



GENERAL CANNABIS, INC.
a Nevada corporation

Quarterly Report
For the Quarter ended March 31, 2011

Information Provided Pursuant to
Rule 15c2-11 of the Securities and
Exchange Act of 1934, as Amended

We previously were a shell company, therefore the exemption offered pursuant to Rule 144 is not available. Anyone who purchased securities directly or indirectly from us or any of our affiliates in a transaction or chain of transactions not involving a public offering cannot sell such securities in an open market transaction unless and until such time as the resale of such securities is included in an effective registration statement.

shareholders, beneficially and of record. Of those 82,640,256 shares of common stock, 4,726,442 were free trading.

As of the end of our fiscal year ended December 31, 2009, we had 9,733,442 shares of common stock issued and outstanding, held by 15 shareholders, beneficially and of record. Of those 9,733,442 shares of common stock, 1,473,403 were free trading.

Preferred Stock

Beginning on November 19, 2010, we were authorized to issue 20,000,000 shares of preferred stock, par value \$0.001. No shares of preferred stock are or have been issued or outstanding.

Item 3 Interim financial statements.

Attached hereto as Exhibit A, and incorporated herein by reference, is an unaudited balance sheet as of March 31, 2011, an audited balance sheet as of December 31, 2010, and unaudited statements of operations and cash flows for the three months ended March 31, 2011 and 2010.

Item 4 Management's discussion and analysis or plan of operation.

Disclaimer Regarding Forward Looking Statements

You should read the following discussion in conjunction with our financial statements and the related notes and other financial information included in this Quarterly Report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report.

Although the forward-looking statements in this Quarterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by them. Consequently, and because forward-looking statements are inherently subject to risks and uncertainties, the actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this report and in our other reports as we attempt to advise interested parties of the risks and factors that may affect our business, financial condition, and results of operations and prospects.

Summary Overview

We are a service provider to the medicinal cannabis industry. We are not engaged in the growing, harvesting, cultivation, possession, or distribution of cannabis. Instead, we assist the physicians, dispensaries, and end-users within the medicinal cannabis industry in finding each other and in managing their businesses. All of our operations are conducted through our wholly-owned subsidiaries.

Approximately 74% of our revenue is generated by WeedMaps Media, Inc., which is a finder website that aids consumers in finding medicinal cannabis dispensaries. The dispensaries pay a fee to WeedMaps Media in order to subscribe to the various services available.

Approximately 25% of our revenue is generated by General Health Solutions, Inc. which, through a contractual arrangement with a professional medical corporation, manages medical cannabis clinics.

In February 2010, we sold most of our then-existing domain names and intellectual property to a third party, although we did continue to manage our third-party merchant card services.

Reliance on Strategic Partners

The medicinal cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. We expect this consolidation and strategic partnering to continue. Acquisitions or other consolidating transactions could harm us in a number of ways, including:

- we could lose strategic relationships if our strategic partners are acquired by or enter into relationships with a competitor (which could cause us to lose access to distribution, content, technology and other resources);
- The relationship between us and the strategic partner may deteriorate and cause an adverse effect on our business;
- we could lose customers if competitors or users of competing technologies consolidate with our current or potential customers; and
- our current competitors could become stronger, or new competitors could form, from consolidations.

Any of these events could put us at a competitive disadvantage, which could cause us to lose customers, revenue and market share. Consolidation could also force us to expend greater resources to meet new or additional competitive threats, which could also harm our operating results.

Our operations are in part dependent upon the continued reliable operation of the information systems and networks of third parties. If these third parties do not provide reliable operation, our ability to service our customers will be impaired and our business, reputation and operating results could be harmed.

Three Months Ended March 31, 2011 compared to Three Months Ended March 31, 2010

During the year ended December 31, 2010, we completed two acquisitions that significantly increased our revenue and our operations. The acquisitions are operated now as WeedMaps Media, Inc. and General Health Solutions, Inc.

During the three months ended March 31, 2011, we completed another acquisition which is operated now as General Marketing Solutions, Inc.

Results of Operations

Revenue and Operating Expenses

Our sales, total revenue, total operating expenses and operating income for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, were as follows:

		Three months ended March 31, 2011	Three months ended March 31, 2010	Percentage Change
Sales	\$	2,693,303	1,737,963	55%
Total revenue		2,693,303	1,737,963	55%
Total operating expenses		2,689,483	1,499,270	79%
Operating income (loss)	\$	3,819	238,693	(98%)

The increase in sales from \$1,737,963 for the three months ended March 31, 2010 to \$2,693,303 for the three months ended March 31, 2011, an increase of 55%, is attributable to the increase in revenues generated by our two recently acquired subsidiaries, WeedMaps Media, Inc. and General Health Solutions, Inc.

WeedMaps Media, Inc., which is a medical-cannabis industry-focused, marketing and media company, had revenues of \$2,007,000 and \$430,000 for the three months ended March 31, 2011 and March 31, 2010, respectively.

General Health Solutions, Inc., which through a contractual arrangement with a professional medical corporation, manages medical cannabis clinics, had revenues of \$662,000 and \$1,265,000 for the three months ended March 31, 2011 and March 31, 2010, respectively.

The increase in operating expenses from \$1,499,270 for the three months ended March 31, 2010 to \$2,689,483 for the three months ended March 31, 2011, an increase of 79%, is also attributable to WeedMaps Media, Inc. and General Health Solutions, Inc. In both cases, almost all of our operating expenses are selling, general and administrative expenses associated with our increased marketing efforts targeted at our weedmaps.com website, non-cash amortization expense associated with our recent acquisitions, and expenses associated with moving into our new offices and the associated purchase of office furniture and equipment. Our operating expenses as a percentage of sales increased from 86% for the three months ended March 31, 2010, to over 99% for the three months ended March 31, 2011.

Although our revenue increased by 55%, the increase in our operating expenses of 79% resulted in a decrease in our operating income from \$238,693 for the three months ended March 31, 2010 to \$3,819 for the three months ended March 31, 2011.

Income (loss) from Discontinued Operations; Net Income

Our income from discontinued operations and net income for the three months ended March 31, 2011, compared to the three months ended March 31, 2010, were as follows:

		Three months ended March 31, 2011	Three months ended March 31, 2010	Percentage Change
Income from discontinued operations	\$	-	1,352,591	-%
Net income		3,998	1,591,291	(99%)

Our income from discontinued operations for the three months ended March 31, 2011 was zero, compared to \$1,352,591 for the three months ended March 31, 2010. The discontinued operations were from our subsidiary LV Luxuries Limited and involved the sale of beauty products through the Internet.

