**SK3 Group, Inc.**
**Notes to Financial Statements**
**December 31, 2013**
**(Unaudited)**

## Note 1 Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for financial information presentation. It is management's opinion that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation.

## Note 2 Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

SK3 Group, Inc. was incorporated in Delaware on January 14, 2000 as Slabsdirect.com, Inc. and changed its corporate name to CTT International Distributors, Inc. on January 7, 2005, and again changed its corporate name to SK3 Group, Inc. on May 14, 2007. The Company established its offices in Miami, Florida in early 2013. In October, 2013, the Company relocated its headquarters to Los Angeles, CA, but retained the Miami office to provide administrative support.

On March 10, 2013, SK3 Group, Inc purchased the assets of Medical Greens from iEquity Corp for 5,000,000 shares of Convertible Preferred Stock of SKTO representing 60% voting interest, voting with other classes, and convertible into 60% of the resulting common stock at the time of conversion. Subsequently, SK3 Group changed its business model to focus purely in the medical marijuana space and intends to change its corporate name to Medical Greens, Inc..

During the quarter ended March 31, 2013, the Company entered into licensing, marketing and administrative management agreements with 11 separate medical marijuana collectives in California. The Company also has signed agreements to act as Medical Cannabis Administrator for 13 healthcare facilities in California and entered into a lease-purchase arrangement for Over 40 acres of land in Southern California for sub-lease to collectives for their growing operations. Subsequently, the Company has signed administrative management agreements with an additional 4 collectives in California.

On March 25, 2013, iEquity Corp. issued a $3,000,000 unsecured revolving line of credit to SK3 Group.

On April 3, 2013, SK3 Group contracted to become the Medical Cannabis Administrator (MCA) for thirteen medical facilities and healthcare providers in Southern California.

On May 21, 2013, SK3 Group signed an agreement with Alternative Energy Partners, Inc ("AEGY") for the latter to become the exclusive online and phone application marketing platform for the collectives managed by SK3 Group. AEGY agreed to issue 100,000,000 common shares of AEGY to purchase this exclusive right as soon as it has amended its Articles of Incorporation to authorize the shares and as soon as it has filed a registration statement for the shares with the SEC. As part of the agreement, AEGY has agreed to register the shares under the Securities and Exchange Act of 1934 (the "ACT"), which will then be distributed to the shareholders of the Company who are shareholders of record when the registration statement is filed. These shares will be distributed as a dividend to the shareholders of the Company subject to the registration of the shares under the ACT, upon the effectiveness of the filing. The shares have not yet been issued by AEGY.

Medical Greens ™ currently provides licensing, management, and logistic services for Medical Marijuana collectives throughout California. In 2013, Medical Greens ™ has contracted with over 15 collectives to provide services through marketing, management, licensing and service agreements. Products currently licensed by SK3 Group to contracted collectives exclusively for marketing and sale include:

YAK

The YAK line of medical marijuana edibles was developed in 2008. It consists of the "Greenie" cookie, "Haute Chocolate" (an instant chocolate drink), "Mocha-Juana" (an instant chocolate/coffee drink), and "Whole Plant Cannabis Extract Capsules" in Indica, Sativa and High-CBD. There is also a medicated chocolate taffy which is available in Indica, Sativa, Hybrid, and High-CBD. YAK also produces Red Diamond Oil, a super-potent and very high-quality oil that is excellent for strong medicinal needs such as pain relief.

CANNA-LOZ

Canna-Loz™ is a delivery system for large doses of phyto-cannabinoids, as used in the "Simpson" therapy, and a new product line utilizing this delivery system. Canna-Loz™ is a soft lozenge containing 250 mg. of whole-plant cannabis extract oil, with approximately 50% cannabinoids, mainly THC and CBD, but with all of the lesser cannabinoids, as well as the entire array of terpenes and terpenoids.

