

2018 Annual Report

SCNA **SMART CANNABIS CORP.**

For the Period Ending December 31, 2018

THESE UNAUDITED FINANCIAL STATEMENTS ARE INCORPORATED BY REFERENCE INTO THE
DISCLOSURE STATEMENT PURSUANT TO THE PINK BASIC DISCLOSURE GUIDELINES

SMART CANNABIS CORP.

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Smart Cannabis Corp.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2018	December 31, 2017
ASSETS:		
Current Assets:		
Cash	\$ 65,856	\$ 450,535
Accounts Receivable	309,600	540,708
Inventory	491,380	203,903
Other	-	-
Total Current Assets	<u>866,836</u>	<u>1,195,146</u>
Fixed Assets:		
Property, Plant, & Equipment, net	-	-
Leasehold Improvements, net	77,824	105,610
Total Fixed Assets, net	<u>77,824</u>	<u>105,610</u>
Total Assets	<u><u>\$ 944,661</u></u>	<u><u>\$ 1,300,756</u></u>
LIABILITIES:		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 13,778	\$ 40,000
Customer Deposits	0	\$ 283,903
Deferred Income	149,560	
Loan Payable	206,000	45,000
Convertible Notes Payable	345,537	348,292
Interest Payable	153,248	-
Total Current Liabilities	<u>868,123</u>	<u>717,195</u>
Long Term Liabilities	-	-
Total Liabilities	<u><u>\$ 868,123</u></u>	<u><u>\$ 717,195</u></u>
STOCKHOLDERS' EQUITY:		
Preferred Stock \$.00001 par value		
50,000,000 authorised, 400,000 outstanding	4	4
shares outstanding, respectively		
Common Stock \$.00001 par value; 10,000,000,000 shares		
authorized, 4,863,868,887 and 5,896,659,739		
outstanding, respectively	48,111	58,967
Additional Paid In Capital	1,947,384	2,046,864
Accumulated Deficit	(1,918,960)	(1,522,274)
Total Stockholders' Equity	<u>76,538</u>	<u>583,561</u>
Total Liabilities and Equity	<u><u>\$ 944,661</u></u>	<u><u>\$ 1,300,756</u></u>

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

Smart Cannabis Corp.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Year Ended December 31, 2018	
	2018	2017
Revenues	\$ 234,896	\$ 3,137,886
Cost of Revenues	<u>174,660</u>	<u>1,716,221</u>
Gross Margin	<u>60,236</u>	<u>1,421,665</u>
Operating Expenses:		
Amortization & Depreciation	25,942	231
Bad Debt Expense		100,000
Consulting	-	1,330,000
Officer Compensation	-	1,085,000
General and Administrative	188,858	434,225
Professional Fees	<u>178,122</u>	<u>201</u>
Total Operating Expenses	<u>392,922</u>	<u>2,949,657</u>
Loss from Operations	<u>(332,686)</u>	<u>(1,527,992)</u>
Other Income (Expenses):		
Interest expense	(64,000)	
Interest income	-	-
Total Other Income (Expenses)	<u>(64,000)</u>	<u>-</u>
Net Income Before Taxes	<u>(396,686)</u>	<u>(1,527,992)</u>
Provision for Income Taxes	<u>-</u>	<u>-</u>
Net Loss	<u>\$ (396,686)</u>	<u>\$ (1,527,992)</u>
Net loss per share- Basic and Diluted	<u>\$ -</u>	<u>\$ -</u>
Weighted average numbers of shares outstanding- Basic and Diluted	<u>4,802,164,769</u>	<u>6,024,659,739</u>

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

Smart Cannabis Corp
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity (Deficit)
December 31, 2017	440,000	\$ 4	5,896,659,739	\$ 58,967	\$ 2,046,864	\$ (1,522,274)	\$ 583,561
Officer Shares cancelled and Preferred Share issued	50,000		(1,000,000,000)	\$ (10,000)			\$ (10,000)
Office Shares repurchased	(90,000)		52,000,000	\$ (520)	\$ (99,480)		\$ (100,000)
Other Cancellations			(264,790,852)	\$ (336)		\$ (396,686)	\$ (397,022)
Net Income							
December 31, 2018	400,000	4	4,683,868,887	48,111	1,947,384	(1,918,960)	76,538

