PotNetwork Holdings Inc

Consolidated Financial Statements

As of 31st December 2017

www.potnetworkholding.com

www.diamondcbd.com

East West

East West Accounting Services LLC

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of PotNetwork Holdings Inc

Opinion: We have audited the accompanying balance sheets of PotNetwork Holdings Inc (the "Company") as of December 31, 2017 and 2016, and the related statements of income, stockholders' equity and cash flows for each of these years in the period then ended, and the related notes (collectively referred as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of the years then ended, and the results of its operations and its cash flows for these years in the period then ended, in conformity with U.S. generally accepted accounting principles.

We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the company's internal control over financial reporting as of the year then ended, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report of even dated, express an unqualified opinion on the Company's Internal Control over financial reporting.

Basis of Opinion: These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. Federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with standards of PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters: The management listed the critical audit matters as note 16 in the notes on accounts. They are the matters arising from the current period audit of the financial statements and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgements. These critical audit matters do not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by referring the critical audit matters, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

East West Accounting Services Llc

31st March 2018

Certified Public Accountant
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Potnetwork Holdings Inc
Consolidated Balance Sheet

	Current	Previous	Previous
	Dec 31, 2017	Dec 31. 2016	Dec 31. 2015
	<-----------in thousands------------->		
Assets			
Current Assets			
Cash/Bank Balances	241	0	1
Accounts Receivable	330	1	71
Drop Shipments in Transit to Customers	640	-	-
Total Current assets	1,210	1	72
Fixed Assets [NET]	-	3	5
Investments in Diamond CBD [wholly owned] at cost (IAS 27)	170	-	-
Other Assets	-	-	-
Deposits	30	86	1,948
Prepaid Expenses	623	-	-
Total other assets	823	89	1,953
TOTAL ASSETS	2,033	90	2,025
Liabilities			
Current Liabilities			
Payables	271	25	530
Total Current Liabilities	271	25	530
Other Liabilities			
Loan from 3rd Party with interest	245	266	125
Note Payable	3,078	2,019	1,984
Total other liabilities	3,324	2,284	2,109
Total Liabilities	3,595	2,309	2,639
Stockholders' Equity			
Common: Authorized 1,000,000,000 shares, $ .00001 par value; and 569,920,485 Issued and outstanding at December 31, 2017 and 89,571,121 Issued and outstanding at December 31, 2016 respectively.	451	88	88
Preferred Stock Class A Authorized - 50,000 shares, $ .00001 Par value; and 32,682 Issued and outstanding at December 31,, 2017 and None Issued and outstanding at December 31, 2016 respectively.	0	0	0
Additional paid in capital	263	263	1,462
Retained Earnings	(2,276)	(2,570)	(2,164)
Total Stockholders' Equity	(1,562)	(2,219)	(614)
Total Liabilities & Equity	2,033	90	2,025

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

Re-grouped the previous year figures

Potnetwork Holdings Inc
Consolidated Income Statement for the year ended 31st Dec., 2017

	<-----------in thousands------------->		
	2017	2016	2015
Net Operating Revenues	**14,499**	**1,029**	**5,504**
Cost of Goods Sold	**9,318**	**581**	**2,650**
Gross Profit (Loss)	**5,181**	**448**	**2,854**
Gross Profit Margin	**0**	**0**	**1**
Selling, general and administrative expenses	**4,974**	**349**	**1,413**
Operating Income	**207**	**99**	**1,442**
Operating Margin	**0**	**0**	**0**
Income BEFORE INCOME TAXES	**207**	**99**	**1,442**
Income taxes from continuing operations	**207**	**99**	**1,442**
NET INCOME FROM CONTINUING OPERATIONS	**207**	**99**	**1,442**
CONSOLIDATED NET INCOME	**207**	**99**	**1,442**
NET INCOME ATTRIBUTABLE TO SHAREOWNERS	**207**	**99**	**1,442**
Prior period adjustments	**(28)**	**(507)**	**(716)**
NET INCOME transferred to retained earnings	**179**	**(408)**	**726**
BASIC NET INCOME PER SHARE (*)	0.00036	0.00033	0.00019
DILUTED NET INCOME PER SHARE (**)	0.00036	0.00033	0.00019

'(*) Calculation is not meaningful.

