

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

DRAFT - FOR AUDIT PURPOSES ONLY

**MEOW WOLF, INC. AND SUBSIDIARIES  
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**MEOW WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET (UNAUDITED)**  
**DECEMBER 31, 2018**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 7,307,679
Accounts Receivable	246,105
Inventories	537,201
Deposits	1,024,805
Investor Receivable	700,000
Prepaid Expenses and Other Assets	344,005
Total Current Assets	<u>10,159,795</u>

**PROPERTY AND EQUIPMENT**

Land	1,434,479
Buildings and Improvements	5,553,906
Exhibitions and Exhibitions Improvements	3,194,203
Furniture and Fixtures	56,738
Equipment and Vehicles	2,017,116
Construction in Progress	8,577,759
Subtotal	<u>20,834,201</u>
Less: Accumulated Depreciation and Amortization	2,098,740
Total Property and Equipment, Net	<u>18,735,461</u>

**OTHER ASSETS**

Documentary Film Production Costs, Net	257,917
Investment in AREA 15 Development, LLC, at Cost	150,000
Liquor License, Net	302,290
Total Other Assets	<u>710,207</u>

Total Assets	<u><u>\$ 29,605,463</u></u>
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*No assurance is provided on these Consolidated Financial Statements.  
See accompanying Notes to Consolidated Financial Statements.*

**MEO WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET (UNAUDITED) (CONTINUED)**  
**DECEMBER 31, 2018**

**LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' DEFICIT**

**CURRENT LIABILITIES**

Accounts Payable	\$ 844,531
Current Maturities of Long-Term Debt	19,694,231
Current Portion of Capital Lease Obligations	119,105
Accrued Expenses:	
Accrued Artist Liability	685,750
Compensation and Employee Benefits	1,098,008
Interest	802,794
Dividends	131,250
Accrued Sales Taxes	100,740
Other	363,116
Total Current Liabilities	<u>23,839,525</u>

**LONG-TERM LIABILITIES**

Long-Term Debt, Net of Loan Costs and Less	
Current Maturities	11,833,060
Capital Lease Obligations, Less Current Portion	184,555
Derivative Liability - Interest Rate Swap	70,194
Deferred Revenue	839,341
Total Long-Term Liabilities	<u>12,927,150</u>
 Total Liabilities	 36,766,675

**MEZZANINE EQUITY**

Redeemable Preferred Stock, \$0.001 Par Value, \$10 Per Share Liquidation Preference; of the 1,000,000 Shares of Preferred Stock Authorized, 150,000 Issued and Outstanding as of December 31, 2018	588,901
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**STOCKHOLDERS' DEFICIT**

Common Stock, \$0.001 Par Value (10,000,000 Shares Authorized, 1,592,496 Shares Issued and Outstanding)	1,593
Additional Paid-In Capital	18,235,781
Accumulated Deficit	<u>(25,987,487)</u>
Total Stockholders' Deficit	<u>(7,750,113)</u>

Total Liabilities, Mezzanine Equity and Stockholders' Deficit	<u><u>\$ 29,605,463</u></u>
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**MEOW WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)**  
**YEAR ENDED DECEMBER 31, 2018**

<b>SALES</b>	\$ 14,620,986
<b>COST OF SALES</b>	<u>1,669,008</u>
<b>GROSS PROFIT</b>	12,951,978
<b>OPERATING EXPENSES</b>	
Payroll and Related	17,570,810
Marketing and Promotional	667,037
General and Administrative	3,853,200
Other Office Expense	2,180,210
Stock Compensation Expense	651,668
Occupancy Costs	1,141,763
Supplies Expense	1,164,101
Depreciation and Amortization	1,160,528
Total Operating Expenses	<u>28,389,317</u>
<b>LOSS FROM OPERATIONS</b>	(15,437,339)
<b>OTHER INCOME (EXPENSE)</b>	
Interest Income	18,465
Interest Expense	(1,002,760)
Other Income (Expense)	<u>(51,115)</u>
Total Other Expense	<u>(1,035,410)</u>
<b>NET LOSS BEFORE INCOME TAXES</b>	(16,472,749)
<b>INCOME TAX BENEFIT</b>	<u>-</u>
<b>NET LOSS</b>	<u><u>\$ (16,472,749)</u></u>

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**MEOW WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)**  
**YEAR ENDED DECEMBER 31, 2018**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
<b>BALANCE - DECEMBER 31, 2017</b>	1,569,849	\$ 1,570	\$ 17,550,718	\$ (9,406,909)	\$ 8,145,379
Stock Issuance from Exercise of Options	4,790	5	119,164	-	119,169
Stock Issuance from Exercise of Warrants	17,857	18	1,768	-	1,786
Preferred Stock Dividends	-	-	-	(107,829)	(107,829)
Redeemable Preferred Stock Accretion	-	-	(87,537)	-	(87,537)
Stock-Based Compensation	-	-	651,668	-	651,668
Net Loss	-	-	-	(16,472,749)	(16,472,749)
<b>BALANCE - DECEMBER 31, 2018</b>	<u>1,592,496</u>	<u>\$ 1,593</u>	<u>\$ 18,235,781</u>	<u>\$ (25,987,487)</u>	<u>\$ (7,750,113)</u>

