CannaKorp, Inc.

A Delaware Corporation

Financial Statements (Unaudited) and Independent Accountant's Review Report

December 31, 2016 and 2015

CannaKorp, Inc.

TABLE OF CONTENTS

To the Stockholders of
CannaKorp, Inc.
Stoneham, MA

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying financial statements of CannaKorp, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Going Concern

As discussed in Note 3, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Artesian CPA, LLC

Artesian CPA, LLC

Denver, Colorado
February 12, 2018

Artesian CPA, LLC
1624 Market Street, Suite 202 | Denver, CO 80202
p: 877.968.3330 f: 720.634.0905
info@ArtesianCPA.com |www.ArtesianCPA.com

CANNAKORP, INC.
BALANCE SHEETS (UNAUDITED)
As of December 31, 2016 and 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,520,751	$ 125,693
Prepaid expenses	45,934	-
Total Current Assets	2,566,685	125,693
Non-Current Assets:		
Capitalized software	48,480	-
Property and equipment, net	360,654	6,033
Total Non-Current Assets	409,134	6,033
TOTAL ASSETS	$ 2,975,819	$ 131,726
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Liabilities:		
Current Liabilities:		
Accounts payable	$ 38,190	$ 3,500
Accrued expenses	45,767	1,800
Convertible notes	-	425,000
Accrued interest payable	-	11,793
Total Current Liabilities	83,957	442,093
Total Liabilities	83,957	442,093
Stockholders' Equity (Deficit):		
Preferred Stock, Series A, $0.001 par, 17,541,797 shares authorized, 17,818,701 and 0 shares issued and outstanding, liquidation preference of $5,885,517 and $0 as of December 31, 2016 and 2015, all respectively.	17,819	-
Common Stock, $0.001 par, 40,000,000 shares authorized, 9,672,000 and 9,600,000 shares issued and outstanding, of which 8,930,333 and 5,658,333 shares were vested as of December 31, 2016 and 2015, all respectively.	9,672	9,600
Additional paid-in capital	5,767,233	28,091
Stock subscriptions receivable	(86,060)	-
Accumulated deficit	(2,816,802)	(348,058)
Total Stockholders' Equity (Deficit)	2,891,862	(310,367)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 2,975,819	$ 131,726

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

CANNAKORP, INC.
STATEMENTS OF OPERATIONS (UNAUDITED)
For the years ended December 31, 2016 and 2015

	2016	2015
Net revenues	$ -	$ -
Costs of net revenues	-	-
Gross profit	-	-
Operating Expenses:		
General & administrative	982,320	107,383
Research & development	567,525	61,430
Sales & marketing	896,341	125,684
Total Operating Expenses	2,446,186	294,497
Loss from operations	(2,446,186)	(294,497)
Other Income/(Expense):		
Interest Income	301	-
Interest Income/(Expense)	(22,859)	(9,922)
Total Other Income/(Expense)	(22,558)	(9,922)
Provision for income taxes	-	-
Net Loss	$ (2,468,744)	$ (304,419)

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

CANNAKORP, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) (UNAUDITED)
For the years ended December 31, 2016 and 2015

	Preferred Stock, Series A		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Stock Subscriptions Receivable	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance at December 31, 2014	-	$ -	9,600,000	$ 9,600	$ -	$ -	$ (43,639)	$ (34,039)
Equity-based compensation	-	-	-	-	28,091	-	-	28,091
Net loss	-	-	-	-	-	-	(304,419)	(304,419)
Balance at December 31, 2015	-	-	9,600,000	9,600	28,091	-	(348,058)	(310,367)
Sale of Preferred Stock	12,387,105	12,387	-	-	4,079,074	(86,060)	-	4,005,401
Conversion of Notes Payable	5,431,596	5,432	-	-	1,609,220	-	-	1,614,652
Offering costs	-	-	-	-	(39,354)	-	-	(39,354)
Issuance of stock for services	-	-	72,000	72	9,288	-	-	9,360
Equity-based compensation	-	-	-	-	80,914	-	-	80,914
Net loss	-	-	-	-	-	-	(2,468,744)	(2,468,744)
Balance at December 31, 2016	17,818,701	$ 17,819	9,672,000	$ 9,672	$ 5,767,233	$ (86,060)	$ (2,816,802)	$ 2,891,862