Liquidity and Capital Resources

Our cash, current assets, intangible assets, total assets, current liabilities, and total liabilities as of March 31, 2011 and March 31, 2010 were as follows:

		March 31, 2011	March 31, 2010	Percentage Change
Cash	\$	806,680	1,395,213	(42%)
Total current assets		3,150,465	3,266,220	(4%)
Intangible assets:				
Contracts and customer lists		21,618,168	21,984,576	(2%)
Internet properties & domain names		10,000,643	9,444,582	6%
Trademarks		29,322	29,322	-%
Goodwill		28,198,748	27,712,345	2%
Total intangible assets		59,846,881	59,170,825	1%
Total assets		64,227,054	63,339,247	1%
Total current liabilities		1,294,251	1,324,737	(2%)
Total long term liabilities		4,410,000	4,500,000	(2%)
Total liabilities		5,704,251	5,824,737	(2%)

The decrease in cash from \$1,395,213 at March 31, 2010 to \$806,680 at March 31, 2011, a decrease of \$588,532, is in part, as a result of the income generated from the sale of the Makeup.com Assets and the associated discontinued operations of our subsidiary LV Luxuries during the quarter ending March 31, 2010, and as a result of our recent acquisitions and the associated expanding operations during the quarter ending March 31, 2011 which increase our selling,

general and administrative expenses including the expenses associated with moving into our new offices and the purchase of office furniture and equipment.

Our intangible assets at March 31, 2011 consist almost entirely of assets acquired in the previously discussed Weedmaps, Synergistic Resources, and Revyv acquisitions. The assets consist primarily of contracts, customer lists, Internet properties and domains, and trademarks. These assets are necessary for our growth. The balance is goodwill which represents the premium paid for the acquisitions.

Our current liabilities decreased from \$1,324,737 at March 31, 2010 to \$1,294,251 at March 31, 2011, primarily as a result of convertible debentures being repaid and the remaining balance converted to equity, and to a lesser extent payments we made on note payables related to our recent acquisitions, together offset in part by an increase in accrued liabilities arising from consulting agreements.

Our total long term liabilities of \$4,410,000 at March 31, 2011 are attributable to notes payable to related parties arising from the acquisition of assets into WeedMaps Media, Inc., and General Health Solutions, Inc., plus accrued liabilities arising from consulting agreements.

Cash Requirements

We had approximately \$800,000 in cash and cash equivalents as of March 31, 2011. Our operating income for the three months ended March 31, 2011 was \$3,819. We anticipate that our revenues will continue to increase and that our revenues will be enough to fund our existing operations. However, there is no assurance that our existing cash flow will be adequate to satisfy our existing operating expenses and capital requirements.

Sources and Uses of Cash

Operations

We had net cash from (used in) operating activities of \$(205,464) for the three months ended March 31, 2011, as compared to \$1,206,251 for the three months ended March 31, 2010. For the three months ended March 31, 2011, the net cash used in operating activities consisted primarily of a decrease in accounts payable and accrued liabilities of \$30,486, an increase in prepaid expenses and lease security deposits of \$145,585, an increase in inventory of \$3,401, offset by an increase in accounts receivable of \$402,250, plus non-cash amortization expense of \$366,408. For the three months ended March 31, 2010, the net cash provided by operating activities consisted primarily of net income (including discontinued operations) of \$1,532,843, offset by a decrease in accounts payable and accrued liabilities of \$424,959.

Investments

We had net cash from (used in) investing activities of \$(293,069) for the three months ended March 31, 2011, as compared to \$327,157 for the three months

ended March 31, 2010. For the three months ended March 31, 2011, the net cash used in investing activities was primarily related to purchases of furniture and computers and other equipment of \$256,851, plus purchases of intangible assets of \$36,218. For the three months ended March 31, 2010, the net cash from investment activities was primarily a result of sales of intangible assets of \$333,334.

Financing

We had net cash used in financing activities of \$(90,000) for the three months ended March 31, 2011, as compared to \$(1,116,418) for the three months ended March 31, 2010.. For the three months ended March 31, 2011, our net cash used in financing activities consisted solely of payments on note payable to related parties. For the three months ended March 31, 2010, our net cash used in financing activities consisted of payments on convertible notes of \$(415,536), plus payments on convertible notes to related party of \$(700,892).

Debt Instruments, Guarantees, and Related Covenants

We have no disclosure required by this Item.

Critical Accounting Estimates

Goodwill

In accordance with Goodwill and Other Intangible Assets, goodwill is defined as the excess of the purchase price over the fair value assigned to individual assets acquired and liabilities assumed and is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis in the Company's fourth fiscal quarter or more frequently if indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair value of the Company's reporting units with each respective reporting unit's carrying amount, including goodwill. The fair value of reporting units is generally determined using the income approach. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the second step of the goodwill impairment test is performed to determine the amount of any impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. No amortization is recorded for goodwill with indefinite useful life. No impairment of Goodwill was recognized during the three months ended March 31, 2011 and 2010, respectively.

Intangible Assets

In accordance with Goodwill and Other Intangible Assets, intangible assets that are determined not to have an indefinite useful life are subject to amortization. The Company amortizes intangible assets using the straight-line method over their estimated useful lives.

Impairment of Long-Lived and Intangible Assets

In accordance with Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Company assesses the recoverability of the long-lived and intangible assets by comparing the carrying amount to the estimated future undiscounted cash flow associated with the related assets. No impairment of long-lived assets was recognized during the three months ended March 31, 2011 and 2010, respectively.

Item 5 Legal proceedings.

There is no current, past, pending or threatened legal proceedings or administrative actions either by or against us that could have a material effect on our business, financial condition, or operations. Furthermore, there are no current, past or pending trading suspensions by a securities regulator.

Item 6 Defaults upon senior securities.

We are not in default on any note, loan, lease, or other indebtedness or financing arrangements requiring us to make payments.

Item 7 Other information.

1. Entry into a Material Definitive Agreement.

Revyv, LLC

On January 11, 2011, we entered into a Reorganization and Asset Acquisition Agreement pursuant to which we acquired substantially all the assets of Revyv, LLC. The assets consisted primarily of the intellectual property associated with the name CannabisCenters, including its website (www.cannabiscenters.com), its related physician software and patient verification system, and numerous existing contracts. As consideration for the purchase, which closed on January 13, 2011, we issued an aggregate of Five Hundred Thousand (500,000) shares of our common stock to Revyv, LLC or its assigns. Effective on January 10, 2011, we entered into an at-will employment agreement with each of James Johnson and David Johnson, each of which are members of Revyv, LLC. The compensation due to each is \$12,500 per month.

This business is now operated as General Marketing Solutions, Inc.

2. Termination of a Material Definitive Agreement.

There have been no events which are required to be reported under this Item.

3. Completion of Acquisition or Disposition of Assets, Including but not Limited to Mergers.

See the disclosure above regarding Revyv, LLC.

4. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of an Issuer.

There have been no events which are required to be reported under this Item.

5. Triggering Events That Accelerate or Increase a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement.

There have been no events which are required to be reported under this Item.

6. Costs Associated with Exit or Disposal Activities.

There have been no events which are required to be reported under this Item.

7. Material Impairments.

There have been no events which are required to be reported under this Item.

