SMC Entertainment, Inc.
Footnotes to Financial Statements
For the Year Ending December 31, 2015

Note 1 - Organization and Description of Business

SMC Entertainment, Inc. (the "Company" or "SMC") was incorporated in the State of Nevada on January 23, 1998, under the name of Professional Recovery Systems, Ltd. Over the course of its history, Professional Recovery Systems, Ltd. underwent several name changes until being named Action Energy Corp. ("Action Energy") on April 2, 2009.

On May 1, 2009, Action Energy entered into an Agreement and Plan of Reorganization (the "Agreement") with SMC Recordings, Inc., a California Corporation ("SMC Recordings CA"). According to the Agreement, SMC Recordings CA merged with and into Action Energy, with Action Energy being the surviving corporation. The effective date of the merger was June 1, 2009. Pursuant to the agreement, Action Energy issued 50,000,000 shares of common stock to the shareholders of SMC Recordings CA for all of their shares of SMC Recordings CA. The management of Action Energy resigned and the management and board of SMC Recordings CA filled the vacancy. Action Energy had no assets on the books, and was carrying a convertible note of $174,123 (including interest) and a deficit in retained earnings at the time of the transaction. The note and retained earnings were assigned and contributed to SMC Recordings CA.

On April 2, 2009, Action Energy effected a 1-for-1,000 reverse stock split of its 43,862,000 outstanding shares resulting in 43,862 shares issued and outstanding after the split. After the merger became effective, 50,043,862 total common shares were issued and outstanding. There were no outstanding stock options, convertible loans, or warrants to purchase shares of SMC Recordings CA Common Stock. For accounting purposes, the acquisition was treated as a recapitalization of SMC Recordings CA with SMC Recordings CA as the acquirer (reverse merger). SMC Recordings CA was treated as the acquirer for accounting purposes because after the acquisition the shareholders of SMC Recordings CA controlled Action Energy and the officers and directors of SMC Recordings CA assumed the same positions at Action Energy; Action Energy is the surviving entity for legal purposes. On July 7, 2009, Action Energy amended its articles of incorporation and changed its name to SMC Recordings, Inc.

On February 28, 2011, the Company's board of directors approved changes to the articles of incorporation. The approved changes were to Article I and changed the name of SMC Recording CA to SMC Recordings, Inc. On May 6, 2011, SMC Recordings, Inc. amended its articles of incorporation and changed its name to SMC Entertainment, Inc.

Established in July of 2002, the Company is home to independent music and artists. Based in San Francisco, CA, the Company's prized accomplishment is its unique philosophy of artist development, where artists are encouraged to participate as a partner with the label from the inception of their career to developing and elevating their careers over time. This innovative structure has garnered industry veterans to join the Company and aid in its growth. The Company's music is distributed by Fontana Distribution, LLC ("Fontana"); the independent music distribution subsidiary of Universal Music Group Distribution, Corp. ("UMG"), and a wholly owned subsidiary of Vivendi.

The Company's Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution, and licensing of recorded music produced by such artists.

Note 2 - Going Concern and Management's Plan

The Company has suffered recurring losses and has no assurance of future profitability. The Company will continue to require financing from external sources to finance its operating and investing activities until sufficient positive cash flows from operations can be generated. There is no assurance that financing or profitability will be achieved, accordingly, there is substantial doubt about the Company's ability to continue as a going concern.

These financial statements have been prepared on the basis that the Company will be able to continue as a going concern and realize its assets and satisfy its liabilities and commitments in the normal course of business and do not reflect any adjustments which would be necessary if the Company is unable to continue as a going concern.

Note 3 - Summary of Significant Accounting Policies

Basis of Accounting
The Company maintains its records, and the accompanying financial statements have been prepared, on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Reclassifications
Certain reclassifications have been made to prior-year amounts to conform to the current period presentation. These reclassifications had no net effect on balance sheet accounts, cash flow results, net operating results, or shareholders' deficit.

Use of Estimates
The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in them, including the accompanying notes. While management believes the estimates and related assumptions used in the preparation of these financial statements are appropriate, actual results could differ from those estimates.

Cash and Equivalents
Cash and equivalents are stated at cost, which approximates fair value. The Company considers highly liquid investments purchased with original maturities of 90 days or less to be cash equivalents.

Fair Value of Financial Instruments
The carrying amounts of the Company's financial instruments as of December 31, 2015 approximate the fair value because of the short-term nature of these instruments. Such instruments consist of cash, accounts receivable, advances, accounts payable, loans, convertible notes, and other assets and liabilities.

Revenues
Music Sales
The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable.

The Company no longer holds nor sells physical inventory, all revenues come from the sale of recorded music products through digital distribution channels and are recognized when the products are sold and related sales accounting reports are delivered by the providers.

Licensing and Other Revenue
Licensing and other revenue (including label management services, release fees, and music publishing revenues) are earned from the receipt of royalties relating to the licensing of rights in masters and musical compositions owned or controlled. The receipt of royalties principally relates to amounts earned from the public performance of copyrighted material, the master and mechanical reproduction of copyrighted material on recorded media including digital formats, and the use of masters and copyrighted material in synchronization with visual images. Consistent with industry practice, licensing rights of master and publishing copyrights are generally recognized as revenue when cash is received. Fees received for label management services and releasing fees are recognized when earned, which is typically at the time of payment.

Income from Debt Forgiveness
From time to time the Company may not be able to pay certain debts, and creditors may deem those debts uncollectible. The company then records the forgiveness of that debt as additional income on the current year's income statement.