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

Smart Cannabis Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the year Ended December 31, 2018	For the year Ended December 31, 2017
Cash flows from operating activities:		
Net gain (loss)	\$ (396,685)	(1,527,992)
Non-cash items:		
Amortization	27,786	231
Bad Debt Expense		100,000
Issuance of Common Stock for Services		2,415,000
Changes in operating assets and liabilities		
Accounts Receivable	231,107	(595,708)
Inventory	(287,477)	(203,903)
Deferred Income	149,560	
Accounts payable	(26,224)	40,000
Customer deposits	(283,903)	283,903
Interest Payable	64,000	
Net cash provided/(used) by operating activities	(521,836)	511,531
Cash flows from investing activities:		
Leasehold Improvements		(105,841)
Net cash provided (used) by investing activities	-	(105,841)
Cash flows from financing activities:		
Proceeds from loans payable	247,493	45,000
Stock Retirements		
Loan repayments	(10,856)	10000
Stock repurchase	(99,480)	(10,000)
Net cash provided by financing activities	137,157	35,000
Net Change in Cash	\$ (384,679)	\$ 440,690
Cash, beginning of period	\$ 450,535	\$ 9,845
Cash, end of period	\$ 65,856	\$ 450,535
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ -	\$ -
NON CASH INVESTING & FINANCING ACTIVITIES:		
Issuance of Common Stock for Services	\$ -	\$ 2,415,000
Stock retirements	\$ (10,328)	

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

Smart Cannabis Corp.
Notes to Financial Statements
For the Year Ending December 31, 2017

Prepared by Management

Note 1. Nature of Operations and Business Activity

Business Activity

Smart Cannabis Corp is an Oklahoma Corporation also registered in California. The Company acquired Next Generation Farming, Inc., a Nevada Corporation, on October 21, 2016 which operates as a wholly owned subsidiary.

FINRA approved a name and symbol change for the Company on September 5, 2017.

The Company's target market for its advanced automated greenhouse systems are commercial cultivators and processors for the cannabis market. In addition, the Company's product lines are suited for organic agriculture producers, specifically vegetables and leafy greens. The Company promotes the sale of products and services through its subsidiary Next Generation Farming Inc. and promotes intellectual property development, strategic alliances while looking for key acquisitions that can provide revenue and positioning in its target market.

Note 2. Summary of Significant Accounting Principals

Basis of Presentation

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated 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 Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information necessary for a comprehensive presentation of financial position and results of operations.

It is management's opinion, however, that all material adjustments (consisting of normal and recurring adjustments) have been made which are necessary for a fair financial statements presentation

Principles of Consolidation

The accompanying consolidated financial statements include all of the accounts of the Company including its wholly owned subsidiary Next Generation Farming, Inc. All intercompany balances and transactions have been eliminated.

Use of Estimates and Assumptions

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. Accordingly, actual results could differ from those estimates. Such estimates include management's assessments of the carrying value of certain assets, useful lives of assets, and related depreciation and amortization methods applied.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of six months or less are considered to be cash equivalents. The carrying value of these investments approximates fair value.

Accounts Receivable

Accounts receivable related to the products and services sold are recorded at the time revenue is recognized, and are presented on the balance sheet net of allowance for doubtful accounts. The ultimate collection of the receivable may not be known for several months after services have been provided and billed.

The Company has established an allowance for doubtful accounts based upon factors pertaining to the credit risk of specific customers, analyses of current and historical cash collections, and the aging of receivables. Delinquent accounts are written-off when the likelihood for collection is remote and/or when the Company believes collection efforts have been fully exhausted and the Company does not intend to devote any additional efforts in an attempt to collect the receivable. The Company adjusts their allowance for doubtful accounts balance on a quarterly basis.

