REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Medbox, Inc.

We have audited the accompanying consolidated balance sheets of Medbox, Inc. as of December 31, 2012 and 2011 and the related statements of operations, changes in stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medbox, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Q Accountancy Corporation

/s/ Q Accountancy Corporation
Irvine, California
April 9, 2013

MEDBOX, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	AUDITED 2012	AUDITED 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 1,026,902	$ 42,356
Accounts receivable, net	2,052,000	-
Loan receivable	-	104,650
Advances to officer	-	177,050
Inventory	377,900	100,000
Total current assets	3,456,802	424,056
Property and equipment, net of accumulated depreciation of $43,491 and 13,569, respectively	51,018	80,940
Other assets	4,850	4,850
Total assets	$ 3,512,670	$ 509,846
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 324,416	$ 46,155
Income taxes payable	217,893	52,817
Deferred income taxes payable	27,824	-
Deferred revenue	673,250	-
Related party notes payable	869,038	-
Current portion of long-term debt	15,548	21,928
Total current liabilities	2,127,969	120,900
Long term-debt, less current portion	24,460	40,008
Total liabilities	2,152,429	160,908
Stockholders' equity		
Preferred stock, $0.001 par value: 10,000,000 authorized, 3,000,000 issued and outstanding as of December 31, 2012 and 6,000,000 issued and outstanding as of December 31, 2011	3,000	6,000
Common stock, $0.001 par value: 100,000,000 authorized, 14,805,572 issued and outstanding as of December 31, 2012 and 11,006,839 issued and outstanding as of December 31, 2011	14,806	11,007
Additional paid-in capital	1,166,130	280,264
Common stock subscribed	(153,250)	-
Retained earnings (accumulated deficit)	329,555	51,668
Total stockholders' equity	1,360,241	348,938
Total liabilities and stockholders' equity	$ 3,512,670	$ 509,846

See notes to consolidated financial statements.

MEDBOX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	AUDITED 2012	AUDITED 2011
Revenues, net	$ 3,525,636	$ 3,441,870
Cost of revenues	1,314,112	1,811,740
Gross margin	2,211,524	1,630,130
Selling, general and administrative expenses		
Selling and marketing	62,517	55,818
Depreciation	29,922	13,569
Professional fees	573,265	626,108
General and administrative	967,275	746,857
Total costs and expenses	1,632,979	1,442,351
Income (loss) from operations	578,545	187,779
Interest expense	4,975	39,566
Income before provision for income taxes	573,570	148,213
Provision for income taxes	245,717	44,366
Net income	$ 327,853	$ 103,847
Earnings per share attributable to common stockholders:		
Basic - 14,805,572 *shares 2012 and 11,016,839 shares 2011 respectfully*	$ 0.02	$ 0.01
Diluted - 14,805,572 *shares 2012 and 11,016,839 shares 2011 respectfully*	$ 0.02	$ 0.01

See notes to consolidated financial statements.

MEDBOX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Net income	$ 327,853	$ 103,847
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	29,922	13,569
Decrease (increase) in:		
Accounts receivable	(2,052,000)	-
Loan receivable	104,650	-
Advances to officer	177,050	(93,103)
Inventory	(277,900)	(100,000)
Increase (decrease) in:		
Accounts payable and accrued expenses	267,041	28,081
Income taxes payable	165,076	40,051
Deferred income taxes payable	27,824	-
Deferred revenue	673,250	-
Net cash used by operating activities	(557,234)	(7,555)
Cash flows from investing activities		
Payments received on loan receivable	104,650	-
Net cash provided by investing activities	104,650	-
Cash flows from financing activities		
Payments received on advances to officer	177,050	-
Payments on related party notes payable	(31,000)	-
Payments on long-term debt	(21,928)	(7,752)
Dividends paid	(49,965)	-
Proceeds from issuance of common stock	1,362,974	-
Net cash provided by financing activities	1,437,131	(7,752)
Net increase in cash and cash equivalents	984,547	(15,307)
Cash and cash equivalents at beginning of year	42,356	57,663
Cash and cash equivalents at end of year	$ 1,026,902	$ 42,356
Supplemental cash flow information		
Cash paid during the period for:		
Interest	$ 4,975	$ 39,566
Income taxes	$ 59,141	$ 4,314
Non- cash transactions:		
Note payable for acquisition of property and equipment	$ -	$ 92,000
Issuance of common stock for acquistion of subsidiary	$ -	$ 245,092
Issuance of related party notes payable for common stock	$ 125,000	$ -
Issuance of preferred stock	$ -	$ 6,000

See notes to consolidated financial statements.

