activities		
Net income (loss)	\$ (2,908,001)	\$ (3,655,537)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	767,086	845,282
Realized gain on sale of securities	376	-
Unrealized (gain)/loss on marketable securities	5,053	646,974
Fixed Asset Disposal Loss	-	-
Inventory Insurance Disposal	-	-
Non cash settlement of convertible note and accrued interest	-	74,999
Amortization of intangible assets	-	-
Amortization of debt discount and non-cash interest expense	-	38,329
Gain on forgiveness of payroll protection loan	-	-
Changes in operating assets and liabilities		
Accounts receivable	(193,459)	(65,963)
Inventory	(17,932)	90,992
Prepaid expense and other assets	57,903	(36,197)
Accounts payable and accrued expenses	1,175,220	1,034,568
Operating lease liability, net	220,045	229,386
Net cash used in operating activities	<u>(893,709)</u>	<u>(797,167)</u>
Cash flows from investing activities		
Net fixed asset acquisitions	<u>(5,000)</u>	<u>(24,570)</u>
Net Cash provided by (used in) investing activities	(5,000)	(24,570)
Cash flows from financing activities		
Repayment of notes payable	(17,864)	(135,000)
Proceeds from payroll protection loan, SBA loan	-	-
Proceeds from payroll protection loan - related party	-	-
Payments of principal on notes payable - related party	-	(118,000)
Proceeds from Notes payable - related party	1,004,705	1,075,976
Proceeds from notes payable	<u>-</u>	<u>-</u>
Cash provided by financing activities	986,841	822,976
Net increase (decrease) in Cash and Cash Equivalents	88,132	1,239
Cash and Cash Equivalents, Beginning of Period	100,922	6,951
Cash and Cash Equivalents, End of Period	<u>\$ 189,054</u>	<u>\$ 8,190</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for income taxes during the year	\$ -	\$ -
Interest payments during the year	\$ -	\$ -
Noncash investing and financing activity		
Conversion of note payable to common stock	<u>\$ (115,000)</u>	<u>\$ -</u>

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

PANACEA LIFE SCIENCES HOLDINGS, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 - NATURE OF ORGANIZATION

Organization and Business Description

Panacea Life Sciences Holdings, Inc. (OTC: PLSH) is a holding company organized as a plant-based natural health ingredient and product company, specializing in the development, manufacturing, research, and distribution of products within the \$134B and rapidly growing natural health and wellness market segment for both humans and animals.

Established in 2017, the company's first subsidiary, Panacea Life Sciences, Inc. (PLS), is dedicated to the production, distribution, research, and manufacturing of premium-quality nutraceuticals, cannabinoids, mushrooms, kratom, and other natural, plant-based ingredients and products. Operating from a cutting-edge 51,000 square foot cGMP facility located in Golden, Colorado, PLS is committed to delivering high-quality solutions in the field of natural health and well-being. Panacea also offers the purest natural remedies within its branded product lines for every aspect of life: PANA Health™, PANA Beauty®, PANA Sport™, PANA Pet®, PANA Pure® and PANA Life™. If you would like more information, please visit www.panacealife.com.

Panacea Distro, the second subsidiary of Panacea Life Sciences Holdings, Inc., manages five retail locations and a distribution center situated in the Tampa, Florida area. These establishments provide a diverse range of products, including Nitro Kava, Kratom, Hemp, VAPE products, and various beverages, with a primary focus on promoting alternative health and wellness. The Panacea Distro business is segmented into two distinct areas—the retail stores and the cash & carry distribution warehouse. The retail stores are poised to evolve into franchise stores, with the intention of eventually adopting the name “PANA KAVA JAVA.” This strategic move is part of our plan to establish a franchise model based on the success of these existing retail locations.