Sales Returns and Uncollectible Accounts
In accordance with practice in the recorded music industry and as customary in many territories, certain products (such as CDs and DVDs) are sold to customers with the right to return unsold items. Revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future estimated returns. In determining the estimate of product sales that will be returned, management analyzes historical returns, current economic trends, changes in customer demand and commercial acceptance of the Company's products. Based on this information, management reserves a percentage of each dollar of product sales to provide for the estimated customer returns.

Royalty Advances and Royalty Costs
The Company regularly commits to and advances royalties to its artists and songwriters in respect of future sales. The Company capitalizes as assets certain advanced royalty payments that management believes are recoverable from future royalties to be earned by the artist or songwriter.

Royalties earned by artists, songwriters, co-publishers, other copyright holders and trade unions are recognized as an expense in the period in which the sale of the product takes place, less an adjustment for future estimated returns, and are included in cost of revenue.

From time to time advances paid by the Company may become uncollectible if royalties earned do not equal or exceed the advance. The Company records an allowance for uncollectible advances and writes of the uncollectible royalty advances when it is determined that they cannot be collected.

Inventories
Inventories have consisted of CDs and related music products and parts. The Company relies on its distributor, Fontana, to manufacture, warehouse, and track its inventories. The Company uses a standard cost method, approximate costs determined on the first-in first-out basis, to value finished goods inventory.

During the fiscal year ending December 31, 2015 the Company liquidated its entire remaining physical inventory. The Company will no longer sell physical inventory, only distribute through digital distribution channels. The liquidation of the physical inventory caused the company a $92, 809 loss due to obsolescence.

Receivables
Receivables are recorded at face value less a provision for uncollectable receivables. Estimates are based on historical collections and management's estimates, however, at times uncollectible receivables exceed estimates and additional bad debt expense must be recorded.

Shipping and Handling
The costs associated with shipping goods to customers are recorded as cost of revenues. Shipping and handling charges billed to customers are included in revenues.

Property and Equipment
Property and equipment are recorded at historical cost. Depreciation is calculated using the straight-line method based upon the estimated useful lives of depreciable assets as follows: five to seven years for furniture and fixtures, three to five years for computer equipment and up to seven years for machinery and equipment. Leasehold improvements are depreciated over periods up to the life of the lease.

Stock-Based Compensation
Stock-based compensation cost granted to employees is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service or performance period, which is the vesting period. Stock options and warrants issued to consultants and other non-employees as compensation for services to be provided to the Company are accounted for based upon the fair value of the services provided or the estimated fair value of the option or warrant, whichever can be more clearly determined. Management uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include management's expected stock price volatility over the term of the awards, the expected term of the award, the risk-free interest rate and any expected dividends. Compensation cost associated with grants of restricted stock units are also measured at fair value using the Black Scholes option pricing model.

Income Taxes
Income taxes are determined using the asset and liability method. Under this method, income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any differences between U.S. GAAP and tax reporting. Deferred income taxes reflect the tax effect of net operating loss, capital loss and general business credit carry-forwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statements and income tax purposes, as determined under enacted tax laws and rates.

Prior to the merger on June 1, 2009, the Company elected, with the consent of its shareholders, to be taxed under the provisions of Subchapter S of the Internal Revenue Code and California Revenue Code. Under these provisions, the Company does not pay federal or California corporate income taxes on its taxable income. Instead, the shareholders are liable for individual federal and California income taxes on their pro-rata share of the Company's taxable income. After the merger the Company is now a Nevada Corporation under Subchapter C of the Internal Revenue Code and is liable for federal and state (where applicable) income taxes.

Basic and Diluted Loss per Share
Basic earnings or losses per common share is computed by dividing the net loss or income applicable to common shares after preferred dividend requirements, if any, by the weighted-average of common shares outstanding during the period. Diluted earnings or losses per common share adjusts basic earnings or losses per common share for the effects of stock options, convertible notes, warrants and other potentially dilutive financial instruments only in the periods in which such effect is dilutive.

Segment Reporting
Based on the Company's integration and management strategies, the Company operated in a single business segment.

Recent Accounting Pronouncements
From time to time, new accounting pronouncements are issued that management adopts as of the specified effective date. Unless otherwise discussed in these financial statements and notes for the year ended December 31, 2015, management believes the impact of any other recently issued standards that are not yet effective are either not applicable to the Company at this time or will not have a material impact on the Company's financial statements upon adoption.

Conversion of Notes
The Company has several outstanding notes payable that may be converted at a predetermined rate into common stock of the Company. There was one note converted into shares of common stock during the year ending December 31, 2015. The face value of the note converted was $8,580.

Note 4 - Long-term Debt

As of December 31, 2015, long-term notes payable consist of the following:

Long-term Notes Payable
The Company has six long-term notes payable outstanding with face values ranging from $4,186 to $380,000. Interest rates ranged from prime rate plus 1% to 9.39% fixed. The notes payable have maturity dates ranging from July 1, 2014 to November 1, 2017. The outstanding balance was $536,586 at December 31, 2015. Interest expense for these notes was $46,932.

Debtor	Principal Amount	Rate
Tashjian Investments	$380,000	9.39% Per Annum
Under the Radar	$95,840	5% Per Annum
Robert J. Streck	$31,040	8% Per Annum
Robert F. Streck	$15,520	8% Per Annum
Joan Assereto	$10,000	Prime Rate Plus 1%
Tashjian Investments	$4,186	Prime Rate Plus 1%

Note 5 - Income Taxes

Pursuant to the provisions of the Internal Revenue Code, use of the Company's net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within any three-year period since the last ownership change.

Note 6 - Related Party Transactions

From time to time, the Company has borrowed money from shareholders or shareholder controlled entities with subsequent payments (principal and interest) back to the shareholders for amounts borrowed. The Company has various payables due to related parties as of December 31, 2015.

Note 7 - Subsequent Events

None.