CANNAKORP, INC.
STATEMENTS OF CASH FLOWS (UNAUDITED)
For the years ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Net Loss	$ (2,468,744)	$ (304,419)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,945	634
Amortization	5,996	-
Equity-based compensation	90,274	28,091
Changes in operating assets and liabilities:		
(Increase)/Decrease in prepaid expenses	(45,934)	-
Increase/(Decrease) in accounts payable	34,690	(4,567)
Increase/(Decrease) in accrued expenses	43,967	1,800
Increase/(Decrease) in accrued interest payable	22,859	9,922
Net Cash Used In Operating Activities	(2,310,947)	(268,539)
Cash Flows From Investing Activities		
Purchase of property and equipment	(360,566)	(2,750)
Capitalization of software	(54,476)	-
Net Cash Used In Investing Activities	(415,042)	(2,750)
Cash Flows From Financing Activities		
Proceeds from issuance of Series A Preferred Stock	4,005,401	-
Financing costs from Series A offering	(39,354)	-
Proceeds from issuance of convertible debt	1,155,000	100,000
Net Cash Provided By Financing Activities	5,121,047	100,000
Net Change In Cash	2,395,058	(171,289)
Cash at Beginning of Period	125,693	296,982
Cash at End of Period	$ 2,520,751	$ 125,693
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Supplemental Disclosure of Non-Cash Financing Activities		
Conversion of convertible debt to Series A Preferred Stock	$ 1,580,000	$ -
Conversion of accrued interest on convertible debt	$ 34,652	$ -

See Independent Accountant's Review Report and accompanying notes, which are an integral part of these financial statements.

NOTE 1: NATURE OF OPERATIONS

CannaKorp, Inc. (the "Company"), is a corporation organized February 4, 2014 under the laws of Delaware. The Company is developing a pod-based herbal vaporizer.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP).

The Company adopted the calendar year as its basis of reporting.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents and Concentration of Cash Balance

The Company considers all highly liquid securities with an original maturity of less than three months to be cash equivalents. The Company's cash and cash equivalents in bank deposit accounts, at times, may exceed federally insured limits. As of December 31, 2016, the Company's cash and cash equivalents exceeded FDIC insured limits by $2,270,751. The Company's cash balances did not exceed insured limits as of December 31, 2015.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are carried at their estimated collectible amounts. Accounts receivable are periodically evaluated for collectability based on past credit history with clients and other factors. Provisions for losses on accounts receivable are determined on the basis of loss experience, known and inherent risk in the account balance, and current economic conditions. As of December 31, 2016 and 2015, the Company carried did not carry any receivables.

Property and Equipment

Property and equipment are recorded at cost when purchased. Depreciation is recorded for property and equipment using the straight-line method over the estimated useful lives of assets. The Company reviews the recoverability of all long-lived assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. The balance at December 31, 2016 has estimated useful lives ranging from 3 - 7 years. The Company's property and equipment consisted of the following as of and for the years ended December 31, 2016 and 2015:

	2016	2015
Property and equipment, at cost	$ 367,233	$ 6,667
Accumulated depreciation	(6,579)	(634)
Property and equipment, net	$ 360,654	$ 6,033
Depreciation expense	$ 5,945	$ 634

Software Development

The software development costs are recorded at cost. Amortization on the software development is recorded using the straight-line method over the estimated useful lives, which the Company estimated as 3 years. The Company reviews the recoverability of all long-lived assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. The Company's software development consisted of the following as of December 31, 2016 and 2015:

	2016	2015
Software development, at cost	$ 54,476	$ -
Accumulated amortization	(5,996)	-
Software development, net	$ 48,480	$ -
Amortization expense	$ 5,996	$ -

Fair Value of Financial Instruments

Financial Accounting Standards Board ("FASB") guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (e.g., quoted prices of similar assets or liabilities inactive markets, or quoted prices for identical or similar assets or liabilities in markets that are not active).

Level 3 - Unobservable inputs for the asset or liability. Financial instruments are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable.

The carrying amounts reported in the balance sheets approximate their fair value.

