

***PURATION, INC.***

**YEARLY  
FINANCIAL REPORT**

FOR THE YEAR ENDED  
DECEMBER 31, 2015

**Puration, Inc.**  
**Balance Sheet – Period Ending December 31, 2015**

**Assets**

**Current Assets:**

Inventories		<u>164,870</u>
Total Current Assets	\$	164,870
Equipment and vehicles, net of accumulated depreciation of \$25,816	\$	47,213
Patents, trademarks and brands, net of Accumulated amortization of \$178,850	\$	121,150
Refundable deposits	\$	4,750
Certain Joint Ventures	\$	<u>131,462</u>
<b>Total Assets</b>	<b>\$</b>	<b>469,445</b>

**Liabilities and Shareholders Equity**

**Current Liabilities:**

Accounts payable, trade	\$	110,039
Accounts payable-other		17,491
Accrued expenses		137,387
Accrued interest		<u>275,506</u>
Total Current Liabilities	\$	<u>540,423</u>
8% Convertible Debenture – 1JT	\$	125,000
8% Convertible Debenture – 2JT	\$	125,000
Note payable - 12% SPN#1	\$	40,000
Note payable - 12% SPN#2	\$	461,542
Note payable – 10% PN #3	\$	50,000
Note payable – 15% PN #4	\$	100,000
Convertible Promissory Note 8% (1)	\$	300,000
Convertible Promissory Note 8% (2)	\$	300,000
JV Debt/Forebearance	\$	<u>525,849</u>
<b>Total Liabilities</b>	<b>\$</b>	<b>2,567,814</b>

**Stockholders' Equity:**

Preferred stock, Series A, \$0.001 par value, 5,000,000 shares authorized; none outstanding	\$ 100
Common stock, \$0.001 par value, 50,000,000 Shares authorized and outstanding	50,000
Additional paid-in capital	587,000
Retained earnings deficit	<u>(2,735,469)</u>
Total Stockholders' Equity	\$ <u>(2,098,369)</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 469,445</b>

**Puration, Inc.**  
**Statements of Operation**  
**As of December 31, 2015**

**Operating Expenses:**

General and administrative expenses	\$ (1,016,720)
Accrued interest	<u>(142,184)</u>
Total Operating Expenses	\$ <u>(1,158,904)</u>
Loss From Operations	\$ <u>(1,158,904)</u>
<b>Net Loss</b>	<b>\$ (1,158,904)</b>
<b>Loss Per Common Share</b>	<b>\$ <u>(.02317)</u></b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b><u>50,000,000</u></b>

**Puration, Inc.**  
**Statements of Cash Flows**  
**As of December 31, 2015**

**Operating Activities:**

Net loss	\$ <u>(1,158,904)</u>
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Adjustments to reconcile net loss:

Accumulated Depreciation/Amortization	\$ 102,333
Decrease in Accrued Expenses	(55,000)
Increase in Accrued Interest	142,184
Non-Cash Reversal(s)	475,000
Acquisition Adjustment	<u>394,387</u>

Total Adjustments	\$ <u>1,058,904</u>
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<b>Net Decrease in Cash Flows Operations</b>	<b>\$ (100,000)</b>
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**Notes to  
Financial  
Statement  
December 31, 2015**

**1. Nature of Operations**

**History of Company**

Puration, Inc. was incorporated in the State of Nevada on June 23, 2011 for the purpose of researching, designing, developing, producing, marketing, and distributing products and systems to improve the quality of the water used daily by people around the world. Puration, Inc. has developed, acquired, and licensed proprietary technology in the fields of water filtration and purification, providing a competitive advantage for its various products and systems. Current operations consist of the design, and production of personal-use water filter bottles and other containers. The corporate headquarters is located in Addison (Dallas), Texas.

On December 5, 2011, Puration, Inc. entered into a Stock Acquisition Agreement with Southwest Resources, Inc., a Delaware corporation, whereby 100% of the common stock of Puration was acquired by Southwest. Southwest's acquisition of Puration has been accounted for as a reverse merger. Puration has been in the business of water technology and water purification since its inception as a Nevada corporation on June 23, 2011. Puration has developed and acquired licenses and distribution agreements for water and technology that contribute substantially to the operations planned by the Company. On December 30, 2011, Southwest, the parent company, changed its domicile to the State of Nevada via a statutory merger business combination with Puration.