'(**) Calculated based on net income attributable to shareowners

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

Re-grouped the previous year figures

Potnetwork Holdings Inc
Statement of Cash Flows for the year ended 31st Dec., 2017

	<-----------in thousands------------->		
	2017	2016	2015
Operating Activities			
Net Income (Loss)	**179**	**(408)**	**726**
Add: Depreciation	**-**	**2**	**5**
Adjustments to reconcile net income (loss) to calculate the net cash provided by/used by the operations			
Accounts Receivable	**(329)**	**70**	**(71)**
Deposits	**59**	**1,864**	**(1,944)**
Drop Shipments in Transit to Customers	**(640)**	**-**	**-**
Prepaid Exp	**(623)**	**-**	**-**
Payable	**246**	**-**	**-**
Loan	**202**	**-**	**-**
3rd Party Loan	**-**	**141**	**(85)**
Loan [Sign]	**(363)**	**35**	**1,664**
Convertible Note	**1,200**	**-**	**-**
Other payables	**-**	**(506)**	**519**
Additional Capital	**-**	**(1,198)**	**(813)**
Triangular Merger	**(54)**	**-**	**-**
Equity	**363**	**-**	**-**
Total Adjustments to reconcile net income (loss) to calculate the net cash provided by/used by the operations	**240**	**(1)**	**1**
Net cash from the current year operations	**240**	**(1)**	**1**
Investing Activities			
	-	**-**	**-**
Net cash provided by investing activities	**-**	**-**	**-**
Financing Activities			
	-	**-**	**-**
Net cash provided by financing activities	**-**	**-**	**-**
NET CASH INCREASE (DECREASE) For PERIOD	**240**	**(1)**	**1**
Cash, Beginning	**0**	**1**	**0**
Cash, Ending	**241**	**0**	**1**

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

Re-grouped the previous year figures

Potnetwork Holdings Inc
Stockholders' Equity

Amount in thousands

Description	Shares	Amount	Additional Paid-in Capital	Surplus (Deficit)
Common Stock as on Dec. 31, 2015	7,621,650,326	87.57	1461.53	(2162.30)
1 for 1000 split reduction	(7,614,025,192)			
After the split	7,625,134			
Shares Issued - Free	82,773,847		(1198.00)	
Shares Issued - Reserve	206,990,307			
Net Profit (Loss)				(408.16)
Common Stock as on Dec. 31, 2016	297,389,288	87.57	263.13	(2570.46)
Triangular Merger				(53.93)
Shares Issued - Legend	309,322,614			
Shares Issued - Free	121,000,000	363.00		
Shares Issued - Reserve	(157,791,417)			
Net Profit (Loss)				178.92
Common Stock as on Dec. 31, 2017	569,920,485	450.57	263.13	(2275.85)

Number of shares as of Dec. 31, 2017 is agreement with the statement received from the Share Transfer Agent

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

Potnetwork Holdings Inc.
NOTES ON ACCOUNTS
Year ended **31st December 2017**

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

On 3rd March 2017, Potnetwork Holding Inc was reincorporated following its acquisition of First Capital Venture Co. which was a Florida Profit Corporation, incorporated on 27th Feb. 2015. Coinciding with that event, the Company entered a triangular merger pursuant Colorado law, which is the financial and substantive equivalent to that set forth in "Section 251(g) of the Delaware General Corporation Law".