Revenue Recognition

The Company recognizes revenue when: (1) persuasive evidence exists of an arrangement with the customer reflecting the terms and conditions under which products or services will be provided; (2) delivery has occurred or services have been provided; (3) the fee is fixed or determinable; and (4) collection is reasonably assured. No revenues have been earned or recognized as of December 31, 2016 or 2015.

Research and Development

Research and development costs are expensed as incurred, with such expenses totaling $567,525 and $61,430 for the years ended December 31, 2016 and 2015, respectively. Of the 2016 and 2015 research and development expenses, $90,202 and $28,091, respectively, was the result of non-cash expense recognized on the grant of stock and options to employees and consultants of the Company, as discussed in Note 5.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation*. Under the fair value recognition provisions of ASC 718, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period, which is generally the option vesting period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options.

Stock Subscriptions Receivable

The Company records stock issuances at the effective date. If the contribution is not funded upon issuance, the Company records a stock subscription receivable as an asset on a balance sheet.

Offering Costs

Prior to the completion of an offering, offering costs are capitalized. The deferred offering costs are charged to stockholders' equity upon the completion of an offering or to expense if the offering is not completed. Upon completion of the Series A Preferred offering in 2016, the Company charged $39,354 to stockholders' equity.

Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740, *Income Taxes*. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates

expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is unlikely that the deferred tax assets will be realized.
The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon its evaluation of the facts, circumstances and information available at the reporting date. In accordance with ASC 740-10, for those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, our policy is to record the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit will be recognized in the financial statements. The Company has determined that there are no material uncertain tax positions.

The Company accounts for income taxes with the recognition of estimated income taxes payable or refundable on income tax returns for the current period and for the estimated future tax effect attributable to temporary differences and carryforwards. Measurement of deferred income items is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized in the immediate future. The Company had net operating loss carryforwards of $2,354,484 and $22,629 as of December 31, 2016 and 2015, respectively, which together with other book-to-tax differences scheduled below resulted in tax assets of $1,073,312 and $127,565 as of December 31, 2016 and 2015, respectively. Deferred tax assets are determined using the Company's effective blended Federal and state tax rate of 39.3%.

	As of December 31,	
	2016	**2015**
Deferred Tax Assets:		
Net operating losses	$ 924,841	$ 8,889
Research credit	28,591	-
Unamortized start-up expenses	107,151	115,200
Non-deductible interest	12,876	3,897
Deferred Tax Liabilities:		
Depreciation, amortization, other	(148)	(421)
Deferred tax asset	1,073,312	127,565
Less: valuation allowance	(1,073,312)	(127,565)
Deferred tax asset, net	$ -	$ -

Due to uncertainty as to the Company's ability to generate sufficient taxable income in the future to utilize the net operating loss carryforwards before they begin to expire in 2034, the Company has recorded a full valuation allowance to reduce the net deferred tax asset to zero.

The Company files U.S. federal and state income tax returns. All previous tax returns have been filed. All tax periods since inception remain open to examination by the taxing jurisdictions to which the Company is subject.

NOTE 3: GOING CONCERN

The accompanying financial statements are prepared on a going concern basis and do not include any adjustments that might result from uncertainty about our ability to continue as a going concern. As of December 31, 2016, the Company's available cash was $2,520,751, and the Company had an accumulated deficit of $2,816,802. The Company incurred substantial losses from operations, had negative cash flows from operating activities, and generated no revenues for the years ended December 31, 2016 and 2015. The Company's current operating plan indicates that it will continue to incur losses from operations and generate negative cash flows from operating activities. These projections and certain liquidity risks raise substantial doubt about whether the Company will be able to meet current operating demands. As a result of these factors, there exists substantial doubt to whether the Company will be able to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 4: STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock

The Company has authorized 40,000,000 shares of $0.001 par value common stock. Subsequently, in June 2017, the Company increased the authorized common shares to 45,000,000.

In 2014, the Company issued 9,600,000 shares of restricted common stock to founders and executives for proceeds of $9,600. All of these shares vest monthly over a 36-month period.

On May 6, 2016, the Company issued 72,000 restricted common shares to consultants as compensation for services rendered, resulting in compensation expense of $9,360. These shares were not subject to vesting, but the Company could repurchase them within 30 days in the event of (a) material breach of contract or (b) commission of a crime involving moral turpitude, fraud or similar that may render the consultant unable to continue to provide services. For accounting purposes, the Company deemed the shares to be immediately and fully vested upon issuance.