The Company then planned to develop and/or acquire several new products related to water purification. The Company received \$50,000 in revenues in the first quarter of 2012 in the form of license fees from its distribution agreement for Canada. Accordingly, products were to be manufactured by the Company through outsourced vendors, or purchased from other manufacturers under a number of license and distribution agreements, and sold and delivered to customers around the world from multiple distribution centers. While the Company developed some organic water purification technology and managed to produce an inventory for sale, sales were limited and the Company did not successfully execute on the agreement with the licensee that paid \$50,000. In January 2015, the Company exchanged the licensee agreement for a 10% Promissory Note. Since the Puration reverse acquisition, the Company has maintained operations and continues to market its existing inventory of reusable filtered water bottles.

## **Current Operations**

In 2013, the Company began to explore new business opportunities and potential acquisitions.

On July 28, 2015, the Company entered into a Share Exchange Agreement with North American Cannabis Holdings, Inc. (USMJ), whereas it agreed to acquire all of its wholly owned interests in certain Joint Ventures with World Hemp Oil & NaturesComfortMeds, as well as, certain pledged debts attached by a lien to such interests in exchange for two (2) Convertible Preferred Stock Series to be created and issued by Puration, Inc. One Series shall represent fifty-one percent (51%) voting control of Puration, Inc. and the other shall be convertible into a number of common shares equal to the number of North American Cannabis Holdings, Inc. shares issued and outstanding at a date to be determined. The agreement initially called for August 03, 2015 but both parties agreed to amend it to a future date to be determined, The first Convertible Preferred Stock Series has been issued. The Convertible Preferred Stock Series to be converted into common shares equaling the number of North American Cannabis Holdings, Inc. shares issued and outstanding remains pending the finalization of further plans to distribute Puration, Inc. common stock to the North American Cannabis Holdings, Inc. shareholders

## **2. Significant Accounting Policies**

### **Fiscal Year End and Effective Reporting Date**

The board of directors of the Company, as provided by the Company's bylaws, and in accordance with generally accepted accounting principles, has established a fiscal year end for accounting purposes for the Company. A fiscal year end of December 31 was designated by the board in its initial board meeting, and remains unchanged.

### **Management estimates**

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

### **Principles of reporting and basis of presentation**

For financial reporting purposes, the reverse acquisition of Puration, Inc. by Southwest Resources, Inc. has been treated as a recapitalization, with Southwest being the legal survivor and Puration being the accounting survivor and the operating entity. That is, the historical financial statements

prior to December 28, 2011 are those of Puration and its operations, even though they are labeled as those of the Company. Retained earnings of Puration related to its operations are carried forward after the recapitalization. Operations prior to the recapitalization are those of the accounting survivor, Puration, which began in June, 2011. Earnings per share for the periods prior to the recapitalization are restated to reflect the equivalent number of shares outstanding for the entire period operations were conducted. Upon completion of the reverse merger, the financial statements become those of the operating company, with adjustments to reflect the changes in equity structure and receipt of the assets and liabilities of the Company.

### Business combinations

On December 5, 2011, the Company entered into a Stock Acquisition Agreement to acquire Puration, Inc., a Nevada corporation, for 47,617,236 shares of restricted common stock. As a result of and immediately after this transaction, the shareholders of Puration, Inc. owned approximately 95% of the voting common stock of the Company.

In accordance with the treatment of this acquisition as a reverse merger, the 47,617,236 shares of common stock issued in conjunction with the merger were retroactively applied to the prior year as shares issued and outstanding as of the date of inception (June 23, 2011). Based on the par value of \$0.001 per share, the 47,617,236 shares were allocated as shares issued as additional shares due to the effect of the merger. The Company acquired Puration as a part of its business plan to build an international water technology company.

### Cash and cash flows

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. As of December 31, 2015 the Company had no cash balances in excess of the FDIC limits. The Company has not experienced any losses in such accounts and it believes it is not exposed to any significant risks affecting cash. None of the Company's cash is restricted.

For purposes of the statements of cash flows, cash includes demand deposits, time deposits, short-term cash equivalent investments with original maturities of less than three months and cash management money market funds available on a daily basis.

### Receivables

In conjunction with the ongoing reusable filtered water bottle sales, accounts receivable on product sales will consist primarily of receivables from the sale of water filter products. The Company has consigned inventory to certain retailers and will periodically reconcile consigned sales



booking them after they are reported by the retailers. The Company does not charge significant amounts of interest on past due receivables.