In the coming months, a third business entity, Pana Kava Java (PKJ), is set to emerge as the franchisor company, with a scheduled launch in Q4 2024. Pana Kava Java is committed to establishing a unique franchise model, drawing inspiration from the European-style café concept. Patrons will have the opportunity to savor infused coffees and beverages, indulge in vaping, and enjoy an array of infused baked goods in a welcoming atmosphere. Pana Kava Java, as the franchisor, will offer franchise rights to individuals interested in opening stores/café, enabling them to sell products or services under the PKJ brand, leveraging our expertise and intellectual property. Currently, active efforts are underway in developing the franchisor plan, encompassing aspects such as business development, flagship store establishment, legal document preparation, marketing and packaging strategies, as well as the recruitment and training of franchisees.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The Company's consolidated financial statements include the financial statements of Panacea Life Sciences, Inc. and Panacea Distro, Inc.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and the rules and regulations of the United States Securities and Exchange Commission (the “SEC”) for interim financial information, which includes consolidated unaudited interim financial statements and present the consolidated unaudited interim financial statements of the Company and its wholly-owned subsidiaries as of June 30, 2024. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America. All intercompany transactions and balances have been eliminated. In the opinion of management, all adjustments necessary to present fairly our financial position, results of operations, stockholders' equity and cash flows as of June 30, 2024, and 2023, and for the periods then ended, have been made. Those adjustments consist of normal and recurring adjustments. Operating

results for the three ended June 30, 2024 and 2023 are not necessarily indicative of the results that may be expected for any subsequent quarters or for the year ending December 31, 2024. Certain information and note disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Going concern

These unaudited condensed consolidated financial statements are presented on the basis that the Company will continue as a going concern. Panacea has combined with Panacea Life Sciences Holdings, Inc. so the below items reflect the consolidated company. The going concern concept contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Since our inception in later 2017, we have generated losses from operations. As of June 30, 2024, our accumulated deficit was \$36.831 million, and we had \$0.189 million in cash and liquid stock. These factors raise doubt about the Company's ability to continue as a going concern for a period of 12 months from the issuance date of this report. Management cannot provide assurance that the Company will ultimately achieve or maintain profitable operations or become cash flow positive or raise additional debt and/or equity capital. In addition, due to insufficient revenue, we will need to obtain further funding through public or private equity offerings, debt financing, collaboration arrangements or other sources in order to maintain active business operations. We currently do not have sufficient cash flow to pay our ongoing financial obligations on a consistent basis. The issuance of any additional shares of Common Stock, preferred stock or convertible securities could be substantially dilutive to our shareholders. In addition, adequate additional funding may not be available to us on acceptable terms, or at all. These unaudited condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Use of Estimates

The Unaudited Condensed Consolidated Financial Statements have been prepared in conformity with US GAAP and required management of the Company to make estimates and assumptions in preparation of these statements. Actual results may differ significantly from those estimates. Significant estimates made by management include but are not limited to the useful life of property and equipment, incremental borrowing rate used in the calculation of right of use asset and lease liability, reserves for inventory, allowance for doubtful accounts, revenue allocations, valuation allowance on deferred tax assets, assumptions used in assessing impairment of long-term assets, assumptions used in the calculation of net realizable value of inventory and fair value of non-cash equity transactions.

Cash and Cash Equivalents

For purposes of balance sheet presentation and reporting of cash flows, the Company considers all unrestricted demand deposits, money market funds and highly liquid debt instruments with an original maturity of less than 90 days to be cash and cash equivalents. There were no cash equivalents. The Company places its cash and cash equivalents with high-quality financial institutions. At times, balances in the Company's cash accounts may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. On June 30, 2024, the Company's cash balances did not exceed the FDIC limit.

Accounts Receivable

Accounts receivable are generally unsecured. The Company establishes an allowance for doubtful accounts receivable based on the age of outstanding invoices and management's evaluation of collectability. Accounts are written off after all reasonable collection efforts have been exhausted and management concludes that likelihood of collection is remote. Any future recoveries are applied against the allowance for doubtful accounts. An allowance of \$50,000 was taken at the beginning of 2024 to allow for any doubtful accounts to be expensed. As of June 30, 2024, \$0 of this allowance was expensed. The Company's accounts receivable policy changed in 2021 to only provide larger, well-established companies with Net 30 payment terms. For all other sales they are paid by credit card or wires received before the product is shipped to the customer.

Inventory

Inventories are stated at lower of cost or net realizable value. Inventories of purchased materials are valued using a moving average method and managed on a first in first out basis (FIFO). Inventories of internally manufactured materials are valued using a standard costing method and are also managed on a FIFO basis. Production related costs that are capitalized as inventory as part of the standard cost valuation include the direct materials consumed, direct labor used, indirect labor used, and manufacturing overhead. Overhead is calculated based on specific manufacturing process and allocated on an order-by-order basis. Production variances that occur between standard cost valuation and actual costs are expensed as incurred in the income statement as part of cost of goods sold.