As of December 31, 2016 and 2015, 8,930,333 and 5,658,333 shares had vested, leaving 741,667 and 3,941,667 unvested, all respectively. The remaining 741,667 unvested shares will all vest in 2017.

As of December 31, 2016 and 2015, 9,672,000 and 9,600,000 shares were outstanding, of which 8,930,333 and 5,658,333 shares were vested, all respectively.

Series A Preferred Stock

The Company has authorized 17,844,552 shares of $0.001 par value Series A Preferred Stock. Holders of Series A Preferred Stock are entitled to a liquidation preference of $0.3303 per share. The total liquidation preference as of December 31, 2016 and 2015 was $5,885,517 and $0, respectively. Preferred stockholders have equal voting rights to common stockholders on an as-converted basis, and certain protective provisions requiring a majority vote of preferred stockholders for certain corporate actions. Preferred stock is convertible at a 1:1 rate into common stock at the preferred stockholders' election, subject to certain dilution protections, and mandatorily convertible to common stock upon an initial public offering. Preferred stockholders are entitled to a dividend preference, where dividends cannot be paid to common stockholders without paying an equal or greater dividend to preferred stockholders.

As further discussed in Note 6, in August 2016, convertible debtholders converted $1,580,000 of convertible notes, along with $34,652 of accrued unpaid interest into 5,431,596 shares of Series A Preferred Stock.

Additionally, investors purchased 12,387,105 shares of Series A Preferred Stock for proceeds of $4,079,074. Of these proceeds, $86,060 were received in 2017, and the Company accounted for them as a subscription receivable as of December 31, 2016.

As of December 31, 2016 and 2015, 17,818,801 and 0 shares of Series A Preferred Stock were issued and outstanding, respectively.

NOTE 5: EQUITY-BASED PAYMENTS

The Company has adopted the 2015 Incentive Stock Plan, as amended and restated (the "Plan"), which provides for the grant of shares of stock options, stock appreciation rights, and stock awards (performance shares) to employees, non-employee directors, and non-employee consultants. Under the Plan, the number of shares authorized was 9,116,556 shares as of December 31, 2016. The option exercise price generally may not be less than the underlying stock's fair market value at the date of the grant and generally have a term of ten years. The amounts granted each calendar year to an employee or non-employee is limited depending on the type of award. Shares available for grant under the Plan amounted to 1,558,196 and 7,900,000 as of December 31, 2016 and 2015, respectively.

The Company measures employee stock-based awards at grant-date fair value and recognizes employee compensation expense on a straight-line basis over the vesting period of the award. Determining the appropriate fair value of stock-based awards requires the input of subjective assumptions, including the fair value of the Company's common stock, and for stock options, the expected life of the option, and expected stock price volatility. The Company used the Black-Scholes option pricing model to value its stock option awards. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards.

The expected life of stock options was estimated using the "simplified method," which is the midpoint between the vesting start date and the end of the contractual term, as the Company has limited historical information to develop reasonable expectations about future exercise patterns and employment duration for its stock options grants. The simplified method is based on the average of the vesting tranches and the contractual life of each grant. For stock price volatility, the Company uses comparable public companies as a basis for its expected volatility to calculate the fair value of options grants. The risk-free interest rate is based on U.S. Treasury notes with a term approximating the expected life of the option. The estimation of the number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the

Company's current estimates, such amounts are recognized as an adjustment in the period in which estimates are revised.

A summary of information and pricing model inputs related to stock options for the years ended December 31, 2016 and 2015 is as follows:

	December 31, 2016		December 31, 2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding - beginning of year	1,100,000	$ 0.001	-	$ -
Granted	6,551,720	$ 0.142	1,100,000	$ 0.001
Exercised	-	$ -	-	$ -
Forfeited	(93,360)	$ 0.130	-	$ -
Outstanding - end of year	7,558,360	$ 0.122	1,100,000	$ 0.001
Exercisable at end of year	1,640,560	$ 0.140	410,416	$ 0.001
Weighted average grant date fair value of options granted during year	$ 0.062		$ -	
Weighted average duration to expiration of outstanding options at year-end	6.9		9.8	

	2016	2015
Risk Free Interest Rate	0.76%-2.06%	1.30%
Dividend Yield	0.00%	0.00%
Estimated Volatility	68.3%-72.9%	72.90%
Expected Life (years)	2-5 years	5 years
Fair Value per Stock Option	$0.046-$0.087	$ -

The Company calculated its estimate of the value of the stock compensation granted under FASB ASC 718 and recorded equity-based compensation expense of $80,914 and $28,091 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, $298,788 of stock compensation expense is unrecognized and will be recognized over a weighted average period of 34 months.