Known as Organakoil, this extract has been available to patients for two years through the Dharma Care and Hospice Program. Utilizing Canna-Loz™ as the delivery system will make the therapy far easier and more palatable then the current delivery methods. Canna-Loz™ was developed as a delivery system that facilitates so-called "Simpson" therapy in the treatment of serious diseases, without the considerable discomfort of administration in the manner recommended by Mr. Rick Simpson in his "Run From the Cure" video on YouTube http://www.youtube.com/watch?v=0psJhQHk_GI. The standard recommended practice is to rub a "tic-tac"- sized bead of oil on the gums until one gram of oil is consumed daily, a messy and ill-tasting practice, which can leave the mouth and teeth green, and has proven to be difficult for some patients.

The concentrates are prepared using 190 proof ethanol (drinking alcohol) that has been certified organic. This extracting agent is used because it captures the widest spectrum of the medicinal elements found in the cannabis plant and is also the healthiest agent that can be used in this type of extraction.

A patient utilizing "Simpson" therapy can chew four Canna-Loz™ daily and receive the full one-gram dose recommended in "Simpson" therapy. Slices of the Canna-Loz™ can be placed between the gum and cheek for smaller doses, and as a result, the physical act of consuming the medicine is made far more pleasant.

YETI

This is a premium quality pre-roll for pain relief. It is high-quality cannabis flowers which have been impregnated with Red Diamond oil.

DHARMANOL

On July 29, 2013, the Company obtained licenses for several proprietary technologies for the extraction, purification, and creation of medicines consisting of cannabinoids from hemp and marijuana. Cannabinoids are a natural substance with medicinal benefits found in cannabis. The most well-known is tetrahydrocannabinol, or THC. THC is responsible for the physical and mental effects (the "high") associated with smoking marijuana. Other cannabinoids (there are over 60 in a single plant) such as cannabidiol (CBD) have been shown to have substantial medicinal value while producing no noticeable psychoactive effects. Production of medicines utilizing the non-psychoactive cannabinoids is the focus of these technologies. These technologies facilitate the preparation of cannabinoid medicines using techniques that will permit the safe and efficient preparation of several standardized cannabinoid medicines by the collectives that are managed by Medical Greens. Medical Greens will serve as lead consultant to the collectives, providing the technology necessary for the collectives to produce medicinal products from hemp or cannabis, without the psychoactive effects. The medicinal products covered by this license include: High-CBD cannabis tinctures, capsules and edibles, a sublingual spray, and infused vegetable oils. Medical Greens will oversee quality control and provide testing for cannabinoid content and microbiological purity.

**Note: The statements in this document have not been evaluated or approved by the FDA. The products and statements referenced in this document are not intended to diagnose, treat, cure, or prevent any disease.**

On June 30, 2013, SK3 Group closed an acquisition agreement to acquire 100% of the assets of BBORL, INC (Berkeley Bio-Organic Research Laboratories), a California Corporation for 20 million shares of SK3 Group, common stock, valued at the closing market price of $0.0182 on the closing date, or a total of $364,000. The main concentration of BBORL is consultation with many collectives in the development and production of non-psychoactive cannabinoid medicines, primarily for the treatment of cancer, allowing patients to obtain medically efficacious doses without attendant, and possibly negative, psychoactive consequences. A secondary interest is the development and production of equipment for the manufacture and production of cannabinoid-based medicines. Berkeley Bio has made substantial strides in these areas. The principal assets acquired consisted of the intellectual property and knowhow developed by BBORL, Inc. through its former operations. BBORL, Inc. remains an independent company but provides research and development services to the Company in the medical marijuana filed on an exclusive basis.

On June 30, 2013, the Company also acquired the assets of an existing California medical marijuana collective for 5,000,000 shares of common stock valued at the closing market price of $0.0182 on the closing date, or a total of $91,000, and also acquired four unique machines for the extraction and purification of essential oils from cannabis, to aid in the development and production of medicinal products without psychoactive effect, along with the right to use the machines, for an additional 15,000,000 shares valued at the closing market price of $0.0182 on the closing date, or a total of $273,000.

SK3 Group also has secured an aggregate of over 50 acres of real estate in California to manage state-of-the-art growing facilities for medicinal cannabis.

