

BLACKROCK MUNIYIELD QUALITY FUND III, INC
Form N-Q
December 22, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-06540

Name of Fund: BlackRock MuniYield Quality Fund III, Inc. (MYI)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: Anne F. Ackerley, Chief Executive Officer, BlackRock MuniYield Quality Fund III, Inc., 55 East 52nd Street, New York, NY 10055

Registrant's telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 07/31/2011

Date of reporting period: 10/31/2010

Item 1 – Schedule of Investments

Schedule of Investments October 31, 2010 (Unaudited)

BlackRock MuniYield Quality Fund III, Inc. (MYI)
(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Alabama 0.4%		
Birmingham Special Care Facilities Financing Authority, RB, Children's Hospital (AGC), 6.00%, 6/01/39	\$ 3,605	\$ 3,958,542
Alaska 1.3%		
Borough of Matanuska-Susitna Alaska, RB, Goose Creek Correctional Center (AGC), 6.00%, 9/01/28	10,150	11,879,053
Arizona 2.8%		
Downtown Phoenix Hotel Corp., RB, Senior Series A (FGIC), 5.00%, 7/01/36	21,355	18,135,093
Maricopa County & Phoenix Industrial Development Authorities, Refunding RB, S/F, Series A-2, AMT (Ginnie Mae), 5.80%, 7/01/40	2,320	2,363,384
State of Arizona, COP, Department of Administration, Series A (AGM): 5.00%, 10/01/27	3,725	3,899,516
5.25%, 10/01/28	1,600	1,693,360
		26,091,353
California 13.1%		
Alameda Corridor Transportation Authority, Refunding RB, CAB, Subordinate Lien, Series A (AMBAC), 5.47%, 10/01/24 (a)	10,000	8,423,700
California Health Facilities Financing Authority, Refunding RB, St. Joseph Health System, Series A, 5.75%, 7/01/39	1,550	1,647,681
California HFA, RB, Home Mortgage, Series K, AMT, 5.50%, 2/01/42	5,835	5,953,567
California State University, RB, Systemwide, Series A (NPFGC), 5.00%, 11/01/32	9,865	9,973,614
California State University, Refunding RB, Systemwide, Series A (AGM), 5.00%, 11/01/37	3,545	3,644,012
California Statewide Communities Development Authority, RB (AGM): St. Joseph Health System, Series E, 5.25%, 7/01/47	9,000	9,275,940
	Par (000)	Value

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California (continued)

California Statewide Communities Development Authority, RB (AGM) (concluded):			
Sutter Health, Series D, 5.05%, 8/15/38	\$	750	\$ 773,333
City of Redding California, COP, Refunding, Series A (AGM), 5.00%, 6/01/30		1,900	1,985,272
City of San Jose California, Refunding RB, Series A, AMT (AMBAC), 5.50%, 3/01/32		11,965	12,285,662
County of Sacramento California, RB, Senior Series A (AGM), 5.00%, 7/01/41		15,000	15,295,800
Fairfield-Suisun Unified School District California, GO, Election of 2002 (NPFGC), 5.50%, 8/01/28		5,800	6,266,552
Los Angeles Municipal Improvement Corp., RB, Series B1 (NPFGC), 4.75%, 8/01/37		14,000	13,545,840
Mendocino-Lake Community College District, GO, Election of 2006, Series A (NPFGC), 5.00%, 8/01/31		1,485	1,517,328
Norwalk-La Mirada Unified School District California, GO, Refunding, CAB, Election of 2002, Series E (AGC), 6.47%, 8/01/38 (b)		7,620	1,403,223
Oceanside Unified School District California, GO, Series A (AGC), 5.25%, 8/01/33		2,500	2,673,775
Port of Oakland, RB, Series K, AMT (NPFGC), 5.75%, 11/01/29		3,645	3,647,515
Port of Oakland, Refunding RB, Series M, AMT (NPFGC), 5.38%, 11/01/27		7,530	7,631,956
Riverside County Public Financing Authority, Tax Allocation Bonds, Redevelopment Projects (Syncora), 5.00%, 10/01/35		10,000	8,475,400
State of California, GO, Series 2007-2 (NPFGC), 5.50%, 4/01/30		10	10,317
Stockton Public Financing Authority California, RB, Parking & Capital Projects (NPFGC), 5.25%, 9/01/34		5,000	5,006,500

Portfolio Abbreviations

To simplify the listings of portfolio holdings in the Schedule of Investments, the names and descriptions of many of the securities have been abbreviated according to the following list:

AGC	Assured Guaranty Corp.
AGM	Assured Guaranty Municipal Corp.
AMBAC	American Municipal Bond Assurance Corp.
AMT	Alternative Minimum Tax (subject to)
ARB	Airport Revenue Bonds
BHAC	Berkshire Hathaway Assurance Corp.

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CAB	Capital Appreciation Bonds
COP	Certificates of Participation
EDA	Economic Development Authority
FGIC	Financial Guaranty Insurance Co.
GAN	Grant Anticipation Notes
GO	General Obligation Bonds
HFA	Housing Finance Agency
HRB	Housing Revenue Bonds
ISD	Independent School District
MRB	Mortgage Revenue Bonds
NPFGC	National Public Finance Guarantee Corp.
PSF-GTD	Permanent School Fund Guaranteed
RB	Revenue Bonds
S/F	Single Family

BLACKROCK MUNIYIELD QUALITY FUND III, INC.

OCTOBER 31, 2010

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Schedule of Investments (continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)
(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
California (concluded)		
West Valley-Mission Community College District, GO, Election of 2004, Series A (AGM), 5.00%, 8/01/30	\$ 3,600	\$ 3,766,284
		<u>123,203,271</u>
District of Columbia 1.1%		
Metropolitan Washington Airports Authority, RB, Series B, AMT (AMBAC), 5.00%, 10/01/32	10,000	10,204,800
Florida 15.7%		
Broward County School Board Florida, COP, Series A (AGM), 5.25%, 7/01/33	15,000	15,603,600
City of Orlando Florida, RB, Senior, 6th Cent Contract Payments, Series A (AGC), 5.25%, 11/01/38	14,250	14,277,218
City of Tallahassee Florida, RB (NPFGC), 5.00%, 10/01/32	3,300	3,414,939
Collier County School Board, COP (AGM), 5.00%, 2/15/23	5,000	5,338,150
County of Broward Florida, RB, Series A, 5.25%, 10/01/34	2,250	2,409,300
County of Miami-Dade Florida, GO, Building Better Communities Program: Series B, 6.38%, 7/01/28	6,000	6,961,020
Series B-1, 5.75%, 7/01/33	3,700	4,039,623
County of Miami-Dade Florida, RB: Jackson Health System (AGC), 5.75%, 6/01/39	5,200	5,595,668
Miami International Airport, AMT (NPFGC), 5.38%, 10/01/25	7,500	7,683,150
Miami International Airport, AMT (NPFGC), 5.38%, 10/01/27	1,000	1,018,850
Miami International Airport, Series A, AMT (AGM), 5.50%, 10/01/41	19,020	19,584,894
Water & Sewer System (AGM), 5.00%, 10/01/39	11,700	12,290,850
County of Miami-Dade Florida, Refunding RB: (AGM), 5.00%, 7/01/35	2,800	2,846,172
Miami International Airport, AMT (AGC), 5.00%, 10/01/40	11,000	10,948,740
Miami International Airport, Series A, AMT (AGC), 5.00%, 10/01/35	2,100	2,099,916
Series C (BHAC), 6.00%, 10/01/23	20,095	23,574,449
	2,000	2,058,740

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County of Orange Florida, Refunding RB, Series B (NPFGC), 5.13%, 1/01/32		
Miami-Dade County School Board, COP, Refunding, Series B (AGC), 5.25%, 5/01/31	2,390	2,531,177
Sarasota County Public Hospital District, RB, Sarasota Memorial Hospital Project, Series A, 5.63%, 7/01/39	5,135	5,402,482
		<u>147,678,938</u>

Georgia 1.6%

City of Atlanta Georgia, RB, General, Series B (AGM), 5.25%, 1/01/33	12,500	12,907,250
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Municipal Bonds	Par (000)	Value
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Georgia (concluded)

Gwinnett County Hospital Authority, Refunding RB, Gwinnett Hospital System, Series D (AGM), 5.50%, 7/01/41	\$ 2,275	\$ <u>2,365,431</u>
		<u>15,272,681</u>

Illinois 16.0%

Chicago Board of Education Illinois, GO, Refunding, CAB, School Reform, Series A (NPFGC), 5.39%, 12/01/22 (b)	10,515	5,880,303
City of Chicago Illinois, ARB, General, Third Lien, Series B-2, AMT (NPFGC): 5.25%, 1/01/27	16,685	17,050,068
6.00%, 1/01/27	26,230	27,505,565
City of Chicago Illinois, GO, CAB, City Colleges (NPFGC) (b): 5.55%, 1/01/29	5,000	1,865,350
5.68%, 1/01/33	7,950	2,262,014
City of Chicago Illinois, GO, Refunding, Series B (AGM), 5.00%, 1/01/24	12,950	13,548,031
City of Chicago Illinois, Refunding ARB, General, Third Lien, Series C-2, AMT (AGM), 5.25%, 1/01/30	16,400	16,671,584
County of Cook Illinois, GO, Refunding, Series A, 5.25%, 11/15/33	3,700	3,956,151
Illinois Finance Authority, Refunding RB, Northwestern Memorial Hospital, Series A, 6.00%, 8/15/39	5,250	5,848,605
Illinois Municipal Electric Agency, RB, Series A (NPFGC): 5.00%, 2/01/35	21,200	21,829,216
5.25%, 2/01/35	15,000	15,540,150
Kane, Kendall, Etc. Counties Community College District No. 516 Illinois, GO, CAB, Series E (NPFGC), 5.21%, 12/15/25 (b)	8,750	4,124,662
Metropolitan Pier & Exposition Authority, RB, CAB, McCormick Place Expansion Project: Series A (NPFGC) (b):		

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5.75%, 6/15/32	14,000	3,947,440
6.00%, 12/15/34	10,000	2,368,300
Series B (AGM) (b):		
5.83%, 6/15/27	3,575	1,434,004
6.25%, 6/15/44	9,430	1,206,097
Regional Transportation Authority, RB, Series C (NPFGC), 7.75%, 6/01/20	1,000	1,301,380
State of Illinois, RB, Build Illinois, Series B, 5.25%, 6/15/34	3,500	3,662,855
		<hr/>
		150,001,775

Indiana 2.3%

City of Indianapolis Indiana, Refunding RB, Second Lien, Series B (AGC), 5.25%, 8/15/27	5,000	5,376,550
Indiana Municipal Power Agency, RB: Series A (NPFGC), 5.00%, 1/01/37	9,200	9,405,160
Series B, 5.75%, 1/01/34	1,050	1,136,047

Schedule of Investments (continued)

BlackRock MuniYield Quality Fund III, Inc. (MYI)
(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Indiana		
(concluded)		
Indianapolis Local Public Improvement Bond Bank, Refunding RB, Waterworks Project, Series A (AGC), 5.50%, 1/01/38 \$	5,000	\$ 5,492,550
		<u>21,410,307</u>
Iowa 1.5%		
Iowa Finance Authority, RB, Series A (AGC), 5.63%, 8/15/37	12,650	13,807,601
Kentucky		
1.6%		
Kentucky State Property & Buildings Commission, Refunding RB, Project No. 93 (AGC), 5.25%, 2/01/28 Louisville & Jefferson County Metropolitan Sewer District Kentucky, RB, Series A (NPFGC), 5.25%, 5/15/37	4,000	4,410,440
		<u>10,577,900</u>
		<u>14,988,340</u>
Louisiana		
1.4%		
New Orleans Aviation Board Louisiana,	13,335	13,548,893

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RB, New
Orleans
Aviation, Series
A,
AMT (AGM),
5.25%, 1/01/32

Maryland

0.5%
Maryland
Community
Development
Administration,
Refunding RB,
Residential,
Series A, AMT,
5.75%,
9/01/39

4,650 4,915,376

Massachusetts

4.9%
Massachusetts
HFA, RB:
S/F Housing,
Series 128,
AMT
(AGM), 4.88%,
12/01/38 (c)

12,405 12,264,079

Series B,
7.00%, 12/01/38

3,440 3,890,503

Massachusetts
HFA,
Refunding RB:
Housing
Development,
Series B
(NPFGC),
5.40%, 12/01/28

1,835 1,834,963

Rental Housing,
Series A, AMT
(AGM), 5.15%,
7/01/26

18,245 18,615,191

Massachusetts
Port Authority,
Refunding RB,
BOSFUEL
Project,
AMT (NPFGC),
5.00%, 7/01/38

9,925 9,620,600

46,225,336

Michigan

7.8%
City of Detroit
Michigan, RB
Series B
(AGM):
Second Lien,
6.25%, 7/01/36

1,075 1,195,712

500 585,365

Second Lien, 7.00%, 7/01/36		
Senior Lien, 7.50%, 7/01/33	1,800	2,193,444
City of Detroit Michigan, Refunding RB: Senior Lien, Series C-1 (AGM), 7.00%, 7/01/27	1,500	1,789,275
Senior Lien, Series D (AGM), 5.00%, 7/01/23	9,085	9,433,955
Series C (NPFGC), 5.00%, 7/01/22	4,540	4,715,789
Series D (NPFGC), 5.00%, 7/01/33	5,000	5,047,550
Kalamazoo Hospital Finance Authority, RB, Bronson Methodist Hospital (AGM), 5.25%, 5/15/36		

24.