Potnetwork Holdings Inc was previously known as below:

- Formerly=SND Auto Group, Inc. until 3-2017
- Formerly=Potnetwork Holdings, Inc. until 5-2016
- Formerly=United Treatment Centers, Inc. until 7-2015
- Formerly=Element Trading Holdings, Inc. until 3-2014
- Formerly=United Treatment Centers, Inc. until 10-2013
- Formerly=MyMedicalCD, Ltd. until 6-2008
- Note=11-04 State of Incorporation Nevada changed to Wyoming
- Formerly=Interactive Solutions Corp. until 11-2004
- Formerly=Araldica Wineries Ltd. until 2-2000
- Formerly=H P Capital Corp. until 9-1996

The company website is www.potnetworkholding.com

Potnetwork Holdings Inc is a publicly traded Company trading under the symbol "POTN"

On 31st January 2017, Potnetwork Holding Inc acquired First Capital Venture Co D/B/A Diamond CBD, www.diamondcbd.com the makers of Diamond CBD Oils, as a wholly owned subsidiary.

SND Auto Group Inc, formed on 14th March 2017 as a pre-owned vehicle auto dealership, as a successor to the Sunrise Auto Mall Inc, a Florida Profit Corporation established in April 2014, is an another wholly owned subsidiary.

Potnetwork Media Group Inc, a Nevada corporation, the owner and operator of www.Potnetwork.com as a digital business magazine focusing on the cannabis industry, was acquired under a stock purchase agreement and is an another wholly owned subsidiary.

Grinder Distribution Inc, a distributor of herbal grinders, is an another wholly-owned subsidiary.

From the 31st January 2017 the focus is the development of the Diamond CBD business.

Diamond CBD focuses on the research, development, and multi-national marketing of premium hemp extracts that contain a broad range of cannabinoids and natural hemp derivatives.

Diamond CBD's 94-page catalog can be found in http://catalog.diamondcbd.com

In 2017, Diamond CBD business was the sole business activity of this company. SND Auto Group Inc. having become dormant at the end of 2016. All other subsidiaries are in the early development stage. Hence, the financial statements reflect principally the business results of Diamond CBD business.

In February 2018, the company amended the terms and conditions of the January 2017 merger such that certain effects specific to its similarity with a reorganization under Section 251(g) of the Delaware General Corporation law were reversed. As a result, the company reassumed its prior name, Potnetwork Holdings, Inc. (with an "s" on Holding), while remaining a Colorado corporation. For all practical purposes the merger of the entities involved was not affected and maintained the share capital structure from the merger.

Since January 2016, Gary Blum serves as sole director and CEO. In October 2017, Richard Goulding MD joined as the Chief Executive Officer.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **BASIS OF PRESENTATIONS:** The statements were prepared following generally accepted accounting principles of the United States of America consistently applied.
- **USE OF ESTIMATES:** Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.
- **REVENUE RECOGNITION – DIAMOND CBD BUSINESS**
  - Sales are recognized when the sale proceeds are credited to the bank account during the year.
  - At the year end, the sales invoices are reviewed and based on the subsequent receipt of payments and are accounted as sales to comply with the matching principle of considering the expenses and revenues of the same year. Such book entries are reversed in the following year.
  - For online sales, merchandise is not shipped unless and until the customer pays for it.
  - For orders received over the phone, the merchandise will not ship unless and until the customer pays for it.
  - Sales on credit terms are exceptional and requires the customer to establish the credit.
  - Revenue transactions represent the actual merchandise shipped to the customers as drop shipments.
  - The revenue recorded in the books are net of sales and other taxes collected on behalf of governmental authorities.
  - The revenue includes shipping and handling costs which are generally included in the sale invoices.

- Revenue is recognized when the title, ownership and risk of loss transfers, which is usually on the date of shipment.
- Provision for discounts, when applicable, are stated in the sales invoice and used to determine the net of sales for each such invoice.
- Returns are accounted as a reduction of sales when the returns are authorized
  - The customers enjoy free returns of unopened items within 15 days of purchase.
  - Free return labels are provided, meaning that the company pays for the shipping cost for the returns by the customers.
  - The customers can easily initiate the returns online in the company website.
  - Experienced professional staff reviews the selling price on an ongoing basis.
  - Exceptions are reviewed and approved by the manager.
  - Sales return are insignificant and hence no reserves are provided.
- Trade promotions such as sale prices, coupons, etc. are offered to the customers on various occasions as part of marketing and sales promotion. In all such cases, sales are recorded net of trade promotions, which is generally incurred at the time of sale. Most of the arrangements are for a year or less. Expected payouts are not estimated and hence accounted as and when incurred.