MEDBOX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Preferred Stock		Common Stock		Additional Paid-In Capital	Common Stock Subscribed	Retained Earnings (Accumulated) (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances at January 1, 2011	-	$ -	11,016,839	$ 11,017	$ 41,172	$ -	$ (52,189)	$ -
Issuance of preferred stock	6,000,000	6,000			(6,000)			-
Cancellation of common stock	-	-	(10,000)	(10)			10	-
Acquisition of Prescription Vending Machines (subsidiary)					245,092	-		245,092
Net income							103,847	103,847
Balances at December 31, 2011	6,000,000	$ 6,000	11,006,839	$ 11,007	$ 280,264	$ -	$ 51,668	348,938
Cancellation of preferred stock	(3,000,000)	(3,000)			$ 3,000			-
Issuance of common stock, net of issuance costs			3,761,683	3,762	854,653	-	-	858,415
Subscriptions for common stock, net of issuance costs			37,050	37	153,213	(153,250)	-	-
Dividend paid							(49,965)	(49,965)
Buyout of PVM shareholders					(125,000)	-		(125,000)
Net income							327,853	327,853
Balance at December 31, 2012	3,000,000	$ 3,000	14,805,572	$ 14,806	$ 1,166,130	$ (153,250)	$ 329,555	$ 1,360,241

See notes to consolidated financial statements.

MEDBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 1 – Nature of Business

Medbox, Inc. (the Company) was incorporated in the state of Nevada on June 16, 1977, originally as Rabatco, Inc., subsequently changing its name on May 12, 2000 to MindfulEye, Inc., an again on August 30, 2011 to Medbox, Inc. The company is a leader in the development, sales and service of automated, biometrically controlled dispensing and storage systems for medicine and merchandise and is headquartered in West Hollywood California. The Company provides their patented systems, software and consulting services to pharmacies, dispensaries, urgent care centers, drug rehab clinics, hospitals, prison systems, hospice facilities and medical groups worldwide.

The Company's subsidiaries, Prescription Vending Machines, Inc. was incorporated in the state of California in 2008 and Medicine Dispensing Systems was incorporated in the state of Arizona in 2011.

Note 2 – Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect 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 periods. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of Medbox, Inc. and its wholly owned subsidiaries, Prescription Vending Machines, Inc. and Medicine Dispensing Systems Incorporated. All material intercompany transactions have been eliminated.

Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks, and all highly liquid investments with original maturities of three months or less.

Concentrations of Credit Risk

The Company maintains cash balances at several financial institutions in the Los Angeles, California area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At December 31, 2012 and 2011, the Company's uninsured balances totaled $719,788 and $-0-, respectively.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense for the years ending December 31, 2012 and 2011 was $139,411, and $227,208, respectively.

Fair Value of Financial Instruments

Under FASB ASC 820-10-05, the Financial Accounting Standards Board establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement reaffirms that fair value is the relevant measurement attribute. The adoption of this standard did not have a material effect on the Company's financial statements as reflected herein. The carrying amounts of cash, prepaid expenses and accrued expenses reported on the balance sheet are estimated by management to approximate fair value primarily due to the short term nature of the instruments. The Company had no items that required fair value measurement on a recurring basis.

Revenue Recognition

The Company recognizes revenue in compliance with FASB ASC 605, *"Revenue Recognition"*. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company will allow customers to return merchandise under most circumstances. The reserve for returns will be included as are allowances in the Company's balance sheet. The reserve is estimated based on the Company's historical experience of returns made by customers. The Company will defer any revenue from sales in which payment has been received, but the earnings process has not been completed.