Our operating results will likely fluctuate from period to period, making them difficult to predict and not be indicative of future performance.

Our operating results from period to period are highly dependent upon, and will fluctuate as a result of a variety of factors, including:

seasonal trends in revenue generation as a result of seasonal fluctuations of online play time, which peaks during summer and winter school vacation periods, which usually occur in the first and third quarters of each year when children have more online playtime, and falls during second and fourth quarters of each year, and generally increases during the Chinese New Year holidays, which occurs in the first quarter of each year, when children are given extra pocket money;

the introduction of virtual worlds and other online and offline services and products;

the quality, variety, popularity and mix of virtual items and online and offline services and products available for purchase and related promotional efforts;

the period of time over which we recognize revenue for some of our virtual items in our virtual worlds, which in the future may be based on the estimated lifespan of our virtual items, which may be adjusted from time to time;

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content development costs and licensing or royalty payments; and

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the expansion of our distribution network and the related discounts and rebates.

Due to these and other factors, our operating results will vary from period to period, will be difficult to predict for any given period, may be adversely affected from period to period and may not be indicative of our future performance.

C.

Risks Related to Doing Business in China

1.

Changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

Substantially all of our business operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. Growth of the Chinese economy also slowed in the second half of 2008 and early 2009. Any prolonged slowdown in the Chinese economy, in particular the information technology industry, could have a negative impact on our business, operating results and financial condition in a number of ways. For example, our users may decrease spending on our products, while we may have difficulty expanding our user base fast enough, or at all, to offset the impact of decreased spending by our existing users.

Although the Chinese economy is no longer a planned economy, the PRC government continues to exercise significant control over China's economic growth through direct allocation of resources, monetary and tax policies, and a host of other government policies such as those that encourage or restrict investment in certain industries by foreign investors, control the exchange between RMB and foreign currencies, and regulate the growth of the general or specific market. These government involvements have been instrumental in China's significant growth in the past 30 years. If the PRC government's current or future policies fail to help the Chinese economy achieve further growth or otherwise negatively affect our business, our growth rate or strategy, our results of operations could be adversely affected as a result.

2.

Uncertainties in PRC government policies and regulations regarding virtual worlds and online games and children's Internet use in China may adversely affect our

business

In April 2007, the GAPP, the MII, the Ministry of Education, the Ministry of Public Security, and other relevant government authorities jointly issued a circular concerning the mandatory implementation of an addiction prevention program in virtual worlds and online games, which aims to protect the physical and psychological health of minors. This circular requires all virtual worlds to incorporate an addiction prevention program and an identity verification system, both of which limit the amount of time that a minor or other user may continuously spend participating in a virtual world or playing an online game. Failure to do so may subject us to certain penalties, such as suspension of Internet publishing operation and relevant Internet-access services or revocation of relevant licenses.

On June 3, 2010, the Ministry of Culture, or the MOC, adopted the Provisional Administration Measures of Online Games, or the Online Games Administration Measures, which became effective as of August 1, 2010. The MOC also issued a notice regarding the implementation of the Online Games Administration Measures. We are required to establish the identity verification systems within three months of the effectiveness of the Online Games Administration Measures for online games and virtual worlds which started operation after August 1, 2010, and within six months for those which started operation prior to August 1, 2010.

However, since the users of our internet games will in part be minors, the implementation of an identity verification system has practical difficulties, mainly because minors do not have PRC identity cards. We understand that the purpose of identity verification system required under the abovementioned circular issued in 2007 is to facilitate addiction prevention, hence, we plan to implement addiction prevention programs for all users of our games and virtual worlds.

In addition, a notice jointly issued by several central governmental agencies in February 2007 increased the punishment for Internet cafés admitting minors. As Internet cafés provide means for children to access the Internet especially in smaller cities, this restriction may adversely affect our plan for growth in these cities. Further strengthening of these regulations, or enactment by the PRC government of any additional laws to further tighten its administration over the Internet, online games, and, in particular, the Internet use and access to online games and virtual worlds by children, may result in less time spent by users or fewer users, which may materially and adversely affect our business results and prospects for future growth.

3.

The laws and regulations governing virtual worlds and online games in China are developing and are subject to future changes. If we or the third-party publishers we work with fail to obtain or maintain all applicable permits and approvals, our business and operations would be materially and adversely affected.

The online game industry in China is heavily regulated by the PRC government. Various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the GAPP, the Ministry of Culture and the Ministry of Public Security, have the authority to issue and implement regulations governing various aspects of the online game industries.

As the online game industry is at an early stage of development in China, new laws and regulations may be adopted from time to time to require additional licenses and permits. As a result, uncertainties exist regarding the interpretation and implementation of current and future PRC laws and regulations applicable to games and virtual worlds. We may in the future be subject to various penalties, including fines and the discontinuation or restriction of our operations. Any such disruption in our business operations would materially and adversely affect our business, financial condition and results of operations. We cannot assure you that we will be able to timely obtain required licenses or any other new license required in the future, or at all. We cannot assure you that we will not be found in violation of any current or future PRC laws and regulations.

4.

Regulation and censorship of information disseminated over the Internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from, or linked to our Internet websites.

The PRC government has adopted certain regulations governing Internet access and the distribution of news and other information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements could result in the revocation of licenses and the closure of the concerned websites. The website operator may also be held liable for such prohibited information displayed on, retrieved from or linked to such website.

In addition, the MIIT has published regulations that subject website operators to potential liability for content included on their websites and the actions of users and others using their websites, including liability for violations of PRC laws prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local Internet service provider, or ISP, to block any Internet website maintained outside China at its sole discretion. Periodically, the Ministry of Public Security has stopped the dissemination over the Internet of information which it believes to be socially destabilizing. The State Secrecy Bureau, which is directly responsible for the protection of State secrets of the PRC government, is authorized to block any website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the dissemination of online information.

As these regulations are subject to interpretation by the relevant authorities, it may not be possible for us to determine in all cases the type of content that could result in liability for us as a content provider to the website operator. In addition, we may not be able to control or restrict the content of other Internet content providers linked to or accessible through our websites, or content generated or placed on our websites by our users, despite our attempt to monitor such content. To the extent that regulatory authorities find any portion of our content objectionable, they may require us to limit or eliminate the dissemination of such information or otherwise curtail the nature of such content on our websites, which may reduce our user traffic and have a material adverse effect on our financial condition and results of operations. In addition, we may be subject to significant penalties for violations of those regulations arising from information displayed on, retrieved from or linked to our websites, including a suspension or shutdown of our operations.

5.

There are currently no laws or regulations in the PRC governing property rights of virtual assets and therefore it is not clear what liabilities, if any, we may have relating to the loss of virtual assets by our users.

Users of our internet games acquire and accumulate some virtual assets, such as performance-enhancing items, clothing, accessories and other in-game items. Such virtual assets can be highly valued by users. In practice, virtual assets can be lost for various reasons, such as data loss caused by delay of network service by a network crash, or by hacking activities. There are currently no PRC laws and regulations governing property rights of virtual assets. As a result, it is unclear who the legal owner of virtual assets is and whether the ownership of virtual assets is protected by law. In addition, it is unclear under PRC law whether an operator of virtual worlds such as us would have any liability (whether in contract, tort or otherwise) for loss of such virtual assets by users. Based on several judgments regarding the liabilities of online game operators for loss of virtual assets by users, the courts have generally required the online game operators to provide well-developed security systems to protect such virtual assets owned by users. In the event of a loss of virtual assets, we may be sued by users and may be held liable for damages.

6.

Restrictions on virtual currency may adversely affect our game operations revenues.

Our game and virtual world operations revenues are likely to be collected through the sale of prepaid top-up cards and virtual currency. The Notice on the Reinforcement of the Administration of Online Games issued by the Ministry of Culture and other governmental authorities on February 15, 2007, directs the People's Bank of China to strengthen the

administration of virtual currency in online games to avoid any adverse impact on the PRC economy and financial system. This notice provides that the total amount of virtual currency issued by online game operators and the amount purchased by individual users should be strictly limited, with a strict and clear division between virtual transactions and real transactions carried out by way of electronic commerce. This notice also provides that virtual currency should only be used to purchase in-game items. On June 4, 2009, Ministry of Culture and Ministry of Commerce jointly issued Notice on the Reinforcement of the Administration of Virtual Currency in Online Games, which defines what virtual currency is and requires that entities obtain the approval from the Ministry of Culture before issuing virtual currency and engaging in transactions using virtual currency in connection with online games. We have obtained the approval from the Ministry of Culture for the issuing of our virtual currency. These restrictions on virtual currency may result in lower sales of our prepaid cards, and could have an adverse effect on our revenues from online business.

7.

Our business could benefit from certain government tax incentives. Expiration, reduction or discontinuation of, or changes to, these incentives would increase our tax burden and reduce our net income.

Various local governments in China may provided discretionary preferential tax treatments to us. However, these local governments may decide to reduce or eliminate these preferential tax treatments at any time.

Furthermore, these local implementations of tax laws may be found to violate national laws or regulations and we may be subject to retroactive imposition of higher taxes as a result. Any expiration, reduction or discontinuation of, or changes to, these tax incentives will increase our tax burden and reduce our net income and thus have a material adverse effect on our operating results.

8.

Even if we are profitable, we will principally rely on dividends and other distributions on equity paid by subsidiaries, including those in the PRC, to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to make payments to us, or the tax implications of making payments to us, could have a material adverse effect on our ability to conduct our business.

Even if our operations were profitable, we will rely principally on dividends and other distributions on equity from our subsidiary in China for our cash requirements, including the funds necessary to service any debt we may incur. Current PRC regulations permit our PRC subsidiary to pay dividends to us only out of its accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, our subsidiary in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital. These reserves are not distributable as cash dividends. The registered capital of Flying Cloud is US\$ 140,000. To date Flying Cloud has not made allocations to its statutory reserve fund in compliance with the applicable PRC laws and regulations.

Furthermore, if our subsidiary in China incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us. Substantially all of our expected earnings and cash flows are likely to be attributable to our PRC subsidiary. If earnings from our PRC subsidiary were to decline, our earnings and cash flow would be materially and adversely affected. Our cash flows are principally derived from dividends paid to us by our PRC subsidiary. As a result, our ability to distribute dividends largely depends on earnings from our PRC subsidiary and its ability to pay dividends out of its earnings. Our PRC subsidiary does not have a history of paying dividends. We cannot assure you that our PRC subsidiary will generate sufficient earnings and cash flows in the near future to pay dividends or otherwise distribute sufficient funds to enable us to meet our obligations, pay interest and expenses or declare dividends.

In addition, under the PRC Enterprise Income Tax Law and the Implementing Rules, both of which became effective on January 1, 2008, dividends generated from the business of our PRC subsidiary after January 1, 2008 and payable to us may be subject to a 10% withholding tax if the PRC tax authorities determine that we are a non-resident enterprise,

unless there is an applicable tax treaty with China that provides for a different withholding arrangement and we are deemed to be entitled to such favorable treatment.

9.

We may be classified as a resident enterprise for PRC enterprise income tax purposes, which could result in our global income becoming subject to 25% PRC enterprise income tax.

The PRC Enterprise Income Tax Law provides that enterprises established outside China whose effective management are located in China are considered resident enterprises and will generally be subject to the uniform 25% EIT rate as to their global income. Under the implementation regulations, effective management is defined as substantial and overall management and control over such aspects as the production and business, personnel, accounts and properties of an enterprise.

In April 2009, the State Administration of Taxation released a circular that sets out the standards and procedures for recognizing the location of the effective management of an enterprise registered outside of the PRC and funded by Chinese enterprises as controlling investors, or a Chinese Funded Enterprise. Under the circular, a Chinese Funded Enterprise is considered a resident enterprise if all of the following applies: (i) a Chinese Funded Enterprise's major management department and personnel who are responsible for carrying out daily operations are located in the PRC; (ii) the department or the personnel who have the right to decide or approve the Chinese Funded Enterprise's financial and human resource matters are located in the PRC; (iii) the major assets, account book, company seal and meeting minutes of the Chinese Funded Enterprise are located or stored in the PRC; and (iv) the directors or management personnel holding no less than 50% voting rights of the Chinese Funded Enterprise habitually reside in the PRC. The circular explicitly provides that the above standards apply to the enterprises which are registered outside the PRC and funded by Chinese enterprises as controlling investors, and therefore such standards may be cited for reference only and may not be directly adopted when considering whether our effective management is in the PRC or not. Accordingly, while we feel we would not qualify as a resident enterprise it is still uncertain whether we may be considered a resident enterprise under the PRC EIT Law in the future. If we were considered a resident enterprise and earn income other than dividends from our PRC subsidiary, we will be subject to a 25% PRC income tax on our global income and such 25% PRC EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

10.