8. Sales of Equity Securities.

On January 11, 2011, we entered into a Reorganization and Asset Acquisition Agreement pursuant to which we acquired substantially all the assets of Revyv, LLC. As consideration for the purchase, we issued an aggregate of Five Hundred Thousand (500,000) shares of our common stock to Revyv. The issuance was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and the investor was accredited and had access to information necessary to make an investment decision. The shares were restricted securities as described in Rule 144 pursuant to the Securities Act of 1933.

9. Material Modification to Rights of Security Holders.

There have been no events which are required to be reported under this Item.

10. Changes in Issuer's Certifying Accountant.

There have been no events which are required to be reported under this Item.

11. Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

There have been no events which are required to be reported under this Item.

12. Changes in Control of Issuer.

There have been no events which are required to be reported under this Item.

13. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

There have been no events which are required to be reported under this Item.

14. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

There have been no events which are required to be reported under this Item.

15. Amendments to the Issuer's Code of Ethics, or Waiver of a Provision of the Code of Ethics.

There have been no events which are required to be reported under this Item.

Item 8 Exhibits.

Material Contracts.

There are no exhibits of this type that have not already been described or attached in a prior disclosure statement.

Articles of Incorporation and Bylaws:

There are no exhibits of this type that have not already been described or attached in a prior disclosure statement.

Item 9 Issuer's Certifications:

<u>Exhibit No.</u>	<u>Description</u>
C-1	Chief Executive Officer Certification
C-2	Chief Financial Officer Certification

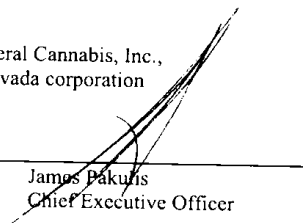
Dated this 19th day of May, 2011, at Newport Beach, California.

General Cannabis, Inc.,
a Nevada corporation

By: James Pakulis
Its: Chief Executive Officer

Dated this 19th day of May, 2011, at Newport Beach, California.

General Cannabis, Inc.,
a Nevada corporation

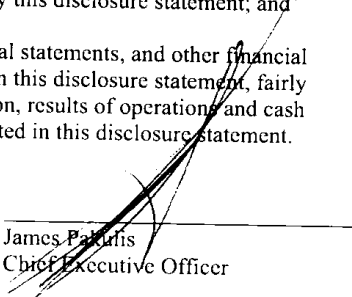
By:  James Pakulis
Its: Chief Executive Officer

GENERAL CANNABIS, INC.
CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James Pakulis, certify that:

1. I have reviewed this Quarterly Report of General Cannabis, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 19, 2011



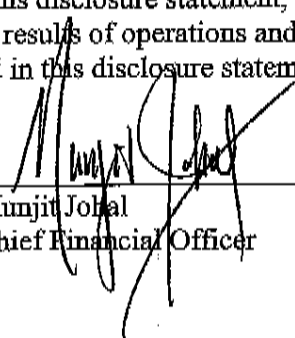
James Pakulis
Chief Executive Officer

GENERAL CANNABIS, INC.
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Munjit Johal, certify that:

1. I have reviewed this Quarterly Report of General Cannabis, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 19, 2011



Munjit Johal
Chief Financial Officer

Exhibit A
Financial Statements

GENERAL CANNABIS, INC.

Consolidated Balance Sheets

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 806,680	\$ 1,395,213
Accounts receivable	409,781	7,531
Inventory	3,401	—
Other current assets	1,930,603	1,863,476
TOTAL CURRENT ASSETS	\$ 3,150,465	\$ 3,266,220
Property and equipment, net	253,201	2,202
Intangible assets:		
Contracts & Customer lists, net	21,618,168	21,984,576
Internet Properties & Domain Names	10,000,643	9,444,582
Trademarks	29,322	29,322
Goodwill	28,198,748	27,712,345
Other Assets	976,507	900,000
TOTAL ASSETS	\$ 64,227,054	\$ 63,339,247
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 72,796	\$ 128,144
Accrued liabilities	1,096,455	1,071,593
Note payable	125,000	125,000
TOTAL CURRENT LIABILITIES	\$ 1,294,251	\$ 1,324,737
LONG TERM LIABILITIES		
Other accrued liabilities	900,000	900,000
Note payable - related party	3,510,000	3,600,000
TOTAL LONG TERM LIABILITIES	4,410,000	4,500,000
TOTAL LIABILITIES	\$ 5,704,251	\$ 5,824,737
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value: 20,000,000 shares authorized; zero shares issued and outstanding at March 31, 2011; zero shares issued and outstanding at December 31, 2010;	—	—
Common stock, \$0.001 par value: 200,000,000 shares authorized; 83,140,256 shares issued and outstanding at March 31, 2011; 82,640,256 shares issued and outstanding at December 31, 2010;	83,140	82,640
Paid-in capital	63,684,646	62,680,851
Accumulated deficit	(5,244,983)	(5,248,981)
TOTAL STOCKHOLDERS' EQUITY	58,522,803	57,514,510
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 64,227,054	\$ 63,339,247

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

GENERAL CANNABIS, INC.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended	
	March 31, 2011	March 31, 2010
REVENUE		
Sales	\$ 2,693,303	\$ 1,737,963
Total revenue	2,693,303	1,737,963
OPERATING EXPENSES		
Cost of sales	12,111	—
Selling, general and administrative expenses	2,677,372	1,499,270
Total operating expenses	2,689,483	1,499,270
Operating income	3,819	238,693
Other Income		
Other income	178	7
Income before income taxes	3,998	238,700
Provision for Income Taxes	—	—
Income before discontinued operations	3,998	238,700
Income from discontinued operations	—	1,352,591
NET INCOME	\$ 3,998	\$ 1,591,291
Weighted average shares outstanding	83,068,034	9,733,442
Basic and Diluted per share amounts:		
Continuing operations	\$ -	\$ 0.02
Discontinued operations	\$ -	\$ 0.14
Net income	\$ -	\$ 0.16

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

GENERAL CANNABIS, INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March 31, 2011	March 31, 2010
Cash flows from operating activities:		
Net income	\$ 3,998	\$ 1,532,843
Adjustments to reconcile net income to net cash used in operating activities:		
Interest expense - non-cash	—	47,665
Depreciation	5,852	—
Amortization	366,408	5,541
Changes in operating assets and liabilities:		
Accounts receivable	(402,250)	(14)
Inventories	(3,401)	93,206
Prepaid expenses and deposits	(145,585)	(33,395)
Accounts payable and accrued liabilities	(30,486)	(424,959)
Note payable - related party	—	(14,636)
Net cash from (used in) operating activities	(205,464)	1,206,251
Cash flows from investing activities:		
Purchases of property and equipment	(256,851)	(6,177)
Purchases of intangible assets	(36,218)	—
Sales of intangible assets	—	333,334
Net cash from (used in) investing activities	(293,069)	327,157
Cash flows from financing activities:		
Payments on convertible notes	—	(415,536)
Payments on convertible note related party	—	(700,892)
Payments on note payable - related party	(90,000)	—
Net cash used in financing activities	(90,000)	(1,116,428)
Net increase (decrease) in cash and cash equivalents	(588,533)	416,980
Cash and cash equivalents at beginning of period	1,395,213	48,131
Cash and cash equivalents at end of period	<u>\$ 806,680</u>	<u>\$ 465,111</u>
Non-cash investing and financing activity:		
Acquisition of intangible assets for stock	<u>\$ 1,000,000</u>	<u>\$ —</u>

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

GENERAL CANNABIS, INC.

Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	#	Amount	Shares			
BALANCES, December 31, 2009	—	—	9,733,442	\$ 9,733	\$ 3,501,893	\$ (6,454,459)	\$ (2,942,833)
Issuance of common stock			72,881,814	72,882	39,986,822.61		40,059,705
Paid in capital, goodwill					18,336,498		18,336,498
Interest expense, beneficial conversion feature					13,517		13,517
Stock based compensation			25,000	25	49,975		50,000
Stock based compensation - warrants					792,145		792,145
Net income (loss) from discontinued operations						1,350,400	1,350,400
Net income (loss) from continuing operations						(149,768)	(149,768)
BALANCES, December 31, 2010	—	—	82,640,256	\$ 82,640	\$ 62,680,851	\$ (5,253,827)	\$ 57,509,664
Issuance of common stock			500,000	500	999,500		1,000,000
Prior period adjustment, Revyv, LLC acquisition						4,846	4,846
Paid in capital, Revyv, LLC acquisition					4,295		4,295
Net income (loss) from continuing operations						3,998	3,998
BALANCES, March 31, 2011	—	—	83,140,256	\$ 83,140	\$ 63,684,646	\$ (5,244,983)	\$ 58,522,803

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

GENERAL CANNABIS, INC.
Notes to the Consolidated Financial Statements
March 31, 2011

1. Description of Business

General Cannabis, Inc. was formed on July 14, 2003 in the State of Nevada as Tora Technologies, Inc. On November 21, 2006, it changed its name to Makeup.com Limited, and on January 29, 2010, changed its name again to LC Luxuries Limited. Finally, on November 5, 2010, the company changed its name to General Cannabis, Inc.

We are not engaged in the growing, harvesting, cultivation, possession, or distribution of cannabis. Instead, we assist the physicians, dispensaries, and end-users within the medicinal cannabis industry in finding each other and in managing their businesses.

We are a service provider to the medicinal cannabis industry through five different sectors:

- media,
- technology,
- medical clinic management,
- merchant credit card processing, and
- marketing.

References in this document to the “Company,” “we,” “us,” and “our” refer to General Cannabis, Inc. and its wholly-owned subsidiaries. All of our operations are conducted through our wholly-owned subsidiaries, each of which is incorporated or qualified to do business in the states in which it does so.

Recent Developments

WeedMaps, LLC

On November 19, 2010, we entered into an Agreement and Plan of Reorganization and Merger pursuant to which we acquired 100% of the membership interests of WeedMaps, LLC, a Nevada limited liability company.

As consideration for the purchase, we issued an aggregate of Sixteen Million Four Hundred Thousand (16,400,000) shares of our common stock to two individuals, Justin Hartfield and Keith Hoerling. As further consideration for the purchase, we issued four (4) Secured Promissory Notes, two (2) to each of Hartfield and Hoerling. The total principal amount of the notes is Three Million Six Hundred Thousand Dollars (\$3,600,000), one half of which is due on June 30, 2012, and the other half of which is due on January 10, 2013. The notes pay interest at the rate of 0.35% per annum. Hartfield and Hoerling can collectively earn up to an aggregate of Sixteen Million (16,000,000) additional shares of our common stock pursuant to certain earn-out provisions in the Purchase Agreement. All of the shares of common stock issued or to be issued to Hartfield and Hoerling are subject to the terms of a Lock-Up Agreement whereby none of the shares may be sold prior to June 30, 2011, up to twenty five percent (25%) of the shares may be sold beginning on June 30, 2011, and the remaining shares may be sold beginning on November 30, 2011. Also, on November 19, 2010, we entered into at-will employment agreements with each of Hartfield and Hoerling, with compensation of Thirty Thousand Dollars (\$30,000) per month.

Synergistic Resources, LLC

On December 3, 2010, we entered into a Reorganization and Asset Acquisition Agreement pursuant to which we acquired substantially all the assets of Synergistic Resources, LLC, a California limited liability company. The assets consisted primarily of the intellectual property and established marketing associated with the name Marijuana Medicine Evaluation Centers, including its website (www.marijuanamedicine.com), and the assignment of a Management Services Agreement pursuant to which we now manage fourteen (14) medicinal cannabis clinics. As consideration for the purchase, we issued an aggregate of Two Million (2,000,000) shares of our common stock, and paid Fifty Thousand Dollars (\$50,000) cash, to Synergistic Resources. Also effective on December 3, 2010, we entered into an at-will employment agreement with Brent Inzer, the sole manager and member of Synergistic Resources, with compensation of Fifteen Thousand Dollars (\$15,000) per month.

Revyv, LLC

On January 11, 2011, we entered into a Reorganization and Asset Acquisition Agreement pursuant to which we acquired substantially all the assets of Revyv, LLC. The assets consisted primarily of the intellectual property associated with the name CannabisCenters, including its website (www.cannabiscenters.com), its related physician software and patient verification system, and numerous existing contracts. As consideration for the purchase, which closed on January 13, 2011, we issued an aggregate of Five Hundred Thousand (500,000) shares of our common stock to Revyv, LLC or its assigns. Effective on January 10, 2011, we entered into an at-will employment agreement with each of James Johnson and David Johnson, each of which are members of Revyv, LLC. The compensation due to each is \$12,500 per month.

Our Subsidiaries

The following are wholly-owned subsidiaries through which we conduct our operations:

WeedMaps Media, Inc.

WeedMaps Media is a medical-cannabis industry-focused, marketing and media company, whose business plan is to monetize industry related information and to provide advertisers and industry professionals a direct and accessible platform via the internet.

The Company operates WeedMaps.com and several associated websites, together composing a large scale, medical-cannabis industry focused internet media portal that targets dispensaries, advertisers and consumers, which are estimated by the National Survey on Drug Use and Health to total more than 16.7 million Americans in 2009 and increasing. WeedMaps is a venue for marketers to deliver new media advertising campaigns to a vast and targeted demographic and have available to them multiple touch points ranging from dispensary listings, interactive ads to social-networking clubs, product reviews and various other sponsored and unsponsored events. With this combination, we have been very competitive and sufficiently appealing that WeedMaps has captured significant market share in this industry and has become one of the most widely recognized website within this space. Currently, there are over 1,600 dispensaries that subscribe to the website, which receives over 600,000 visits and over 5 million page views per month. We believe that significant opportunities exist in this industry, and we will actively pursue this potential source of revenue during the year ending December 31, 2011 and beyond.

General Health Solutions, Inc.