Marketable securities

The Company’s marketable securities consists of 79,200 shares of XXII which are classified as available-for-sale and included in current assets as they are pledged to secure two promissory notes. Securities are valued based on market prices for identical assets using third party certified pricing sources. Available-for-sale securities are carried at fair value with unrealized and realized gains and losses reported as a component of income (loss). Realized gains and losses, if any, are calculated on the specific identification method and are included in other income in the condensed consolidated statements of operations.

Fair Value Measurements

The Company adopted the provisions of Accounting Standard Codification (“ASC”) Topic 820, “Fair Value Measurements and Disclosures”, which defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value, and expands disclosure of fair value measurements. The guidance prioritizes the inputs used in measuring fair value and establishes a three-tier value hierarchy that distinguishes among the following:

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The following table shows, by level within the fair value hierarchy, the Company’s assets and liabilities at fair value on a recurring basis as of June 30, 2024 and December 31, 2023:

	June 30, 2024			December 31, 2023				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Marketable securities	<u>\$9,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14,933</u>	<u>\$14,933</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$9,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14,933</u>	<u>\$14,933</u>	<u>\$ -</u>	<u>\$ -</u>
						<u>June 30, 2024</u>		
Balance at beginning of year						\$	14,933	
Realized loss on marketable securities, net								376
Unrealized loss on marketable securities, net								5,053
Balance at end of period						\$	9,504	

As of June 30, 2024, the Company has no liabilities that are re-measured at fair value.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method on the various asset classes over their estimated useful lives, which range from three to ten years when placed in service. The cost of repairs and maintenance is expensed as incurred; major replacements and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition.

Intangible Assets and Goodwill

Goodwill is comprised of the purchase price of business combinations in excess of the fair market value assigned at acquisition to the tangible and intangible assets acquired. Goodwill is not amortized. The Company tests goodwill for impairment on an annual basis. The Company performed its most recent goodwill impairment using a discounted cash flow analysis and found that the fair value exceeded the carrying value. It has \$2.189 million of goodwill from the acquisition of the assets of Phoenix Life Sciences, Inc. in October 2017 and \$0.825 million from the N7 acquisition.

	Estimated Life	
Goodwill from Phoenix Acquisition	Tested Yearly for Impairment	
Goodwill from N7 Acquisition	Tested Yearly for Impairment	
	June 30, 2024	December 31, 2023
Goodwill from Phoenix Acquisition	\$ 2,188,810	\$ 2,188,810
Goodwill from N7 Acquisition	825,640	825,640
Total	\$ 3,014,450	\$ 3,014,450

Leases

The Company determines if an arrangement is a lease at inception. Contracts containing a lease are further evaluated for classification as an operating or finance lease. In determining the leases classification, the Company assesses among other criteria: (i) 75% or more of the remaining economic life of the underlying asset is a major part of the remaining economic life of that underlying asset; and (ii) 90% or more of the fair value of the underlying asset comprises substantially all of the fair value of the underlying asset. Operating leases are included in operating lease right-of-use (“ROU”) assets, other current liabilities and long-term operating lease liabilities in the Company’s consolidated balance sheets. Finance leases are included in property, plant and equipment, net, other current liabilities, and long-term finance lease liabilities in the Company’s consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. For leases with terms greater than 12 months, the Company records the ROU asset and liability at commencement date based on the present value of lease payments according to their term.

The Company uses incremental borrowing rates based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expenses are recognized on a straight-line basis over the lease term or the useful life of the leased asset.

In addition, the carrying amount of the ROU and lease liabilities are remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Convertible Notes Payable

The Company has previously issued convertible notes, which contain variable conversion features, whereby the outstanding principal and accrued interest automatically convert into common shares at a fixed price which may be a discount to the common stock at the time of conversion. Some of the conversion features of these notes are contingent

upon future events, whereby, the holder agreed not to convert until the contingent future event has occurred. The Company currently does not hold any convertible notes.

Revenue Recognition

The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

The Company accounts for a contract when it has been approved and committed to, each party's rights regarding the goods or services to be transferred have been identified, the payment terms have been identified, the contract has commercial substance, and collectability is probable. Revenue is generally recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities. However, the Company's sales are primarily through retail stores, purchase orders or ecommerce; thus, currently contract liabilities are negligible. The Company does not have any multiple-element arrangements.

