Labor Smart, Inc.
Form 10-K
April 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 26, 2014

Commission file number 000-54654

LABOR SMART, INC.

(Exact name of registrant as specified in its charter)

Nevada	**45-2433287**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3270 Florence Road, Ste. 200	
Powder Springs, GA	**30027**
(Address of principal executive offices)	(Zip Code)

(770) 222-5888

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock	**N/A**

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, $0.00001 Par Value
(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On June 27, 2014, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the Common Stock held by non-affiliates of the registrant was $2,126,675, based upon the closing price on that date of the Common Stock of the registrant on OTC Markets.com of $0.219. For purposes of this response, the registrant has assumed that its directors, executive officers and beneficial owners of 5% or more of its Common Stock are deemed affiliates of the registrant.

As of March 30, 2015, the registrant had 3,088,060,356 shares of and Common Stock, $0.00001 par value, outstanding.

Documents incorporated by reference: None

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SPECIAL NOTE ABOUT FORWARD-LOOKING INFORMATION

Certain statements in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are typically identified by the use of the words "believe," "may," "could," "should," "expect," "anticipate," "estimate," "project," "propose," "plan," "intend," and similar wor expressions. Statements that describe our future strategic plans, goals, or objectives are also forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. The forward-looking statements included in this report are made only as of the date of this report.

The forward-looking information is based on present circumstances and on our predictions regarding events that have not occurred, that may not occur, or that may occur with different consequences from those now assumed or anticipated. Actual events or results may differ materially from those discussed in the forward-looking statements. The forward-looking statements included in this report are made only as of the date of this report.

We may be deemed to be insolvent and may face liquidation.
The auditors' report for our most recent fiscal year contains an explanatory paragraph about our ability to continue as a going concern.
We will require substantial amounts of additional capital from external sources.
Any substantial increase in sales will require skilled management of growth.
We cannot predict the impact on our activities of the current economic crises.
We are authorized to issue substantial additional shares of stock, which would dilute the ownership of our stockholders.
Penny stock regulations will impose certain restrictions on resales of our securities, which may cause an investor to lose some or all of its investment .
The factors set forth under "Management's Discussion and Analysis of Analysis of Financial Condition and Results of Operation" and other factors that are not currently known to us that may emerge from time to time.

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PART I

ITEM 1. BUSINESS

Use of Certain Defined Terms

Except as otherwise indicated by the context, references in this report to:

- "Labor Smart" "Labor Smart, Inc.," "we," "us," or "our," "Successor" and the "Company" are references to the business of La Smart, Inc.
- "Securities Act" refers to the Securities Act of 1933, as amended, and "Exchange Act" refers to the Securities Exchange Act of 1934, as amended

About Labor Smart

Labor Smart, Inc. was incorporated in the State of Nevada on May 31, 2011. Since inception, the Company has been engaged in organizational efforts, obtaining financing and deployment of our business model. Labor Smart provides temporary blue-collar staffing services. It supplies general laborers on demand to the light industries, including manufacturing, logistics, and warehousing, skilled trades' people and general laborers to commercial construction industries.

Industry Summary

The on-demand temporary staffing industry developed out of the need for businesses to have flexible staffing options that would allow them to respond quickly to changing business conditions. Cyclical business environments and competitive pressures have prompted businesses to focus on cost reduction, sometimes replacing full-time employees when absent due to illness, vacation, or unplanned termination and utilizing temporary staff during peak seasons.

The on-demand temporary staffing industry is highly fragmented and the industry continues to develop specialized market segments that reflect the diverse needs of the businesses it serves. Technical skills, work history, duration of assignment, and background check requirements vary among industries and employers. We operate primarily within the short-term, skilled and unskilled segments of the on-demand temporary staffing industry. We oversee the operation of multiple locations from a single corporate office. We are a business to business service provider. Methods used to sell and market our services to local and regional businesses vary depending on local economic factors, types of business in the geographic area, and other competitive considerations. Our sales processes can take place at varying locations including our branch offices, the customers' worksite, or via e-commerce. Temporary employees are recruited by our branch staff for placement with our customers based upon customer requirements.

