APPALACHIAN MOUNTAIN BREWERY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

NOTE 1 - ORGANIZATION AND OPERATIONS

Appalachian Mountain Brewery, Inc. ("Appalachian Mountain Brewery", “AMB”, “The Company”) was initially organized under the laws of Florida on February 26, 1990. On December 18, 2013, Appalachian Mountain Brewery, LLC entered into a Share Exchange Agreement in which its membership interests were exchanged with the Company, a publicly held shell corporation at such time by the name of North Carolina Natural Energy, Inc. The acquisition was a tax-free exchange for federal and state income tax purposes and was accounted for as a reverse merger in accordance with FASB Accounting Standards Codification 805-40 “Reverse Acquisitions”. Upon acquisition, the name of the shell corporation was changed to Appalachian Mountain Brewery, Inc., and Appalachian Mountain Brewery, LLC, the North Carolina corporation, became a wholly owned subsidiary of Appalachian Mountain Brewery, Inc., the Florida corporation. The publicly traded shell corporation had not had a material operating history for several years prior to the merger.

The transaction was effectively completed on December 18, 2013, which has been accounted for as a reverse acquisition and recapitalization of the Company, through a wholly-owned subsidiary which is deemed to be the ultimate accounting acquirer (legal acquiree) and the Company to be the ultimate accounting acquiree (legal acquirer). The Company is deemed to be a continuation of the business of Appalachian Mountain Brewery, LLC. Accordingly, the accompanying consolidated financial statements for the years ended December 31, 2014 and 2013 include the following:

the consolidated balance sheet consists of the net assets of the accounting acquirer at historical cost and the net assets of the accounting acquiree at historical cost;

the consolidated financial position, results of operations, and cash flows of the accounting acquirer for all periods presented as if the recapitalization had occurred at the beginning of the earliest period presented and the operations of the accounting acquiree from the date of stock exchange transaction.

Appalachian Mountain Brewery, Inc. currently operates three wholly-owned subsidiaries: Appalachian Mountain Brewery, LLC, Farm to Flame, LLC and Hard Mountain Cider, LLC.

The Company makes and distributes craft beers to customers primarily in Western North Carolina.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

Basis of Presentation - The financial statements include the accounts of Appalachian Mountain Brewery, Inc. (a Florida corporation) and its wholly owned subsidiaries prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany balances and transactions have been eliminated.

Management's Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the Consolidated Statements of Cash Flows, the Company considers liquid investments with an original maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts, which, at times, may exceed the federally insured limit of $250,000. The Company not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Advertising - We expense advertising costs as incurred. The Company does not incur any direct-response advertising costs.

Accounts Receivable – The Company sells it beers to customers in a bar like setting located at its premises. An ongoing credit evaluation of its customers is not applicable due to the point of sale nature of its business. There is no estimate necessary of the allowance for doubtful accounts, accordingly.

Inventory - Inventory, consisting primarily of beer and related raw materials such as yeast, hops and grain, is located on our premises and is stated at the lower of cost or market using the first-in, first-out method. Shirts, hoodies and hats displaying the name of the beer are also sold but are immaterial to the operations as a whole.

Fixed Assets - Property and equipment are stated at cost less accumulated depreciation and are depreciated over their estimated useful lives using the straight-line method. Recovery periods range from five to fifteen years. Upon retirement or sale, the cost and related accumulated depreciation are removed from the balance sheet, and the resulting gain or loss is reflected in other income and expense. Maintenance and repairs are charged to operations as incurred.

Impairment of Long-lived Assets – The Company evaluated the recoverability of its property, plant, equipment, and other long-lived assets in accordance with FASB Accounting Standards Codification 360 "Property, Plant and Equipment", which requires recognition of impairment of long-lived assets in the event the net book value of such assets exceed the estimated future undiscounted cash flows attributable to such assets or the business to which such intangible assets relate. No impairments of these types of assets were recognized during the years ended December 31, 2014 and 2013.

Revenue Recognition - Revenue is recognized when beer is consumed at the point of sale at the Company's drinking facilities and earned or when beer is shipped to external customers consisting of grocery stores and bars and earned as title passes FOB shipping point, provided collection of the resulting receivable is probable. If any material contingencies are present, revenue recognition is delayed until all material contingencies are eliminated. Further, no revenue is recognized unless collection of the applicable consideration is probable.