Some of the Company's contract liabilities consist of advance customer payments. Contract liability results from transactions in which the Company has been paid for products by customers, but for which all revenue recognition criteria have not yet been met. Once all revenue recognition criteria have been met, the contract liabilities are recognized. The Company recorded \$474,913 and \$349,705 in advanced customer payments as of June 30, 2024, and December 31, 2023, respectively, and these amounts are included in the balance sheet line item of accounts payable and accrued expenses.

	June 30, 2024	December 31, 2023
Balance, beginning of period	\$ 349,705	\$ 368,065
Payments received for unearned revenue	547,337	156,298
Revenue earned	<u>422,129</u>	<u>174,658</u>
Balance, end of period	<u>\$ 474,913</u>	<u>\$ 349,705</u>

Revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration that an entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amount of revenue that is recorded reflects the consideration that the Company expects to receive in exchange for those goods. The Company applies the following five-step model in order to determine this amount: (i) identification of the promised goods in the contract; (ii) determination of whether the promised goods are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Revenue related to the sale of products is recognized once goods have been sold to the customer and the performance obligation has been completed. In both contracted purchase and retail sales, we offer consumer products through our online stores. Revenue is recognized when control of the goods is transferred to the customer. This generally occurs upon our delivery to a third-party carrier or, to the customer directly. Revenue from tolling services is recognized when the performance obligation, such as processing of the material, has been completed and output material has been transferred to the customer.

Revenue is generally recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities. A contract liability results from transactions in which the Company has been paid for products by customers, but for which all revenue recognition criteria have not yet been met. Once all revenue recognition criteria have been met, the contract liabilities are recognized. The Company does not have any multiple-element arrangements.

The Company also has recorded other income related to rental income it receives from leasing out space in the laboratory it occupies.

Shipping and Handling Costs

The Company accounts for shipping and handling fees in accordance with ASC 606. The amounts charged to customers for shipping products are recognized as revenues and the related freight costs of shipping products are classified in general and administrative costs as incurred. Shipping costs are included as a component of general and administrative and were \$12,545 and \$72,147 for the six months ended June 30, 2024 and 2023, respectively.

Advertising & Marketing

Advertising costs are expensed when incurred and are included in advertising and promotional expense in the accompanying statements of operations. Included in this category are expenses related to public relations, investor relations, new package design, website design, design of promotional materials, cost of trade shows, cost of products given away as promotional samples, and paid advertising. The Company recorded advertising costs included in general and administrative costs of \$7,060 and \$818,193 for the six months ended June 30, 2024 and 2023, respectively.

Segment Information

The Company follows the provisions of ASC 280-10 *Segment Reporting*. This standard requires that companies disclose operating segments based on the manner in which management disaggregates the Company in making internal operating decisions. Segment identification and selection is consistent with the management structure used by the Company's chief operating decision maker to evaluate performance and make decisions regarding resource allocation, as well as the materiality of financial results consistent with that structure. Based on the Company's management structure and method of internal reporting, the Company has one operating segment. The Company's chief operating decision maker does not review operating results on a disaggregated basis; rather, the chief operating decision maker reviews operating results on an aggregate basis.

Earnings per Share

The Company computes basic and diluted earnings per share amounts in accordance with ASC Topic 260, "Earnings per Share". Basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share reflects the potential dilution that could occur if preferred stock converted to common stock and warrants are exercised. Preferred stock and warrants are excluded from the diluted earnings per share calculation if their effect is anti-dilutive.

The following financial instruments were not included in the diluted loss per share calculation for the six months ended June 30, 2024 and 2023 because their effect was anti-dilutive:

	<u>For the six months ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
Restricted stock	1,793,483	107,993
Options to purchase common stock	536,854	401,854
Warrants to purchase common stock	1,078,573	1,107,250
Series B-1 Convertible Preferred	6,679	6,679
Series B-2 Convertible Preferred	26,786	26,786
Series C Convertible Preferred	2,289,220	2,289,220
Series C-1 Convertible Preferred	1,064,908	1,064,908
Series D Convertible Preferred	1,628,126	1,628,126
Series N7 Convertible Preferred	3,853,000	-
Total	<u>12,277,629</u>	<u>6,632,816</u>

Income Taxes

Income taxes are accounted for under the asset and liability method prescribed by FASB ASC Topic 740. These standards require a company to determine whether it is more likely than not that a tax position will be sustained upon

examination based upon the technical merits of the position. If the more likely than not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized.