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**MEOW WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**  
**YEAR ENDED DECEMBER 31, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net Loss	\$ (16,472,749)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities	
Depreciation and Amortization	1,160,528
Stock-Based Compensation	651,668
Interest Rate Swap Adjustment	70,194
Amortization of Loan Costs	2,836
Loss on Disposal of Assets	9,455
Accrued Interest on Notes Payable	802,794
Changes in Assets and Liabilities:	
Accounts Receivable	(226,105)
Inventories	(316,196)
Prepaid Expenses and Other Assets	(776,153)
Accounts Payable	809,701
Accrued Expenses	11,264
Deferred Revenue	839,341
Net Cash Used by Operating Activities	<u>(13,433,422)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Property and Equipment Purchases	(10,430,649)
Costs Incurred for Documentary Film	(61,063)
Investment in AREA 15 Development, LLC	(150,000)
Net Cash Used by Investing Activities	<u>(10,641,712)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments on Capital Lease Obligations	(131,179)
Proceeds from Issuance of Long-Term Debt	28,926,661
Payments on Long-Term Debt	(4,622,209)
Payments on Preferred Stock Dividends	(42,935)
Proceeds from Exercise of Stock Options and Warrants	120,955
Net Cash Provided by Financing Activities	<u>24,251,292</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

176,158

Cash and Cash Equivalents - Beginning of Year

7,131,521

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 7,307,679

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash Paid During the Year:

    Interest

\$ 1,046,901

**SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING  
AND FINANCING ACTIVITIES**

Accrued Dividends on Preferred Stock

\$ 107,829

Investor Receivable for Debt Issued

\$ 700,000

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**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principal Business Activity**

Meow Wolf Inc. (Company), together with its subsidiaries, is an Arts and Entertainment company based in Santa Fe, New Mexico, and was founded in 2008, and became a Delaware Public Benefit Corporation in January 2017. The Company's current primary business segments are theme parks, merchandise sales, and travel exhibitions. Meow Wolf creates interactive experiences to transport audiences of all ages into fantastic realms of story and exploration. The team is composed of nearly 300 employees, mainly artists, across all disciplines, including architecture, fabrication, design, sculpture, painting, photography and video production, virtual and augmented reality, music and audio engineering, narrative writing, costuming, and performance.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Meow Wolf Santa Fe, LLC (MW Santa Fe), MW Denver, LLC (MW Denver), and MW Vegas, LLC (MW Vegas). These entities were formed for the Company's activities in New Mexico, Colorado, and Nevada, respectively.

MW Santa Fe has been in operation since 2016, and the Company expects MW Vegas to open its theme park in early 2020. MW Denver is expected to begin operations later in 2021.

During 2018, a previously consolidated variable interest entity, Future Fantasy Delight, LLC (FFD) dissolved and transferred cash and liabilities to the Company.

**Revenue Recognition**

Revenue is recognized at the time of service for customers visiting the exhibits or at the time of purchase for customers purchasing retail products. The company presales tickets in advance and records any presales to deferred revenue.

**Concentration of Credit Risk**

The Company's cash balance is maintained at two banks. At times, the balance at the bank may be in excess of federally insured limits.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.



**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash Equivalents**

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Accounts Receivable**

Accounts receivable consist of merchant card cash receipts for theme park entrance tickets and other events held at the Company's Santa Fe location. This balance is considered fully collectible by management and, therefore, there has been no recognition of an allowance for doubtful accounts as of December 31, 2018.

**Inventories**

Inventories are made up of raw materials used to manufacture exhibits and are valued at the lower of cost or net realizable value. As of December 31, 2018, management has determined that inventories are fully realizable, and no allowance for obsolescence has been taken.

**Deposits**

Deposits represent amounts paid to lessors per requirements of the associated lease agreements.

**Intangible Assets**

The Company has capitalized certain direct costs associated with the development of a documentary film, which was completed in January of 2018. The film has a 10-year useful life and is being amortized using the straight-line method. Amortization expense associated with the documentary film production costs was \$27,642 for the year ended December 31, 2018.

The Company's liquor license has a 15-year useful life and is being amortized using the straight-line method. Amortization expense associated with the liquor license was \$23,531 for the year ended December 31, 2018.

Management tests the documentary film and liquor license for impairment annually. No impairment has been taken against the either of these assets as of December 31, 2018.