General Health Solutions, Inc., through a contractual arrangement with a professional medical corporation, manages medical cannabis clinics. Currently, it manages fourteen (14) medical cannabis clinics throughout California. General Health Solutions, Inc. receives compensation from the professional medical corporation, and handles all billing, collections, administrative functions and marketing, leaving the physician to focus his or her time on medical treatment of patients. The call center operated by General Health Solutions averages approximately 500 incoming calls per day, and sets between 100 and 200 appointments per day, resulting in approximately 4,000 patients seen per month.

General Marketing Solutions, Inc.

General Marketing Solutions, Inc., whose primary operation is the internet website, www.cannabiscenters.com. The website aids prospective patients in finding physicians across the country that support and recommend medicinal cannabis. There is a patient verification system that is an internal control system designed to validate the status of a patient to third parties, including dispensaries and other interested parties, as well as a social media platform for users.

General Merchant Solutions, Inc.

General Merchant Solutions, Inc. provides merchant credit card processing services. While these services are primarily targeted to the dispensaries and clinics in the cannabis industry, we also provide merchant credit card processing services to non-cannabis merchants as well, including but not limited, to the automotive, restaurant and furniture industries.

General Management Solutions, Inc.

General Management Solutions, Inc., oversees and provides all of the human resources issues for employees including hiring, terminating, and employee benefits.

Other Subsidiaries

We have two additional subsidiaries whose operations are relatively inactive at this time, namely US Cannabis, Inc. and CannaCare Management, Inc., and a third subsidiary, LV Luxuries Limited, whose operations have been discontinued.

On April 28, 2011, US Cannabis, Inc. changed its name to General Processing Corporation.

2. Basis of Presentation and Significant Accounting Policies.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the Generally Accepted Accounting Principles in the United States of America ("GAAP").

Reclassifications

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the consolidated results of operations or financial position for any years presented.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on knowledge of current events and anticipated future events and accordingly, actual results may differ from those estimates.

Foreign Operations and Foreign Currency Transactions

The Company's functional currency is the United States Dollar (the "US Dollar"). In the past, the Company entered into transactions denominated in foreign currencies, such as the Canadian Dollar ("CAD"). During the twelve months ended December 31, 2011 and 2012, the Company does not anticipate having foreign operations.

Risks related to cash

The Company maintains cash in bank and deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash equivalents

The Company considers only highly liquid investments such as money market funds and commercial paper with maturities of 90 days or less at the date of their acquisition as cash and cash equivalents.

Fair Value of Financial Instruments

The accounting standards regarding disclosures about fair value of financial instruments defines financial instruments and required fair value disclosure of those instruments. This accounting standard defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. Receivables, investments, payables, short and long term debt and warrant liabilities qualified as financial instruments. Management believes the carrying amounts of receivables, payables and debt are a reasonable estimate of fair value because of the short period of time between the origination of such instruments, their expected realization, and if applicable, their stated interest rate is equivalent to interest rates currently available. The three levels are defined as follows:

- | | |
|---------|--|
| Level 1 | inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. |
| Level 2 | inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments. |
| Level 3 | inputs to the valuation methodology are unobservable and significant to the fair value. |

The Company analyzes all financial instruments with features of both liabilities and equity under the accounting standards regarding accounting for certain financial instruments with characteristics of both liabilities and equity, accounting for derivative instruments and hedging activities, accounting for derivative financial instruments indexed to, and potentially settled in, a company's own stock, and the accounting standard regarding determining whether an instrument (or embedded feature) is indexed to an entity's own stock. The accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. This standard provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for this accounting standard scope exception. All warrants issued by the Company are denominated in U.S. dollars.

Goodwill

In accordance with *Goodwill and Other Intangible Assets*, goodwill is defined as the excess of the purchase price over the fair value assigned to individual assets acquired and liabilities assumed and is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis in the Company's fourth fiscal quarter or more frequently if indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair value of the Company's reporting units with each respective reporting unit's carrying amount, including goodwill. The fair value of reporting units is generally determined using the income approach. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the second step of the goodwill impairment test is performed to determine the amount of any impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. No amortization is recorded for goodwill with indefinite useful life. No impairment of Goodwill was recognized during the three months ended March 31, 2011 and 2010, respectively.

Intangible Assets

In accordance with *Goodwill and Other Intangible Assets*, intangible assets that are determined not to have an indefinite useful life are subject to amortization. The Company amortizes intangible assets using the straight-line method over their estimated useful lives.

Impairment of Long-Lived and Intangible Assets

In accordance with *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Company assesses the recoverability of the long-lived and intangible assets by comparing the carrying amount to the estimated future undiscounted cash flow associated with the related assets. No impairment of long-lived assets was recognized during the three months ended March 31, 2011 and 2010, respectively.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the provisions of *Share-Based Payment*, which addresses the accounting for equity-based compensation and which requires that the cost of all equity-based compensation arrangements, be reflected in the financial statements over the vesting period based on the estimated fair value of the awards. During the three months ended March 31, 2011 and 2010, the Company had no stock-based compensation expense related to issuances of shares of the Company's common stock to consultants.

Revenue Recognition

We recognize revenue in accordance with ASC 605, "*Revenue Recognition*," we recognize as revenue the fees we charge customers as referenced below because persuasive evidence of an arrangement exists, the fees we charge are substantially fixed or determinable during the period that we provide the services, we and our customers understand the specific nature and terms of the agreed upon transactions, collectability is reasonable assured and services have been rendered.

Listing Fee Revenue – The Company operates WeedMaps.com and several associated websites, together composing a large scale, medical-cannabis industry focused internet media portal that targets dispensaries, advertisers and consumers, which are estimated by the National Survey on Drug Use and Health to total more than 16.7 million Americans in 2009 and growing rapidly. The Company generates revenues from listings on the Company's website. We recognize as revenue the fees we charge customers for listing their related company on our website. The terms of the listing arrangements with our customers are pursuant to a marketing agreement entered into with each customer pursuant to the terms of which the listing period is on a month-to-month term, listings are prepaid monthly and we do not offer returns, as such, our policy is to recognize revenues on a per-listing fee basis in the month that we provide the listing service.

Management Fee Revenue – The Company manages medical cannabis clinics throughout California pursuant to a contractual arrangement with a professional medical corporation. We recognize as revenue the fees we charge the professional medical corporation for providing administrative, marketing and human resources services. Our policy is to recognize revenues during the period that the services are rendered and we do not offer returns.

Payment Processing Revenue – The Company also generates revenues by processing payment transactions for our customers. We recognize as revenues commissions charged to merchants on the transactions processed. Our policy is to recognize revenues on a per-transaction basis at the time the payment transaction has been processed.

Accounts Receivable

Accounts receivable are recorded at the invoice amount and do not bear interest.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is defined as a Company's estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company does not maintain an allowance for doubtful account based upon management's review of the Company's revenue structure whereby substantially all receivables are confirmed before they are booked as revenue. The Company reviews its allowance for doubtful accounts policy periodically. The Company does not have any off-balance-sheet exposure related to its customers.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the useful lives of the assets, generally from three to seven years. Property and equipment at March 31, 2011 and December 31, 2010 are presented net of accumulated depreciation of \$76,000 and \$70,000, respectfully.