Recently Issued Accounting Standards

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-06, Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contract’s in an Entity’s Own Equity. The ASU simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The ASU simplifies the diluted net income per share calculation in certain areas. The ASU is effective for annual and interim periods beginning after December 31, 2021, and early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company does not expect the adoption of ASU 2020-6 to have any material impact on its consolidated financial statements.

In May 2021, the Financial Accounting Standards Board (“FASB”) issued ASU 2021-04 “Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation— Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815- 40) Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options” which clarifies and reduces diversity in an issuer’s accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. An entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as follows: i) for a modification or an exchange that is a part of or directly related to a modification or an exchange of an existing debt instrument or line-of-credit or revolving-debt arrangements (hereinafter, referred to as a “debt” or “debt instrument”), as the difference between the fair value of the modified or exchanged written call option and the fair value of that written call option immediately before it is modified or exchanged; ii) for all other modifications or exchanges, as the excess, if any, of the fair value of the modified or exchanged written call option over the fair value of that written call option immediately before it is modified or exchanged. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

NOTE 3 – PROPERTY, EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

Property and equipment, net including any major improvements, are recorded at historical cost. The cost of repairs and maintenance is charged against operations as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, generally as follows:

	<u>Estimated Life</u>
Computers and technological assets	3 – 5 Years
Furniture and fixtures	3 – 5 Years
Machinery and equipment	5 – 10 Years
Leasehold improvement	10 Years

Property and equipment, net consists of the following:

	June 30, 2024	December 31, 2023
Computers and technological assets	\$ 3,776,320	\$ 3,776,320
Furniture and fixtures	166,830	161,830
Machinery and equipment	7,846,788	7,846,788
Land	92,222	92,222
Leasehold improvements	1,806,755	1,806,755
Total	13,688,915	13,683,915
Less accumulated depreciation	(8,002,933)	(7,235,847)
Total property and equipment, net	\$ 5,685,982	\$ 6,448,068

Depreciation expenses for the six-month period ended June 30, 2024 and 2023 were \$768,362 and \$845,282 respectively.

NOTE 4 - INVENTORY

Inventory consists of the following components:

	June 30, 2024	December 31, 2023
Raw Materials	\$ 811,381	\$ 850,362
Semi-Finished	1,757,622	1,870,978
Finished Goods	1,435,710	1,262,674
Packaging	26,744	29,511
Total	\$ 4,031,457	\$ 4,013,525

Inventories are stated at lower of cost or net realizable value using the standard costing method for its work in process and finished goods. For its raw materials, trading goods, and packaging supplies, the Company utilizes the moving average method for costing purposes and FIFO. At this time there are no inventory reserves required.

NOTE 5 –OPERATING LEASE RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITIES – RELATED PARTY

Right of Use

The Company adopted Accounting Standards Update (“ASU”) No. 2016-02, “Leases” (“ASC 842”) on January 1, 2019, the start of our 2019 fiscal year. The Company has one lease arrangement with a related party entered into on December 22, 2018 for 3-year term starting with January 1, 2019 for certain laboratory facilities, with a nine-year extension option. This lease was extended and now expires on December 31, 2030. At inception, the Company recognized a Right of Use Asset and a corresponding lease liability in the amount of \$4,595,509. The Company’s lease arrangements may contain both lease and non-lease components. The Company has elected to combine and account for lease and non-lease components as a single lease component. The Company has incorporated residual value obligations in leases for which there is such occurrences. Regarding short-term leases, ASC 842-10-25-2 permits an entity to make a policy election not to apply the recognition requirements of ASC 842 to Short-term leases. The Company has elected not to apply the ASC 842 recognition criteria to any leases that qualify as Short-Term Leases.

The Company leases a portion of the property (formerly the Environmental Protection Agency building) in Golden, CO from J&N Real Estate, owned by the CEO, a related party with a term expiring on December 31, 2030. The lease consists of all laboratory space including testing facilities, water treatment, extraction and production. The lease of the property is based on the fair market rent and triple net lease (NNN) values competitive in the marketplace for a cGMP facility. The Company also subleases some of its laboratory space to other CBD companies. This income is presented under the Other Income line items of the statements of operations. The leases vary from short-term monthly leases to 3-year leases but are all cancellable.

Below is a summary of our right of use assets and liabilities as of June 30, 2024.