Allowance for Bad Debts

The Company evaluates the collectability of its receivables based on a combination of factors. Management periodically reviews the individual accounts receivable balances and determines which accounts to initiate collection procedures on. It is the practice of the Company to expense uncollectible accounts receivable only after exhausting all efforts to collect amounts due. Management believes that all amounts will be collected in full and no allowance for doubtful accounts has been established.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined on a standard cost basis that approximates the first-in, first-out (FIFO) method. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The Company uses other depreciation methods (generally accelerated) for tax purposes where appropriate. The estimated useful lives for significant property and equipment categories are as follows:

Vehicles	5 years
Office equipment	5 years

Depreciation expense for the years ending December 31, 2012 and 2011 was $29,922 and 11,060.

Income Taxes

Effective January 1, 2009, the Company was required to adopt the revised provisions of FASB ASC 740, relating to uncertain income tax positions. These standards require management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Company's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorizes. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

The Company is required to file federal and state income tax returns. Various taxing authorities periodically audit the Company's income tax returns. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions.

The Company has not yet undergone an examination by any taxing authorities. Management has performed its evaluation of all other income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax provisions in the accompanying financial statements.

From time to time, the Company may be subject to interest and penalties assessed by various taxing authorities. These amounts have historically been insignificant and are classified as other expenses when they occur.

Deferred income taxes are provided for temporary differences arising from using the straight-line depreciation method for financial statement purposes and accelerated methods of depreciation for income taxes, including differences between book and tax for amortizing organization expenses. In addition, deferred income taxes are recognized for certain expense accruals, allowances and net operating loss carryforwards available to offset future taxable income, net of valuation allowances for potential expiration and other contingencies that could impact the Company's ability to recognize the benefit.

The tax provision differs from the expense that would result from applying statutory rates to income before income taxes because of permanent differences such as meals and entertainment that are not fully deductible for tax purposes.

Note 3 – Property and Equipment

Property and equipment at December 31, 2012 and 2011 consists of:

	2012	2011
Office equipment	$ 2,509	$ 2,509
Transportation equipment	92,000	92,000
	94,509	94,509
Less accumulated depreciation	(43,491)	(13,569)
Property and equipment, net	$ 51,018	$ 80,940

Note 4 – Long-term Debt

Long-term debt at December 31, 2012 and 2011 consists of:

	2012	2011
Term note to a bank payable in monthly installments of $1,535 including interest at 8.8% through May 2015. The note is secured with an automobile.	$ 40,008	$ 54,248
Note payable to unrelated third party payable upon demand.	-	7,688
Total long-term debt	40,008	61,936
Less current portion	(15,548)	(21,928)
Long-term portion	$ 24,460	$ 40,008

Following is a schedule of maturities for years ending December 31:

2013	$ 15,548
2014	16,944
2015	7,516
Total maturities	$ 40,008
Less current portion	(15,548)
Long-term debt, net	$ 24,460

Note 5 – Related Party Transactions

On April 10, 2012, the Company issued a note payable to a shareholder in the amount of $25,000 in exchange for the shareholder's original investment in Prescription Vending Machines, Inc. common stock. The note bears no interest and is due on demand. As of December 31, 2012, the outstanding balance on this note was $12,000.

On May 5, 2012, the Company issued a note payable to a shareholder in the amount of $100,000 in exchange for the shareholder's original investment in Prescription Vending Machines, Inc. common stock. The note bears no interest and is due on demand. As of December 31, 2012, the outstanding balance on this note was $82,000.

On January 1, 2012, the Company issued a note payable to PVM International Inc. ("PVMI"), a related party which is 100% owned by the Senior Consultant of the Company in the amount of $1,000,000 along with the issuance of 2,000,000 (two million) of restricted shares of the Company's common stock for the use of its patent related to the Company's dispensing systems and the Company also received 24,000 restricted shares of three subsidiaries that were controlled by PVM International, Inc. The three subsidiary companies were: Prescription Vending Machines, Inc., Medicine Dispensing Systems, Inc. and Medbox, Inc. (CA Corp that is not in use) (collectively "PVM Shares") . The 24,000 shares represented 80% of PVMI's outstanding stock in the three subsidiaries. By December 21, 2012, the Company received the other 6,000 shares which completed the 100% transaction.

The note is payable upon demand at an interest of zero. The note is secured with 1,000,000 restricted shares of the Company or interest at 10% of the outstanding balance beginning January 1, 2013. In December 2012, a payment of $250,000 was paid to PVMI which left the balance at December 31, 2012 at $775,000.