- **CASH AND CASH EQUIVALENTS:** Cash equivalents include short-term, highly liquid investments with maturities of three months or less at the time of acquisition.
- **PROPERTY AND EQUIPMENT:** Property and equipment are stated at the written-down value [after deducting the depreciation from the cost]. This company adapted the depreciation rates as provided in the IRS publications, using the Modified Accelerated Cost Recovery System (MACRS). Computers and office equipment are considered as 5-year property Office furniture and fixtures are 7-year property in MACRS and apply the 200% declining balance method over a GDS recovery period. Where possible, section 179 depreciation is also applied.
- **INTANGIBLE ASSETS**
  - **Initial Measurement:** Intangible asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or equity interests issued), measurement is based on either the cost which shall be measured based on the fair value of the consideration given or the fair value of the assets (or net assets) acquired, whichever is clearer and, thus, more reliably measurable.
  - **Subsequent Measurement:** The company accounts for its intangible assets under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Subtopic ("ASC") 350-30-35 "Intangibles-- Goodwill and Other--General Intangibles Other than Goodwill-Subsequent Measurement". Under this method the company is required to test an indefinite-lived intangible asset for impairment on at least an annual basis. This is done by comparing the asset's fair value with its carrying amount. If the carrying amount exceeds the asset's fair value, the difference in those amounts is recognized as an impairment loss. The company impaired the trade-mark as of December 31, 2015.
- **INCOME TAXES:** The company accounts for its income taxes in accordance with the Financial Accounting Standards ("SFAS") No.109, Accounting for Income Taxes. Under this standard, deferred tax assets and liabilities represent the estimated tax effects of future deductible or taxable amounts attributed to differences between the financial statements carrying amounts and the tax bases of existing assets and liabilities. The standard also allows

recognition of income tax benefits for loss carryforwards, credit carryforwards and certain temporary differences for which tax benefits have not previously been recorded. Valuation allowances are provided for uncertainties associated with deferred tax assets.

- **FINANCIAL INSTRUMENTS:** Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. FASB ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

  Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and must be used to measure fair value whenever available.

  Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

  Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. For example, level 3 inputs would relate to forecasts of future earnings and cash flows used in a discounted future cash flows method.

  The carrying amounts reported in the balance sheet for cash, accounts payable and notes payable approximate their estimated fair market value based on the short-term maturity of this instrument. In addition, FASB ASC 825-10-25 "Fair Value Option" was effective for January 1, 2008. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value.

- **Investments in subsidiaries:** The triangular merger in Jan 2017 is a holding company reorganization. The company did not make any payment in cash or check for this acquisition. In other words, there is no cost for company in acquiring the shares of the wholly owned subsidiary in this triangular merger. Hence, the company has recorded the value of the investments in this wholly owned subsidiary as provided in ASC 323
- **Redemption Right:** The terms and conditions of the Note has a clause for redemption right, which reads as, "Notwithstanding any provision contained herein to the contrary including the conversion rights as set forth in this section, the company shall be entitled, at any time prior to the expiration of five days from any notice of conversion, to repay this Note in full, plus interest, minus the credit accorded from prior payments, including from prior conversions, and avoid any further Note conversion and thus avoid the issuance of any additional shares of the Potnetwork Holdings Inc ." By this clause, no derivative liability exists.

NOTE 3 - GOING CONCERN

The financial statements are prepared assuming that the company will continue as a going concern, which contemplates, among other things, the realization of assets and the satisfaction of liabilities in the normal course of business.

Receivables from our customers as on the balance sheet date, are less than 30 days old.

As the company has no uncertainties as on the balance sheet date, the financial statements need no adjustments.

Since the DiamondCBD business is from 2015, it is considered as a business with limited operating history. Hence, this business is subject to all risks inherent in a developing business enterprise. Continued success depends on the problems, difficulties, complications, and delays frequently encountered in the competitive and regulatory environment in which it operates.

As a new industry, there are no established entities whose business model Diamond CBD can follow or build on the success of.