If we are classified as a resident enterprise for PRC enterprise income tax purposes, we may be subject to PRC withholding tax on dividends from us and to PRC income tax on gain realized on the transfer of our shares in the PRC.

Under the PRC Enterprise Income Tax Law and related implementation regulations, PRC EIT withholding tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. In addition, any gain realized on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a treaty otherwise provides. If we are considered a PRC resident enterprise, it is unclear whether dividends we pay with respect to our PRC subsidiaries would be treated as income derived from sources within the PRC and be subject to PRC tax. If our PRC subsidiaries are required under the PRC EIT Law to withhold PRC income tax on dividends payable to our non-PRC entities that are non-resident enterprises, the value of your investment in our shares may be materially and adversely affected.

11.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

We conduct our business primarily through our subsidiary in China, where our operations are governed by PRC laws and regulations. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Dispute settlement in China, whether through litigation or arbitration, may be protracted and result in substantial costs and diversion of resources and management attention. In addition, it may not always be possible to enforce judgments, whether through the local courts or authorities, which could result in further diversion of resources and management attention and extra costs.

12.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or providing additional capital contributions to our PRC operating subsidiary, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the proceeds of any future offering we may make loans to our PRC subsidiary or subsidiaries at the time, or we may make additional capital contributions to our PRC subsidiary. Loans by us to our subsidiary in China, which is a foreign-invested enterprise, to finance its activities cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange, or SAFE, or its local counterpart. Capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. We may not be able to obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our PRC subsidiary. If we fail to receive such approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

13.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

A large percentage of our cash inflows and outflows are likely to be denominated in Renminbi (RMB). We may convert a portion of our revenues derived in the PRC into other currencies to meet our foreign currency obligations such as payment of dividends declared. Under China's existing foreign exchange regulations, our PRC subsidiary is able to make payments of current accounts, like dividends to its offshore holding companies, in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC authorities will not take further measures in the future to restrict access to foreign currencies for current account transactions. We may also have different views with the PRC authorities with respect to certain foreign exchange transactions. These and other uncertainties with respect to currency exchange controls may have a material adverse impact on our operations and financial condition.

14.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiary. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our shares.

15.

We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiary and our PRC subsidiary's ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange rules.

SAFE issued a public notice in October 2005 requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an offshore special purpose vehicle. PRC residents that are shareholders and/or beneficial owners of offshore special purpose companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. In addition, any PRC resident that is a shareholder of an offshore special purpose vehicle is required to amend its SAFE registration with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China or other material changes in share capital. In May 2007, SAFE issued relevant guidance to its local branches with respect to the operational process for SAFE registration, which standardized more specific and stringent supervision on the registration relating to the SAFE notice.

We cannot provide any assurance that all of our shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by the SAFE notice or other related rules. In case of any non-compliance on any of our PRC resident shareholders or beneficial owners, our PRC subsidiary and such shareholders and beneficial owners may be subject to fines and other legal sanctions, including restriction on our ability to contribute additional capital into our PRC subsidiary and our PRC subsidiary's ability to distribute dividends to our offshore holding companies, which will adversely affect our business.

16.

All employee participants in our share incentive plans, should we have such a plan, who are PRC citizens may be required to register with SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt additional option plans for our employees under PRC law.

In December 2006, the People's Bank of China promulgated the Administrative Measures for Individual Foreign Exchange, which set forth the respective requirements for foreign exchange transactions by PRC individuals under either current account or the capital

account. In January 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On March 28, 2007, SAFE promulgated the Processing Guidance on Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas-Listed Companies, or the Stock Option Rule. Under the Stock Option Rule, PRC citizens who are granted stock options by an overseas publicly-listed company are required, through a qualified PRC domestic agent or PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures.

Our PRC citizen employees participating in a stock incentive plan may be subject to the Stock Option Rule. Failure to comply with the Stock Option Rule and other relevant rules will subject us or our PRC citizen employees participating in our stock incentive plan to fines and other legal or administrative sanctions and impose restrictions on our execution of option plans, including the grant of options under such plans to our employees, which could adversely affect our business operations.

17.

Fluctuation in the value of the RMB may have a material adverse effect on the value of your investment.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an over 20% appreciation of the RMB against the U.S. dollar over the following three years. For almost two years after reaching a high against the U.S. dollar in July 2008, however, the RMB traded within a narrow band against the U.S. dollar, remaining within 1% of its July 2008 high. As a consequence, the RMB fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. In June 2010, the PRC government announced that it would increase RMB exchange rate flexibility. However, it remains unclear how this flexibility might be implemented. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuation of the RMB against the U.S. dollar. Substantially all of our revenues and costs are denominated in RMB, and a significant portion of our financial assets are also denominated in RMB. We principally rely on dividends and other distributions paid to us by our subsidiary in China. Any significant revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our shares in U.S. dollars. Any fluctuations of the exchange rate between the RMB and the U.S. dollar could also result in foreign currency translation losses for financial reporting purposes.

18.

The approval of the China Securities Regulatory Commission, or the CSRC, may be required in connection with future offerings under a PRC regulation. The regulation also establishes more complex procedures for acquisitions conducted by foreign investors that could make it more difficult for us to grow through acquisitions.

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, or SASAC, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC, and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rule, which became effective on September 8, 2006. If CSRC approval is required for an offering, our failure to obtain or delay in obtaining the CSRC approval for it may subject us to sanctions imposed by the CSRC and other PRC regulatory agencies, which could include fines and penalties on our operations in China, restrictions or limitations on our ability to pay dividends outside of

China, and other forms of sanctions that may materially and adversely affect our business, results of operations and financial condition.

The new regulations also established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the Ministry of Commerce be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. We may grow our business in part by acquiring other companies operating in our industry. Complying with the requirements of the new regulations to complete such transactions could be time-consuming, and any required approval processes, including approval from Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

19.

We face risks of health epidemics and other disasters, which could severely disrupt our business operations.

Our business could be materially and adversely affected by the outbreak of H1N1, or swine influenza, avian influenza, severe acute respiratory syndrome, or SARS, or another epidemic. In 2009 and early 2010, there were outbreaks of swine influenza in certain regions of the world, including China. Any adverse public health developments in China could require the temporary closure of our offices. Such closures could severely disrupt our business operations and adversely affect our results of operations.

Our operations are vulnerable to interruption and damage from man-made or natural disasters, including wars, acts of terrorism, earthquakes, fire, floods, environmental accidents, power loss, communications failures and similar events, all of which may disrupt our business. If any significant man-made or natural disaster were to occur in the future, our ability to operate our business could be seriously impaired.

20.

The enforcement of labor contract law and increase in labor costs in the PRC may adversely affect our business and our profitability.

China adopted a labor contract law and its implementation rules effective on January 1, 2008 and September 18, 2008, respectively. The labor contract law and its implementation rules impose more stringent requirements on employers with regard to, among others, minimum wages, severance payment upon permitted termination of the employment by an employer and non-fixed term employment contracts, time limits for probation period as well as the duration and the times that an employee can be placed on a fixed term employment contract. Due to the limited period of effectiveness of the labor contract law and its implementation rules and the lack of clarity with respect to their implementation and potential penalties and fines, it is uncertain how they will impact our current employment policies and practices. Our employment policies and practices may violate the labor contract law or its implementation rules and we may be subject to related penalties, fines or legal fees. Compliance with the labor contract law and its implementation rules may increase our operating expenses, in particular our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate some of our employees or otherwise change our employment or labor practices, the labor contract law and its implementation rules may also limit our ability to effect those changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

ITEM 2. PROPERTIES.

We own no property. We maintain an executive office in Hong Kong where the space dedicated to Surna is approximately 50 sq/ft and is taken on a month-to-month basis.

ITEM 3. LEGAL PROCEEDINGS.

We are not presently a party to any litigation.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares of common stock are traded on the Bulletin Board operated by the Financial Industry Regulatory Authority (FINRA) under the symbol SRNA. Trading of our common stock began on April 5, 2011.

Fiscal Year 2013	High	Low
Fourth Quarter: October 1 to December 31, 2013	1.01	0.175
Third Quarter: July 1 to September 30, 2013	1.01	1.01
Second Quarter: April 1 to June 31, 2013	1.01	1.01
First Quarter: January 1 to March 31, 2013	1.01	1.01

Holdings

There are 47 holders of record for our common stock. There are a total of 99,375,000 shares of common stock outstanding, 78,700,000 of which are restricted.

Dividends

We have not declared any cash dividends nor do we intend to do so. We are not subject to any legal restrictions respecting the payment of dividends, except that they may not be paid to render us insolvent. Dividend policy will be based on our cash resources and needs and it is anticipated that all available cash will be needed for our operations in the foreseeable future.

Section 15(g) of the Securities Exchange Act of 1934

Our shares are covered by section 15(g) of the Securities Exchange Act of 1934, as amended that imposes additional sales practice requirements on broker/dealers who sell such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of \$5,000,000 or individuals with net worth in excess of

\$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouses). For transactions covered by the Rule, the broker/dealer must make a special suitability determination for the purchase and have received the purchaser's written agreement to the transaction prior to the sale. Consequently, the Rule may affect the ability of broker/dealers to sell our securities and also may affect your ability to sell your shares in the secondary market.

Section 15(g) also imposes additional sales practice requirements on broker/dealers who sell penny securities. These rules require a one page summary of certain essential items. The items include the risk of investing in penny stocks in both public offerings and secondary marketing; terms important to in understanding of the function of the penny stock market, such as bid and offer quotes, a dealer's spread and broker/dealer compensation; the broker/dealer compensation, the broker/dealer's duties to its customers, including the disclosures required by any other penny stock disclosure rules; the customer's rights and remedies in cases of fraud in penny stock transactions; and, FINRA's toll free telephone number and the central number of the North American Administrators Association, for information on the disciplinary history of broker/dealers and their associated persons.

Securities Authorized for Issuance Under Equity Compensation Plans

We have no equity compensation plans and accordingly we have no shares authorized for issuance under an equity compensation plan.

ITEM 6. SELECTED FINANCIAL DATA

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

You should read the following discussion and analysis of our financial condition and results of operations together with the information in our consolidated annual audited financial statements and the notes thereto, each of which are contained in Item 8 entitled "Financial Statements and Supplementary Data", and other financial information incorporated by reference. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Results of Operations

We are a start-up stage corporation and have not generated or realized significant revenues from our business operations. To meet our initial need for cash we raised money from our public offering. Our only other source for cash at this time is investments by others in our company, and if we can not rely on loans from our officers, shareholders or others in order for us to maintain our operations we may need to find alternative sources, like a second public offering or a private placement of securities. At present, if we have not generated revenues sufficient to continue our development operations and if we do not secure any additional funding we may either have to suspend all operations until we do raise funds, or cease operations entirely.

Years Ended December 31, 2013 and 2012

Our revenues for the fiscal year ended December 31, 2013 were \$50 from our online games business. The net loss from operations for the year ended December 31, 2013 was \$193,156 of which \$132,923 is Salaries, \$100 for Product development cost and \$60,184 for general and administration expense. We had revenue of \$310 for the fiscal year ended December 31, 2012. The net loss from operations for the year ended December 31, 2012 was \$767,365 of which \$563,597 is Salaries, \$47,619 for Product development cost and \$168,066 for general and administration expense.

Factors affecting results of our operations in China

The Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments, and by the general state of the PRC's economy and of the online games industry there. For example, while we may benefit from the overall economic growth in China in the past several years, which has resulted in increases in disposable income and discretionary consumer spending; the increasing use of the Internet; the growing popularity of online games in comparison with other forms of entertainment; and favorable demographic trends. Our results of operations may be adversely affected by an economic slowdown in China and other countries and regions where our games are operated, or the arrival of additional competition in the markets where we operate. They may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. Regulation imposed by the government of China and other countries on the online game industries may also have significant impact on our results of operations in the future.

Our operating results are more directly affected by company-specific factors including the following:

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our cost of developing and marketing online games;

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the speed at which we develop and launch new online games and related in-game items;

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the popularity of our games and in-game items compared with those of our competitors;

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the amount of our licensing revenues inside of China; and

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the success of investments and merger and acquisition activities.