Income Taxes - Income taxes are accounted for in accordance with FASB ASC 740 "Income Taxes". A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and for net operating loss carryforwards, where applicable. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Earnings (Loss) Per Common Share - Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. If applicable, diluted earnings per share would assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. This presentation has been adopted for the years presented. There were no adjustments required to net income for the years presented in the computation of diluted earnings per share. All share and per share data have been adjusted to reflect the recapitalization of the Company in the Exchange and the reverse stock split.

Comprehensive Income (Loss) - The Company adopted FASB Accounting Standards Codification 220 "Comprehensive Income", which establishes standards for reporting and display of comprehensive income, and its components in the consolidated financial statements. Components of comprehensive income include net loss.

Fair Value of Financial Instruments - The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB Accounting Standards Codification (“Paragraph 820-10-35-37”) to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

Level 1	Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.
Level 2	Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
Level 3	Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company’s financial assets and liabilities, such as cash and cash equivalents, inventories, accounts payable and accrued expenses, notes payable and note payable – related party approximate their fair values because of the short maturity of these instruments. The Company’s short term borrowings approximate the fair value of such instrument based upon management’s best estimate of interest rates that would be available to the Company for similar financial arrangement at December 31, 2014 and 2013.

The Company does not have any assets or liabilities measured at fair value on a recurring or a non-recurring basis, consequently, the Company did not have any fair value adjustments for assets and liabilities measured at fair value at December 31, 2014 and 2013, nor gains or losses are reported in the statement of operations that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date for the years ended December 31, 2014 and 2013.

Recent Accounting Pronouncements – In June 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements. ASU 2014-10 eliminates the distinction of a development stage entity and certain related disclosure requirements, including the elimination of inception-to-date information on the statements of operations, cash flows and stockholders' equity. The amendments in ASU 2014-10 will be effective prospectively for annual reporting periods beginning after December 15, 2014, and interim periods within those annual periods, however early adoption is permitted for financial statements not yet issued. The Company adopted ASU 2014-10 during the fourth quarter of 2014, thereby no longer presenting or disclosing any information required by Topic 915. The Company has reviewed all recently issued, but not yet effective, accounting pronouncements up to ASU 2014-05, and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09"). With ASU 2014-09, the FASB supersedes the revenue recognition requirements of Topic 605, Revenue Recognition, and most industry-specific guidance. ASU 2014-09 sets forth an entirely new revenue recognition model, codified in FASB ASC 606-10, requiring that contracts be identified, performance obligations be identified, the transaction price be determined and allocated to performance obligations, and revenue be recognized upon satisfaction of performance obligations. ASU 2014-09 is effective for public companies for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is not permitted.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements – Going Concern (Topic 205-40)", which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim reporting period. If substantial doubt exists, additional disclosure is required. This new standard will be effective for the Company for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the implementation of this standard to have a material effect on its disclosures.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

NOTE 3 – FIXED ASSET

Fixed assets were comprised of the following as of December 31, 2014 and December 31, 2013, respectively. Depreciation is calculated using the straight-line method over a 7 year period for machinery & equipment and furniture & fixtures, period and 15 year period for leasehold improvement.

	12/31/2014	**12/31/2013**
Machinery and equipment	793,779	231,522
Furniture and fixtures	13,278	6,077
Leasehold improvements	311,246	257,687
Total	1,118,303	495,286
Accumulated depreciation	(246,235)	(101,872)
Property and equipment, net	872,068	393,414

NOTE 4 - INVENTORIES

Inventories are comprised of the following amounts at the respective dates:

	As of December 31, 2014	2013
Raw materials	$ 7,319	$ 8,390
Work in process	-0-	-0-
Finished goods	42,581	19,962
	49,900	28,352
Provision for obsolete inventories	-0-	-0-
	$ 49,900	$ 28,352

NOTE 5 - RELATED-PARTY TRANSACTIONS

Included in rent expense in the accompanying Consolidated Statements of Operations for the years ended December 31, 2014 and 2013, is rent expense in the amounts of $67,131 and $71,542, respectively, to a related company owned and managed by the Company's CEO and majority shareholder. As of December 31, 2014 and 2013, these amounts are principally included in note payable – related party in the accompanying Consolidated Balance Sheets.

The Company has a note payable to the Company's officer and majority shareholder for monies advanced to the Company to acquire fixed assets among other items. The principal balances at December 31, 2014 and 2013 were $702,365 and $719,376, respectively. Accrued interest on the unpaid principal balances to the related party at December 31, 2014 and 2013 were $-0- and 33,196, respectively.