**Fair Value Measurements**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market and assumptions that market participants would use when pricing the asset or liability.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

The Company categorizes the fair value of its financial assets and liabilities according to the hierarchy established by the Financial Accounting Standards Board, which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 investments). The three levels of the fair value hierarchy are described as follows:

*Level 1.* Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities. These Level 1 assets or liabilities represent quoted prices in active markets and, therefore, do not require significant management judgment.

*Level 2.* Applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, for the asset and liability such as: quoted prices for identical or similar assets or liabilities in less active markets; or other inputs that can be derived principally from, or corroborated by, observable market data.

*Level 3.* Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The recorded values of accounts receivable, accounts payable, and accrued liabilities approximate fair values due to their short maturities.

**Property and Equipment**

Property and equipment is stated at cost. Depreciation of property and equipment is computed on the straight-line and accelerated methods over the useful lives of the assets, which range from 5 to 19 years as follows:

Buildings, Improvements, and Exhibitions	5 – 19 Years
Furniture and Fixtures	5 – 15 Years
Equipment and Vehicles	5 – 7 Years

Depreciation charged to operations for 2018 was \$1,109,355.

Construction in progress at December 31, 2018 consists of the construction of new exhibits for the Company's theme parks.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Long-Lived Assets**

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the assets compared to its carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value. There were no impairment charges or long-lived assets disposed of during the year ended December 31, 2018.

**Cost Method of Accounting for Investments**

Investments in companies in which the Company has less than a 20% interest are carried at cost. Dividends received from these companies are included in other income. Dividends received in excess of the Company's proportionate share of accumulated earnings are applied as a reduction of the cost of the investment.

**Accrued Artist Liability**

The Company has created an artist bonus program in recognition of the efforts of artists and creatives who contributed to the creation of certain exhibits. The expected liability payments each year is approximately \$150,000, which can be accelerated or slowed at management's discretion.

**Loan Costs**

Debt issuance costs and loan fees are amortized over the term of the related debt. Unamortized debt issuance costs totaled \$10,162 at December 31, 2018. Amortization of debt issuance costs charged to interest expense was \$2,836 for the year ended December 31, 2018. Expected annual amortization for the debt issuance costs is approximately \$2,800 for 2019 through 2022.

**Stock-Based Compensation**

The Company accounts for stock-based compensation using fair value recognition provisions. The Company estimates the fair value of stock options granted using the Black-Scholes model and records stock-based compensation expense only for those awards that are expected to vest (Note 13). The Company amortizes the fair value of stock options on a straight-line basis over the requisite service periods of the awards, which are generally vesting periods.

The use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions, including the options' expected life and the expected price volatility of the underlying stock. The Company estimates its volatility of share prices by accessing historical volatility information of similar public entities.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss, and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. The Company has determined that it is not required to record a liability related to uncertain tax positions as of December 31, 2018.

**Sales Taxes**

Sales and similar taxes collected by the Company are netted with the corresponding sale to the customer. The Company collects that sales tax from customers and remits the entire amount to the state.

**Advertising Costs**

Advertising costs are expensed as incurred. Advertising expense was \$428,497 for the year ended December 31, 2018.

**Subsequent Events**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through REPORT DATE, the date the financial statements were available to be issued.

**NOTE 2 FUTURE OPERATIONS OF THE COMPANY**

**(HOLD FOR AUDIT COMPLETION)**

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company had a net loss of \$16,472,749, used \$13,433,422 in cash from operations, and has working capital and stockholders' deficits of \$13,679,730 and \$7,750,113, respectively, as of and for the year ended December 31, 2018. The Company's operations to date have been funded primarily by the revenues generated from entrance fees, merchandise, and related sales from its Santa Fe location.

The Company's future operations are dependent upon revenues generated from its entrance fees, merchandise, and related sales, as well as its continuing ability to obtain debt and equity financing.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 2 FUTURE OPERATIONS OF THE COMPANY (CONTINUED)**

If the Company does not achieve expected revenue levels and cash flows, the Company could be required to obtain additional financing from investors. In the event that the Company requires additional financing, there can be no guarantee that they will successfully obtain additional equity or debt financing in the amounts and terms acceptable to the Company.

Management is currently expanding operations into Denver, Colorado and Las Vegas, Nevada, with additional locations to open in the future. In the opinion of management, the revenues that will be generated by these additional locations will be sufficient to enable the Company to continue as a going concern. If for any reason the Company is unable to continue as a going concern, it could have an impact on the Company's ability to realize assets at their recognized values and their ability to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

**NOTE 3 INVESTMENT IN AREA 15 DEVELOPMENT, LLC**

During 2018, the Company committed to fund \$1,000,000 in AREA 15 Development, LLC (AREA 15) an unrelated company. Cash invested during the year ended December 31, 2018 totaled \$150,000. This investment is carried at cost on the consolidated balance sheet as of December 31, 2018. There were no distributions from AREA 15 recognized in the Company's consolidated statement of operations for the year ended December 31, 2018.