The Company utilizes Vincent Chase Incorporated, a related party and 100% owned by the Senior Consultant of the Company for management advisory and consulting services. During the years ended December 31, 2012 and 2011, the Company incurred $230,706 and $100,000 in fees, respectively, for these services.

The Company utilizes Kind Clinics, LLC, a related party, and 100% owned by an officer of the Company for management advisory and consulting services. During the year ended December 31, 2012, the Company incurred $34,720 in fees for these services.

The Company utilizes AVT, Inc., a related party, and majority owned by a shareholder of the Company for the manufacture and assembly of its dispensary units. During the year ended December 31, 2012, the Company incurred approximately $480,500 and $510,000 in manufacturing costs. In addition, the Company's existing inventory of dispensary units is held at AVT, Inc.'s manufacturing facility in Corona, California on behalf of the Company. The Company believes that its transactions with AVT, Inc. are completed on an arms-length basis.

Note 7 – Stockholder's Equity

Common and Preferred Stock

In November 2011, the Company issued 6,000,000 of zero par value convertible restricted preferred stock to the Senior Consultant and a shareholder of the Company. This preferred stock can be converted from 1 (one) restricted share to 5 (five) restricted shares of common stock. In November 2012, 3,000,000 shares were returned to the Company and cancelled.

During 2012, the Company sold approximately 1,800,000 shares of common stock for proceeds of approximately $2,400,000. The balance of $153,250 for the remaining 37,050 shares is to be received in 2013. In addition, the Company issued 2,000,000 shares in connection with the acquisition of the PVM Shares as previously described in Note 5.

Note 8 – Income Taxes

The Company accounts for income taxes under FASB ASC 740-10, which requires use of the liability method. FASB ASC 740-10-25 provides that deferred tax assets and liabilities are recorded based on the differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences.

The consolidated provision for federal and state income taxes for the year ended December 31, 2012 is as follows:

		December 31, 2012
Current (34% and 8.9% for federal and state)	$	217,893
Deferred		27,824
Total provision for income taxes	$	245,717

The Company's total deferred tax liabilities at December 31, 2012 are as follows:

		December 31, 2012
	$	217,893

		27,824
Total deferred tax (liability)	$	(24,824)

Note 9 – Lease Obligations

The Company may rent property, equipment, transportation equipment, and various clinics on an as needed basis.

On August 1, 2011, the Company entered into a lease agreement for office space located in West Hollywood, California through July 31, 2014 at a monthly rate of $5,149. The payment is also charged to rent expense as incurred.

In addition, the Company leases office facilities located at West Hills, California from unrelated third parties under a month to month operating lease at a monthly rate of $1,300. The payment is charged to rent expense as incurred.

Total rent expense under operating leases for December 31, 2012 and 2011 was $222,886 and $124,727, respectively.

The minimum future lease payments under operating leases at December 31, 2012 were as follows:

Year Ending	Amount
2013	61,782
2014	36,040
Total	$ 97,822

Note 10 – Subsequent Events

During January 2013, the Company received a total of $71,520 as payment for the sale of 16,000 shares of common stock during that period.

On February 26, 2013, the Company entered into a Stock Purchase Agreement and Technology Licensing Agreement to acquire 25% or 833,333 shares of Bio Tech Medical Software, Inc. in exchange for $1,500,000 and 700,000 shares of the Company's common stock.

On March 12, 2013, the Company entered into a Membership Interest Purchase Agreement to acquire 47.4% of MedVend Holdings, LLC in exchange for $300,000 and $3,800,000 on the 10th day following the first anniversary date which may be paid by the Company in cash or equivalent amount of shares of the Company's common stock.

On March 22, 2013, the Company entered into a Securities Purchase Agreement with Vapor Systems International, LLC to acquire 100% of the outstanding common stock of Vaporfection International, Inc. in exchange for warrants to purchase 260,864 shares of the Company's common stock. In addition, the Company agreed to provide up to $1,600,000 in working capital to Vaporfection International, Inc. at the Company's sole discretion and to pay $175,000 to the inventor of certain patents including a warrant to purchase 5,000 shares of the Company's common stock.