Our future growth will depend significantly upon our ability to successfully develop and market additional online games that are attractive to players and to increase the monetization of our existing and future games in China; something which to-date we have not been successful in achieving.

Taxation

Nevada

Surna Inc. and Surna Networks, Inc. are each required to pay an annual fee to the Nevada Secretary of State of \$165. Nevada has no corporate income taxes. Although the majority of our operations are outside the United States, we may be subject to federal or other U.S. taxation in the future.

British Virgin Islands

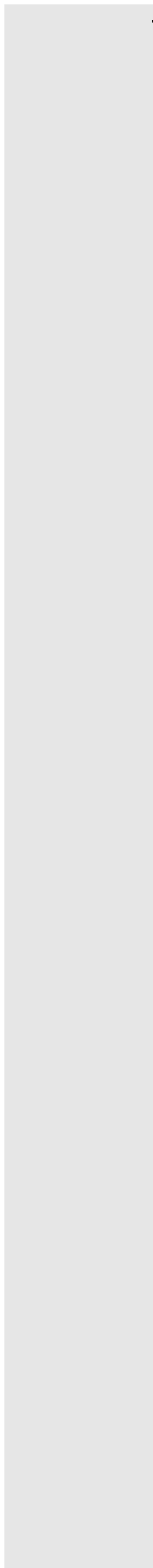
Surna Media is incorporated in the BVI. Under current laws, it is not subject to income or capital gains tax. In addition, payment of dividends to its shareholder, Surna Inc., is not subject to withholding tax.

Hong Kong

Our subsidiaries in Hong Kong are subject to a profit tax at the rate of 16.5% on assessable profit determined under relevant Hong Kong tax regulations.

According to the *Mainland and Hong Kong Special Administrative Region Arrangement on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income*, or the Tax Agreement, dividends paid by a foreign-invested enterprise in mainland China to its corporate shareholder in Hong Kong will be subject to withholding tax at a maximum rate of 5%, provided however that such Hong Kong company directly owns at least 25% of the equity interest in the mainland foreign-invested enterprise. However, under the new *Enterprise Income Tax Law* (EIT) and its implementation rules, as well as *Circular No. 601* issued by SAT in October 2009 (or Circular 601), dividends from our PRC subsidiary paid to us through Surna Hongkong Limited (Surna HK) may be subject to withholding tax at a rate of 10% if Surna HK is not considered to be the beneficial owner of the dividends distributed by a resident enterprise of the PRC.

Surna HK currently holds all the equity interest in our PRC operating company Flying Cloud. To the extent that Surna HK is considered a non-resident enterprise of the PRC under the Tax Agreement, dividends paid by Flying Cloud may be subject to a maximum withholding tax rate of 10%. Dividends paid by Surna HK to its shareholder will not be subject to any Hong Kong withholding tax.



China - PRC Enterprise Income Tax

Prior to January 1, 2008, companies established in China were generally subject to state and local EIT at statutory rates of 30% and 3% respectively. On March 16, 2007, the National People's Congress of China enacted a new regulation, the *PRC Enterprise Income Tax Law*, which took effect beginning January 1, 2008. On December 6, 2007, the State Council also adopted the *Implementing Rules for the Enterprise Income Tax Law*, or the *Implementing Rules*, which also took effect beginning January 1, 2008. Under the PRC EIT Law, foreign invested enterprises (or FIEs), and Chinese domestic companies are subject to EIT at a uniform rate of 25%. On February 22, 2008, the Ministry of Finance and the State Administration of Taxation, or the SAT, promulgated the *Notice on Several Preferential Policies in Respect of Enterprise Income Tax* (or Notice No. 1 2008), reiterating the policy that a software enterprise newly established within China may, upon determination, be exempted from income taxes for its first two profit-making years and shall be subject to the income tax at half the standard rate for the next three years.

Qualification as a software enterprise is however subject to an annual assessment by the relevant government authorities in China. See Risk Factors - Risks Related to Doing Business in China - we may be classified as a resident enterprise for PRC enterprise income tax purposes, which could result in our global income becoming subject to 25% PRC enterprise income tax.

Under the PRC EIT Law and the Implementing Rules, dividends generated from the business of our PRC subsidiary and payable to us may be subject to a withholding tax rate of 10% if we are considered a non-resident enterprise incorporated outside of the PRC unless there is an applicable tax treaty with China that provides for a different withholding arrangement and we are deemed to be entitled to such favorable treatment. If we were to be classified as a resident enterprise for PRC enterprise income tax purposes, this would result in our global income becoming subject to 25% PRC enterprise income tax. The risk that we may be deemed to be a PRC resident enterprise under the PRC EIT Law is disclosed in Risk Factors-Risks Related to Doing Business in China.

Foreign currency and foreign currency translation

Foreign currency may have a major impact on our financial results. The functional currency of the Company is the United States Dollars (USD). The functional currency of the Company's operating subsidiary, Surna HK, is the Hong Kong Dollar (HKD). The functional currency of the Surna HK's operating subsidiary in PRC, Flying Cloud, is the Renminbi (RMB), the PRC's currency. Monetary assets and liabilities denominated in currencies other

than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income (loss) for the respective periods.

For financial reporting purposes, the consolidated financial statements of the Company are translated into the Company's reporting currency, United States Dollars (USD). Balance sheet accounts are translated using the closing exchange rate in effect at the balance sheet date and income and expense accounts are translated using the average exchange rate prevailing during the reporting period.

Adjustments resulting from the translation, if any, are included in accumulated other comprehensive income (loss) in stockholders' equity.

Liquidity and Capital resources

We are a start-up company and have not yet generated significant revenues from our business operations. Our auditors have issued a going concern opinion; this means that our auditors believe there is substantial doubt that we can continue as an on-going business for the next twelve months unless we obtain additional capital. Accordingly, we must raise cash from sources other than operations. Our only other source of funds at this time is further investment in our company by existing shareholders or others. If we need additional funds and cannot raise them, we will either have to suspend operations until we raise sufficient capital, or cease operations entirely.

Since inception, we have sold 75,000,000 shares of common stock to 7bridge Capital Management Limited for \$15,000. From September through November, the company placed 4,175,000 shares to 51 individuals at \$0.02 per shares and raised \$83,500 excluding expenses.

We issued 79,175,000 shares of common stock, 75,000,000 shares pursuant to the exemption from registration contained in Regulation S of the Securities Act of 1933 and 4,175,000 shares pursuant to our public offering. Both were accounted for as sales of common stock. On May 16, 2011 we declared a stock dividend of 4 new shares for each 1 share held, with a record date of May 18, 2011. On May 18, 2011 our Board of Directors approved an increase in authorized capital from 100,000,000 common shares to 350,000,000 common shares.

There is limited historical financial information about us upon which to base an evaluation of our performance. We are in a start-up stage of operations and have not generated significant revenues and are subject to risks inherent in the establishment of a new business enterprise, including limited capital resources. We have no assurance that future financing will be available to us on acceptable terms. If financing is not available on satisfactory terms, we may be unable to continue, develop or expand our operations. Equity financing could result in additional dilution to existing shareholders.

As of December 31, 2012, our total assets were \$18,115 and our total liabilities were \$2,455,370.

As of December 31, 2013, our total assets were \$4,409 and our total liabilities were \$2,641,766.

Going Concern

The Company's independent registered public auditor's report accompanying our December 31, 2013 and 2012 audited financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The financial statements have been prepared "assuming that the Company will continue as a going concern." Our ability to continue as a going concern is dependent on raising additional capital to fund our operations and ultimately on generating future profitable operations. There can be no assurance that we will be able to raise sufficient additional capital or eventually have positive cash flow from operations to address all of our cash flow needs. If we are not able to find alternative sources of cash or generate positive cash flow from operations, our business and shareholders will be materially and adversely affected.

Critical Accounting Policies

To aid in the understanding of our financial reporting, our most critical accounting policies are described in the notes accompanying our financial statements. These policies have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

Use of Estimates:

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

Reclassifications:

Certain reclassifications have been made to amounts in prior periods to conform with the current period presentation. All reclassifications have been applied consistently to the periods presented.

Cash and Cash Equivalents:

All highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Property and Equipment:

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

Revenue Recognition:

The Company provides software development services related to online games in current fiscal year. Based on ASC 985-605-25-3 Software Not Requiring Significant Production,

Modification, or Customization, revenue is recognized when persuasive evidence of an arrangement exists, delivery of services has occurred, the service fee is fixed or determinable and the collectability is reasonably assured.

Accounts Receivable and Allowance for Doubtful Accounts:

Accounts receivable are recorded at invoiced amount and generally do not bear interest. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include growth and composition of accounts receivable, the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. The determination of the collectability of amounts due from customer accounts requires the Company to make judgments regarding future events and trends. Allowances for doubtful accounts are determined based on assessing the Company's portfolio on an individual customer and on an overall basis. This process consists of a review of historical collection experience, current aging status of the customer accounts, and the financial condition of Surna Inc.'s customers. Based on a review of these factors, the Company establishes or adjusts the allowance for specific customers and the accounts receivable portfolio as a whole. At December 31, 2013 and 2012, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

Concentration of Credit Risk:

Financial instruments that potentially subject Surna Inc. to concentration of credit risk consist of cash and accounts receivable. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, for the two-year period of January 1, 2012 through December 31, 2013, cash balances in noninterest-bearing transaction accounts at all FDIC-insured depository institutions are provided temporary unlimited deposit insurance coverage. At December 31, 2013, cash balances in interest-bearing accounts are zero.

Sales to a customer comprised 100% of Surna Inc.'s revenues for the year ended December 31, 2013 and 2012. At December 31, 2013 and December 31, 2012, Surna Inc.'s accounts receivable from its primary customer was \$71 and \$0-, respectively. The Company believes that, in the event that its primary customer is unable or unwilling to continue to purchase its products, there are alternative buyers for its production at comparable prices.

Foreign Currency Translation:

The Company translates the foreign currency financial statements into US Dollars using the year or reporting period end or average exchange rates in accordance with the requirements of Accounting Standards Codification subtopic 830-10, *Foreign Currency Matters* (ASC 830-10). Assets and liabilities of these subsidiaries were translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is included in the accumulated other comprehensive gain (loss) within shareholders' equity (deficit). Foreign currency transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the consolidated results of operations.

Functional Currency:

The functional currency of the Company is the United States Dollars (USD). The functional currency of the Company's operating subsidiary, Surna HK, is the Hong Kong Dollar (HKD). The functional currency of the Surna HK's operating subsidiary in PRC, Flying Cloud, is the Renminbi (RMB), the PRC's currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income (loss) for the respective periods.

For financial reporting purposes, the consolidated financial statements of the Company are translated into the Company's reporting currency, United States Dollars (USD). Balance sheet accounts are translated using the closing exchange rate in effect at the balance sheet date and income and expense accounts are translated using the average exchange rate prevailing during the reporting period.

The exchange rates used to translate amounts in HKD and RMB into USD for the purposes of preparing the consolidated financial statements were as follows:

	December 31, 2013	December 31 2012
Period-end HKD: USD exchange rate	\$ 0.1290	\$ 0.1290
Average Period HKD: USD exchange rate	\$ 0.1289	\$ 0.1289
Period-end RMB: USD exchange rate	\$ 0.1636	\$ 0.1579
Average Period RMB: USD exchange rate	\$ 0.1614	\$ 0.1587

Comprehensive Income (Loss):

The Company adopted Accounting Standards Codification subtopic 220-10, *Comprehensive Income* (ASC 220-10) which establishes standards for the reporting and displaying of comprehensive income (loss) and its components. Comprehensive income (loss) is defined as the change in stockholders' equity (deficit) of a business during a period from transactions and other events and circumstances from non-owners sources. It includes all changes in stockholders' equity (deficit) during a period except those resulting from investments by owners and distributions to owners. ASC 220-10 requires other comprehensive income (loss) to include foreign currency translation adjustments and unrealized gains and losses on available for sale securities.

Research and Development

The Company accounts for research and development cost in accordance with Accounting Standards Codification subtopic 730-10, Research and Development (ASC 730-10). ASC 730-10, requires research and development costs to be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. For the years ended December 31, 2013 and 2012, we incurred approximately \$100 and \$47,600 respectively for third party research and development expense which are included in the consolidated statements of operations.

Fair Value Measurements

The carrying value of financial instruments, including cash and cash equivalents, accrued liabilities, and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amount of amounts due to related party approximates fair value primarily because all amounts due to related parties are due on demand and considered short term.

Basic and Diluted Net Loss per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents. In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

Income Taxes

The Company accounts for income taxes using the asset and liability approach for financial accounting and reporting for income taxes and recognizes and measures deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary

differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

Commitments and contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, environment liability and tax matters. An accrual for a loss contingency is recognized when it is probable that an asset had been impaired or a liability had been incurred and the amount of loss can be reasonably estimated.