**NOTE 4 CAPITAL LEASES**

The Company leases a portion of its equipment from various entities under capital lease agreements. The lease agreements each contain a transfer of ownership at the end of the lease term, and, accordingly, they are included in the Company's assets and liabilities on the consolidated balance sheet at December 31, 2018. Amortization of assets held under capital leases is included with depreciation expense.

The following is an analysis of the leased assets included in property and equipment balances at December 31, 2018:

Capitalized Leased Assets Consist of:

Equipment	\$ 515,154
Less: Accumulated Amortization	<u>(15,095)</u>
Total Capital Leases, Net	<u><u>\$ 500,059</u></u>

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 4 CAPITAL LEASES (CONTINUED)**

The following is a schedule by years of future minimum payments required under the leases, together with their present values, as of December 31, 2018:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 128,058
2020	95,991
2021	73,243
2022	22,137
2023	-
Thereafter	-
Total Minimum Lease Payments	<u>319,429</u>
Less: Amount Representing Interest	<u>(15,769)</u>
Present Value of Minimum Lease Payments	303,660
Less: Current Portion	<u>(119,105)</u>
Capital Lease Obligation, Less Current Portion	<u><u>\$ 184,555</u></u>

**NOTE 5 OTHER ASSETS**

Following is a summary of definite-lived intangibles as of December 31, 2018:

Documentary Film Production Costs	\$ 285,559
Less: Accumulated Amortization	<u>(27,642)</u>
Documentary Film Production Costs, Net	<u><u>\$ 257,917</u></u>
Liquor License, at Cost	\$ 325,821
Less: Accumulated Amortization	<u>(23,531)</u>
Liquor License, Net	<u><u>\$ 302,290</u></u>

Estimated amortization expense is \$50,277 for each of the next five years.

**NOTE 6 CONVERTIBLE PROMISSORY NOTES**

During the year ended December 31, 2018, the Company issued \$19,368,411 of convertible promissory notes (Note 7). The convertible promissory notes earn interest at 6%. For the year ended December 31, 2018, approximately \$709,000 of interest has been accrued on these notes. All unpaid interest and principal payments are due at maturity on October 2, 2019.

Based on conversion features, all outstanding principal and accrued interest on the convertible promissory notes would be automatically converted into shares of a subsequent "qualified financing" equity security issued to investors on or before the maturity date. A qualified financing is defined as an equity financing resulting in gross proceeds to the Company of \$15,000,000 on or before the maturity date of the notes.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 6 CONVERTIBLE PROMISSORY NOTES (CONTINUED)**

In the event the Company issues and sells shares of its equity securities which does not constitute a qualified financing, a majority of the holders may elect to convert at the same conversion rates as noted in a qualified financing. If there is no qualified financing or change in control before the maturity date of the promissory notes, then at any time after the maturity date, a majority of the holders may elect to convert all outstanding principal and accrued interest into shares of the Company's common stock at a conversion price defined in the promissory notes.

The conversion features of the convertible promissory notes differ, depending on the timing of the execution and receipt of proceeds from the underlying convertible promissory notes, and were grouped into two different tranches as follows:

	Conversion Price as a % of Offering Price
Convertible Promissory Notes Dated April 1, 2018	<u>85%</u>
Convertible Promissory Notes Dated December 1, 2018	95%

In the event the Company consummates a change in control as defined in the promissory notes, the holder of the promissory note can elect to receive a cash payment equal to 200% of the outstanding principal and accrued interest or convert into shares of the Company's common stock at a conversion price defined in the promissory notes.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 7 LONG-TERM DEBT**

A summary of the Company's long-term debt is as follows:

Description

Convertible notes payable to third parties, unsecured and bearing 6.00% annually, with any accrued and unpaid interest due October, 2019 (Note 6).	\$ 19,368,411
Note payable to lessor for tenant improvements, unsecured and bearing simple interest at 6.00% annually, with any accrued and unpaid interest paid one month after opening new exhibit, which is estimated to be March, 2020. Monthly installments equal to \$1.15 multiplied by number of tickets sold in prior month, until principal amount is repaid.	5,000,000
Note payable to a lender in monthly installments of \$31,643 including interest at 3.15%, through June of 2021 (Note 8). Note is secured by real property.	4,193,333
Notes payable to third parties, unsecured and bearing simple interest at 7.00% annually, with any accrued and unpaid interest are paid in annual installments that began on November, 2018. At November, 2021, the unpaid principal amount and any unpaid interest will be paid, per the terms of the agreements.	1,575,107
Note payable to a lender, secured by a building, requiring payments in monthly installments of \$5,225, including interest at 5.44%, through July of 2028.	763,681
Notes payable to third parties, bearing simple interest accruing at 7.00% annually, with any accrued and unpaid interest to be paid in two annual installments beginning November 30, 2019. At November 30, 2021, the unpaid principal amount and any unpaid interest will be paid, per the terms of the agreements. Note is unsecured.	293,496
Note payable to a lender in monthly installments of \$3,511, including interest at 5.50%, through November of 2024. Note is secured by the Company's liquor license.	209,740

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**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

Description, continued

Notes payable to third parties, unsecured and bearing no interest but allowing for revenue share payments. The principal amounts are paid in annual installments that began in November, 2016. At November, 2020, any unpaid principal is due in full, per the terms of the agreements.