NOTE 6: CONVERTIBLE DEBT

Between 2014 and 2016, the Company raised a total of $1,580,000 of debt financing under convertible notes. These notes bore interest of 3% per year and were scheduled to mature with all principal and accrued interest due on November 27, 2018. Terms of the notes called mandatory conversion to any class of stock offered in the event of any Subsequent Equity Financing of $5,000,000 or more and granted noteholders the option to convert into shares of common stock using a pre-money valuation of $5,000,000. Conversion in either case would occur at a 10% discount.

In October and November 2014, the Company raised $325,000 under these terms and raised an additional $100,000 in December 2015.
From January to March 2016, the Company raised an additional $1,155,000 through these convertible notes.

Of these notes, the Company's Chairman held $50,000, the Chief Technology Officer held $50,000 and two Vice Presidents held $100,000, all of which are related parties to the Company.

Management evaluated whether the notes contained a beneficial conversion feature or called for bifurcation of the option to convert under ASC 470, determining that those features would be immaterial in value and therefore did not record a beneficial conversion feature or derivative liability for any of the issuances.

On August 19, 2016, the Company commenced a Series A Preferred Stock offering and converted the then-outstanding $1,580,000 of convertible notes, along with $34,652 of accrued unpaid interest, into 5,431,596 shares of Series A Preferred Stock.

As of December 31, 2016 and 2015, $0 and $425,000 of principal were outstanding on these notes, respectively. Interest expense for the years ended December 31, 2016 and 2015 totaled $22,859 and $9,922, respectively, and accrued interest as of December 31, 2016 and 2015 totaled $0 and $11,793, respectively.

NOTE 7: LEASE OBLIGATION

The Company entered into a lease agreement for office space in Stoneham, Massachusetts. The lease term commenced December 1, 2014 and is cancellable with 60 days advance notice. Monthly lease obligations under the lease total $1,200 per month. Rent expense for the years ended December 31, 2016 and 2015 totaled $14,400 and $13,900, net of lessor-issued credits for repairs paid by the Company, respectively.

NOTE 8: COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

The Company may be subject to pending legal proceedings and regulatory actions in the ordinary course of business. The results of such proceedings cannot be predicted with certainty, but the Company does not anticipate that the final outcome, if any, arising out of any such matter will have a material adverse effect on its business, financial condition or results of operations.

On March 24, 2017, Attorneys representing U.S. Customs and Border Protection informed CannaKorp that they do not believe that the CannaCloud Vaporizer (now rebranded "Wisp") can legally be imported into the United States (CBP Ruling HQ275206). CannaKorp sought judicial review in the United States Court of International Trade (CannaKorp Inc. v. United States of America). The Court granted a Motion to Dismiss from the government and did not provide the requested judicial review of the proceedings. Nevertheless, the Company believes that importing the product is legal under the exemption to 21 U.S.C. § 863(a) set forth in 21 U.S.C. § 863(f)(1) and therefore plans to move forward with its plans to import the Wisp Vaporizer in contradiction to this ruling. Therefore, there are various risks and uncertainties to which the Company will be subjected if and upon commencing importation of the product.

NOTE 9: RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (Topic 606). This ASU supersedes the previous revenue recognition requirements in ASC Topic 605—Revenue Recognition and most industry-specific guidance throughout the ASC. The core principle within this ASU is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services.