Recent Accounting Pronouncements:

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Significant Concentrations, Risks and Uncertainties

The majority of the Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Subsequent developments

Qoo Games Limited, a Hong Kong company (Qoo Games), was incorporated on 21 February, 2012 and purchased by Surna Media Inc. in August, 2012. It was intended that the publishing of mobile games, including for the iOS and Android operating systems, be transferred to this company, but this restructuring of operations did not take place. Surna Media disposed of Qoo Games on January 24, 2014 at the sales consideration of HK\$1 (par value of the shares) and there were no assets, liabilities or any transactions for Qoo Games during its existence.

Appointment of Directors and Officers

On March 24, 2014 Robert Grinberg was appointed as a Director of the Company. From 1997 until 2004 Mr. Grinberg was a partner in Program Trading, a registered Broker-Dealer. Since 2004 and continuing through the present Mr. Grinberg has been a private investor with a concentration in investing in natural resources including oil and gas exploration and trading. We have not entered into any compensation arrangements with Mr. Grinberg.

On March 26, 2014 Robert G. Clarke, Charlie Rodriguez and Robert Grinberg resigned their positions as directors of SURNA, Inc. and Robert Clarke resigned as President and Chief Executive Officer, but will remain as Chief Financial Officer until such time as the Form 10-K for the year ended December 31, 2013 is filed with the Securities and Exchange Commission. In resigning Mr. Clarke, Rodriguez or Grinberg had no disputes over our operations, policies, or practices.

On March 25, 2014, Tom Bollich was elected as Secretary of the corporation and on March 26, 2014 he was appointed as a Director of the Company. Mr. Bollich began his career as a Robotics Engineer, working with artificial intelligence. In 2007 he co-founded Zynga, the online gaming company. Zynga created games such as FarmVille, Draw Something and Words with Friends. While at Zynga Tom served as a Studio Head and CTO. After leaving Zynga in 2009 he created HugeMonster Inc., a Toronto based game company. He currently sits on the Board of Directors as the Chairman. Tom is also on the Board of Directors for Fatty Crew, LLC, owners and operators of the multinational Fatty brand restaurants.

On March 26, 2014, Tae Darnell was appointed as a Director of the Company. As co-founder of the Cannabis Law Center, Mr. Darnell was one of Colorado's first full time Cannabis lawyers. His firm has represented over 500 dispensaries, cultivation premises and infused product manufacturing companies in addition to playing a pivotal role in Colorado's rise from operating under a Constitutional Amendment to outright regulated legalization. His clients represent the definitive leaders in the Cannabis industry and include companies and individuals considered to be the future of the industry.

On March 26, 2014, Doug McKinnon's was appointed as a Director of the Company. Mr. McKinnon has advisory and operational experience across a broad spectrum of industries, including oil and gas, technology, and communications. He has served in in both private and public companies, including as Chairman and CEO of an American-Stock-Exchange traded company, Vice-President of a 12 billion dollar market cap NASDAQ-traded company for which the management team raised over 2.2 billion dollars, CFO of several publicly-held US, Canadian and Australian companies, and CEO/CFO of various other private enterprises. As an entrepreneur, he has been involved in organizations ranging from start-up companies using venture capital funding to publicly traded institutional backed companies.

The members of the Board of Directors shall serve in his/her respective capacity until the next annual shareholder meeting until his/her successor shall have been elected and qualified. On March 27, 2014, Tom Bollich was elected as Chief Executive Officer and Chairman of the Board of the corporation by unanimous written consent of the Board of Directors. On April 3, 2014 Tae Darnell was appointed as Vice President & General Counsel.

Spin-off of a subsidiary corporation

Effective March 25, 2014, we completed the issuance of a dividend of all of our ownership in Trebor Resource Management Group, Inc. (Trebor), a wholly owned subsidiary, to our shareholders, resulting in Trebor becoming a separate entity. The dividend shares of Trebor are restricted securities as defined in Rule 144 of the Securities Act of 1933, as amended. The issuance of Trebor restricted stock was completed on a one-for-one basis to the Company's shareholders of record on March 21, 2014. Trebor is a party to a Memorandum of Understanding (MOU) with RMA Holdings, an entity formed under the laws of the Philippines, which, with its associated companies, has assets and operating permits for mineral extraction and refining in the Philippines.

Merger with Safari Resource Group, Inc.

On March 26, 2014 we entered into a Merger Agreement with Safari Resource Group, Inc. (Safari), a Nevada Corporation, whereby the Company become the sole surviving corporation. It is the Company's intention that the merger shall qualify as a tax free reorganization under Section 368 of the Internal Revenue Code of 1986, as amended, and related sections thereunder; and the parties intend this Agreement to qualify as a "plan of reorganization" within the meaning of Treasury Regulation Sections 1.368-2(g) and 1.368-3(a); and that the Merger shall qualify as a transaction in securities exempt from registration or qualification under the Securities Act of 1933, as amended, and under the

applicable securities laws of each state or jurisdiction where Company security holders reside.

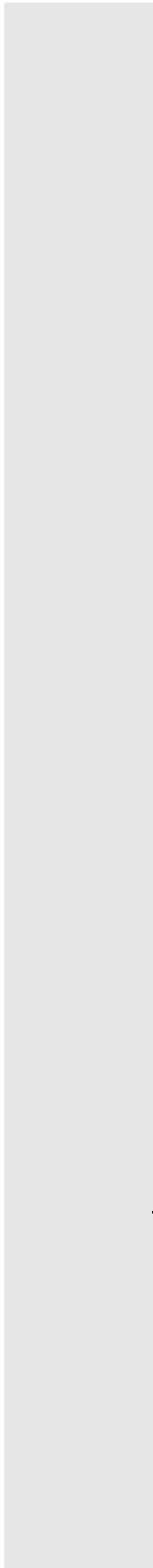
In merging with Safari the Company acquired a patented Airstream reflector and the right, title and interest to a product pipeline with fourteen intellectual properties currently in development. At the closing of this transaction, Safari shareholders received seventy-seven million two hundred twenty thousand (77,220,000) shares of our Common Stock and seventy-seven million two hundred twenty thousand (77,220,000) shares of our Preferred Stock.

Purchase of Hydro Innovations, LLC

On March 31, 2014 we entered into a binding Membership Interest Purchase Agreement with Hydro Innovations, LLC (Hydro), a Colorado limited liability company, subject to audit and valuation, wherein we acquire 100% of the Membership Interests of Hydro as well as all assets of Hydro, including all intellectual property, trade names, customer lists, physical properties and any and all leasehold interests. In conjunction with this we entered into an exclusive license agreement, in perpetuity, for the use of the provisional patent pending #61/940578 for an air conditioning condenser attachment for high efficiency liquid chillers (the Chiller Patent), including exploitation of the Trademarked Heat Shield brand and any and all other intellectual properties now existing or otherwise created. Under the terms of this License Agreement, Stephen Keen and Brandy Keen will be entitled to receive a ten-percent (10%) commission on net revenue (defined as gross revenue less directly cost of goods sold and installation costs) derived from the sale and installation from all products using the licensed intellectual property. The total purchase price to be paid to Mr. Keen and Ms. Keen for the interests and all lease assignments is Five Hundred Thousand (\$500,000), subject to an audit to confirm the value of the property. If the value is determined to be less than the \$500,000 estimated then the total purchase price shall be subject to redetermination. The \$500,000.00 shall be paid \$250,000.00 in cash or common Surna stock, at the Company s sole discretion, spread over five (5) payments of \$50,000.00 each and a Promissory Note for \$250,000.00.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.



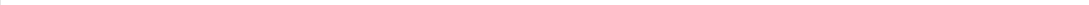
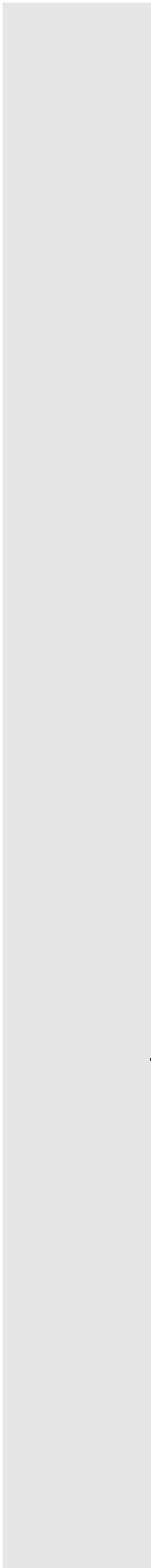
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Please see our Financial Statements beginning on page F-1 of this annual report.

SURNA INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Surna Inc.

Boulder, CO

We have audited the accompanying consolidated balance sheets of Surna, Inc. and its subsidiaries (the Company), as of December 31, 2013 and 2012, and the related consolidated statements of operations, deficiency in stockholders' equity and cash flows for each of the two years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Surna, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the accompanying consolidated financial statements, the Company has suffered recurring losses from operations and has an accumulated deficit as of December 31, 2013 and 2012, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are described in Note 2. The consolidated financial statements do not

include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM LLP

New York, New York

April 15, 2014

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Surna Inc.**Consolidated Balance Sheets**

	December 31, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash	\$ 752	\$ 1,197
Accounts receivable	71	-
Prepaid expenses	250	250
Total Current Assets	1,073	1,447
Equipment, net of accumulated depreciation	3,336	16,668
TOTAL ASSETS	\$ 4,409	\$ 18,115
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accrued liabilities	\$ 70,338	\$ 83,509
Amounts due to related parties	2,571,428	2,371,861
Total Current Liabilities	2,641,766	2,455,370
TOTAL LIABILITIES	2,641,766	2,455,370
STOCKHOLDERS DEFICIT		
Preferred stock, \$0.00001 par value; 150,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, \$0.00001 par value; 350,000,000 shares authorized; 99,375,000 issued and outstanding	994	994
Paid in capital	148,507	148,507
Accumulated other comprehensive loss	(11,250)	(4,304)
Accumulated deficit	(2,775,608)	(2,582,452)
Total Stockholders' Deficit	(2,637,357)	(2,437,255)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 4,409	\$ 18,115

See accompanying notes to the consolidated financial statements

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Surna Inc.**Consolidated Statements of Operations and Comprehensive Income**

	For the year ended		For the year ended	
	December 31,		December 31,	
	2013		2012	
Revenue	\$	50	\$	310
Cost of revenue		-		-
Gross margin		50		310
Operating Expenses:				
Depreciation Expenses		13,332		13,332
Product development cost		100		47,619
General and administrative expenses		179,775		718,331
Total operating expenses		193,207		779,282
Operating loss		(193,156)		(778,972)
Other income (expenses):		-		-
Loss from continuing operations before provision for income taxes		(193,156)		(778,972)
Provision for income taxes		-		-
Loss from Continuing Operations		(193,156)		(778,972)
Income from Discontinued Operations		-		11,607
Net loss		(193,156)		(767,365)

Comprehensive loss:			
Foreign currency translation loss		(6,946)	-
Comprehensive Loss	\$	(200,102)	\$ (767,365)
Loss per common share from continuing operations - basic and diluted		(\$0.00)	(\$0.01)
Loss per common share from discontinued operations - basic and diluted		\$0.00	(\$0.00)
Net loss per common share - basic and diluted		(\$0.00)	(\$0.01)
Weighted average number of common shares outstanding, basic and diluted		99,375,000	99,375,000

See accompanying notes to the consolidated financial statements

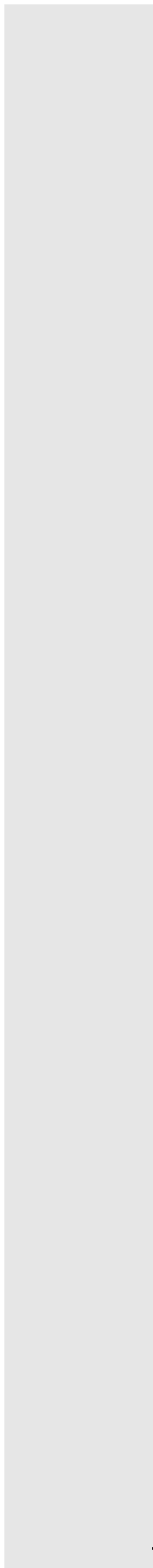
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Surna Inc.