\$ 80,000

Notes payable to third parties, unsecured and bearing simple interest at 5.00% annually, with any accrued and unpaid interest are paid in annual installments that began in November, 2016. At November, 2020, the unpaid principal amount and any unpaid interest will be paid, per the terms of the agreements.

53,685

Total Long-Term Debt	31,537,453
Less: Loan Costs	<u>(10,162)</u>
Long-Term Debt, Net	31,527,291
Less: Current Maturities	<u>(19,694,231)</u>
Long-Term Debt, Less Current Maturities	<u><u>\$ 11,833,060</u></u>

Future maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 19,694,231
2020	1,213,862
2021	7,009,539
2022	1,518,451
2023	1,427,478
Thereafter	673,892
Total Minimum Debt Payments	<u><u>\$ 31,537,453</u></u>

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS**

During 2018, the Company entered into an interest rate swap to economically hedge the cash outflows on its variable-rate debt. Under the terms of the swap, the Company pays monthly fixed payments and receives a variable interest rate based on one-month LIBOR. The effective date of the swap was June 14, 2018 and the termination date is scheduled for June 14, 2021. The outstanding notional amount of the swap as of December 31, 2018 was \$4,193,333 and amortizes down consistent with the underlying debt that the swap is economically hedging. The Company used the swap to mitigate exposure to interest rate fluctuations associated with the variable rate debt. The Company does not use the agreements for speculative or trading purposes. The swap did not qualify for hedge accounting and accordingly the changes in fair value have been included in other income (expense) in the consolidated statement of operations and totaled (\$70,194) for the year ended December 31, 2018. The interest rate swap agreement has been recorded at fair value as a derivative liability on the consolidated balance sheet, which totaled \$70,194 at December 31, 2018.

The interest rate swap is summarized based on the fair value hierarchy levels as of December 31, 2018 as follows:

	Level 1	Level 2	Level 3	Level 4
Derivative Liability				
Interest Rate Swap	\$ -	\$ 70,194	\$ -	\$ 70,194

A description of the valuation technique and inputs used in the Level 2 fair value measurement at December 31, 2018 is as follows:

	Fair Value	Valuation Technique	Observable Inputs	
Derivative Liability				
Interest Rate Swap	\$ 70,194	Discounted Cash Flows	Interest Rate	3.15%

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 9 INCOME TAXES**

**(HOLD FOR AUDIT COMPLETION)**

At December 31, 2018, the sources of deferred tax assets and the tax effect for each are as follows:

Net Operating Loss Carry-Forward	
Charitable Contributions Carry-Forward	
Stock Compensation	
Accumulated Depreciation and Amortization	
Total:	-
Less: Valuation Allowance	
Net Deferred Tax Assets	\$ -

The income tax benefit for the year ended December 31, 2018 was comprised of the following:

Deferred:	
Federal	
State	
Change in Deferred Taxes Due to Tax Rate Change	
Valuation Allowance	
Total Income Tax Benefit	\$ -

The Company's effective income tax rate is lower than what would be expected if the federal statutory rate was applied to income before income taxes, primarily due to the enactment of the Tax Cuts and Jobs Act, which reduced the net deferred tax asset as December 31, 2018.

The Company's net operating loss carry-forward of \$\_\_\_\_\_ will expire on December 31, 2037.

**NOTE 10 RELATED PARTY TRANSACTIONS**

The Company leases a certain building under an operating lease agreement from an affiliated company. The shareholders of this affiliated company are investors in Meow Wolf, Inc. and Subsidiaries. The Company makes monthly payments in the amount of \$16,535 until December 31, 2024.

The Company recognized \$207,420 in rent expense associated with this related party for the year ended December 31, 2018. No amounts were due to this related party as of December 31, 2018.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

The Company is subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or liquidity.

**Lease Commitments**

The Company leases facilities and equipment under noncancelable operating lease agreements which expire at various dates through 2025. Future minimum lease payments required during the years ending December 31 are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 468,063
2020	1,154,756
2021	3,096,523
2022	3,500,943
2023	3,539,220
Thereafter	<u>55,452,106</u>
Total	<u><u>\$ 67,211,611</u></u>

**NOTE 12 CAPITAL STOCK**

The authorized capital of the Company at December 31, 2018 consists of 10 million shares of common stock and 1 million shares of non-convertible preferred stock.