On July 29, 2013, the Company obtained licenses for several proprietary technologies for the extraction, purification, and creation of medicines consisting of cannabinoids from hemp and marijuana. Cannabinoids are a natural substance with medicinal benefits found in cannabis. The most well-known is tetrahydrocannabinol, or THC. THC is responsible for the physical and mental effects (the "high") associated with smoking marijuana. Other cannabinoids (there are over 60 in the plant) such as cannabidiol (CBD) have been shown to have substantial medicinal value while producing no noticeable psychoactive effects. Production of medicines utilizing the non-psychoactive cannabinoids is the focus of these technologies. These technologies facilitate the preparation of cannabinoid medicines using techniques that will permit the safe and efficient preparation of several standardized cannabinoid medicines by the collectives managed by Medical Greens. Medical Greens will serve as lead consultant to the collectives, providing the technology necessary for the collectives to produce medicinal products from hemp or cannabis, without the psychoactive effects. The medicinal products covered by this license include: High-CBD cannabis tinctures, capsules and edibles, a sublingual spray, and infused vegetable oils. Medical Greens will oversee quality control and provide testing for cannabinoid content and microbiological purity.

On August 16, 2013, the Company signed a definitive agreement to acquire Sovereign International, Inc., a full service medical cannabis consulting firm specializing in advising on cultivation techniques. Through a unique cultivation technique, including locating but not tampering with the genetics of the first generation OG Kush strain, Sovereign has played a vital role in building the household strain name "Sovereign OG." Sovereign has perfected this particular strain to have some of the most potent medicinal benefits for a wide range of ailments the symptoms for which research has shown will be alleviated by medical marijuana. Sovereign has worked with over 300 collectives in Southern California with some of the most discerning connoisseurs and a wide range of members that prefer, and are loyal consumers of, the "Sovereign OG" brand. The acquisition has been closed and the results of Sovereign's operations are included in the consolidated financial statements filed with this report.

On October 10, 2013, the Company announced that it has obtained the exclusive license for Dharmanol™ for the State of California. This proprietary technology extracts, stabilizes, and preserves the medicinal cannabinoids found in hemp and marijuana in their non-psychoactive form. This technology allows patients to consume cannabinoid medicine without any of the "high" or "stoned" effects.

On Oct 17, 2013, announced the development of a new delivery system for large doses of phyto-cannabinoids, as used in the "Simpson" therapy, and a new licensed product line utilizing this delivery system. Medical Greens will now license the Canna-Loz™ products to be available through collectives managed by or partnered with Medical Greens. Canna-Loz™ is a soft lozenge containing 250 mg. of whole-plant cannabis extract oil, with approximately 50% cannabinoids, mainly THC and CBD, but with all of the lesser cannabinoids, as well as the entire array of terpenes and terpenoids.

On November 25, 2013, the Company announced its newest product, T-Hydrocan™, a new medicinal cannabis product line. A synthetic version of THC, Marinol™ has been available by prescription for many years, and is prescribed to remediate the pain and nausea from cancer and the side effects of radiation and chemotherapy. Interestingly, Marinol™ is routinely prescribed to cancer patients, and those who also have access to similar natural cannabis products greatly prefer the natural products over the synthetic pharmaceuticals. T-Hydrocan™ tablets contain the psychoactive element THC, as well as the complete array of cannabinoids that are naturally present in the cannabis / hemp plant. In addition to the cannabinoids, T-Hydrocan™ tablets contain a steam-distilled extract of cannabis / hemp, containing the natural terpenes and terpenoids which work synergistically with the cannabinoids. Several different versions of T-Hydrocan™ will be offered, adjusting the basic T-Hydrocan™ formula for different applications. T-Hydrocan™ Whole-Plant™ will contain psychoactive, decarboxylated THC, as well as the entire array of related medicinal elements found in the cannabis / hemp plant. T-Hydrocan™ Citrolene™ will contain a healthy dose of the terpene d-Limonene, which attaches to the same receptors as do tranquilizers such as Valium and Xanax, adding a natural relaxing element to the medicine. T-Hydrocan -- CBD™ will add an amount of CBD equal to the THC.