Business Strategies

Our objective is to aggressively grow our share of the on demand temporary staffing market. We plan to achieve this objective by:

-Growing revenue in existing locations

-Growing revenue through new branch openings and acquisitions

-Leveraging customer relationships across vertical markets

Growing revenue in existing locations: As a branch location matures, the Company seeks to increase its revenues by expanding sales opportunities with existing customers and aggressively increasing the number of customers served. By servicing our customers with a high level of responsiveness and attention to detail, we believe additional market share and revenue growth is obtainable.

Growing revenue through new branch openings: In 2014 we opened and acquired a total of 15 branches. We will continue to rapidly open new locations based on the availability of talent in target markets and financial resources of the company. We believe that having the right talent to oversee the day to day operations of a branch is key to the success of the branch and the company as a whole. The Company plans to open new branches when a strategic competitive advantage can be gained in the marketplace. For 2015, the Company expects to complete more acquisitions than new organic branch openings.

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Leveraging customer relationships across vertical markets: Due to the extensive fragmentation of our industry, the Company believes our expanding footprint of branches provides a competitive edge when servicing customers with a regional presence. The company intends to leverage local customer relationships to seek out opportunities on a macro scale with new and existing customers.

Branch Expansion

The Company has grown rapidly from 6 branch locations in 2012 to 30 branch locations at December 26, 2014. The Company's expansion has been achieved by opening company owned branch locations and by acquisitions of branch locations that are managed day to day by Branch Managers.

The Company currently anticipates opening up to 5 new branch locations in 2015. The Company intends to pursue more acquisitions than in prior years.

Operations

Branch Locations. Branch locations are offices where temporary and prospective temporary employees report prior to being placed on an assignment. Branch locations open between 5am and 6am daily depending on customer needs. Generally, the Branch Manager will coordinate assignment of temporary employees to customer work orders. Prior to dispatching the temporary employee, branch staff will ensure that temporary employees have the necessary Personal Protective Equipment (PPE) as needed for the assignment they are placed on. The Company provides PPE needed to the temporary employee at no cost to the temporary employee. Temporary employees are matched to customer assignments primarily based on the customer specific requirements such as skills, experience, and availability.

Most work orders from customers are scheduled in advance. However, a significant portion of work orders are requested on short notice by the customer.

The temporary employees are provided a work order by a branch staff member that is completed and signed by the customer. The work order shows the hours worked and allows the customer to note a request for the same or different temporary employee at a future date.

Branch locations are generally staffed with at least two full time employees including the Branch Manager and a Customer Service Representative or an Account Executive. Each branch locations sets their own hours based on business volume for accepting applications from prospective temporary employees.

Customers. The Company's customers are primarily businesses that require employees for manual labor such as hauling, cleaning, digging, loading, and assembly. The Company's customers are generally engaged in construction, freight handling, landscaping, warehousing, janitorial, disaster response, light manufacturing, retail or wholesale operations.

A new branch location initially targets the construction and janitorial industries for potential customers. The Company has identified these industries as having a relatively short sales cycle and ever changing workforce needs. As the branch matures, the customer base broadens and diversifies. The Company currently derives its business from a large number of customers.

Sales and Marketing. Generally, each branch location is responsible for its own sales and marketing efforts. The Branch Manager is primarily responsible for new customer acquisition and customer service with all branch employees being involved in customer service, and to some degree, the sales process. The Company's goal is for each branch to make contact with 125-200 potential customers weekly.

The Company also supports branch sales efforts from a national approach. The Company will continue to implement sales and marketing strategies that reflect its expanding branch footprint and growing corporate infrastructure.

Management Employees and Training. The Company seeks to hire experienced branch and multi-unit managers as part of its expansion strategy. After a thorough interview process, new staff members undergo two weeks of training at an existing branch and classroom style training at the corporate facility. The Company's training program emphasizes Company sales and service philosophies and approaches.