The Company leases its brewing and beverage tap room facilities in Boone, North Carolina under a non-cancelable operating lease from an entity controlled by the Company's CEO and majority shareholder that expires February 2023. Future minimum rental payments as of December 31, 2014 in the aggregate and for each of the five succeeding years are as follows:

Year	Amount
2015	$ 50,058
2016	51,560
2017	53,107
2018	55,761
2019	56,447
Thereafter	188,334
	$455,267

On June 4, 2014, the Company signed a lease on a building for its hard cider beverage production and bottling facilities in Boone, North Carolina. It is under a non-cancelable operating lease from an unrelated individual commences on June 1, 2014 and expires on June 30, 2019. The tenant may renew the lease for two additional terms of five years each and the base rent would increase by 2.5% in each of the renewal periods. Future minimum rental payments in the aggregate and for each of the five succeeding years are as follows:

Year	Amount
2015	$ 25,200
2016	25,200
2017	25,200
2018	25,200
2019	12,600
	$113,400

The Company is obligated under a $1,000,000 Master Revolving Line of Credit Promissory Note with an entity controlled by the Company's CEO and majority shareholder. The note is effective on February 14, 2013. The purpose of the note is to give the Company the ability to obtain advances from such entity but not to exceed $1,000,000. The interest rate is 7.00%. Principal and interest is due in monthly installments commencing on May 1, 2013 with maturity thereto on May 1, 2028, at which time the entire outstanding principal balance and unpaid interest is due. Fixed assets with a net book value of $872,068 at December 31, 2014 are collateralized pursuant to this agreement.

Principal maturities of the note payable – related party as of December 31, 2014 for the next five years and thereafter is as follows:

2015	$ 31,596
2016	$ 33,880
2017	$ 36,329
2018	$ 38,955
2019	$ 41,771
Thereafter	$ 519,834
Total	$ 702,365
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NOTE 6 – SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the years ended December 31, 2014 and 2013 is summarized as follows:

Cash paid during the years for interest and income taxes:

	2014	2013
Income Taxes	$ -0-	$ -0-
Interest	$ 33,196	$ -0-

NOTE 7 – NOTES PAYABLE

Notes payable at December 31, 2014 and 2013 consist of the following:

	2014	2013
Unsecured note payable to an unrelated individual bearing 10.00% interest upon default. Currently due on demand.	$ 1,500	$ 1,500
Unsecured note payable to an unrelated individual bearing 10.00% interest upon default. Monthly payments of principal and interest of $500 with maturity in 2018.	$ 26,950	$26,950
Unsecured Master Revolving Line of Credit Promissory Note to an unrelated married couple bearing 4% interest, with maturity on March 5, 2019. No payments are due until the Company has sufficient cash flow.	$250,000	$ 0
Unsecured note payable to an unrelated individual bearing 10.00% interest upon default. Currently due on demand.	$ 2,800	$ 2,800
	$281,250	$31,250

Principal maturities of the notes payable as of December 31, 2014 for the next five years and thereafter is as follows:

2015	$ 10,300
2016	$ 6,000
2017	$ 6,000
2018	$ 6,000
2019	$ 252,950
Thereafter	$ -0-
Total	$ 281,250
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NOTE 8 - EQUITY

On March 14, 2013, the Chief Executive Officer of the Company authorized the effectuation of a 1-for-5,000 reverse stock split pursuant to the majority consent. The Reverse Split combined the Company's outstanding Common Stock on the basis of 5,000 outstanding shares being changed to 1 outstanding share. Each shareholder's percentage ownership in the Company (and relative voting power) remained essentially unchanged as a result of the reverse split.

The above reverse split took effective upon the Company filed an Amendment to the Articles of Incorporation with the Secretary of State of the State of Florida in 2013.

The Consolidated Statement of Stockholders' Deficit and the loss per share numbers in the Consolidated Financial Statements have been restated per FASB 128 paragraph 134, as if the reverse split took effect at the beginning of the periods presented.

The Company has the authority to divide its preferred shares into classes, determine rights, limitations, and preferences of such class of stock and its preferred stock carries no cumulative annualized interest. The Series A and B preferred shares have a value set at $.001 par value per share. The Series A preferred shares are convertible into common shares at the rate of four times the sum of Preferred B preferred shares plus common shares.

During the year ended December 31, 2014, the Company issued 144,000 Preferred B shares to five unrelated investors in exchange for $360,000.

During the year ended December 31, 2014, the Company signed a subscription agreement with one unrelated investor for the sale of 30,000 Preferred B shares to such investor in exchange for $75,000 which was received. As of December 31, 2014, these Preferred B shares were not issued.