On December 5, 2013, the Company announced that it will begin rolling out the Janes Card™ (www.janescard.com) in January 2014. The Janes Card™ is a universal loyalty-based card along with a payment solution for members for medical cannabis collectives and dispensaries throughout California. The card will have an upscale look and feel, and will be distributed by the Company directly as well as through collectives/dispensaries and doctors' offices throughout the state. Customers will be able to update their Janes Card™ account online or through a dedicated telephone number, much as they are currently able to do with more traditional credit card and loyalty programs. The Company expects a nationwide rollout sometime in the first half of 2014.

Subsequent to December 31, 2013, I Equity Corp has transferred all the licensing rights of Dharmanol, Yak Capsules, Yeti Honeybud Oilers, Organakoil, Red Diamond Oil, and other products, trademarks, formulations, and trade secrets that are licensed to SK3 Group's wholesale managed collectives, to Medical Greens. The transfer includes all of the intellectual property resulting from research conducted by Berkeley Bio Organic Research Laboratory including current and continuing research includes research into mixed phyto-cannabinoid carboxylates, decarboxylation processes, and cannabidiol (CBD) extraction methods.

Also subsequent to December 31, 2013, the Company has engaged in a number of other activities and accomplished various developments which can be found described in the next Company quarterly report and in the Company's press releases.

The Company currently operates as a holding and service company, providing administrative, financial, legal, human resources and similar services to collectives located in California under the Medical Greens™ trademark and intellectual property.

**Risks and Uncertainties**

The Company operates in an industry that is very competitive, highly regulated and subject to rapid technological change. The Company's operations will be subject to significant risk and uncertainties including financial, operational, technological, regulatory and other risks associated with a development stage company, including the potential risk of business failure.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. A significant estimate in 2012 and 2011 included a 100% valuation allowance for deferred taxes assets arising from net operating losses incurred since inception.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the financial statements, which management considered in formulating its estimate could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ materially from estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. At September 30, 2013, the Company had $129,865 in cash and equivalents.

The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. At September 30, 2013, there were no balances that exceeded the federally insured limit.

**Earnings per Share**

In accordance with accounting guidance now codified as FASB ASC Topic 260, *"Earnings per Share,"* Basic earnings per share ("EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to all dilutive potential of shares of common stock outstanding during the period including stock options or warrants, using the treasury stock method (by using the average stock price for the period to determine the number of shares assumed to be purchased from the exercise of stock options or warrants), and convertible debt or convertible preferred stock, using the if-converted method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive. The computation of basic and diluted loss per share for the period from inception to December 31, 2013, is equivalent since the Company has had continuing losses. The Company also has no common stock equivalents.

**Share Based Payments**

Generally, all forms of share-based payments, including stock option grants, restricted stock grants and stock appreciation rights, are measured at their fair value on the awards' grant date, and based on the estimated number of awards that are ultimately expected to vest. Share-based payment awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable. The expense resulting from share-based payments are recorded as a component of general and administrative expense.

**Intangible Assets**

Intangible assets are stated at cost less accumulated amortization and, if impaired, at fair value. They are amortized in accordance with the relevant income stream or by using the straight line method over their useful lives from the time they are first available for use. The estimated useful lives vary according to the specific asset but are typically:

1 to 12 years for customer contracts and relationships;

3 to 8 years for capitalized software;

3 to 10 years for patents, trademarks and licenses; and

3 to 8 years for capitalized development currently being amortized.

Intangible assets which are not yet being amortized are subject to annual impairment reviews.

During the quarter ended September 30, 2013, the Company only operated in one segment; therefore, segment information has not been presented.

**Fair Value of Financial Instruments**

The carrying amounts of the Company's short-term financial instruments, including accounts payable and accrued liabilities, approximate fair value due to the relatively short period to maturity for these instruments.

**Reclassifications**

Certain amounts from the prior period financial statements have been reclassified to conform to current period presentation.

**Fair Value Measurement**

The fair value of the Company's financial assets and liabilities reflects the Company's estimate of amounts that it would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from sources independent from the Company) and to minimize the use of unobservable inputs (the Company's assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.