	June 30, 2024	December 31, 2023
Right-of-use assets	\$ 3,685,567	\$ 3,864,591
Present value of operating lease liabilities	\$ 3,793,321	\$ 3,972,696
Less: Long-term portion of operating lease liability	(3,070,391)	(3,254,021)
Short-term portion of operating lease liability	722,930	718,675
Unpaid balances	2,300,802	2,185,758
Total short-term lease liability obligations	\$ 3,023,732	\$ 2,904,433
Weighted-average remaining lease term (Ends December 31, 2030)	5.76 years	5.96 years
Weighted-average discount rate		3.0%

During the six months ended June 30, 2024 and 2023, we recognized approximately \$437,752 and \$114,693 respectively in operating lease costs. Operating lease costs are included in operating expenses in our consolidated statement of operations.

Approximate future minimum lease payments for our right of use assets over the remaining lease periods as of June 30, 2024, are as follows:

2024	621,570
2025	830,307
2026	764,830
2027	474,122
Thereafter	1,451,002
Total undiscounted operating lease payments	4,141,831
Less: Imputed interest	(348,510)
Present value of operating lease liabilities	\$ 3,793,321

NOTE 6 – NOTES PAYABLE

Paycheck Protection Program Funding U.S. Small Business Administration Loan

On May 28, 2020, the Company received a secured, 30-year, Economic Injury Disaster Loan in the amount of \$99,100 from the U.S. Small Business Administration. The loan carries interest at a rate of 3.75% per year and matures in 30 years. The SBA loan is secured by a security interest in the Company’s tangible and intangible assets. As of June 30, 2024 the current principal balance of this note amounted to \$99,100 and accrued interest was approximately \$2,047.

Notes payable – related party and other liabilities.

As part of the Exchange Agreement certain loan balances (“J&N Loans”) from J&N Real Estate LLC, an affiliate of the Company’s CEO, (“J&N”) and historical interest owed of \$1,932,358 were combined into a new promissory note with the principal amount of \$4.062 million. The J&N Note bears annual interest at 12%.

On June 30, 2021, the Company issued its CEO, Ms. Buttorff, a 10% promissory note in the amount of \$1,685,685 (the “Buttorff Note”). This demand note replaced a prior working capital note that the Company had issued on January 1, 2021. On July 1, 2021, the Company issued Ms. Buttorff a 10%, \$1 million line of credit note at 10% annual rate which Ms. Buttorff has since increased and has extended (see Note 6 – Notes Payable – Buttorff Note). The Company’s line of credit from Ms. Buttorff increased to \$8,000,000 on July 1, 2022. The terms include an annual interest rate of 10% and a maturity date in 2025.

	June 30, 2024	December 31, 2023
J&N Note	\$ 4,062,713	\$ 4,062,713
CEO Note	8,339,609	7,334,904
Total related party notes	<u>\$ 12,402,322</u>	<u>\$ 11,397,617</u>

Other long-term liabilities, related party

The Company has recorded a related party liability (“Fixed Asset Loan”) in the amounts of \$3,059,474 as of June 30, 2024 and December 31, 2023, respectively, relating to SAP software and support fees which were paid by an affiliate company of the CEO. The maturity date has not yet been determined. The Company is no longer paying any fees related to these services.

In 2020, the Company recorded an additional related party liability in the amount of \$513,390 in respect to certain building improvements, due to J&N Real Estate Company (a company owned by the CEO) (“J&N Building Loan”). This balance bears no interest and the maturity date has not yet been determined.

	June 30, 2024	December 31, 2023
Other long-term liabilities, related party		
Fixed Asset Loan	\$ 3,059,474	\$ 3,059,474
J&N Building Loan	513,390	513,390
Total	<u>\$ 3,572,864</u>	<u>\$ 3,572,864</u>

NOTE 7 - STOCKHOLDERS’ EQUITY

Common stock

The Company’s authorized common stock consists of 650,000,000 shares with a par value of \$0.0001 per share.

Common stock options

Stock Option Plan

On June 30, 2021, the Company’s stockholders approved the 2021 Equity Incentive Plan (the “2021 Plan”). The 2021 Plan provided for the issuance of 4,049,409 incentive awards in the form of non-qualified and incentive stock options, restricted stock awards, restricted stock unit awards, warrants and preferred stock. The awards may be granted by the Company’s Board of Directors to its employees, directors and officers and to consultants, agents, advisors and independent contractors who provide services to the Company or to a subsidiary of the Company. The exercise price for stock options must not be less than the fair market value of the underlying shares on the date of grant. The incentive awards shall either be fully vested and exercisable from the date of grant or shall vest and become exercisable in such installments as the Board of Directors or Compensation Committee may specify. Stock options expire no later than ten years from the date of grant. Unless sooner terminated, the Plan shall terminate in 10 years.