Regulatory risk: Hemp-based CBD are often confused with marijuana-based CBD which remains illegal under federal Law.

Although Diamond CBD does not sell any marijuana-based CBD products, its products could be confused as being illegal by federal/state authorities and by consumers.

The company is involved in a highly competitive industry where it may compete with numerous other companies who offer alternative methods or approaches, who may have far greater resources, more experience, and personnel perhaps more qualified than the company does. Such resources, experience and personnel may provide a substantial competitive advantage to the competition.

NOTE 4 - PROVISION FOR INCOME TAXES

With the accumulated losses carried forward, no provision for tax liability has been made in the financial statements. Net operating loss carry-forward, expires twenty years from the date the loss was incurred.

Deferred Tax Computation: The company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes". Under this method, income tax expense is recognized for: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

There was no income tax expense for the years ended December 31, 2017 and 2016.

The tax rates were as follows:

Federal	34%
State	5%

The components of the deferred tax assets and liabilities are as follows:

	December 31,	
	2017	**2016**
Deferred tax assets:		
Net operating loss carryovers	$ 2,275,848	$ 2,570,429
Stock-based compensation	-	-
Other temporary differences	-	-
Total deferred tax assets	2,275,848	2,570,429
Valuation allowance	(2,275,848)	(2,570,429)
Net deferred tax asset	$ -	$ -

As of the current balance sheet date, the company has a net operating loss carryforward of $2,275,848.

However, the availability of a net operating loss carryforward and the associated deduction, is subject to complex and restrictive federal income tax provisions as codified by Internal Revenue Code section 172 and related Treasury Regulations, all of which are subject to change in the availability of which can never be free from doubt.

NOTE 5 - INVENTORY – DIAMOND CBD

This company has arranged to buy the exact quantity from the suppliers, based on the customer orders and thereby has eliminated the need for holding inventory on hand at any point of time.

Otherwise, this company values the inventory at the lower of cost or market.

This company has been successfully handling the shipping as expeditiously as possible, despite the high quantity of its order volume. In effect, the marketing plan drawn by the company’s team requires adequate arrangements, requiring advance bookings for the expositions, etc. including the travel arrangements. This eats up more and more working capital by way of prepayments for marketing arrangements with merchants.

In addition, this company pays for the drop shipments, based on the sales orders. However, the drop shipments to the customers are in transit for a week or more until the tracking numbers are obtained and sent to the customers to obtain the payment from the customer.

NOTE 6 - COMMITMENTS AND CONTINGENCIES: There are no commitments and contingencies that exist at present.

NOTE 7 – SALES DISCOUNT & RETURN POLICY – DIAMOND CBD

- The customers enjoy free returns of unopened items within 15 days of purchase.
- Free return labels are provided, meaning that the company pays for the shipping cost for the returns by the customers.
- The customers can easily initiate the returns online in the company website.
- Experienced professional staff reviews the selling price on an ongoing basis.
- Exceptions are reviewed and approved by the manager.
- Sales return are insignificant and hence no reserves are provided.

NOTE 8 – BUDGET & INTERNAL CONTROL PROCEDURES

- Internal control procedures for inventory and cash control are being developed and implemented on an ongoing basis to ensure higher levels of performances.
- Annual financial budget is reviewed by the Board of Directors
- Quarterly variance reports are considered by the Board of Directors.

NOTE 9 – PAYROLL PROCEDURE

Based on the time punched in and out by the employees, payroll is processed by an independent payroll Company to determine the taxes to be withheld and paid.

NOTE 10 – Depreciation

The depreciation method is the Modified Accelerated Cost Recovery System (MACRS) of the tax code. https://www.irs.gov/pub/irs-pdf/i4562.pdf 3-, 5-, 7-, and 10-year property class is adapted. 200% declining balance method is followed. Sec 179 deduction is also recorded in the books, where applicable.

NOTE 11 - CAPITAL STOCK

- **Common Stock**: Authorized 1,000,000,000 shares, $ .00001 par value; and 569,920,485 Issued and outstanding as on the balance sheet date. As of the date of this report, 300,000,000 shares are in the process of being cancelled.