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Workers' Compensation Program. The Company maintains workers' compensation insurance as required by state laws. In 2013, the Company's workers' compensation insurance for all states was carried by Lumbermen's Underwriting, except for Ohio and Washington, states that provide state administered workers compensation pools. In January 2013, the Company began coverage with Zurich Insurance Group. Both of these policies are guaranteed cost policies in which the Company pays a percentage of payroll as premium but assumes no financial liability beyond the premiums. During the quarter ended September 26, 2014, the Company entered into an insurance contract for workers compensation insurance for the policy period of June 14, 2014 to June 14, 2015. The policy coverage is for seventeen states and carries a deductible of $250,000 per occurrence, making the Company substantially self-insured. In states not covered by this policy, the Company secures workers' compensation insurance through the available state insurance pools.

Safety Program. The Company, has deployed a general safety program that focuses on prevention. The Company believes that safety awareness and injury prevention will help control long term worker's compensation costs as rates are increased or reduced annually based on accident frequency, amount of claims, and overall loss runs.

Competition. The on demand temporary staffing industry is highly fragmented and competitive with limited barriers to entry. There is no one company dominant in the on demand temporary staffing industry, however, there are several large competitors. The Company believes that the primary factors in obtaining and retaining customers are the cost of services, the quality of employees provided, the responsiveness of service, and the number of markets that can be serviced. The Company believes it may face pricing pressures until and unless it has the ability to service larger customers on a national scale.

Emerging Growth Company

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We are choosing to take advantage of the extended transition period for complying with new or revised accounting standards.

We will remain an “emerging growth company” for up to five years, although we will lose that status sooner if our revenues exceed $1 billion, if we issue more than $1 billion in non-convertible debt in a three year period, or if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any May 30.

Because of the exemptions from various reporting requirements provided to us as an “emerging growth company” and because we will have an extended transition period for complying with new or revised financial accounting standards, we may be less attractive to investors and it may be difficult for us to raise additional capital as and when we need it. Investors may be unable to compare our business with other companies in our industry if they believe that our financial accounting is not as transparent as other companies in our industry. If we are unable to raise additional capital as and when we need it, our financial condition and results of operations may be materially and adversely affected.

Where You Can Find Us

The address of our principal executive office is:

Labor Smart, Inc,

3270 Florence Road, Ste 200

Powder Springs, GA 30027

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Our telephone number is (770) 222-5888. Our facsimile number is (770) 222-5550. Our website can be viewed at www.laborsmart.com.

ITEM 1A. RISK FACTORS

The following risk factors should be considered carefully in addition to the other information contained in this report. This report contains forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our customers' or our industry's actual results, levels of activity, performance or achievements expressed or implied by these forward-looking statements, to differ. "Risk Factors," "Management's Discussion and Analysis" and "Business," as well as other sections in this report, discuss some of the factors that could contribute to these differences.

The forward-looking statements made in this report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Investment in the securities offered herein is speculative, involves a high degree of uncertainty, is subject to a number of risks and is suitable only for investors of substantial financial means. Prospective investors should carefully consider the following risk factors in addition to the other information contained in this prospectus, before making an investment decision concerning the common stock offered in this prospectus. Only those investors who are prepared to potentially risk a total financial loss of their investment in this company should consider investing. Any of the following risks could have a material adverse effect on the Company's business, financial condition, operations or prospects and cause the value of our common stock to decline, which could cause you to lose all or part of your investment. When determining whether to invest, you should also refer to and consider the other information in this annual report, including, but not limited to, the financial statements and related notes.

