

Independent Auditor's Report

To the Stockholders of

Medical Marijuana, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Medical Marijuana, Inc., which comprise the balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to previously present fairly, in all material respects, the consolidated financial position of Medical Marijuana, Inc. as of December 31, 2012, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Anthony W. Imbimbo, CPA & Associates

San Diego, California
February 6, 2013

Medical Marijuana, Inc.
Balance Sheet
As of December 31, 2012

	December 31, 2012
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,422,143
Equity securities (Note 3)	1,565,500
Receivable RDH (Note 4)	846,515
Inventory (Note 5)	8,700,000
Total Current Assets	12,534,158
Other Assets	
Red Dice Holdings (Note 6)	1,450,000
CanChew Biotech (Note 7)	1,250,000
Research & Development (Note 8)	1,135,238
Fixed Assets (Note 9)	14,928
Patent	375
Total Other Assets	3,850,540
TOTAL ASSETS	\$ 16,384,698
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	\$ 84,800
Total Current Liabilities	84,800
Total Liabilities	84,800
Stockholders' Equity (Note 10)	
Class a Common Stock, issued 808,238,318	808,238
Additional Paid in Capital	7,303,466
Retained Earnings	8,188,194
Total Stockholders' Equity	16,299,898
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 16,384,698

The accompanying notes are an integral part to the financial statements

Medical Marijuana, Inc.
Statement of Income
October through December 2012

	<u>TOTAL</u>
Income	\$ 5,193,654
Cost of Goods Sold	
Direct Costs	<u>1,265,515</u>
Total COGS	<u>1,265,515</u>
Gross Profit	3,928,139
Expense	
Payroll Expenses	418,519
Advertising and Promotion	59,365
Public Filing Fees\Legal	49,331
Rent Expense	44,204
Testing	42,080
Travel Expense	23,881
Interest Expense	19,763
Office Supplies	16,572
Computer and Internet Expenses	8,108
Utilities	4,000
Insurance Expense	2,741
Professional Fees	2,700
Telephone Expense	2,377
Bank Service Charges	. 875
Total Expense	<u>694,515</u>
Net Income	<u>\$ 3,233,623</u>

The accompanying notes are an integral part of the financial statements

Medical Marijuana, Inc.
Statement of Cash Flows
October through December 2012

	Oct - Dec 12
OPERATING ACTIVITIES	
Net Income	\$ 3,233,623
Adjustments to reconcile Net Income to net cash provided by operations:	
Equity securities	651,000
Receivable RDH	(450,076)
Inventory	(6,810,761)
Total Joint Venture Rollover	296,000
Accounts Payable	(500,637)
Other Current Liabilities	(38,570)
Net cash provided by Operating Activities	(3,619,420)
FINANCING ACTIVITIES	
Additional Paid in Capital	2,353,408
Net cash provided by Financing Activities	2,353,408
Net cash increase (decrease) for period	(1,266,012)
Cash at beginning of period	2,688,155
Cash at end of period	\$ 1,422,143

The accompanying notes are an integral part of the financial statements.

MEDICAL MARIJUANA, INC.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations.

Medical Marijuana Inc. (“MJNA”) is Oregon Corporation vested in the medical marijuana and industrial hemp markets. The company is comprised of a diversified portfolio of products, services, technology and businesses solely focused on the cannabis and hemp industries.

These products range from patented and proprietary based cannabinoid products, to whole plant or isolated high value extracts specifically manufactured and formulated for the pharmaceutical, nutraceutical and cosmeceutical industries.

The Company’s services are extensive and varied, ranging from medical clinic management to the capitalization and development of existing industry business and product leaders. Services include development of cannabinoid based health and wellness products, and the development of medical grade compounds. MJNA provides over 50 proprietary and patented cannabinoid “delivery methods” that are more “socially and medically acceptable” than smoking. Finally, MJNA services include the licensing of its proprietary testing, genetics, labeling, and packaging, tracking, production and standardization methods for the medicinal herb industry.

Medical Marijuana Inc.’s patented and proprietary technologies include the only pharmaceutical grade vertical Bio-Technology Company specializing in the standardization, production and extraction of medicinal cannabinoids. MJNA’s PhytoSPHERE Systems and their advanced plant growth technologies save significantly on resources necessary for production of medical grade cannabis. In addition to providing a medical grade end product, extracts and compounds, PhytoSPHERE Systems also includes pre-and-post production tracking, genoplasm references, packaging and processing to ensure consistency and genetic purity. Medical Marijuana Inc.