- **Class A preferred stock**: Authorized 60,000 shares, $ .00001 par value; and 50,000 Issued and outstanding as on the balance sheet date. Designation details are in Document # 20171182699 filed with the Secretary of State, Wyoming on 3rd March 2017

NOTE 12 – Loan from Third Parties

The loan accrues interest @ the annual rate of eight percent (8%)

	Date of Loan	Loan	Interest 2015		Interest 2016		Interest 2017	
A	September 11, 2012	$100,000	$4,000	$104,000	$8,000	$112,000	$8,000	$120,000
B	July 1, 2016	$25,000		$25,000	$1,000	$26,000	$2,000	$28,000
C	July 1, 2016	$7,000		$7,000	$280	$7,280	$560	$7,840
D	April 28, 2016	$42,000		$42,000	$2,240	$44,240	$3,360	$47,600
E	May 4, 2016	$37,000		$37,000	$1,974	$38,974	$2,960	$41,934
	Total	$211,000	$4,000	$215,000	$13,494	$228,494	$16,880	$245,374

NOTE 13 – Notes Payable

	Date of Loan		
A	July-15	**61,733.09**	Interest Free
B	December-16	**11,000.00**	Interest Free
C	March-18	**150,000.00**	Interest Free
D	June-14	**1,655,624.00**	Fixed conversion per addendum agreement
E	May-17	**285,500.00**	Fixed conversion per addendum agreement
F	September-17	**477,500.00**	Fixed conversion per addendum agreement
G	October-17	**437,000.00**	Fixed conversion per addendum agreement
	Total	**3,078,357.09**	

NOTE 14 – Unrecoverable balances written off

- The business of auto dealership was closed in 2016
- As is the trade practice, the combined balance of $27,763 [both receivable as well as payable, and including Fixed Assets such as desk top computers, fixtures and fittings] are written off in 2017.

NOTE 15 – Management Assertions on the 2 court cases

- Mammoth West Corporation filed a civil case in the 19th Circuit court in Lake County, IL [case# 17 CH 778] with reference to the Note dated 13 June 2016. As of 31 Dec 2017, this Company owes $7,280. Plaintiff claims conversion request as of 28 March 2017 on which date the market closed as 0.64, while it was 0.04 on 3/22/17 and was 0.03 on 4/12/17. The Plaintiff has carefully chosen the highest rate in the historical prices in the claim. Management intends to ask for a trial. Though the Company is likely to win this case, the Company may end up issuing more shares for this conversion, which in effect shall not affect the financials at any point of time in dollar value.
- Southridge Partners filed a civil case in the District court in Connecticut on 5 Jan 18 [Case# 3:17-cv-01925] with reference to the Note dated 18 July 2016. As of 31 Dec 2017, this Company owes $26,000. Plaintiff claims conversion request as of 28 March 2017 on which date the market closed as 0.0135. The plaintiff is contemplating a request for a trial. Though this Company is likely to win in this case, the Company may end up issuing more shares for this conversion, which in effect shall not affect the financials at any point of time in dollar value.