Inventory

The Company's inventory consists of raw material valued under the FIFO method, stated and the lower of cost or market value.

Property Plant, & Equipment

Property, plant, and equipment are recorded at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. Expenditures for major additions and betterments are capitalized in amounts greater or equal to \$500. Depreciation of equipment is computed by the straight-line method (after taking into account their respective estimated residual values) over the assets estimated useful life of three (3), five (5), or seven (7) years. Upon sale or retirement of equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in statements of operations.

Leasehold Improvements

Leasehold improvements are stated at cost less accumulated amortization. The Company records amortization using the straight-line method over the life of the lease, of which 4 years remain. Maintenance and repair costs are expensed as they are incurred while renewals and improvements which extend the useful life of an asset are capitalized. At the time of retirement or disposal of property and equipment, the cost and related accumulated amortization are removed from the accounts and any resulting gain or loss is reflected in the results of operations.

Income Taxes

The Company follows Section 740-10-30 of the FASB Accounting Standards Codification, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the fiscal year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance to the extent management concludes it is more likely than not that the assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company adopted section 740-10-25 of the FASB Accounting Standards Codification (“Section 740-10-25”) with regards to uncertainty in income taxes. Section 740-10-25 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under Section 740-10-25, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent (50%) likelihood of being realized upon ultimate settlement. Section 740-10-25 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The Company had no material adjustments to its assets and/or liabilities for unrecognized income tax benefits according to the provisions of Section 740-10-25.

Earnings (loss) Per Share

The Company computes basic and diluted earnings per share amounts pursuant to section 260-10-45 of the FASB Accounting Standards Codification. Basic earnings per share is computed by dividing net income (loss) available to common shareholders, by the weighted average number of shares of common stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted earnings per share is computed by dividing net income (loss) available to common shareholders by the diluted weighted average number of shares of common stock during the period. The diluted weighted average number of common shares outstanding is the basic weighted number of shares adjusted as of the first day of the year for any potentially diluted debt or equity.

Fair Value of Financial Instruments

The Company adopted the provisions of FASB ASC 820 (the “Fair Value Topic”) which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements.

The Fair Value Topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. It also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

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:

A) Market approach—Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

B) Cost approach—Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

C) Income approach—Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

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

Level 2: Observable inputs other than Level 1 inputs. Example 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 are market participants would use in pricing the asset or liability.

The carrying amount of the Company's financial assets and liabilities, such as cash, prepaid expenses, accounts payable, accrued expenses, and deferred revenue approximate their fair value because of the short maturity of those instruments. The Company's notes payable approximate the fair value of such instruments based upon management's best estimate of interest rates that would be available to the Company for similar financial arrangements at December 31, 2016 and December 31, 2015.

Impairment of Intangible Assets

The Company follows paragraph 360-10-05-4 of the FASB Accounting Standards Codification for its long-lived assets. The Company's long-lived assets, such as intellectual property are required to be reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives.

The Company determined that there were no impairments of long-lived assets as of December 31, 2018.

Commitments & Contingencies

The Company follows subtopic 450-20 of the FASB Accounting Standards Codification to report accounting for contingencies. Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

Revenue Recognition

The Company follows paragraph 605-10-S99-1 of the FASB Accounting Standards Codification for revenue recognition. The Company will recognize revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. In addition, the Company records allowances for accounts receivable that are estimated to not be collected.

Revenues sales contracts are recognized over the length of the contract term based upon percentage of completion. The difference between the gross cash receipts collected and the recognized revenue from those sales during the respective reporting period will appear as deferred revenue.