Basis of Financial Statement Presentation. The accompanying financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Cash Equivalents. Holdings of highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Marketable Securities. Management classifies all investments as available-for-sale. Available-for-sale securities are carried at fair value..

Inventories. Inventories are valued at net realizable value. Inventory consist of Cannabidiol, extracted from industrial hemp plants.

Property, Plant, and Equipment. Property, plant, and equipment are recorded at cost less depreciation and amortization. Depreciation and amortization are primarily accounted for on the straightline method based on estimated useful lives. The amortization of leasehold improvements is based on the shorter of the lease term or the life of the improvement. Betterments and large renewals which extend the life of the asset are capitalized whereas maintenance and repairs and small renewals are expensed as incurred.

Revenue Recognition. Revenue is recognized in the financial statements (and the customer billed) either when materials are shipped from stock or when the vendor bills the Company for the order. Net sales are arrived at by deducting discounts, freight, and sales taxes from gross sales.

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. Actual results could differ from those estimates.

Note 2: Related-Party Transactions

The Company has an agreement with Hemp Deposit and Distribution Company (HDDC). HDDC is the majority shareholder and acts as the merger, acquisition and due diligence arm of the Company. HDDC also provides working capital for the Company as needed. HDDC holds \$1,565,500 in free trading equity securities on behalf of the Company.

The Company owns 80% of Canipa, a Romanian based holding company that maintains licenses and intellectual property for hemp based and medicinal cannabis.

Note 3: Equity Securities

Investments in equity securities at December 31, 2012

HDDC holds \$1,565,500 in free trading equity securities on behalf of the Company.

Note 4: Accounts Receivable

Red Dice Holdings (RDH) is a holding company, that owns the formulas, equipment, and extraction processes for Hemp oil based products. The RDH's revenue model is to continue to develop these products and license them to distributors throughout the world. The Company own's 60% of RDH. The Company has furnished RDH working capital for operations. As of December 31, 2012, RDH owes the Company \$846,515.

Note 5: Inventories

Inventories are comprised of Cannabanoid Oil, or Cannabidiol. The inventory is derived from industrial based hemp products. Inventory is at net realizable value.

Note 6: Red Dice Holdings

The Company purchased Red Dice Holdings during 2012. Red Dice Holdings (RDH) is a holding company, that owns the formulas, equipment, and extraction processes for Hemp oil based products. The RDH's revenue model is to continue to develop these products and license them to distributors throughout the world. The Company own's 60% of RDH.

Note 7: CanChew Biotech

The Company purchased CanChew Biotech during 2012. CanChew Biotech focuses on the treatment of pain and other medical disorders with the application of chewing gum based cannabis/cannabinoids medical products. The Company owns 50% of CanChew

Note 8: Research & Development

The Company incurred direct cost for developing their products and intellectual properties.

Note 9: Fixed Assets

Fixed assets are entirely comprised of office equipment. Fixed assets are shown net of depreciation.

Note 10: Stockholders' Equity

At December 31, 2012, the number of authorized and issued shares and the related par value:

Class A Common Stock Authorized:	950,000,000
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Class A Common Stock Issued:	808,238,318
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Par Value:	\$0.001
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Note 11: Subsequent Events

The Company sold all of its inventory for approximately \$35,000,000 and has received its first installment payment of \$4,500,000, and will continue to receive installment payments through 2013.

Canipa, the 80% owned European subsidiary received approval to sell hemp oil and medicinal products in Romania.

The Company received an opinion letter from counsel stating that it is legal to import, export, and sell products within the United States while using the word “cannabidiol” in its name, labeling, and marketing materials.

The Company has finalized and made it’s first installment payment for the acquisition of a New York biotech company that has been assigned the National Institute of Health’s (NIH) patent on the therapeutic use of cannabinoids.

The Company and its counsel have submitted all required documentation and a legal opinion letter for the removal of the Depository Trust Corporation (DTC) chill.

The Company has completed and submitted all documentation necessary for a market tier uplisting (OTC/QX)

CanChew Biotechnologies received 47,000,000 shares of the Company’s common stock in order to self fund and secure the clinical development and clinical trials in 2013 for European FDA equivalent medical drug approval.