Consolidated Statement of Changes in Stockholders Deficit

For the period from January 1, 2012 to December 31, 2013

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders Deficit
Balance at January 1, 2012	99,375,000	\$ 994	\$ 148,507	\$ (1,815,087)	\$ (4,304)	\$ (1,669,890)
Net loss for the year ended December 31, 2012				(767,365)		(767,365)
Balance at December 31, 2012	99,375,000	\$ 994	\$ 148,507	\$ (2,582,452)	\$ (4,304)	\$ (2,437,255)
Foreign currency translation adjustment					(6,946)	(6,946)
Net loss for the year ended December 31, 2013				(193,156)		(193,156)
	99,375,000	\$ 994	\$ 148,507	\$ (2,775,608)	\$ (11,250)	\$ (2,637,357)



See accompanying notes to the consolidated financial statements

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Surna Inc.**Consolidated Statements of Cash Flows**

	For the year ended December 31, 2013	For the year ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (193,156)	\$ (767,365)
Income from discontinued operations	-	11,607
Loss from Continuing operations	(193,156)	(778,972)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	13,332	13,332
Changes in operating assets and liabilities:		
Accounts receivable	(71)	1,273
Prepaid expenses	-	1,543
Accrued liabilities	(13,171)	62,818
Amount due to related parties	199,568	698,458
Cash used in operating activities of continuing operations	6,501	(1,548)
Cash provided by (use in) operating activities of discontinued operations	-	-
Net cash used in operating activities	6,501	(1,548)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash flow used by investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital Contribution	-	-
	-	-

Net cash provided by financing activities			
Effect of disposal of discontinued operation		-	-
Effect of exchange rate changes on cash		(6,946)	-
Net increase / (decrease) in cash		(445)	(1,548)
Cash, beginning of period		1,197	2,745
Cash, end of period	\$	752	\$ 1,197

See accompanying notes to the consolidated financial statements

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Surna Inc.

Notes to Consolidated Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

Surna Inc (the Company, we, our) was incorporated in Nevada, USA, on October 15, 2009.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's most recent Annual Financial Statements filed with the SEC on Form 10-K. The consolidated financial statements include the Company's accounts and those of its wholly-owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated.

On September 1, 2011, Surna Inc. acquired Surna Media, Inc. for 20,000,000 common shares. The merger was accounted for as among entities under common control. Surna Media's predecessor entity Surna Hong Kong Limited (Surna HK) was formed June 14, 2010. Surna Media was formed October 29, 2010 by the same owners and Surna HK became a wholly-owned subsidiary. Flying Cloud Information Technology Co. Ltd. was incorporated in China in April 2011 as a wholly-owned subsidiary of Surna HK. All Surna HK, Surna Media and Flying Cloud transactions are consolidated with those of Surna, Inc. beginning at the formation of Surna HK on June 14, 2010. Surna Networks, Inc. and Surna Network Ltd are wholly-owned subsidiaries of Surna, Inc. formed on July 19, 2011 and August 2, 2011, respectively. On March 27, 2012, Surna Inc sold Surna Networks Inc, and Surna Networks Limited to Chan Kam Ming for a total sales price of US\$1. Surna Inc assumed liabilities of Surna Networks Inc and Surna Networks Limited of US\$9,286. All significant intercompany transactions are eliminated.

Qoo Games Limited was incorporated in Hong Kong on 21 February, 2012. It was intended that this company operate as the publisher of mobile games, including for the iOS and Android operating systems, but this restructuring did not take place. Surna Media disposed

of Qoo Games on January 24, 2014 at the sales consideration of HK\$1 (par value of the shares) and there were no assets, liabilities or any transactions for Qoo Games during its existence.

Use of Estimates:

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

Reclassifications:

Certain reclassifications have been made to amounts in prior periods to conform with the current period presentation. All reclassifications have been applied consistently to the periods presented.

Cash and Cash Equivalents:

All highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Property and Equipment:

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

Revenue Recognition:

The Company provides software development services related to online games in current fiscal year. Based on ASC 985-605-25-3 Software Not Requiring Significant Production, Modification, or Customization, revenue is recognized when persuasive evidence of an arrangement exists, delivery of services has occurred, the service fee is fixed or determinable and the collectability is reasonably assured.

Accounts Receivable and Allowance for Doubtful Accounts:

Accounts receivable are recorded at invoiced amount and generally do not bear interest. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include growth and composition of accounts receivable, the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. The determination of the collectability of amounts due from customer accounts requires the Company to make judgments regarding future events and trends. Allowances for doubtful accounts are determined based on assessing the Company's portfolio on an individual customer and on an overall basis. This process consists of a review of historical collection experience, current aging status of the customer accounts, and the financial condition of Surna Inc's customers. Based on a review of these factors, the Company establishes or adjusts the allowance for specific customers and the accounts receivable portfolio as a whole. At December 31, 2013 and 2012, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

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Financial instruments that potentially subject Surna Inc. to concentration of credit risk consist of cash and accounts receivable. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, for the two-year period of January 1, 2012 through December 31, 2013, cash balances in noninterest-bearing transaction accounts at all FDIC-insured depository institutions are provided temporary unlimited deposit insurance coverage. At December 31, 2013, cash balances in interest-bearing accounts are zero.

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The Company translates the foreign currency financial statements into US Dollars using the year or reporting period end or average exchange rates in accordance with the requirements of Accounting Standards Codification subtopic 830-10, *Foreign Currency Matters* (ASC 830-10). Assets and liabilities of these subsidiaries were translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is included in the accumulated other comprehensive gain (loss) within shareholders' equity (deficit). Foreign currency transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the consolidated results of operations.

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The functional currency of the Company is the United States Dollars (USD). The functional currency of the Company's operating subsidiary, Surna HK, is the Hong Kong Dollar (HKD). The functional currency of the Surna HK's operating subsidiary in PRC, Flying Cloud, is the Renminbi (RMB), the PRC's currency. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at rates of exchange prevailing at the balance sheet dates. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income (loss) for the respective periods.

For financial reporting purposes, the consolidated financial statements of the Company are translated into the Company's reporting currency, United States Dollars (USD). Balance sheet accounts are translated using the closing exchange rate in effect at the balance sheet date and income and expense accounts are translated using the average exchange rate prevailing during the reporting period.

The exchange rates used to translate amounts in HKD and RMB into USD for the purposes of preparing the consolidated financial statements were as follows:

	December 31, 2013	December 31 2012
Period-end HKD: USD exchange rate	\$ 0.1290	\$ 0.1290
Average Period HKD: USD exchange rate	\$ 0.1289	\$ 0.1289
Period-end RMB: USD exchange rate	\$ 0.1636	\$ 0.1579
Average Period RMB: USD exchange rate	\$ 0.1614	\$ 0.1587

Comprehensive Income (Loss):

The Company adopted Accounting Standards Codification subtopic 220-10, *Comprehensive Income* (ASC 220-10) which establishes standards for the reporting and displaying of comprehensive income (loss) and its components. Comprehensive income (loss) is defined

as the change in stockholders' equity (deficit) of a business during a period from transactions and other events and circumstances from non-owners sources. It includes all changes in stockholders' equity (deficit) during a period except those resulting from investments by owners and distributions to owners. ASC 220-10 requires other comprehensive income (loss) to include foreign currency translation adjustments and unrealized gains and losses on available for sale securities.

Research and Development

The Company accounts for research and development cost in accordance with Accounting Standards Codification subtopic 730-10, Research and Development (ASC 730-10). ASC 730-10, requires research and development costs to be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. For the years ended December 31, 2013 and 2012, we incurred approximately \$100 and \$47,619 respectively for third party research and development expense which are included in the consolidated statements of operations.

Fair Value Measurements

The carrying value of financial instruments, including cash and cash equivalents, accrued liabilities, and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amount of amounts due to related party approximates fair value primarily because all amounts due to related parties are due on demand and considered short term.

Basic and Diluted Net Loss per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents. In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

Income Taxes

The Company accounts for income taxes using the asset and liability approach for financial accounting and reporting for income taxes and recognizes and measures deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

Commitments and contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, environment liability and tax matters. An accrual for a loss contingency is recognized when it is probable that an asset had been impaired or a liability had been incurred and the amount of loss can be reasonably estimated.

Recent Accounting Pronouncements:

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 2 - GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company currently has \$2,640,693 working capital deficit (current liabilities exceeds current assets), minimal sources of recurring revenue and has generated cumulative net losses of \$2,775,608 during the period from inception through 31 December, 2013.

In the course of its development activities, the Company has sustained and continues to sustain losses. The Company cannot predict if and when the Company will generate profits. The Company expects to finance its operations primarily through debt or equity financing.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to meet its obligations, to obtain additional financing as may be required until such time as it can generate sources of recurring revenues and to ultimately attain profitability. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 - CHANGE IN FISCAL YEAR-END

On March 19, 2012, the Board of Directors approved a change to our fiscal year end from November 30 to December 31 of each year. With the change effective this 2012 fiscal year, which now ended December 31, 2012, there is a one fiscal month transition period covering the fiscal month of December 2011. Results for this transition period were reported in the Annual Report for 2012 along with the results for the new fiscal year of January 1, 2012 through December 31, 2012. Notice of the Company's election of a change in fiscal year was made on Form 8-K, which was filed on March 20, 2012.

NOTE 4 - DISCONTINUED OPERATIONS

On March 27, 2012, Surna Inc. sold Surna Networks, Inc. and Surna Networks Limited (Surna Networks) to Chan Kam-Ming for a total sale price of US\$1. Surna Inc. assumed liabilities of Surna Networks of US\$9,286. The results of discontinued operations of Surna Networks the year ended December 31, 2012 are summarized as below:

	Surna Networks, Inc. (USD)		Surna Networks Limited (USD)	
	Year Ended		Year Ended	
	12/31/12		12/31/12	
Revenue	\$	-	\$	44,433
Cost of Revenue		-		(31,323)
Salaries		-		-
Product Development Costs		-		-
General & Administrative		-		(1,503)
Net Income (Loss)	\$	-\$		11,607

NOTE 5 - SIGNIFICANT CONCENTRATIONS, RISKS AND UNCERTAINTIES

The majority of the Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy.

The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

NOTE 6 - RELATED PARTY TRANSACTIONS

As of December 31, 2013 and 2012 the Company had a balance due to related parties of \$2,571,428 and \$2,371,861, respectively. This balance is from various advances from the Company's directors and which are non-interest bearing, unsecured and due on demand.

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NOTE 7 - INCOME TAXES

The Company had deferred income tax assets as of December 31, 2013 and 2012 as follows:

	2013	2012
Deferred Tax Assets	\$ 720,631	\$ 472,244
Less - Valuation Allowance	(720,631)	(472,244)
Total Net Deferred Tax Assets	\$ --	\$ --

The Company has approximately \$2,775,608 in Net Operating Losses carried forward for income tax purposes in various jurisdictions which will expire, if not utilized, as follows:

	United States	Hong Kong	China	Total
Indefinite	\$ -	\$ 984,719	\$ -	\$ 984,719
2033	593,086	-	-	593,086
2032	394,250	-	-	394,250
2031	90,740	-	-	90,740
2030	24,726	-	-	24,726
2029	1,500	-	-	1,500
2018	-	-	10,189	10,189
2017	-	-	300,132	300,132
2016	-	-	376,266	376,266
	\$ 1,104,302	\$ 984,719	\$ 686,587	\$ 2,775,608

The Company has not filed its past years' federal corporate income tax returns and may be subject to penalties for non-compliance.

NOTE 8 - COMMITMENTS AND CONTINGENCIES*Settlement Payments*

On March 7 2013, the Company entered into settlement agreement with a former employee for outstanding dues for a total HK\$80,000 (US\$10,257) through October 2013. As of December 31, 2013, the Company had no outstanding due for this settlement.

Service agreement

During March, 2012, the Company entered into an agent agreement with Jurun Information Technology (Shanghai) Co. Ltd. (Jurun), and Jurun entered into a technical service agreement with Kunlun Wanwei Information Technology Company Ltd (Kunlun). Under the agreements, the Company provided the license of the online game to Jurun and on the same date the license was transferred from Jurun to Kunlun for a period of five years. The Company will receive upfront fees of RMB 1 million payable in the following installments: 1) 30% after the first closed-beta testing; 2) 50% after the second closed-beta testing and 3) 20% after the first open-beta testing. In addition, the Company will receive 20% of game-related revenue from Kunlun during the agreement term. All amounts due from Kunlun will be transferred to Jurun and Jurun will return 100% of the fees back to the Company.

Therefore, the Company recognized the RMB 1 million (US\$158,730) fee as revenue during the year 2012 in accordance with ASC 985-605-25-3 Software Not Requiring Significant Production, Modification, or Customization. As of the date the Company was unable to collect the revenue amounts and therefore, as of balance sheet date, the Company had reversed the whole revenue.

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Litigation

The Company is subject to certain legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. There was no outstanding litigation as of December 31, 2013.

NOTE 9 - APPOINTMENT OF DIRECTORS AND OFFICERS

On July 17, 2013 Richard Clarke gave notice of his intention to resign as Director and Secretary, as well as a director and officer with any subsidiaries of the Company, resignation which was accepted as of July 17, 2013. In resigning Mr. Clarke had no disputes over our operations, policies, or practices.

On July 19, 2013 Charlie Rodriguez was appointed as a Director of the Company and Robert G. Clarke was appointed Director of the Company as well as President, Treasurer and Secretary and Chief Financial Officer. Mr. Clarke replaced Man-Chor Poon as Chief Financial Officer, principal financial officer and principal accounting officer. Mr. Clarke was selected for the foregoing positions as a result of his experience with public company operations.