Level 3: Unobservable inputs based on the Company's assessment of the assumptions that market participants would use in pricing the asset or liability.

**Recent Accounting Pronouncements**

The Company continually assesses any new accounting pronouncements to determine their applicability to the Company. Where it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequence of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's financials properly reflect the change. There were no recently issued accounting pronouncements during the quarter impacting the company's business.

## Note 3 Convertible Notes and Other Liabilities

In December 2010, the Company issued a convertible note to Crystal Falls Investments, LLC, in the original principal amount of $2,474, converting an outstanding open account due to Crystal Falls for its direct payment of the outstanding balance then due to the Company's transfer agent. The note was a three year note due December 31, 2013, carried interest at 10 percent and was in the principal amount of $2,474. The note is convertible into common stock at any time after 180 days at the election of the holder, at a price equal to the par value of the common stock at the date of election to convert. There is a limitation on the total shares that may be held by the holder of the note, to 4.99 percent of all common shares outstanding. Interest of $247 has been accrued on the note for each of the fiscal years 2011 and 2012 and $118 in interest for the six month period ended June 30, 2013.

In December 2011, the Company issued a second convertible note to Crystal Falls Investments, LLC, converting an outstanding open account due to Crystal Falls for direct payments made by Crystal Falls to DTC to obtain NOBO lists, totaling $1,680. The note is a two year note due December 31, 2013, bears interest at 10 percent and is in the principal amount of $1,680. The note is convertible into common stock at any time after 180 days at the election of the holder, at a price equal to 75 percent of the average closing price of the common stock for the 30 trading days prior to the date of election to convert, but not less than $0.001. There is a limitation on the total shares held by the holder of the note, to 4.99 percent of all common shares outstanding. Interest of $168 has been accrued on the note for 2012 and an additional $83 in interest for the six month period ended June 30, 2013.

Effective July 2, 2013, the Company entered into a settlement with Crystal Falls Investments, LLC, settling all amounts due under the two promissory notes, as well claims made by it against the Company for other alleged cash advances, by the issuance of 53,000,000 shares of common stock. **See, Note 5, Stockholder Equity (Deficit).** As a result of the settlement, both notes were paid in full as of July 2, 2013.

At December 31, 2011, the Company had accounts payable of $148,671, of which $144,400 was due to CFOs to Go, Inc. under a consulting agreement dated March 1, 2010, which was terminated September 30, 2011, and of which an additional $4,271 was due to the Company's transfer agent. On December 30, 2011, the balance due to CFOs to Go, Inc. was converted into a convertible promissory note, in the amount of $144,400, due December 31, 2013. In January, 2013, CFOs to Go, Inc. merged with and into Matriarch Management, Inc. and Matriarch thereafter assigned the note balance to six unrelated parties, with six new notes in the principal amounts of $24,067 each issued to replace the old note. In May, 2013, each of the six holders elected to convert $6,897 in principal of each note into 22,990,000 common shares. The principal balance due on each of the six notes at September 30, 2013 is $17,170.

Effective May 1, 2012, the Company entered into a Consulting Agreement with iEquity Corp. under which iEquity Corp. agreed to undertake the research and business development necessary to implement the new business of the Company already under development. The Consulting Agreement provides for a monthly fee of $50,000 and a total of $450,000 in fees had accrued as of December 31, 2012. The accrued amount was converted into a promissory note in the same amount on December 31, 2012 convertible into common stock at the election of the holder. iEquity Corp. is now the controlling shareholder of the Company.

**Note 4 Subsidiaries and Subsequent Events.**

In March 2013, SK3 Group acquired the assets and business of Medical Greens from iEquity Corp. for the issuance of 5 million shares of Series A Convertible Preferred Stock having voting power equal to 60 percent of the total vote of all classes of stock entitled to vote and convertible at any time after one year from the date of issue into 60 percent of the resulting common stock outstanding. As of September 30, 2013, the Series A Preferred certificate had not been issued because the Statement of Rights and Preferences had not yet been filed in Delaware. The Statement of Rights and Preferences is expected to be filed by November 15, 2013, at which time the share certificate will be issued. The shares themselves are reflected in the books of the Company.