The factors set forth below, along with the other information contained herein, should be considered carefully in evaluating our prospects. Further, this document contains certain forward-looking statements that involve risks and uncertainties, such as statements of our plans, goals, objectives, expectations and intentions. The cautionary statements made in this section apply to all forward-looking statements wherever they appear in this document. Readers are cautioned that, while the forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance, and involve risks and uncertainties. In addition, actual results could differ materially from those discussed herein and our business, our financial condition or the results of operations could be materially and adversely affected. In such case, some of the factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this document. In the event that actual results *do not meet expectations, there could be a consequent negative effect on the position of investors.*

The following are risk factors which are directly related to the Company’s business and financial condition. Investing in our securities involves a high degree of risk and you should not invest in these securities unless you can afford to lose your entire investment. You should read these risk factors in conjunction with other more detailed disclosures located elsewhere in this annual report.

OUR BUSINESS IS SIGNIFICANTLY AFFECTED BY FLUCTUATIONS IN GENERAL ECONOMIC CONDITIONS

The demand for our blue-collar staffing services is highly dependent upon the state of the economy and upon staffing needs of our customers. As economic activity slows, companies tend to reduce their use of temporary employees before terminating their regular employees. Significant declines in demand and corresponding revenues, can result in expense de-leveraging, which would result in lower profit levels. Any variation in the economic condition or unemployment levels of the United States or in the economic condition of any region or specific industry in which we have a significant presence may severely reduce the demand for our services and thereby significantly decrease our revenues and profits.

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WE MAY INCUR EMPLOYMENT RELATED AND OTHER CLAIMS THAT COULD MATERIALLY HARM OUR BUSINESS.

We employ individuals on a temporary basis and place them in our customers' workplaces. We have minimal control over our customers' workplace environments. As the employer of record of our temporary workers, we incur a risk of liability for various workplace events, including claims for personal injury, wage and hour violations, discrimination or harassment, and other actions or inactions of our temporary workers. In addition, some or all of these claims may give rise to litigation including class action litigation. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and can be reasonably estimated.

We cannot be certain that our insurance will be sufficient in amount or scope to cover all claims that may be asserted against us. Should the ultimate judgments or settlements exceed our insurance coverage, they could have a material effect on our business. We cannot be certain we will be able to obtain appropriate types or levels of insurance in the future, that adequate replacement policies will be available on acceptable terms or that the companies from which we have obtained insurance will be able to pay claims we make under such policies.

WE OPERATE IN A HIGHLY COMPETITIVE BUSINESS AND MAY BE UNABLE TO RETAIN CUSTOMERS OR MARKETSHARE.

The staffing services business is highly competitive and the barriers to entry are low. There are new competitors entering the market which may increase pricing pressures. In addition, long-term contracts form only a small portion of our revenue. Therefore, there can be no assurance that we will be able to retain customers or market share in the future. Nor can there be any assurance that we will, in light of competitive pressures, be able to remain profitable or, if profitable, maintain our current profit margins.

WE MAY BE UNABLE TO ATTRACT AND RETAIN SUFFICIENT QUALIFIED TEMPORARY WORKERS.

We compete with other temporary staffing companies to meet our customer needs and we must continually attract qualified temporary workers to fill positions. Attracting and retaining some skilled temporary employees depends on factors such as desirability of the assignment, location, and the associated wages and other benefits. We have in the past experienced worker shortages and we may experience such shortages in the future. Further, if there is a shortage of temporary workers, the cost to employ these individuals could increase. If we are unable to pass those costs through to our customers, it could materially and adversely affect our business.

LOSS OF RYAN SCHADEL, OUR PRESIDENT AND CHIEF EXECUTIVE OFFICER, COULD IMPAIR OUR ABILITY TO OPERATE.

If we lose our key employees, such as Ryan Schadel, our President and Chief Executive Officer, our business could suffer. Our success is highly dependent on our ability to attract and retain qualified management personnel. We are highly dependent on our management and the loss of Mr. Schadel's services could have a material adverse effect on our operations. If we were to lose Mr. Schadel's services, we may experience difficulties in competing effectively, developing our technology and implementing our business strategies.

IF WE ARE UNABLE TO CONTINUE AS A GOING CONCERN, INVESTORS MAY FACE A COMPLETE LOSS OF THEIR INVESTMENT.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern in the independent registered public accounting firm's report to the financial statements included in this Form 10-K. If our business fails, the investors may face a complete loss of their investment.