Income Taxes

The Company follows *Accounting for Income Taxes* that requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consists of taxes currently due plus deferred taxes. During the three months ended March 31, 2011 and 2010, the Company did not accrue a provision for US income taxes.

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for

all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Uncertain tax positions

The Company recognizes uncertain tax positions based on a benefit recognition model. Provided that the tax position is deemed more likely than not of being sustained, the Company recognizes the largest amount of tax benefit that is greater than 50 percent likely of being ultimately realized upon settlement. The tax position is derecognized when it is no longer more likely than not of being sustained. The Company classifies income tax-related interest and penalties as interest expense and SGA expense, respectively, on the Consolidated Statement of Operations. As of March 31, 2011 the Company believes it has no unrecognized uncertain tax positions.

Advertising Costs

The Company expenses advertising costs when incurred. Advertising expense for the three months ended March 31, 2011 and 2010 was \$412,000 and \$289,000, respectively.

Subsequent Events

During May 2009 and February 2010, the FASB issued new authoritative pronouncement regarding recognized and non-recognized subsequent events. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company adopted this guidance and it had no impact on the Company's results of operations or financial position.

Recent Accounting Pronouncements

In January 2010, FASB issued ASU No. 2010-01- *Accounting for Distributions to Shareholders with Components of Stock and Cash*. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 - *Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification*. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts *Non-controlling Interests in Consolidated Financial Statements*. If an entity has previously adopted *Non-controlling Interests in Consolidated Financial Statements* as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted *Non-controlling Interests in Consolidated Financial Statements*. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 - *Improving Disclosures about Fair Value Measurements*. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In September 2009, the FASB issued Accounting Standards Update No. 2009-08 *Earnings Per Share - Amendments to Section 260-10-S99*, which represents technical corrections to topic 260-10-S99 *Earnings per share*, based on EITF Topic D-53 *Computation of Earnings Per Share for a Period that includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock* and EITF Topic D-42 *The Effect of*

the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock. The adoption of this ASU did not have a material impact on our consolidated financial statements, results of operations or cash flows.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 *Fair Value Measurement and Disclosures Topic 820 - Measuring Liabilities at Fair Value*, which provides amendments to subtopic 820-10 *Fair Value Measurements and Disclosures - Overall* for the fair value measurement of liabilities. This update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1. A valuation technique that uses: a) the quoted price of the identical liability when traded as an asset b) quoted prices for similar liabilities or similar liabilities when traded as assets. 2. Another valuation technique that is consistent with the principles of topic 820; two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The amendments in this update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in this update also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The adoption of this ASU did not have a material impact on our consolidated financial statements, results of operations or cash flows.

In June 2009, the FASB issued standards that establish only two levels of U.S. generally accepted accounting principles (“GAAP”), authoritative and nonauthoritative. The FASB Accounting Standards Codification (the “Codification”) became the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (“SEC”), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification became nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We have begun to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP. As the Codification was not intended to change or alter existing GAAP, it did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued standards that require management to evaluate subsequent events through the date the financial statements are either issued, or available to be issued. Companies are required to disclose the date through which subsequent events have been evaluated. This standard is effective for interim or annual financial periods ending after June 15, 2009. The Company evaluated its March 31, 2011 financial statements for subsequent events through May 18, 2011, the date the financial statements were available to be issued. Other than the events in Note 19, the Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

In April 2009, the FASB issued standards that require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This standard also requires those disclosures in summarized financial information at interim reporting periods. This standard applies to all financial instruments within the scope of Statement 107 held by publicly traded companies, as defined by APB 28, and requires that a publicly traded company include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. This standard is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements, results of operations or cash flows.

In April 2009, the FASB issued standards that provide additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly for fair value measurements. This standard is effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements, results of operations or cash flows.

3. Other Current Assets

On September 13, 2010, the Company entered into a Promissory Note bearing no interest with SiliconPalms.com, Inc., pursuant to the terms of which, the Company agreed to loan SiliconPalms.com, Inc. \$25,000 for a period of 90 days at zero interest and, in exchange, SiliconPalms.com, Inc. agreed to place as collateral certain domain names in its possession. At March 31, 2011, the balance in other current assets related to this Promissory Note was \$25,000.

On September 30, 2010, the Company entered into a Promissory Note and Loan Agreement (the “Promissory Note”) with Prometheus Institute, Incorporated, a California corporation (“Prometheus”). Pursuant to the terms of the Promissory Note, the Company loaned Prometheus \$10,000 with an interest rate of zero and a maturity date 45 days from the date of issuance. At March 31, 2011, the balance in other current assets related to the Promissory Note was \$10,000.

During October 2010, the Company entered into an advertising agreement (the “Website Advertising Agreement”) with a certain third-party website pursuant to the terms of which, the Company would advertise on the website for a term of six months and in consideration, the Company would pay a fee of \$90,000. The Website Advertising Agreement was valued at \$90,000 and will be amortized on a straight-line basis over the term of the agreement. At March 31, 2011, the balance remaining as a prepaid expense in the other current assets related to the Website Advertising Agreement was zero.

During November 2010, the Company entered into a marketing services agreement with a third-party firm (the “Marketing Agreement”) pursuant to the terms of which, the Company would receive marketing services for a term of two years. The Company valued the agreement at \$907,000 based on the fair value of the underlying shares of the Company’s common stock, and pursuant to the terms of which, consisted of a cash payment of \$115,000 and 250,000 Common Stock purchase warrants with a four year contractual term and with each warrant entitling the holder thereof to purchase one share of common stock at a price of \$4.00, and will be amortized on a straight-line basis over the term of the Marketing

Agreement. At March 31, 2011, the balance remaining as a prepaid expense in other current assets related to the Marketing Agreement was \$756,000.

During November 2010, the Company entered into a three-year Consulting Agreement with Douglas Francis, our President, pursuant to the terms of which the Company would receive merger and acquisition consulting services for a term of three years. The Company valued the agreement at \$1,850,000 which consisted of a cash payment of \$50,000 and a consulting fee of One Million Eight Hundred Thousand Dollars (\$1,800,000) payable, one-half on June 30, 2012 (per an Amendment to the agreement) and the other half on January 10, 2013. Subsequent to the Consulting Agreement being executed, it was contemplated that the Company would consummate an employment agreement with Mr. Francis, pursuant to the terms of which the services received and consideration given pursuant to the Consulting Agreement would be included in the employment agreement such that the employment agreement would supersede the Consulting Agreement. The Company, as of March 31, 2011, had not consummated an employment agreement with Mr. Francis. The Consulting Agreement will be amortized on a straight-line basis over the term of the agreement.

During November 2010, the Company entered into a short-term month-to-month rental agreement (the "Rental Agreement") pursuant to which the Company agreed to rent certain space and was required to make a deposit of \$5,600.

During the normal course of business, the Company processes customer payments using a third-party merchant credit card processing system, which payments normally take one to three days to "clear." At March 31, 2011, the Company had \$53,700 in merchant processing that had not yet cleared.

4. Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the useful lives of the assets, generally from three to seven years. Property and equipment at March 31, 2011 and December 31, 2010 consist of the following:

Property and Equipment	March 31, 2011	December 31, 2010
Furniture and Computer Equipment	\$ 329,439	\$ 72,588
Less: Accumulated Depreciation	(76,238)	(70,386)
Property and Equipment, net	\$ 253,201	\$ 2,202

For the three months ended March 31, 2011 and 2010, depreciation expense totaled \$6,000 and zero, respectively.

5. Discontinued Operations – LV Luxuries, Inc. (formally Makeup.com, Inc.)

On February 1, 2010, the Company sold the domain name Makeup.com, its associated domain names and certain intellectual property rights associated with these domain names (all together as the "Makeup.com Assets"). The Company was in the business of selling beauty products, such as makeup and perfume, on the internet through the Makeup.com website. The Makeup.com Assets were sold for \$2,000,000 of which, the Company paid \$200,000 in fees related to the sale, which resulted in proceeds to the Company of \$1,800,000. The Makeup.com Assets had a carrying value of \$333,334 and resulted in an after-tax gain of \$1,466,666. Subsequent to the sale of the Makeup.com Assets, LV Luxuries, Inc. (formally Makeup.com, Inc.) is maintained as a corporation in good standing with no operations. The Makeup.com Assets is presented in the Company's financial statements as a discontinued operation. The results of operations attributable to the Makeup.com Assets have been aggregated to a single line on the income statement for all periods presented. Segment results for all periods presented exclude the Makeup.com Assets. The results of operations, including net income, generated by this discontinued operation prior to its disposition were as follows:

	March 31, 2011	March 31, 2010
Revenues	—	111,311
Income (loss) before income taxes	—	(227,577)
Gain (loss) on sale of discontinued operations before income taxes	—	1,466,666
Income tax expense	—	—
Net Income (loss) from discontinued operations	\$0	\$1,350,400

Assets and liabilities associated with the Makeup.com Assets have been segregated from continuing operations and presented as assets and liabilities of discontinued operations in the balance sheet for all periods presented. Assets and liabilities of the discontinued operations as of March 31, 2011 and March 31, 2010 were as follows:

	March 31, 2011	March 31, 2010
Cash and cash equivalents	\$ —	\$ 6,193
Accounts receivable	—	1
Accounts payable	—	(9,871)
Accrued liabilities	—	(3,170)
Net assets of discontinued operations	<u>\$ —</u>	<u>\$ (6,847)</u>

6. Business Combinations

In December 2007, the Financial Accounting Standards Board (FASB) issued FASB ASC 805-10 Business Combinations [previously SFAS No. 141(R)], which changed accounting and reporting requirements for business acquisitions and which required the acquisition method of accounting to be used for all business combinations and for an acquirer to be identified for each business combination. This accounting standard requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. It also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with the standard).

The ensuing acquisition of the Company was accounted for in accordance with ASC 805-10 Business Combinations and the Company has allocated the purchase price based upon the fair value of the net assets acquired and liabilities assumed at the acquisition date.

The purchase price in each of the ensuing acquisitions was determined based on the value of the associated underlying shares of the Company's common stock, which value of \$2.00 per share, represented the offering price of the Company's Common Stock used in its most recently completed equity transactions prior to the date of the acquisitions in accordance with the following FASB ASC 820-10-35-5, *Principal Market or Most Advantageous Market* guidance.

ASC 820-10-35-5 discusses the concepts of Principal Market and most Advantageous Market. The Principal Market is the market in which the reporting entity transacts with the greatest volume and level of activity for the asset or liability. The most Advantageous Market is the market in which the reporting entity would receive the highest selling price for an asset or pay the lowest price to transfer the liability, after considering transaction costs. When multiple markets exist for an asset or liability, the fair value should be based on the Principal Market. If there is no Principal Market, the most Advantageous Market should be used as determined from the perspective of the reporting entity.

The determination of the Principal or most Advantageous Market is an important step in applying the ASC 820 framework. During its deliberations on ASC 820, the FASB considered what market should be used to determine fair value. FASB acknowledged that (1) items can be exchanged in different markets, (2) different markets may have different prices at which items are exchanged, (3) different markets may have different participants, and (4) not all entities have access to the same markets. In recognition of the diversity of both markets and market participants, FASB provided guidance under a Principal (or most Advantageous) Market concept to identify the market that reporting entities should look to in determining the exit price.

Based on the foregoing guidance, the Company determined that the Principal Market for shares of its common stock was that of shares sold in private placements during the period prior to and through the date of the acquisitions, which period the Company completed several equity financing transactions for shares of its common stock, which volume substantially exceeded that of the OTC "pink sheets" volume and which price was far less than quoted on the OTC "pink sheets." The Company thus determined that shares of its common stock sold in recently completed private placements represented the market in which the Company transacted with the greatest volume and level of activity and thus such market represents the Company's Principal Market.

Revyv, LLC Acquisition

On January 11, 2011, we entered into a Reorganization and Asset Acquisition Agreement (the "Revyv Purchase Agreement") pursuant to which we acquired substantially all the assets of Revyv, LLC, ("Revyv"). Pursuant to the terms of the Revyv Purchase Agreement, the Revyv assets were placed into General Marketing Solutions, Inc., a wholly-owned subsidiary of the Company.

The assets consisted primarily of the intellectual property associated with CannabisCenters, including its website (www.cannabiscenters.com). Revyv is a technology firm specializing in the online interfacing, marketing and optimizing of health care facilities in the medicinal cannabis industry. In addition to acquiring key domains such as CannabisCenters.com and SafeaccessMD.com, we also acquired Revyv's proprietary patient verification system designed specifically for the medicinal cannabis industry.

The purchase price was \$1,000,000, which pursuant to the Revyv Purchase Agreement consisted of the issuance of 500,000 shares of the Company's common stock. The purchase price was determined based on the value of the associated underlying shares of the Company's common stock, which value of \$2.00 per share, represented the offering price of the Company's Common Stock used in its most recently completed equity transactions prior to the date of the acquisitions in accordance with the following FASB ASC 820-10-35-5, *Principal Market or Most Advantageous Market* guidance.

The following table summarizes the acquisition with a total purchase price of \$1,000,000:

Carrying amount of equity:	\$(4,846)
Accrued Liabilities	(1,400)
Domains	18,500
Web Software	501,343
Goodwill	<u>486,403</u>
Net Assets	<u><u>\$1,000,000</u></u>

7. Other Assets

See Note 3 Other Current Assets for information on the Consulting Agreement entered into between the Company and Douglas Francis, our President, pursuant to the terms of which, the Company would receive merger and acquisition consulting services for a term of three years. The Company valued the agreement at \$1,850,000, which consisted of a cash payment of \$50,000 and two cash payments of \$900,000 payable on June 30, 2012 and January 10, 2013. The Consulting Agreement will be amortized on a straight-line basis over the term of the agreement.