The Company also acquired all of the intellectual property and knowhow of BBORL, Inc., including existing products, research and development, and all of the operating business of an existing medical collective, which is managed through the Company. The Company has incorporated SK3 Services, Inc. as a wholly-owned subsidiary to undertake this management function.

On August 16, 2013, the Company signed a definitive agreement to acquire Sovereign International, Inc., a full-service medical cannabis consulting firm specializing in advising on cultivation techniques. Through a unique cultivation technique, including locating but not tampering with the genetics of the first generation OG Kush strain, Sovereign has played a vital role in building the household strain name "Sovereign OG." Sovereign has perfected this particular strain to have some of the most potent medicinal benefits for a wide range of ailments the symptoms for which research has shown will be alleviated by medical marijuana. Sovereign has worked with over 300 collectives in Southern California with some of the most discerning connoisseurs and a wide range of members that prefer, and are loyal consumers of, the "Sovereign OG" brand. Sovereign now operates as a subsidiary of the Company.

**Note 5 Stockholders' Equity (Deficit)**

As of December 31, 2012, the Company had 362,991,308 common shares issued and outstanding and 5,000,000 convertible preferred shares issuable but not yet outstanding. The preferred shares have been reflected as issued on the Company books at March 31, 2013 and thereafter, and the certificate representing the preferred shares will be issued as soon as the required statement of rights and preferences has been filed in Delaware. The preferred shares carry 60 percent of the total vote of all classes of stock voting on any matter, and will be convertible into a resulting 60 percent of the then issued and outstanding common shares, at the election of the holder.

On May 15, 2013, the holders of 6 convertible promissory notes issued by the Company each elected to convert a portion of the principal due on each note into common shares. Each holder converted $6,897 in principal into stock at a conversion price of $0.0003, on the terms provided in the notes, and each received 22,990,000 common shares, resulting in an increase in the number of shares issued to 499,990,303 shares.

On June 30, 2013, SK3 Group closed an acquisition agreement to acquire 100% of the assets and intellectual property of BBORL, INC (Berkeley Bio-Organic Research Laboratories), a California corporation for 20 million shares of SK3 Group, common stock. As of September 30, 2013, the share certificates had not been issued, but the shares are included in the issued and outstanding shares at September 30, 2013. The main concentration of BBORL is consultation with many collectives in the development and production of non-psychoactive cannabinoid medicines, primarily for the treatment of cancer, allowing patients to obtain medically efficacious doses without attendant, and possibly negative, psychoactive consequences. A secondary interest is the development and production of equipment for the manufacture and production of cannabinoid-based medicines. Berkeley Bio has made substantial strides in these areas. The share certificates of SK3 Group issued to BBORL will be issued as restricted securities and will contain a legend stating that the shares have not been registered under the Securities Act of 1933, as amended. The securities are being issued in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On June 30, 2013, the Company acquired the assets of an existing, California medical marijuana collective for 5,000,000 shares of common stock, but the share certificates have not yet been issued. The share certificates of SK3 Group issued to the collective will be issued as restricted securities and will contain a legend stating that the shares have not been registered under the Securities Act of 1933, as amended. The securities are being issued in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended. As of September 30, 2013, the share certificates had not been issued, but the shares are included in the issued and outstanding shares at September 30, 2013.

On June 30, 2013, the Company acquired four unique machines for the extraction and purification of essential oils from cannabis, to aid in the development and production of medicinal products without psychoactive effect, for 15,000,000 shares of common stock, but the share certificates have not yet been issued. The share certificates of SK3 Group issued to the sellers will be issued as restricted securities and will contain a legend stating that the shares have not been registered under the Securities Act of 1933, as amended. The securities are being issued in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended. As of September 30, 2013, the share certificates had not been issued, but the shares are included in the issued and outstanding shares at September 30, 2013.