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BECAUSE WE ARE A NEWLY FOUNDED COMPANY, WE FACE A HIGH RISK OF BUSINESS FAILURE.

We were incorporated on May 31, 2011. We have no significant operating history nor do we have anyone experienced in managing a public company. There is no assurance that we will be able to maintain any sustainable operations. It is not possible at this time to predict success with any degree of certainty. An investor should consider the risks, expenses and uncertainties that a developing company like ours faces. Potential investors should be aware that there is

a substantial risk of failure associated with any new business venture as a result of problems encountered in connection with the commencement of new operations. These problems include, but are not limited to, an unstable economy, unanticipated problems relating to the entry of new competition, unanticipated moves by existing competition and unexpected additional costs and expenses that may exceed current estimates. Also, to date, we have completed only partial development of our intended operations and we can provide no assurance that our company will have a successful commercial application. There is no operating history upon which to base any projections as to the likelihood that we will prove successful in our current business plan, and thus there can be no assurance that we will be a viable, ongoing concern.

WE MAY NOT BE ABLE TO ATTAIN PROFITABILITY WITHOUT ADDITIONAL FUNDING, WHICH MAY BE UNAVAILABLE.

Unless we begin to generate sufficient revenues, on a consistent basis, to sustain an ongoing business operation, we may experience liquidity and solvency problems. Such liquidity and solvency problems may force us to cease operations if additional financing, under acceptable terms and conditions, is not available. In the event our cash resources are insufficient to continue operations we intend to consider raising additional capital through offerings and sales of equity or debt securities. In the event we are unable to raise sufficient funds, we will be forced to terminate business operations. The possibility of such an outcome presents the risk of a complete loss of your investment in our common stock.

INVESTORS MAY LOSE THEIR ENTIRE INVESTMENT IF THE COMPANY FAILS TO IMPLEMENT ITS BUSINESS PLAN.

We expect to face substantial risks, uncertainties, expenses and difficulties. Since inception, we have accumulated deficits of $8,313,284. Our prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of operation. These risks include, without limitation, an unstable economy, competition, inexperienced management, lack of sufficient capital, and lack of brand recognition. We cannot guarantee that we will be successful in accomplishing our objectives.

THE COSTS, EXPENSES AND COMPLEXITY OF SEC REPORTING AND COMPLIANCE MAY INHIBIT OR SEVERELY RESTRICT OUR OPERATIONS.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. The costs of complying with these complex requirements are substantial and require extensive consumption of our time as well as retention of expensive specialists in this area. In the event we are unable to establish a base of operations that generates sufficient cash flows or cannot obtain additional equity or debt financing, the costs of maintaining our status as a reporting entity may inhibit our ability to continue our operations.

THE COMPANY MAY NOT BE ABLE TO GENERATE SUFFICIENT REVENUES TO STAY IN BUSINESS.

We expect to earn revenues solely in our chosen business area. In the opinion of our management, we reasonably believe that the Company will begin to generate reasonable revenues. However, failure to generate sufficient and consistent revenues to fully execute and adequately maintain our business plan may result in failure of our business and the loss of your investment.

COMPETITORS WITH MORE RESOURCES MAY FORCE US OUT OF BUSINESS.

The market for customers is intensely competitive and such competition is expected to continue to increase. Generally, our actual and potential competitors are larger companies with longer operating histories, greater financial and marketing resources, with superior name recognition and an entrenched client base. Therefore, many of these competitors may be able to devote greater resources to attracting customers and be able to grant preferred pricing. Competition by existing and future competitors could result in our inability to secure an adequate customer base sufficient enough to support our endeavors. We cannot be assured that we will be able to compete successfully against present or future competitors or that the competitive pressure we may face will not force us to cease operations.