There were no receivables on non-accrual of interest status at December 31, 2015. The Company has sustained no credit losses for the period reported, and management, has not made an allowance for any doubtful accounts. There were no accounts receivable at December 31, 2015.

### Inventories

Inventory of water bottles is stated at the lower of cost, determined by the first-in, first-out method, or net realizable value (market). Market is determined based on the net realizable value, with appropriate consideration given to obsolescence, excessive levels, deterioration and other factors. The Company does expect to have material quantities of inventories, and has purchased finished goods which are currently being manufactured.

### Furniture, Fixtures, and Equipment

Furniture, Fixtures, and Equipment are recorded at cost. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, ranging generally from 2 to 10 years. Additions to and major improvements of furniture, fixtures, and equipment are capitalized. Repair and maintenance expenditures are charged to expense as incurred. As furniture, fixtures, and equipment are sold or retired, the applicable cost and accumulated depreciation are eliminated from the accounts and any gain or loss is recorded.

### Revenue Recognition

The Company sells a variety of water filtration products today on consignment through retailers. The Company generally recognizes revenues at the time of consignment reconciliation. Costs of discounts, credit card fees, and point-of-sale rebates are recognized at the date at which the related sales revenue is recognized and are recorded as a reduction of sales revenue.

### Earnings per share

The Company records shares of common stock as outstanding at the time the Company becomes contractually obligated to issue shares. As of December 31, 2015 there were 50,000,000 shares authorized, issued, and outstanding. Basic earnings per share is calculated by dividing net profit by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by adjusting outstanding shares, assuming conversion of all potentially dilutive stock options.

### **3. Patents, Trademarks and Brands**

Patents, trademarks and brands are recorded at cost, and consist of intellectual property rights purchased from Filter 2GO, Inc., a Texas corporation, on July 5, 2011 in the amount of \$300,000. Terms of the purchase were \$8,000 paid in cash, and a promissory note in the amount of \$292,000 payable over three years, plus interest on the outstanding balance at the rate of 8% per year. Principal payments of \$52,000 and interest payments of \$9,399 were made on the note during 2011. On December 12, 2011, at the option of Filter 2GO, the note was converted into 240,000 shares of Series A Convertible Preferred Stock which were subsequently cancelled.

### **4. 8% Convertible Debenture – 1JT & 2JT**

Effective January 1, 2014, the Company issued an 8% Convertible Debenture under a Services Agreement to James D. Tilton, Jr.. Under the original January 1, 2014 agreement the Company issued a second 8% Convertible Debenture on January 1, 2015.

### **5. Notes Payable**

On April 01, 2013 the Company issued the following:

12% Secured Promissory Note #1 (SPN#1) in the amount of \$40,000.

12% Secured Promissory Note #2 (SPN#2) in the amount of \$461,542.

Both SPN's were issued as part of Confidential Settlement Agreement referenced in below Footnote #7.

During the Quarter Ending March 31, 2015 the Company issued the following:

10% Promissory Note #3 (PN#3) in the amount of \$50,000 (see No. 1 – Nature of Operations – History of Company).

15% Promissory Note #4 (PN#4) in the amount of \$100,000. As part of the effort to explore new business opportunities and potential acquisitions the Note was issued to an Investor who directly provided working capital funds to the Company.

During the Quarter Ending December 31, 2015 the Company assumed the following:

In conjunction with the Share Exchange Agreement the Company entered

into on July 28, 2015 with North American Cannabis Holdings, Inc. (USMJ) certain pledged Debt/Forebearance obligations in the amount of (\$525,849) has been assumed by Puration, Inc.. The amounts were previously listed on the financials of North American Cannabis Holdings, Inc. as Advance payables – prior related parties (1) & (2) in the amounts of (\$30,000) & (\$495,849) respectively.

## **6. Convertible Promissory Note 8%**

Effective April 2014, the Company entered into a Consulting Agreement for which it issued a \$300,000 Convertible Promissory Note (1) bearing 8% interest in exchange for services to develop a new business venture. The agreements are automatically renewable on an annual basis. On April 1, 2015, a second \$300,000 Convertible Promissory Note (2) bearing 8% interest was issued in exchange for ongoing services.

## **7. Legal Issues**

The lawsuit filed at the quarter ending December 31, 2012 by Regus Advisors, Inc. was settled by all parties to the lawsuit on April 01, 2013 when all parties to the lawsuit entered into a Confidential Settlement Agreement.

## **8. Subsequent Events**

On July 01, 2015, the Company entered into a \$125,000 Financial Consulting Agreement with a third party.