**Non-Convertible Preferred Stock**

The non-convertible preferred stock ranks senior to the common stock as to dividends and upon liquidation, dissolution, or winding up of the Company.

**Dividends**

Holders of preferred shares are entitled to accrued dividends of \$0.70 per year per share, due on September 30 of each year, and paid within 60 calendar days, for so long as the preferred shares are outstanding. Dividends do not accrue on common stock.

**Liquidation Event**

Upon any voluntary or involuntary liquidation, dissolution, or winding up of the Company, the holders of the preferred shares will be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of the Company's common stock by reason of their ownership thereof, an amount per share equal to \$10.00 per share plus any unpaid accrued dividends therein. This distribution is subject to appropriate adjustment in the event of any stock dividend, stock split or other similar recapitalization with respect to the preferred shares.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 12 CAPITAL STOCK (CONTINUED)**

In the event of voluntary or involuntary liquidation, after the payment of all preferential amounts required to be paid to the holders of shares of preferred stock, the remaining assets of the Company available for distribution shall be distributed to the holders of shares of common stock.

**Redemption**

Preferred shares may be redeemed at a price of \$10.00 per share at the option of the Company or holder, on 90 days' notice, but not before March 1, 2027, and will be so redeemed upon a failure by the Company to pay any installment of accrued dividends when required to be paid, which failure continues for 30 days after the holder gives the Company notice of such failure. As the preferred stock holders have an option to redeem the preferred stock at a future date, the proceeds from the preferred stock have been included in temporary, or "mezzanine" equity, between liabilities and stockholders' equity on the consolidated balance sheet. The preferred stock, while not currently redeemable at the option of the holders, is considered probable of becoming redeemable and therefore will be subsequently remeasured each reporting period by accreting the initial value to the estimated redemption date of March 1, 2027 when the preferred stock is redeemable in whole or in part at the election of the preferred stock holders.

**Voting Rights**

The holders of the common stock are entitled to one vote for each share of common stock held at all meetings of stockholders, provided, however, that, except as otherwise required by law, holders of common stock, as such, shall not be entitled to vote on any amendment to the Certificate of Incorporation of the Company as then in effect that relates solely to the terms of one or more outstanding series of preferred stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to the Certificate of Incorporation or to the General Corporation Law.

Holders of preferred shares are not entitled to voting rights.

**NOTE 13 STOCK OPTIONS AND WARRANTS**

The Company has adopted an Equity Incentive Plan (the Equity Incentive Plan) which provides for incentive stock options, nonstatutory options, and restricted stock to be granted to the Company's officers, employees, directors, and consultants of the Company. The Company has been authorized to grant awards to purchase up to 356,000 shares of common stock under the Equity Incentive Plan. Awards that are canceled or expire become available for issuance under the Equity Incentive Plan.

Awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of the grant. Incentive stock options granted under the Equity Incentive Plan generally vest over a period of two to four years and nonstatutory stock options generally vest at the grant date. Awards under the Equity Incentive Plan expire ten years from the date of grant.

*No assurance is provided on these Consolidated Financial Statements.*

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 13 STOCK OPTIONS AND WARRANTS (CONTINUED)**

The fair value of each option award was estimated on the date of grant using the Black-Scholes option valuation model. Options granted during the year ended December 31, 2018 used the assumptions noted in the following table:

Expected Volatility	24.42%
Expected Dividends	0%
Expected Term (in Years)	5.9
Risk-Free Rate	2.84%

The Company determines expected term based on the period in which the options are expected to vest. The dividend yield is determined to be zero because the Company has not paid nor does it anticipate paying dividends on its Common Stock in the future. The risk-free interest rate is based on the daily treasury yield curve rate whose term is consistent with the expected term of the options. Volatility is based on the reported volatility of a peer group of comparable publicly-traded companies.

A summary of option activity under the Equity Incentive Plan as of December 31, 2018, and changes during the year then ended, is presented below:

	Options	Weighted- Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Outstanding - December 31, 2017	248,100	\$ 25	
Granted	107,100	40	
Forfeited	(9,276)	25	
Exercised	(4,790)	25	
Outstanding - December 31, 2018	<u>341,134</u>	<u>\$ 29.75</u>	<u>8.85</u>
Exercisable - December 31, 2018	<u>160,867</u>	<u>\$ 25.61</u>	<u>8.50</u>

The weighted-average grant-date fair value of options granted during the year ended December 31, 2018 was \$12.37.

There was approximately \$1,601,127 of total unrecognized compensation cost as of December 31, 2018, related to nonvested awards under the Equity Incentive Plan. This compensation cost as of December 31, 2018 is expected to be recognized over a weighted-average period of approximately 1.33 years.