In June 2013, the Company entered into a settlement agreement with Crystal Falls Investments, LLC, and Lotus Capital Investments, LLC to resolve claims for alleged cash advances to the Company allegedly made by Crystal Falls Investments, LLC between October, 2010 and April 2013, inclusive, a portion of which alleged claims allegedly had been previously assigned by Crystal Falls to Lotus. Crystal Falls had paid outstanding invoices of two vendors of SK3 in the amounts of $2,324 and $1,680 in December 2010 and 2011, respectively, but those amounts were then incorporated into two promissory notes in the principal amounts of $2,324 and $1,680, due December 31, 2013 and convertible by their terms into common stock based on a conversion price of 75 percent of the average closing price for the stock for the 30 days prior to the date of the conversion, but not less than $0.001 per share. Under the terms of the settlement, Crystal Falls and Lotus Capital agreed not to pursue threatened litigation against the Company, and to cancel the two promissory notes and accrued interest in the name of Crystal Falls, in exchange for 53,000,000 shares of common stock issued in July, 2013, and an additional 117,000,000 common shares to be issued commencing October 1, 2013 in quarterly installments of the lesser of (a) 9.9 percent of the then issued and outstanding common shares or (b) that number of shares equal to the difference between 117,000,000 and the number of shares issued already in any prior quarterly installments.

A total of 53,000,000 shares were issued on July 3, 2013 to Crystal Falls and to Lotus Investments at the direction of Crystal Falls, under the settlement agreement, which has been accounted for as follows:

| Item | Shares | | Value |
|---|---|---|---|
| Conversion of two prior notes plus accrued interest, a total of $4,897.83, at the agreed conversion rate of $0.01504 (75% of 30 day average closing price) | 325,654 | $ | 4,897.83 |
| Settlement compensation, based on July 2, 2013 closing market price of $0.0188 | 52,674,346 | $ | 990,277.70 |
| Totals | 53,000,000 | $ | 995,175.53 |

The additional shares to be issued on a quarterly basis will be treated as additional compensation to Crystal Falls Investments and Lotus Capital Investments as and when issued each quarterly installment is issued. Management has considered the application of FASB Statement No. 123 on accounting for stock based employee compensation, which requires fair value accounting treatment for either the fair value of the consideration received or the fair value of the equity issued, whichever is more reliably measured, and has concluded that FASB 123 does not apply to this transaction. Crystal Falls and Lotus Investments are not employees or consultants of the Company, have not provided and will not provide any services to the Company, and have not provided anything of reliably measurable value for the issuance of the shares on a quarterly basis in the future, other than the settlement of threatened litigation over alleged claims for funds. However, FASB 123 does indicate that in the case of issuance of restricted stock as compensation to an employee, the value of that restricted stock is to be measured by the market price of a share of unrestricted stock on the grant date. Since the future market price of each quarterly grant of shares to Crystal Falls and Lotus Capital is speculative, and the number of shares to be issued at each quarterly date is dependent on the then total outstanding shares of the Company's common stock, which is also unknown, the restricted stock to be issued to them in the future will be valued at the closing market price of the common stock at the time of each quarterly installment due date and based on the total number of shares of the Company's common stock then issued and outstanding.

During the quarter ended December 31, 2013, an additional 96,440,000 common shares were issued on conversion of outstanding notes.

As a result of the acquisitions and note conversions, total common shares issued at December 31, 2013, are as follows:

| | | |
|---|---|---|
| Shares issued at September 30, 2013 | 601,500,303 | |
| Shares issued on conversion of notes and in settlement | 96,440,000 | |
| Total shares issued and outstanding at December 31, 2013 | | 697,106,135 |

There were 1,250,000,000 common shares, par value $0.001, and 5,000,000 preferred shares, par value $0.001, authorized at December 31, 2013.

**Note 6. Reserve for uncollectible accounts.**

Management has determined that it is appropriate to establish a reserve for the potential inability to collect on the accounts receivable of the Company arising from the licensing and marketing fees due to the Company under the existing agreements with the now 18 independent collectives. While management still feels that these invoices will be collected in the future, it has decided, as a matter of policy, to reserve against 100 percent of all invoices more than 180 days past due, and for 60 percent of all invoices more than 90 days past due.

The reserve has been charged as a bad debt expense in the year ended December 31, 2013 in the amount of $25,051,486.