On July 19, 2013 Ms. Cherry Ping-Wai Lim gave notice of her intention to resign as Director and principal executive officer, resignation which was accepted as of July 19, 2013. In resigning Ms. Lim had no disputes over our operations, policies, or practices.

Appointments of Directors and Officers

On March 24, 2014 Robert Grinberg was appointed as a Director of the Company. From 1997 until 2004 Mr. Grinberg was a partner in Program Trading, a registered Broker-Dealer. Since 2004 and continuing through the present Mr. Grinberg has been a private investor

with a concentration in investing in natural resources including oil and gas exploration and trading. We have not entered into any compensation arrangements with Mr. Grinberg.

On March 25, 2014, Tom Bollich was elected as Secretary of the corporation by unanimous written consent of the Board of Directors.

On March 26, 2014 Robert G. Clarke, Charlie Rodriguez and Robert Grinberg resigned their positions as directors of SURNA, Inc. and Robert Clarke resigned as President and Chief Executive Officer, but will remain as Chief Financial Officer until such time as the Form 10-K for the year ended December 31, 2013 is filed with the Securities and Exchange Commission.

In resigning Mr. Clarke, Rodriguez or Grinberg had no disputes over our operations, policies, or practices.

Also on March 26, 2014 the following individuals were elected by written consent of the majority of the shareholders as Directors.

Tom Bollich - Director

Tom Bollich began his career as a Robotics Engineer, working with artificial intelligence. In 2007 he co-founded Zynga, the online gaming company. Zynga created games such as FarmVille, Draw Something and Words with Friends. While at Zynga Tom served as a Studio Head and CTO. After leaving Zynga in 2009 he created HugeMonster Inc., a Toronto based game company. He currently sits on the Board of Directors as the Chairman. Tom is also on the Board of Directors for Fatty Crew, LLC, owners and operators of the multinational Fatty brand restaurants.

Tae Darnell - Director

As co-founder of the Cannabis Law Center, Tae Darnell was one of Colorado's first full time Cannabis lawyers. His firm has represented over 500 dispensaries, cultivation premises and infused product manufacturing companies in addition to playing a pivotal role in Colorado's rise from operating under a Constitutional Amendment to outright regulated legalization. Tae's clients represent the definitive leaders in the Cannabis industry and include companies and individuals considered to be the future of the industry.

Doug McKinnon - Director

Mr. McKinnon's 30+ year professional career includes advisory and operation experience across a broad spectrum of industry sectors, including oil and gas, technology, and communications. He has served in C-level positions in both private and public sectors, including chairman and CEO of an American-Stock-Exchange traded company, Vice-President of a 12 billion dollar market cap NASDAQ-traded company for which the management team raised over 2.2 billion dollars, CFO of several publicly-held US, Canadian and Australian companies, and CEO/CFO of various other private enterprises. As an entrepreneur, Mr. McKinnon has been involved in organizations ranging from start-up companies using venture capital funding to publicly traded institutional backed companies.

The members of the Board of Directors shall serve in his/her respective capacity until the next annual shareholder meeting until his/her successor shall have been elected and qualified.

On March 27, 2014, Tom Bollich was elected as Chief Executive Officer and Chairman of the Board of the corporation by unanimous written consent of the Board of Directors.

On April 3, 2014 we appointed Tae Darnell as Vice President & General Counsel.

NOTE 10 - SUBSEQUENT EVENTS

Spin-off of Subsidiary

Effective March 25, 2014, we completed the issuance of a dividend of all of our ownership in Trebor Resource Management Group, Inc. (Trebor), a wholly owned subsidiary, to our shareholders, resulting in Trebor becoming a separate entity.

The dividend shares of Trebor are and shall remain restricted securities as defined in Rule 144 promulgated under the Securities Act of 1933, as amended. The issuance of Trebor restricted stock was completed on a one for one basis to the Company shareholders of record on March 21, 2014.

Trebor is a party to a Memorandum of Understanding (MOU) with RMA Holdings, an entity formed under the laws of the Philippines (RMA). RMA and associated companies are in the mining and smelting business with existing assets and operating permits for mineral extraction and refining in the Philippines. The MOU requires the parties to work together to identify and develop joint opportunities in the mining business in the Philippines, including as related to a specific gold mining property (the Pargum Mine). The MOU also requires the parties to develop a plan of operation for the Pargum Mine including financing and expansion. It is expected that RMA will secure necessary permits required for the development, construction and plant operations. It is expected that Trebor will provide the necessary financing and technology for the Pargum Mine.

In addition to the Pargum Mine, the MOU contemplates that the parties will jointly work to identify and develop other mining opportunities.

Merger with Safari Resource Group, Inc.

On March 26, 2014 we entered into a Merger Agreement with Safari Resource Group, Inc. (Safari), a Nevada Corporation, whereby we (Surna) become the sole surviving corporation of said Merger. It is our intention that: (i) the Merger shall qualify as a tax free reorganization under Section 368 of the Internal Revenue Code of 1986, as amended, and related sections thereunder; and the parties intend this Agreement to qualify as a "plan of reorganization" within the meaning of Treasury Regulation Sections 1.368-2(g) and 1.368-3(a), and (ii) the Merger shall qualify as a transaction in securities exempt from registration or qualification under the Securities Act of 1933, as amended, and under the applicable securities laws of each state or jurisdiction where the SURNA Security Holders reside.

In merging with Safari we acquired a patented Airstream reflector and the right, title and interest to a product pipeline with fourteen intellectual properties currently in development.

At the Closing, Safari Security Holders receive seventy-seven million two hundred twenty thousand (77,220,000) shares of our Common Stock and seventy-seven million two hundred twenty thousand (77,220,000) shares of our Preferred Stock.

Purchase of Hydro Innovations, LLC

On March 31, 2014 we entered into a binding Membership Interest Purchase Agreement with Hydro Innovations, LLC (Hydro), a Colorado limited liability company, subject to audit and valuation, wherein we acquired 100% of the Membership Interests of Hydro as well as all assets of Hydro, including all intellectual property, trade names, customer lists, physical properties and any and all leasehold interests.

Furthermore we entered into an exclusive license agreement, in perpetuity, for the use of Stephen Keen and Brandy Keen's provisional patent pending #61/940578 air conditioning condenser attachment for high efficiency liquid chillers (the Chiller Patent), including exploitation of the Trademarked Heat Shield brand and any and all other intellectual properties now existing or otherwise created by Stephen Keen and Brandy Keen.

Under the terms of the License Agreement, Stephen Keen and Brandy Keen will be entitled to receive a 10% commission on net revenue (defined as gross revenue less directly cost of goods sold and installation costs) derived from the sale and installation from all products using the licensed intellectual property.

The total purchase price to be paid to Stephen and Brandy Keen for the interests and all lease assignments is \$500,000 (Five Hundred Thousand). The valuation of the subject property is subject to an audit to confirm the value. If the value is less than the \$500,000 estimated then the total purchase price shall be subject to redetermination. The \$500,000.00 shall be paid \$250,000.00 in cash or common Surna stock, at our sole discretion, spread over five (5) payments of \$50,000.00 each and a Promissory Note for \$250,000.00.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We conducted an evaluation (the Evaluation), under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (Disclosure Controls) as of the end of the period covered by this report pursuant to Rule 13a-15 of the Exchange Act. Based on this Evaluation, our CEO and CFO concluded that our Disclosure Controls were not effective because of the identification of a material weakness in our internal control over financial reporting which is identified below, which we view as an integral part of our disclosure controls and procedures.

The material weakness relates to the monitoring and review of work performed by our limited accounting staff in the preparation of financial statements, footnotes and financial data provided to our independent registered public accounting firm in connection with the annual audit. More specifically, the material weakness in our internal control over financial reporting is due to the fact that:

The Company lacks proper segregation of duties. We believe that the lack of proper segregation of duties is due to our limited resources.

The Company does not have a comprehensive and formalized accounting and procedures manual.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our Disclosure Controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CEO and CFO Certifications

Appearing immediately following the Signatures section of this report there are Certifications of the CEO and the CFO. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications). This Item of this report, which you are currently reading is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also,

projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, as of December 31, 2013, the Company's internal control over financial reporting were ineffective.

The Company lacks proper segregation of duties. We believe that the lack of proper segregation of duties is due to our limited resources.

The Company does not have a comprehensive and formalized accounting and procedures manual.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Controls

There were no changes in our internal control over financial reporting during the year ended December 31, 2013 that have affected, or are reasonably likely to affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Officers and Directors

Our directors will serve until their successor is elected and qualified. Our officers are elected by the board of directors to a term of one (1) year and serves until his or his successor is duly elected and qualified, or until he or she is removed from office. The board of directors has no nominating, auditing or compensation committees.

The names, addresses, ages and positions of our present officers and directors are set forth below:

Name and Address	Age	Position(s)
Tom Bollich 1780 55th St., Ste. A Boulder, CO 80301	41	Chief Executive Officer (Principal executive officer), President, and a member of the Board of Directors
Robert Clarke GPO 8610, Central	69	Chief Financial Officer (Principal financial and accounting Officer), Treasurer
Hong Kong Tae Darnell	41	

1780 55th St., Ste. A Vice-President, Secretary and a member of the Board of
Directors

Boulder, CO 80301

Douglas McKinnon 63 Director

1780 55th St., Ste. A

Boulder, CO 80301

The people named above are expected to hold their offices/positions until the next annual meeting of our stockholders.

Background of officers and directors

Tom Bollich

Director - CEO

Tom began his career as a Robotics Engineer, working with artificial intelligence. In 2007 he co-founded Zynga, the online gaming company. Zynga created games such as FarmVille, Draw Something and Words with Friends. While at Zynga Tom served as a Studio Head and CTO. After leaving Zynga in 2009 he created HugeMonster Inc., a Toronto based game company. He currently sits on the Board of Directors as the Chairman. Tom is also on the Board of Directors for Fatty Crew, LLC, owners and operators of the multinational Fatty brand restaurants. Over the past five years Tom has served as a Board Member for Fatty Crew, LLC, Chairman of the Board for Huge Monster, Inc., A Studio Head and Studio CTO for Zynga, and the advisory board for Intelligent Living, Inc. We took into account his prior experiences and believe Mr. Bollich has the qualifications and skills to serve as a Director.

Tae Darnell

Director - Vice President, Secretary

Tae Darnell has served in the private practice of law for the past five years while also representing NFL athletes as a certified NFL agent. He also serves as an advisory board member for Intelligent Living, Inc. (ILIV). As co-founder of the Cannabis Law Center, he was also one of Colorado's first full time Cannabis lawyers. His firm has represented over 500 dispensaries, cultivation premises and infused product manufacturing companies in addition to playing a pivotal role in Colorado's rise from operating under a Constitutional Amendment to outright regulated legalization. Tae's clients represent the definitive leaders in the Cannabis industry and include companies and individuals considered to be the future of the industry. We took into account his prior experiences and believe Mr. Darnell has the qualifications and skills to serve as a Director.

Douglas McKinnon

Director

For the past four years Mr. McKinnon has served as CEO of 1st Resource Group, Inc. (1RG) a technology driven energy company utilizing a process for the conversion of natural gas into diesel or jet fuels. Prior to 1RG he was Co-Managing Member of SideKick Xploration, LLC, a private oil & gas company operating primarily in South Texas. His 30+ year professional career includes advisory and operation experience across a broad spectrum of industry sectors, including oil and gas, technology, and communications. He has served as CEO of Cardinal Communications, Inc., Vice President of ICG Communications and C-level positions in both private and public sectors. Additionally, he worked for nine years as a CPA in the SEC practice section of Coopers & Lybrand (now PricewaterhouseCoopers). Mr. McKinnon is a graduate of Texas Christian University. We took into account his prior experiences and believe Mr. McKinnon has the qualifications and skills to serve as a Director

Robert G. Clarke

On July 19, 2013 Robert G. Clarke was appointed Director of the Company and President, Treasurer and Secretary and Chief Financial Officer. Mr. Clarke was also appointed as principal executive officer, principal accounting officer, principal financial officer. On

March 26, 2014, Mr. Clarke resigned as Director, President and Chief Executive Officer, but continued as Chief Financial Officer.