NOTE 9 – GOING CONCERN

The Company has suffered recurring losses from operations, insufficient working capital, has a retained deficit, and has a stockholders' deficit. In addition, the Company has yet to generate an internal cash flow from its business operations and has generated operating losses since its inception. These factors raise substantial doubt as to the ability of the Company to continue as a going concern.

Management's plans with regard to these matters encompass the following actions: 1) obtain funding from new investors to alleviate the Company's working deficiency, and 2) implement a plan to increase cash flows. The Company's continued existence is dependent upon its ability to resolve it liquidity problems and increase profitability in its current business operations. However, the outcome of management's plans cannot be ascertained with any degree of certainty. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these risks and uncertainties.

Management's current strategic implementation plans with regard to these matters encompass the following actions: 1) Leverage the synergies created by the strategic partnership with Craft Brew Alliance (Nasdaq: BREW) which has over 130 years of brewery experience. The Company believes it will be able to reduce variable costs through economies of scale on brewing, procurement, logistics, sales, branding, marketing, and increase its distribution thru the Anheuser-Busch network which consists of a wholly aligned national distribution footprint, 2) Through the fixed assets that were purchased in 2014, the Company was able to increase its beer capacity over 275%, added an automated canning line and keg equipment which will further create additional ability to increase revenue/efficiencies on the beer side, 3) Added the Farm To Flame Food Truck to offer a full craft beer, cider and food establishment which has further created additional revenue streams and enabled the company to open 7 days a week and add lunch service as well as specialty catering and wedding events at its off-site commissary for larger functions, 4) Added a new 4,000 square feet facility funded thru investments and cash flows for Appalachian Mountain Cidery which plans to start selling at the AMB Taproom and plans to start distribution of cider across

North Carolina in cans/bottles and kegs. Products should increase revenue, gross margin and cash inflow, 5) Restructure the Master Revolving Line of Credit Promissory Note with an entity controlled by the Company's CEO and majority shareholder to reduce the Company's current liabilities, and 6) increase ownership equity thru its already registered offering with the SEC. Management believes it is probable that its plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued.

NOTE 10 - INCOME TAXES

The Company has approximately $518,000 of federal net operating losses available that expire in various years through the year 2034. Due to federal tax net operating losses, there is no provision for current federal or state income taxes for the years ended December 31, 2014 and 2013.

The Company's net deferred tax asset at December 31, 2014 consisting of net operating loss carry forwards is $176,000 less a valuation allowance in the amount of approximately $176,000 respectively. Because of the Company's lack of earnings history, the deferred tax asset has been fully offset by a valuation allowance. The valuation allowance increased by approximately $67,000 and $42,000 for the years ended December 31, 2014 and 2013, respectively.

The Company's total deferred tax asset as of December 31, 2014 is as follows:

Net operating loss carry forwards less depreciation	$176,000
Valuation allowance	(176,000)
Net deferred tax asset	$ --

The reconciliation of income taxes computed at the federal statutory income tax rate to total income taxes for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Income tax computed at the federal statutory rate	34%	34%
State income taxes, net of federal tax benefit	-0-%	-0-%
Valuation allowance	(34%)	(34%)
Net deferred tax asset	-0-%	-0-%

NOTE 11 – SEGMENTS

The Company determined that it do not operate in any material, separately reportable operating segments as of December 31, 2014 and 2013.

NOTE 12 – CONTINGENCIES

The Company had no contingencies existing as of December 31, 2014 and 2013.

NOTE 13 – MATERIAL EVENTS

The Company formed a strategic partnership with a publicly traded, independent craft brewing company called Craft Brew Alliance, Inc. ("CBA") (ticker symbol BREW), upon the signing of a letter of intent on December 2, 2014.

CBA is also a craft brewing company that announced effective April 1, 2015 that it will distribute the Company's beers as part of a master distribution agreement between both brewing companies. The distribution agreement marks the next phase in the Company's strategic partnership. The Cimpany is committed to bringing distinctive, authentic craft beers and brands that are rooted in community and local heritage to beer lovers across the United States. The Company will be collaborating with them to bring their beers to more consumers through the distribution agreement.

As part of the distribution arrangement, CBA will market, sell, and distribute Appalachian Mountain Brewery's Long Leaf IPA, Honey Badger Blond Ale, Black Gold Porter, as well as beers from the brewery's Small Batch Series, exclusively through CBA wholesalers. The beers will continue to be brewed at Appalachian Mountain Brewery's facility in Boone, North Carolina and will be available in draught and 16 oz. can packages. The two companies are also discussing opportunities to leverage CBA's brewing capacity to increase production of Appalachian Mountain Brewery's beers to make them available to consumers throughout the Appalachian region before the end of 2015.