NOTE 16 – Management Assertions on Critical Audit Matters

- Budget and variance analysis: This company prepared the annual budget and reviewed the variances for the year 2017. However, the audit suggested quarterly variance analysis. Hence, this company started preparing the quarterly variance analysis for Q-1 of 2018.
- Delay in Tax filing: As pointed out by the audit, this company filed Form 4506-T requesting a Transcript of Tax Returns. By engaging a tax-practitioner, the returns will now be filed.
- Payment processing system: In 2017, this company established the payment processing system with 3 level hierarchy providing for the internal control procedures. Also, within the same system, segregation of duties was the key to assure effective controls. However, the volume of transactions [30,000+ sales invoices; and 11,000 payments in 2017] caused time delay in the completion of the audit, due to the need for matching the related bills, invoices, etc. Going forward to increase efficiency and reduce audit time, this company is considering the use of sophisticated software which provides the attachment of bills and invoices to every transaction.
- Drop shipments: The reconciliation of quantity sold as per the sales invoices with the payments made to the vendors were prepared for each quarter. However, the audit requires more. For example, the tracking of every sale's invoice to the suppliers' invoices. Here again, the volume is the constraint for matching each manually. Hence, this company is therefore evaluating specialized software to address this challenge.
- Paperless office: This company is committed to the concept of paperless office. However, it impacted the audit trail, which relies on linking/tracing the documents manually. Again, use of computer software is being sought as a solution.
- Diamond CBD business was started in 2015 as a private business. On acquisition, this company continued to follow the same procedures when it was a private Company. However, as a public Company, must comply with the audit requirements which includes formal real property ownership or leases for using the facilities. Per history, Diamond CBD business used informally rented space for several of its activities which now, because of audit requirements, require formal rental or lease agreements. This company is currently addressing these issues.
- Absence of hand book and manuals: To date the development of formal hand books and manuals was not necessary. However, going forward, to comply with audit requirements, this company will develop the said materials.
- Balance confirmations from Banks: This company gave all the bank statements, as a download from the online banking portals. However, the audit requires balance confirmations from the banks, which letters were faxed/mailed to the banks. As the nearby branches of these banks do not provide this service, this company is unable to obtain the same by calling the 1-800 numbers, despite the many follow up calls.
- Sunrise Auto Mall Inc was a private business and was merged in 2015, by exchange of shares among the related shareholders for which there is no agreement in the company name. Since the auto sale business was closed in 2016, the share exchange agreement among the shareholders were misplaced and hence, not shared with the audit team.

- Triangular merger agreement: This multi-document, complex, interrelated agreement remains under study by the audit team, who have accepted the legality of its presentation based on written legal opinion.
- Absence of permanent folders for all the corporate filings: This company has a history of more than two decades of filings with the Secretary of State of 3 different states. The audit required a separate folder for various filings indexed. The concept of paperless office ended up with the document storage in different computers. Realizing the audit requirement, this company started organizing these documents in the cloud, which can be easily shared with the audit team.
- Minutes of the meetings: The note from the audit is that the minutes were not kept as a minute book but were shared in the PDF file format. Continuity and ordering sequentially was not followed. Realizing the importance from the audit point of view, this company is organizing all the minutes, indexing the date of minutes.
- 10-K format with MD&A data: As an SEC non-reporting OTC Company, the preparation and filing of 10-K's is not a legal requirement.
- Separate accounting books for the Holding Company: The audit looked at the holding company and the subsidiaries as different entities and hence required separate accounting books and records for each entity. Since the end of Medical Treatment Centers' business, the holding Company did not make any payments. Instead, the wholly owned subsidiaries made the payments for and on behalf of the holding company and each maintained their own accounting books and records. Hence, the holding company did not maintain separate books. When the audit required separate accounting books, this company prepared it immediately, by recording the 6 journal entries for 2017.
- Supporting documents for the share transfer activities recorded by the share transfer agent: This company obtained the capitalization report and shared it with the audit. But the audit is concerned about the file index for the supporting documents.
- Compatibility issues: For the 6 journal entries for 2017, used the quick books desk top edition which the audit could not open it due to compatibility issues.
- Sunrise Auto Mall Inc and after merger, SND Auto Group Inc, maintained the books in Quick Books Online. Due to inactivity for 18 months, access to the online system is locked and could not be retrieved. Consequently, these records were inaccessible to meet this audit requirement.
- Additional Paid in Capital: The audit wanted clarification for $263,131 without any issuance since the middle of 2016. Requests for share issuances are awaited.
- Despite the pictorial presentation of the group structure, the audit team continued to have questions on past name changes and their references.
- Confirmation of balances for receivables: This company is caught in between the audit requirement and the customer privileges, especially for the sales online. Though the details of online sales, payments and tracking numbers were provided, but failed to ask confirmation from the customers, specifically relating to the last week of the year end, which is a holiday period.
- Agreements for marketing activities: Booking the space for a trade show, reserving the space for advertisement in a magazine, etc. as part of marketing efforts, often happens without signed agreements.