This plan had 196,491 fully vested options outstanding at the time of the share exchange.

Stock Options

A summary of the stock option activity is presented below:

Options Outstanding as of June 30, 2024			
Number of Shares Subject	Weighted Average Exercise	Weighted Average Remaining	Aggregate Intrinsic Value

	<u>to Options</u>	<u>Price Per Share</u>	<u>Contractual Life (in years)</u>	
Balance on December 31, 2023	551,854	\$ 1.84	3.18	\$
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options canceled / expired	15,000	-	-	-
Balance on June 30, 2024	536,854	\$ 1.88	2.91	\$
Vested and exercisable at June 30, 2024	196,491	\$ 1.88	2.91	\$

The Company's outstanding warrants as of June 30, 2024, are summarized as follows, and all were exercisable at that date.

<u>Warrants Outstanding as of June 30, 2024</u>				
	<u>Number of Shares Subject to Warrants</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value</u>
Balance on December 31, 2023	1,104,243	\$ 1.70	3.16	-
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options canceled / expired	25,670	5.60	-	-
Balance at June 30, 2024	1,078,573	\$ 1.70	2.92	\$ -
Vested and exercisable at June 30, 2024	1,078,573	\$ 1.70	2.92	\$ -

As of June 30, 2024, the outstanding warrants had no intrinsic value.

Restricted Stock

A summary of the restricted stock activity is presented below:

	<u>Restricted Stock Common Stock</u>
Balance at December 31, 2023	107,993
Balance at June 30, 2024	107,993

As of June 30, 2024, there were no unamortized or unvested stock-based compensation costs related to restricted share arrangements.

Preferred Stock

The Company's authorized preferred stock consists of 50,000,000 shares with a par value of \$0.0001.

On September 30, 2023, an asset purchase agreement with N7 Enterprises was closed. The original agreement was to award N7 785 shares of preferred E stock. Each share is convertible into 10,000 shares of common stock. The agreement contained a provision permitting the total number of shares to be adjusted based on projected sales targets

being achieved. Due to these sales targets not being met, subsequent to the original award, the preferred shares were reduced to 385.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Legal Matters

In the ordinary course of business, the Company enters into agreements with third parties that include indemnification provisions which, in its judgment, are normal and customary for companies in the Company's industry sector. These agreements are typically with business partners, and suppliers. Pursuant to these agreements, the Company generally agrees to indemnify, hold harmless, and reimburse indemnified parties for losses suffered or incurred by the indemnified parties with respect to the Company's products, use of such products, or other actions taken or omitted by us. The maximum potential number of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the estimated fair value of liabilities relating to these provisions is minimal. Accordingly, the Company has no liabilities recorded for these provisions as of June 30, 2024.

Concentrations

The Company has no contingencies, material commitments, purchase obligations, or sales obligations.

On the revenue side, in the three months ended June 30, 2024, we have a concentration of two customers.

Both are contract manufacturing customers who represent 46% and 13% of revenues. In the six months ended June 30, 2023, we had a concentration of two customers. Both are contract manufacturing customers who represent 31% and 13% of revenues.

The other concentration is in the accounts receivable category, where two customers account for 54% of total receivables. One customer is unique in that we produced all of the products for them to sell, and they pay Panacea as the items are sold in the ecommerce marketplace. Thus, until their inventory is depleted, we will have accounts receivable. This customer receivable is 22% of the 54%. The other is a tenant who subleases space and accounts for 31% of the total receivables.

NOTE 9 - RELATED PARTY TRANSACTIONS

Notes Payable and Accrued Interest – Related Parties

For information on related party loans to the Company and other related party transactions, see Notes 5 and 6, Operating Lease and Notes Payable. The accrued interest and interest expenses recorded for related party loans are shown below.

	June 30, 2024	December 31, 2023
Accrued Interest		
Related party loan-J&N	\$ 1,750,090	\$ 1,413,210
Related party loan-CEO loan	586,925	476,536
Related party loan – Line of credit	1,379,075	964,486
	Six months ended June 30, 2024	Six months ended June 30, 2023
Interest Expense		
Related party loan-J&N	\$ 336,880	\$ 298,963
Related party loan-CEO loan	110,389	99,925
Related party loan – Line of Credit	414,589	309,169

NOTE 10– SUBSEQUENT EVENTS

None.