8. Intangible Assets

Intangible assets consist of a suite of websites and internet properties consisting of over 250 domain names, a capitalized management contract and customer list, trademarks and goodwill associated with recent acquisitions.

The 250 domains acquired will be used to cross reference and to drive web traffic to our main portals. The vast majority of the domain names were valued \$100; weedporn.com, weedvote.com, weedfreebies.com, weedphotos.com, cannabisclubs.com, medicalmarijuanadispensaries.com and medicalmarijuanaclinic.com were valued between \$500 and \$2,500; legalmarijuanadispensary.com was valued at \$50,000; and weedmaps.com was valued at \$200,000.

The Company's websites and domain names have been determined to have an indefinite useful life based primarily on the renewability of the domain name. Intangible assets with an indefinite life are not subject to amortization, but will be subject to periodic evaluation for impairment.

See Note 5. Discontinued Operations—LV Luxuries, Inc. (formally Makeup.com, Inc.) for information on the sale on February 1, 2010 of the Makeup.com Assets for \$2,000,000 of which, the Company paid \$200,000 in fees related to the sale, which resulted in proceeds to the Company of \$1,800,000. The Makeup.com Assets had a carrying value of \$333,334 and resulted in an after-tax gain of \$1,466,666.

Intangible assets and accumulated amortization at March 31, 2011 and December 31, 2010 are comprised of the following:

	March 31, 2011	December 31, 2010
<u>Intangible Assets</u>		
Contracts & Customer lists	\$21,984,576	\$21,984,576
Internet Properties & Domain Names	10,000,643	9,444,582
Trademarks	29,322	29,322
Goodwill	28,198,748	27,712,345
Subtotal	<u>\$60,213,288</u>	<u>\$59,170,825</u>
Accumulated Amortization	<u>(366,408)</u>	<u>—</u>
Total intangible Assets	<u><u>\$59,846,880</u></u>	<u><u>\$59,170,825</u></u>

9. Loss Per Common Share

Income (loss) per common share is based on the weighted average number of common shares outstanding. The Company complies with Earnings Per Share, which requires dual presentation of basic and diluted earnings per share on the face of the statements of operations. Basic per share earnings or loss excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average common shares outstanding for the period. Diluted per share earnings or loss reflect the potential dilution that could occur if convertible preferred stock or debentures, options and warrants were to be exercised or converted or otherwise result in the issuance of common stock that is then shared in the earnings of the entity.

As of March 31, 2011, there were outstanding 250,000 common stock purchase warrants.

10. Accounts Payable

Accounts payable at March 31, 2011 included amounts owed to certain vendors related to the ongoing normal course of the Company's operations.

11. Accrued Liabilities

Accrued liabilities at March 31, 2011 and December 31, 2010 are comprised of the following:

Accrued liabilities	March 31, 2011	December 31, 2010
Obligations on consulting agreements	\$900,000	\$900,000
Obligations on marketing agreements	72,500	72,500
Tax provision	62,000	62,000
Other	61,775	37,093
Total accrued liabilities	\$1,096,275	\$1,071,593

12. Note Payable

During November 2008, the Company issued a note payable in the amount of \$60,000, which note was unsecured and payable on demand. At March 31, 2011, no principal reduction had taken place and the balance on the note was \$60,000, which included \$5,000 in accrued interest.

During the year ended 2008, the Company issued a note payable in the amount of \$90,000, which note was unsecured and had a maturity date of December 31, 2011. At March 31, 2011, the note payable had an outstanding balance of \$10,000 including accrued interest.

At December 31, 2009 the Company had a note payable in the amount of \$50,000. This note was payable on demand and was unsecured. At March 31, 2011, no principal reduction had taken place and the balance on the note was \$50,000.

13. Note Payable – Related Party

See *Note 6 Business Combinations* for information regarding an Agreement and Plan of Reorganization and Merger entered into by the Company pursuant to which we acquired 100% of the membership interests of WeedMaps, LLC, a Nevada limited liability Company, pursuant to which we issued Secured Promissory Notes with the aggregate principal amount of \$3,600,000, in the form of four \$900,000 principal amount 0.35% Secured Promissory Notes, two issued to each of the Sellers, half of which principal matures on June 30, 2012, and half of which principal matures on January 10, 2013.

14. Other Accrued Liabilities

See *Note 3 Other Current Assets* for information on the Consulting Agreement entered into between the Company and Douglas Francis, our President, pursuant to the terms of which, the Company would receive merger and acquisition consulting services for a term of three years. The Company valued the agreement at \$1,850,000, which consisted of a cash payment of \$50,000 and two cash payments of \$900,000 payable on June 30, 2012 and January 10, 2013. The Consulting Agreement will be amortized on a straight-line basis over the term of the agreement.

15. Related Party Transactions

All material intercompany transactions have been eliminated upon consolidation of our entities. During the three months ended March 31, 2011, cash transfers, equity and accounts between the Company and its subsidiaries have been eliminated upon consolidation.

16. Commitment and Contingencies

On January 27, 2011, the Company entered into a commercial lease agreement for approximately 20,332 square feet of office space in Newport Beach, California. The lease expires on January 31, 2014 and requires monthly payments of \$39,647. The Company is confident that this commercial space will provide adequate space to meet our needs and provide for future growth.

Set forth below is a summary of our current obligations as of March 31, 2010 comprised exclusively of a rental lease obligation to make future payments due by the period indicated below:

Operating lease payments	Minimum Payments	Monthly Base Rent
2011	\$475,768.80	\$39,647.40
2012	\$495,287.52	\$41,273.96
2013	\$514,806.24	\$42,900.52

17. Equity Transactions

On January 11, 2010, we entered into a Reorganization and Asset Acquisition Agreement pursuant to which we acquired substantially all the assets of Revyv, LLC. As consideration for the purchase, we issued an aggregate of Five Hundred Thousand (500,000) shares of our common stock to Revyv. The issuance was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, and the investor was accredited and had access to information necessary to make an investment decision. The shares were restricted securities as described in Rule 144 pursuant to the Securities Act of 1933.

18. Warrants

See Note 3 Other Current Assets for information on a Marketing Services Agreement entered into by the Company and a third-party firm pursuant to the terms of which, the Company issued 250,000 Common Stock purchase warrants with a contractual term of four years and with each warrant entitling the holder thereof to purchase one share of common stock at a price of \$4.00. During the three months ended, the Company recorded \$113,000 in non-cash compensation expense related to the Marketing Services Agreement. The issuance of these warrants was exempt from registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended.

The following table summarizes information about common stock warrants outstanding at March 31, 2011:

Outstanding				Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$4.00	250,000	3.62	\$4.00	250,000	\$4.00
\$4.00	250,000	3.62	\$4.00	250,000	\$4.00

19. Subsequent Events

The Company has performed an evaluation of the subsequent events review through May 18, 2011, which is the date the audited consolidated financial statements were issued.

On April 28, 2011, US Cannabis, Inc. changed its name to General Processing Corporation.