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers", which deferred the effective date for ASU 2014-09 by one year to fiscal years beginning after December 15, 2017, while providing the option to early adopt for fiscal years beginning after December 15, 2016. Transition methods under ASU 2014-09 must be through either (i) retrospective application to each prior reporting period presented, or (ii) retrospective application with a cumulative effect adjustment at the date of initial application. We are continuing to evaluate the impact of this new standard on our financial reporting and disclosures, including but not limited to a review of accounting policies, internal controls and processes. We expect to complete our evaluation in the second half of 2017 and intend to adopt the new standard effective January 1, 2018.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments when the terms of an award provide that a performance target could be achieved after the requisite service period," ("ASU 2014-12"). Current U.S. GAAP does not contain explicit guidance on whether to treat a performance target that could be achieved after the requisite service period as a performance condition that affects vesting or as a nonvesting condition that affects the grant-date fair value of an award. The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. The updated guidance will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The adoption of this ASU did not have any impact on the Company's consolidated financial position, liquidity, or results of operations.

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842). This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet.

The ASU is effective for annual and interim periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are continuing to evaluate the impact of this new standard on our financial reporting and disclosures.

In July 2014, the FASB issued the ASU No. 2015-11 on "Inventory (Topic 330): Simplifying the Measurement of Inventory", which proposed that inventory should be measured at the lower of cost and the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. These amendments are based on existing guidance that requires measuring inventory at the lower of cost or market to consider the replacement cost of inventory less an approximately normal profit margin along with net value in determining the market value. It is effective for reporting periods beginning after December 15, 2016. Management is assessing the impact of this pronouncement on our financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows" (Topic 230). This ASU is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017. We do not believe the adoption of ASU 2016-15 will have a material impact on our financial position, results of operations or cash flows.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No.2015-17, "Balance Sheet Classification of Deferred Taxes". The new guidance eliminates the requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts. The amendments will require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those annual periods. The Company is in the process of evaluating this guidance.

Management does not believe that any other recently issued, but not yet effective, accounting standards could have a material effect on the accompanying financial statements. As new accounting pronouncements are issued, we will adopt those that are applicable under the circumstances.

NOTE 10: SUBSEQUENT EVENTS

Legal Proceedings

Cannakorp, Inc. v. United States of America

In April 2016, CannaKorp made a formal request to the U.S. Customs and Border Protection (CBP) to provide an opinion regarding the stated exception within the U.S. Controlled Substance Act that allows for certain items, such as vaporizers like CannaKorp's CannaCloud, to be legally imported into the United States (CBP Ruling HQ275206). On March 24, 2017 the CBP responded that the exception did not apply to the CannaCloud.

CannaKorp sought judicial review in the United States Court of International Trade (CannaKorp Inc. v. United States of America). The Court granted a Motion to Dismiss from the government and did not provide the requested judicial review of the proceedings. Nevertheless, the Company believes that importing the new product, the Wisp, as an herbal vaporizer, is legal under the exemption to 21 U.S.C. § 863(a) set forth in 21 U.S.C. § 863(f)(1) and therefore plans to move forward with its plans to import the Wisp Vaporizer. Therefore, there are various risks and uncertainties to which the Company will be subjected if and upon commencing importation of the product a U.S. government agency challenges the importation activity.

Amended and Restated Articles of Incorporation

In June 2017, the Company amended and restated its articles of incorporation to increase the authorized stock to 45,000,000 shares of $0.001 par value common stock, 17,844,551 shares of $0.001 par value Series A Preferred Stock, and 3,853,565 shares of $0.001 par value Series A-1 Preferred Stock. The Company also increased its authorized reservation of common stock for the 2015 Stock Incentive Plan by 200,000 shares to 9,316,556.

The rights and preferences of preferred stock were also updated to include the new Series A-1 Preferred Stock and established the pricing of such at $0.519 per share.

Series A-1 Financing

During the period from June 2017 to February 2018, the Company sold 3,808,015 shares of its Series A-1 Preferred Stock for proceeds of $1,976,359.

Option Grants

In March 2017, the Company issued 128,360 options to employees and consultants for services rendered. These options have an exercise price of $0.15 and vest over four years with a one-year cliff.

Subsidiaries

In February 2017, the Company formed a wholly owned subsidiary, CannaKorp Techonolgies, Inc. under the laws of British Columbia, Canada.

In November 2017, the Company formed a wholly owned subsidiary, Big Sky Logistics, LLC, under the laws of Wyoming.

Management's Evaluation

Management has evaluated subsequent events through February 12, 2018, the date the financial statements were available to be issued. Based on this evaluation, no additional material events were identified which require adjustment or disclosure in these financial statements.