Since July 6, 2009 Robert Clarke has been a Director of Monar International Inc. (Monar), a Nevada corporation whose common stock is traded on the Bulletin Board operated by the Financial Industry Regulatory Authority (FINRA) (the Bulletin Board) under the symbol MNAI. From July 6, 2006 through December 4, 2012, Mr. Clarke was President, principal executive officer, and Secretary, and from July 6, 2009 to May 14, 2013, Treasurer, principal accounting officer and principal financial officer of Monar. From July 2008 to June 2009, Mr. Clarke was Chairman and a Director of Ecolocap Solutions Inc., a Nevada corporation located in Montreal, Quebec. Ecolocap that was engaged in the business of providing services and products related to the reduction of greenhouse gases, and whose common stock is traded on the Bulletin Board under the symbol ECOS. From July 15, 2008 to June 16, 2009, Mr. Clarke was a Director, and from September 12, 2008 to June 4, 2009 President and CEO of Tiger Renewable Energy, Ltd. whose common stock traded on the Bulletin Board (and, subsequent to a name change, continues to trade under the symbol CNOZ).

Since mid-2001 he has been based in Hong Kong and involved in private and public companies, with a particular emphasis on the development of China opportunities. Prior to moving to Hong Kong Mr. Clarke was based in Vancouver, BC and played a key role in the start-up and financing of several Canadian and United States companies in the high technology and telecommunications sectors. Mr. Clarke was a director of L&L International Holdings, Inc. from September 11, 2004 to March 4, 2005. L&L was later renamed to L&L Energy, Inc. and trades on the Nasdaq Global Market (LLEN). Mr. Clarke has also been Chairman of Cardtrend International Inc. (now known as Mezabay International Inc.) from Oct. 2, 1998 to Dec. 17, 2004 and again from Oct. 5, 2005 until January 23, 2008. He also served a Chief Executive Officer of Cardtrend (then called Asia Payment Systems Inc.) from Oct. 15, 2005 until May 22, 2006. We took into account his prior experiences and believe Mr. Clarke has the qualifications and skills to serve as a Director

Conflicts of Interest

The only conflict that we foresee is that our officers and directors will devote time to projects that do not involve us.

Audit Committee Financial Expert

We do not have an audit committee financial expert. We do not have an audit committee financial expert because we believe the cost related to retaining a financial expert at this time is prohibitive. Further, because we are only beginning our commercial operations, at the present time, we believe the services of a financial expert are not warranted.

Audit Committee and Charter

We have a separately-designated audit committee of the board, but this consists of the two serving board members and audit committee functions are therefore performed by our full board of directors. All our directors also hold positions as our officers, and none are deemed independent. Our board, serving as the audit committee, is responsible for: (1) selection and oversight of our independent accountant; (2) establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters; (3) establishing procedures for the confidential, anonymous submission by our employees of concerns regarding accounting and auditing matters; (4) engaging outside advisors; and, (5) funding for the outside auditors and any outside advisors engagement by the audit committee. A copy of the audit committee charter is available on our website at governance.surna.com.

Code of Ethics

We have adopted a corporate code of ethics. We believe our code of ethics is reasonably designed to: deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code. A copy of the code of ethics is available on our website at

governance.surna.com.

Disclosure Committee and Charter

We have a disclosure committee and disclosure committee charter. Our disclosure committee is comprised of all of our officers and directors. The purpose of the committee is to provide assistance to the Chief Executive Officer and the Chief Financial Officer in fulfilling their responsibilities regarding the identification and disclosure of material information about us and the accuracy, completeness and timeliness of our financial reports. A copy of the disclosure committee charter is available on our website at governance.surna.com.

Section 16(a) of the Securities Exchange Act of 1934

As of the date of this report, we are not subject to section 16(a) of the Securities Exchange Act of 1934.

ITEM 11.

EXECUTIVE COMPENSATION.

The following table sets forth the compensation paid by us for the last two fiscal years ending December 31, 2013 for each of our officers. This information includes the dollar value of base salaries, bonus awards and number of stock options granted, and certain other compensation, if any. The compensation discussed addresses all compensation awarded to, earned by, or paid or named executive officers.

Executive Officer Compensation Table

Name and Principal	Year	Salary (US\$)	Bonus (US\$)	Awards (US\$)	Awards (US\$)	Incentive Compensation (US\$)	Non-	All	Total
							qualified Non-equity	deferred other	
Position (a)	(b)	(c)	(d)	(e)	(f)	(g)	(US\$) (h)	(US\$) (i)	(US\$) (j)
Robert Clarke President, CEO & CFO	2013	0	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0	0
Richard Clarke, Chairman	2013	60,000	0	0	0	0	0	0	60,000
	2012	120,000	0	0	0	0	0	0	120,000
Cherry Lim President and CEO	2013	60,000	0	0	0	0	0	0	60,000
	2012	120,000	0	0	0	0	0	0	120,000
Man-Chor Poon CFO	2013	0	0	0	0	0	0	0	0
	2012	2,564	0	0	0	0	0	0	2,564

The compensation discussed herein addresses all compensation awarded to, earned by, or paid to our named executive officers. There are no other stock option plans, retirement, pension, or profit sharing plans for the benefit of our officers and directors other than as described herein.

Compensation of Directors

The members of our board of directors are not compensated for their services as Directors. The board has not implemented a plan to award options to any Directors and there are no contractual arrangements with any member of the board of Directors or any Director's service contracts.

Long-Term Incentive Plan Awards

We do not have any long-term incentive plans.

Indemnification

Under our Articles of Incorporation and Bylaws of the corporation, we may indemnify an officer or director who is made a party to any proceeding, including a lawsuit, because of his position, if he acted in good faith and in a manner he reasonably believed to be in our best interest. We may advance expenses incurred in defending a proceeding. To the extent that the officer or director is successful on the merits in a proceeding as to which he is to be indemnified, we must indemnify him against all expenses incurred, including attorney's fees. With respect to a derivative action, indemnity may be made only for expenses actually and reasonably incurred in defending the proceeding, and if the officer or director is judged liable, only by a court order. The indemnification is intended to be to the fullest extent permitted by the laws of the State of Nevada.

Regarding indemnification for liabilities arising under the Securities Act of 1933, which may be permitted to directors or officers under Nevada law, we are informed that, in the opinion of the Securities and Exchange Commission, indemnification is against public policy, as expressed in the Act and is, therefore, unenforceable.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth, as of the date of this report, the total number of shares owned beneficially by our directors, officers and key employees, individually and as a group, and the present owner of 5% or more of our total outstanding shares of common stock. The stockholder listed below has direct ownership of his/her shares and possess voting and dispositive power with respect to the shares.

Name and Address of Beneficial Owner	Number of shares	Percentage ownership
Tom Bollich		
1780 55th St., Ste. A	33,428,023	33.6 %
Boulder, CO 80301		
Brandy Keen		
1780 55th St., Ste. A	17,594,835	17.7%
Boulder, CO 80301		
Stephen Keen		
1780 55th St., Ste. A	17,594,835	17.7%
Boulder, CO 80301		
Tae Darnell		
1780 55th St., Ste. A	3,861,000	3.9%
Boulder, CO 80301		
Douglas McKinnon	2,081,722	3.0%
1780 55th St., Ste. A		

Boulder, CO 80301
R&T Sports Marketing

15440 SW 82 nd Ave.	9,700,000	9.8%
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Palmetto Bay, FL 33157

All officers and directors as a group

	39,370,745	39.6%
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(4 individuals)

Each of Tom Bollich, Brandy Keen, Stephen Keen, Tae Darnell and Douglas McKinnon holds options to purchase about 2,000,000 shares of common stock at an exercise price of \$0.25 per share. These options were carried over from the Safari Resource Group merger.

There are 47 holders of record for our common stock.

In addition, at the closing of the Safari Resource Group merger shareholders will receive 77,220,000 Preferred Shares out of which our officers and directors will receive the following:

Name and Address of Beneficial Owner	Number of preferred shares	Percentage ownership of preferred shares
Tom Bollich		
1780 55th St., Ste. A Boulder, CO 80301	33,428,023	43.3 %
Brandy Keen		
1780 55th St., Ste. A Boulder, CO 80301	17,594,835	22.8%
Stephen Keen		
1780 55th St., Ste. A Boulder, CO 80301	17,594,835	22.8%
Tae Darnell		
1780 55th St., Ste. A Boulder, CO 80301	3,861,000	5.0%
Douglas McKinnon		
1780 55th St., Ste. A Boulder, CO 80301	2,081,722	3.9%
All officers and directors as a group		
(4 individuals)	39,370,745	51.0%

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The copyright for the PRC of online products, including online games, that are developed by Flying Cloud is held in trust by a domestic PRC company, Jurun Information Technology (Shanghai) Co. Ltd. (Jurun). Jurun is incorporated in Pudong, Shanghai and its equity interest is owned by two PRC citizens, who hold the company in-trust for a BVI company, Evident Games Limited (Evident), through a series of contractual arrangements that make Jurun a Variable Interest Entity (VIE) of Evident. Evident is in turn 52% owned and controlled by Lim Clarke & Co Limited, which is controlled by two of our former Directors. Jurun owns the entire equity interest of another PRC company, Shenzhen Tengyu Network Technology Co. Ltd. (Tengyu), which holds the licenses necessary to publish online products in the PRC.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

(1)

Audit Fees

The aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for our audit of annual financial statements and review of financial statements included in our Form 10-Qs or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years was:

Year		Amount	
2013	\$	27,000	RBSM
2012	\$	24,045	RBSM

(2)

Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountants that are reasonably related to the performance of the audit or review of our financial statements and are not reported in the preceding paragraph:

Year		Amount	
2013	\$	0	RBSM
2012	\$	0	RBSM

(3)

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning was:

Year		Amount	
2013	\$	0	RBSM
2012	\$	0	RBSM

(4)

All Other Fees

The aggregate fees billed in each of the last two fiscal years for the products and services provided by the principal accountant, other than the services reported in paragraphs (1), (2), and (3) was:

Year		Amount	
2013	\$	0	RBSM
2012	\$	0	RBSM

(5)

Our board of directors has adopted a procedure for pre-approval of all fees charged by our independent registered public accounting firm. Under the procedure, the Board approves the engagement letter with respect to audit, tax and review services. Other fees are subject to pre-approval by the Board, or, in the period between meetings, by a designated member of the Board. Any such approval by the designated member is disclosed to the entire Board at the next meeting. The audit and tax fees paid to the auditors with respect to fiscal 2013 were pre-approved by the entire board of directors.

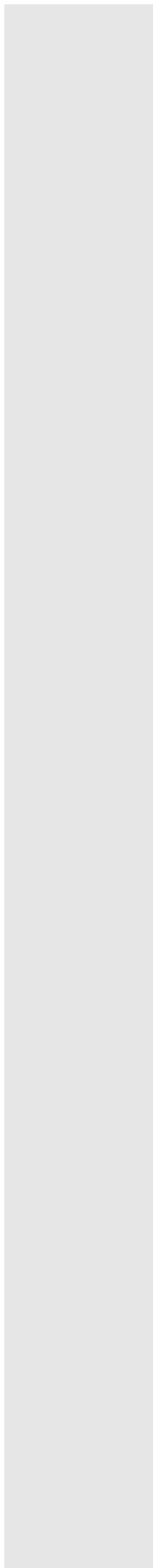
(6)

The percentage of hours expended on the principal accountant's engagement to audit our financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full time, permanent employees was zero.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Incorporated by reference to the Exhibit index attached hereto.



SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing of this Form 10-K and has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 15th day of April, 2014.

SURNA INC.

(the Registrant)

BY: /s/ Tom Bollich
 Tom Bollich
 Chief Executive Officer, Principal Executive Officer, and a member of the Board of Directors

BY: /s/ Robert Clarke
 Robert G. Clarke
 Principal Financial Officer, Principal Accounting Officer, and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the Registrant and in the capacities.

Signature	Title	Date
<u>/s/ Tom Bollich</u> Tom Bollich	Chief Executive Officer, Principal Executive Officer, and a member of the Board of Directors	April 15, 2014
<u>/s/ Robert Clarke</u> Robert Clarke	Principal Financial Officer, Principal Accounting Officer, and Treasurer	April 15, 2014
<u>/s/ Tae Darnell</u> Tae Darnell	Vice-President, Secretary, and a member of the Board of Directors	April 15, 2014

/s/ Douglas
McKinnon

Member of the Board of Directors

April
15,
2014

Douglas McKinnon

EXHIBIT INDEX

Exhibit	Document Description	Incorporated by reference			Filed herein
		Form	Date	Number	
3.1	Articles of Incorporation	S-1	1/28/10	3.1	
3.2	Bylaws	S-1	1/28/10	3.2	
3.3	Amended Articles of Incorporation	8K	6/16/11	3.3	
4.1	Specimen Stock Certificate	S-1	1/28/10	4.1	
10.1	Asset purchase agreement with Kopere Limited	8-K	4/28/11	10.1	
10.2	Debt conversion agreement with Kopere Limited	8-K	6/23/11	10.1	
10.3	Share exchange agreement for Surna Media Inc.	8-K	11/8/11	10.1	
10.4	Technical Services Agreement with Jurun Information Technology (Shanghai) Co. Ltd.	10-Q	5/21/12	10.4	
21.1	List of Subsidiaries				X
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X