OUR COMMON STOCK IS ILLIQUID AND THE PRICE OF OUR COMMON STOCK MAY BE NEGATIVELY IMPACTED BY FACTORS WHICH ARE NOT RELATED TO OUR OPERATIONS.

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Our common stock currently trades on a limited basis on the OTC. Trading of our stock through the over-the-counter markets is frequently thin and highly volatile. There is no assurance that a sufficient market will develop in our stock, in which case it could be difficult for shareholders to sell their stock. The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of our competitors, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

INVESTORS MAY HAVE DIFFICULTY LIQUIDATING THEIR INVESTMENT BECAUSE OUR STOCK IS SUBJECT TO PENNY STOCK REGULATION.

The SEC has adopted rules that regulate broker/dealer practices in connection with transactions in penny stocks. Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange system). The rules, in part, require broker/dealers to provide penny stock investors with increased risk disclosure documents and make a special written determination that a penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These heightened disclosure requirements may have the effect of reducing the number of broker/dealers willing to make a market in our shares, thereby reducing the level of trading activity in any secondary market that may develop for our shares. Consequently, shareholders in our securities may find it difficult to sell their securities, if at all.

WE DO NOT CURRENTLY INTEND TO PAY DIVIDENDS ON OUR COMMON STOCK SO CONSEQUENTLY YOUR ABILITY TO ACHIEVE A RETURN ON YOUR INVESTMENT WILL DEPEND ON APPRECIATION IN THE PRICE OF OUR COMMON STOCK.

Prospective investors should not anticipate receiving any dividends from our common stock. We intend to retain future earnings, if any, to finance our growth and development and do not plan to pay cash or stock dividends. The lack of dividend potential may discourage prospective investors from purchasing our common stock.

THE CONTINUED SALE OF OUR EQUITY SECURITIES WILL DILUTE THE OWNERSHIP PERCENTAGE OF OUR EXISTING STOCKHOLDERS AND MAY DECREASE THE MARKET PRICE FOR OUR COMMON STOCK.

Given our lack of financial resources and the doubtful prospect that we will earn significant profits in the next several years, we will require additional financing which will result in dilution to our existing stockholders. In short, our continued need to sell equity will result in reduced percentage ownership interests for all of our investors, which may decrease the market price for our common stock.

THE COMPANY MAY LOSE ITS TOP MANAGEMENT WITHOUT EMPLOYMENT AGREEMENTS.

Our operations depend substantially on the skills, knowledge and experience of the present management. The Company does not maintain key man life insurance. Without an employment contract, we may lose the present management of the Company to other pursuits without a sufficient warning and, consequently, we may be forced to terminate our operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases all of its branch locations. Branch location leases have, at minimum, a one year term and require additional payments for taxes, insurance, maintenance and renewal options. In addition to branch locations, the Company oversees companywide operations at a leased corporate office space located in an office building at 3270 Florence Road, Suite 200 in Powder Springs, Georgia.

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ITEM 3. LEGAL PROCEEDINGS

From time to time we are subject to compliance audits by federal, state, and local authorities relating to a variety of regulations including wage and hour laws, taxes, workers' compensation, immigration, and safety. We are also subject to legal proceedings in the ordinary course of our operations. We know of no material, active or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

The Company's common stock is traded on the over-the-counter markets under the symbol LTNC. As of March 26, 2014, the Company's common stock was held by 40 shareholders of record, which does not include shareholders whose shares are held in street or nominee name.

The Company's shares commenced trading on or about June 29, 2012. The following chart is indicative of the fluctuations in the stock prices:

	For the Years Ended December 31,			
	2014		**201**	
	High	**Low**	**High**	**Low**
First Quarter	$0.49	$0.19	$0.32	$0.19

Second Quarter	$0.40	$0.205	$0.352	$0.2311
Third Quarter	$0.24	$0.097	$0.52	$0.245
Fourth Quarter	$0.11	$0.0012	$0.735	$0.211

The Company's transfer agent is West Coast Stock Transfer, Inc., located in San Diego, CA.