Total compensation cost charged against operations for awards under the Equity Incentive Plan was \$651,668 for the year ended December 31, 2018.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**DECEMBER 31, 2018**

**NOTE 13 STOCK OPTIONS AND WARRANTS (CONTINUED)**

**Warrants**

During 2018, the Company did not issue any new warrants. During the year ended December 31, 2018, 17,857 common stock warrants were exercised at one warrant for one share of common stock for \$1,786 in cash. The remaining 15,084 common stock warrants outstanding as of December 31, 2018 have an exercise price that is contingent on the fair value of the Company's common stock on the exercise date and have a remaining life of approximately 8.4 years. These common stock warrants are only exercisable six years after the date of issuance and once the fair value of common stock is at least \$49.72 per share or upon a change of control, neither of which occurred during 2018. The exercise price of these common stock warrants will decrease as the fair value of common stock increases, but not below \$0.001 per share.

**NOTE 14 SUBSEQUENT EVENTS**

**(HOLD FOR AUDIT COMPLETION)**

DRAFT - FOR AUDIT PURPOSES ONLY

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET (UNAUDITED)**  
**DECEMBER 31, 2018**

	Meow Wolf, Inc.	Meow Wolf Santa Fe, LLC	MW Vegas, LLC	MW Denver, LLC	Eliminations	Total
<b>CURRENT ASSETS</b>						
Cash and Cash Equivalents	\$ 6,068,963	\$ 1,113,523	\$ 20,771	\$ 104,422	\$ -	\$ 7,307,679
Accounts Receivable	23,154	222,951	-	-	-	246,105
Inventories	38,983	498,218	-	-	-	537,201
Due from Related Company	919,185	5,928,620	-	-	(6,847,805)	-
Investor Receivable	700,000	-	-	-	-	700,000
Deposits	105,620	-	-	919,185	-	1,024,805
Prepaid Expenses and Other Assets	325,791	18,214	-	-	-	344,005
Total Current Assets	<u>8,181,696</u>	<u>7,781,526</u>	<u>20,771</u>	<u>1,023,607</u>	<u>(6,847,805)</u>	<u>10,159,795</u>
<b>PROPERTY AND EQUIPMENT</b>						
Land	1,434,479	-	-	-	-	1,434,479
Buildings and Improvements	4,786,380	767,526	-	-	-	5,553,906
Exhibitions and Exhibitions Improvements	301,389	2,892,814	-	-	-	3,194,203
Furniture and Fixtures	25,008	31,730	-	-	-	56,738
Equipment and Vehicles	1,711,501	305,615	-	-	-	2,017,116
Construction in Progress	8,536,430	41,329	-	-	-	8,577,759
Subtotal	<u>16,795,187</u>	<u>4,039,014</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,834,201</u>
Less: Accumulated Depreciation and Amortization	683,147	1,415,593	-	-	-	2,098,740
Total Property and Equipment	<u>16,112,040</u>	<u>2,623,421</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,735,461</u>
<b>OTHER ASSETS</b>						
Investment in Subsidiaries	7,284,183	-	-	-	(7,284,183)	-
Documentary Film Production Costs, Net	257,917	-	-	-	-	257,917
Investment in AREA 15 Development, LLC, at Cost	150,000	-	-	-	-	150,000
Liquor License, Net	-	302,290	-	-	-	302,290
Total Other Assets	<u>7,692,100</u>	<u>302,290</u>	<u>-</u>	<u>-</u>	<u>(7,284,183)</u>	<u>710,207</u>
Total Assets	<u>\$ 31,985,836</u>	<u>\$ 10,707,237</u>	<u>\$ 20,771</u>	<u>\$ 1,023,607</u>	<u>\$ (14,131,988)</u>	<u>\$ 29,605,463</u>

No assurance is provided on these Consolidated Financial Statements.