Subsequent Events

The Company follows the guidance in Section 855-10-50 of the FASB Accounting Standards Codification for the disclosure of subsequent events. The Company will evaluate subsequent events through the date when the financial statements were issued.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) in order to increase transparency and comparability among organizations by, among other provisions, recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. For public companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. In transition, entities may also elect a package of practical expedients that must be applied in its entirety to all leases commencing before the adoption date, unless the lease is modified, and permits entities to not reassess (a) the existence of a lease, (b) lease classification or (c) determination of initial direct costs, as of the adoption date, which effectively allows entities to carryforward accounting conclusions under previous U.S. GAAP. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): Targeted Improvements, which provides entities an optional transition method to apply the guidance under Topic 842 as of the adoption date, rather than as of the earliest period presented. The Company adopted Topic 842 on January 1, 2019, using the optional transition method to apply the new guidance as of January 1, 2019, rather than as of the earliest period presented, and elected the package of practical expedients described above. The Company is still finalizing its analysis, but expects the adoption will not have a material impact on the Company's consolidated financial statements.

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

Note 3. Going Concern

As reflected in the accompanying financial statements, the Company had an accumulated deficit of \$1,918,960 at December 31, 2018 had had a net loss of \$396,686 for the year then ended.

While the Company is attempting to improve operations, and increase revenues, the Company's cash position may not be significant enough to support the Company's daily operations over the next year. Management intends to increase revenues and raise additional funds by way of a public or private offering. Management believes that the actions presently being taken to further implement its business plan and increase revenues provide the opportunity for the Company to continue as a going concern. While the Company believes in the viability of its strategy to generate revenues and in its ability to raise additional funds, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent upon the Company's ability to further implement its business plan.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 3. Inventory and Cost of Goods Sold

Inventory balances were \$491,380 and \$203,903 for the years ended December 31, 2018 and 2017, respectively. There is currently no reserve in inventory

Note 4. Accounts Receivable

Accounts Receivable balances were \$309,600 and \$540,708 for the years ended December 31, 2018 and 2017, respectively. There was an allowance of \$100,000 in 2018 and \$100,000 in 2017.

Note 5. Leasehold Improvements

The Company made improvements to a building which it leases. The improvements are being written off over the remaining term of the lease which is 48 months. For the years ended December 31, 2018 and 2019, the balances of \$77,824 and \$105,610 were net of accumulated amortization of \$27,816 and \$231 for each year respectively.

Note 6. Common Stock

During 2018 the Company cancelled 1,264,790,852 shares of common stock with a charge to retained deficit of \$433,022. The Company also repurchased 52,000,000 shares at a cost of \$100,000.

During 2017, the Company issued 105,000,000 to consultants with a value of \$1,330,000 and issued 217,000,000 shares to officers with a value of \$1,085,000.

Note 7. Notes Payable and Convertible Notes Payable

Notes Payable and Convertible Notes payable balances were \$206,000 and \$345,537 and \$45,000 and \$348,000 for the years ended December 31, 2018 and 2017, respectively. All notes have a term of one year, bear interest at 10% per annum and are convertible into the Company's common stock at par value. As of December 31, 2018, the Company had accrued \$153,248 in interest.

Note 8. Income Taxes

The Company accounts for its income taxes in accordance with FASB Codification Topic ASC 740-10, "*Income Taxes*", which requires recognition of deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be

recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred taxes arise from temporary differences in the recognition of certain expenses for tax and financial reporting purposes. As of December 31, 2018, the company had significant timing differences for tax reporting purposes for the non-cash recognition of liabilities due for committed shares in excess of authorized shares, shares issued for services, and shares issued for compensation. The expenses related to these liabilities are treated as permanent differences between financial and tax reporting.

At December 31, 2018, management determined that realization of these loss carry forward benefits is not assured and has provided a valuation allowance for the entire amount of such benefits,

Note 8. Commitments and Contingencies

The Company is in litigation pertaining to a \$25,000 convertible promissory note and related issues. The Company is seeking to void the note while the defendants are seeking to enforce said note. The litigation commenced on January 6, 2017, and is pending in the U.S. District Court for the District of Connecticut. The Company believes that it will prevail in this litigation.