**MEOW WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET (UNAUDITED) (CONTINUED)**  
**DECEMBER 31, 2018**

	Meow Wolf, Inc.	Meow Wolf Santa Fe, LLC	MW Vegas, LLC	MW Denver, LLC	Eliminations	Total
<b>CURRENT LIABILITIES</b>						
Accounts Payable	\$ 637,216	\$ 207,315	\$ -	\$ -	\$ -	\$ 844,531
Current Maturities of Long-Term Debt	19,565,634	128,597	-	-	-	19,694,231
Current Portion of Capital Lease Obligations	110,984	8,121	-	-	-	119,105
Accrued Expenses:						
Accrued Artist Liability	-	685,750	-	-	-	685,750
Compensation and Employee Benefits	924,605	173,403	-	-	-	1,098,008
Interest	791,344	11,450	-	-	-	802,794
Dividends	131,250	-	-	-	-	131,250
Accrued Sales Taxes	4,662	96,078	-	-	-	100,740
Other	294,129	68,987	-	-	-	363,116
Due to Related Companies	5,928,620	-	-	919,185	(6,847,805)	-
Total Current Liabilities	<u>28,388,444</u>	<u>1,379,701</u>	<u>-</u>	<u>919,185</u>	<u>(6,847,805)</u>	<u>23,839,525</u>
<b>LONG-TERM LIABILITIES</b>						
Long-Term Debt, Net of Loan Costs and Less						
Current Maturities	9,883,314	1,949,746	-	-	-	11,833,060
Capital Lease Obligations, Less Current Portion	180,096	4,459	-	-	-	184,555
Derivative Liability - Interest Rate Swap	70,194	-	-	-	-	70,194
Deferred Revenue	625,000	83,940	21,901	108,500	-	839,341
Total Long-Term Liabilities	<u>10,758,604</u>	<u>2,038,145</u>	<u>21,901</u>	<u>108,500</u>	<u>-</u>	<u>12,927,150</u>
<b>Total Liabilities</b>	<b>39,147,048</b>	<b>3,417,846</b>	<b>21,901</b>	<b>1,027,685</b>	<b>(6,847,805)</b>	<b>36,766,675</b>
<b>MEZZANINE EQUITY</b>						
Redeemable Preferred Stock, \$0.001 Par Value, \$10 Per Share Liquidation Preference; of the 1,000,000 Shares of Preferred Stock Authorized, 150,000 Issued and Outstanding as of December 31, 2017	588,901	-	-	-	-	588,901
<b>STOCKHOLDERS' EQUITY</b>						
Common Stock, \$0.001 Par Value (10,000,000 Shares Authorized, 1,569,849 Shares Issued and Outstanding)	1,593	-	-	-	-	1,593
Additional Paid-In Capital	18,235,781	-	-	-	-	18,235,781
Retained Earnings (Accumulated Deficit)	(25,987,487)	7,289,391	(1,130)	(4,078)	(7,284,183)	(25,987,487)
Total Stockholders' Equity (Deficit)	<u>(7,750,113)</u>	<u>7,289,391</u>	<u>(1,130)</u>	<u>(4,078)</u>	<u>(7,284,183)</u>	<u>(7,750,113)</u>
<b>Total Liabilities, Mezzanine Equity and Stockholders' Equity</b>	<b><u>\$ 31,985,836</u></b>	<b><u>\$ 10,707,237</u></b>	<b><u>\$ 20,771</u></b>	<b><u>\$ 1,023,607</u></b>	<b><u>\$ (14,131,988)</u></b>	<b><u>\$ 29,605,463</u></b>

No assurance is provided on these Consolidated Financial Statements.

**MEOW WOLF, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)**  
**YEAR ENDED DECEMBER 31, 2018**

	Meow Wolf, Inc.	Meow Wolf Santa Fe, LLC	MW Vegas, LLC	MW Denver, LLC	Eliminations	Total
<b>SALES</b>	\$ 1,188,840	\$ 13,432,146	\$ -	\$ -	\$ -	\$ 14,620,986
<b>COST OF SALES</b>	463,953	1,205,055	-	-	-	1,669,008
<b>GROSS PROFIT</b>	724,887	12,227,091	-	-	-	12,951,978
<b>OPERATING EXPENSES</b>						
Payroll and Related	13,527,893	4,042,917	-	-	-	17,570,810
Marketing and Promotional	430,978	236,059	-	-	-	667,037
General and Administrative	3,157,523	690,469	1,130	4,078	-	3,853,200
Other Office Expense	1,231,910	948,300	-	-	-	2,180,210
Stock Compensation Expense	651,668	-	-	-	-	651,668
Occupancy Costs	651,275	490,488	-	-	-	1,141,763
Supplies Expense	1,036,565	127,536	-	-	-	1,164,101
Depreciation and Amortization	533,735	626,793	-	-	-	1,160,528
Total Operating Expenses	<u>21,221,547</u>	<u>7,162,562</u>	<u>1,130</u>	<u>4,078</u>	<u>-</u>	<u>28,389,317</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	(20,496,660)	5,064,529	(1,130)	(4,078)	-	(15,437,339)
<b>OTHER INCOME (EXPENSE)</b>						
Interest Income	14,541	3,924	-	-	-	18,465
Interest Expense	(866,744)	(136,016)	-	-	-	(1,002,760)
Other Income (Expense)	(62,827)	11,712	-	-	-	(51,115)
Total Other Income (Expense)	<u>(915,030)</u>	<u>(120,380)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,035,410)</u>
<b>NET GAIN FROM INVESTMENT IN SUBSIDIARIES</b>	4,938,941	-	-	-	(4,938,941)	-
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	(16,472,749)	4,944,149	(1,130)	(4,078)	(4,938,941)	(16,472,749)
<b>INCOME TAX BENEFIT</b>	-	-	-	-	-	-
<b>NET INCOME (LOSS)</b>	<u>\$ (16,472,749)</u>	<u>\$ 4,944,149</u>	<u>\$ (1,130)</u>	<u>\$ (4,078)</u>	<u>\$ (4,938,941)</u>	<u>\$ (16,472,749)</u>

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