The Company's common stock is subject to Rule 15g-9 of the Securities and Exchange Commission, known as the Penny Stock Rule. This rule imposes requirements on broker/dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, brokers/dealers must make a special suitability determination for purchasers of the securities and receive the purchaser's written agreement to the transaction prior to sale. The Securities and Exchange Commission also has rules that regulate broker/dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than $5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in that security is provided by the exchange or system. The Penny Stock Rules requires a broker/dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the Commission that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker/dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker/dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker/dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. These disclosure requirements have the effect of reducing the level of trading activity in the secondary market for our common stock. As a result of these rules, investors may find it difficult to sell their shares.

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Dividend Policy

No cash dividends have been paid by the Company on its common stock. It is anticipated that the Company's future earnings will be retained to finance its continuing development. The payment of any future dividends will be at the discretion of the Company's board of directors and will depend upon, among other things, future earnings, any contractual restrictions, success of business activities, regulatory and corporate law requirements and the general financial condition of the Company.

Equity Compensation Plan Information

2012 Stock Option Plan

Effective July 13, 2012, we adopted the 2012 Stock Incentive Plan (the "2012 Plan"). The 2012 Plan allows us to grant certain options to our directors, officers, employees and eligible consultants. The purpose of the 2012 Plan is to enhance our long-term stockholder value by offering opportunities to our directors, officers, employees and eligible consultants to acquire and maintain stock ownership in us in order to give these persons the opportunity to participate in our growth and success, and to encourage them to remain in our service.

The 2012 Plan allows us to grant options to our officers, directors and employees. In addition, we may grant options to individuals who act as our consultants, so long as those consultants do not provide services connected to the offer or sale of our securities in capital raising transactions and do not directly or indirectly promote or maintain a market for our securities.

A total of 6,000,000 shares of our common stock are available for issuance under the 2012 Plan. The 2012 Plan provides for the grant of incentive stock options and non-qualified stock options. Incentive stock options granted under the 2012 Plan are those intended to qualify as "incentive stock options" as defined under Section 422 of the Internal Revenue Code. However, in order to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code, the 2012 Plan must be approved by our stockholders within 12 months of its adoption. The 2012 Plan has not been approved by our stockholders. Non-qualified stock options granted under the 2012 Plan are option grants that do not qualify as incentive stock options under Section 422 of the Internal Revenue Code.

Options granted under the 2012 Plan are non-transferable, other than by will or the laws of descent and distribution.

The 2012 Plan terminates on July 13, 2022, unless sooner terminated by action of our Board of Directors. No option is exercisable by any person after such expiration. If an award expires, terminates or is canceled, the shares of our common stock not purchased there under shall again be available for issuance under the 2012 Plan.

The following table summarizes stock option activity during fiscal 2013 and 2014:

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding – January 1, 2013	130,000	$ 0.50
Granted	4,110,037	0.16
Forfeited or expired	(356,582)	0.05
Exercised	-	-
Outstanding - December 31, 2013	3,883,455	0.18
Granted	50,000	0.06
Forfeited or expired	(1,057,478)	0.05
Exercised	-	-
Outstanding – December 26, 2014	2,875,977	$ 0.19
Exercisable – December 26, 2014	1,885,000	$ 0.33

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our shares of common stock or other securities during our fiscal year ended December 26, 2014.

Recent Sales of Unregistered Securities

On February 11, 2014, the Company issued 100,000 shares of common stock for professional services valued at $21,000 ($0.02 per share).

On July 11, 2014, the Company issued 100,000 shares common stock in satisfaction of stock payable for $23,000 in stock-based compensation for professional fees.

On November 1, 2014, the Company issued 500,000 shares of common stock for investor relations valued at $11,100 ($0.0222 per share) based on the quoted market price of the shares at time of issuance.

On December 9, 2014, the Company issued 390,000 of shares of common stock to employees for services rendered by them for an aggregate fair value of $429 ($0.0.0021 per share) based on the quoted market price of the shares at time of issuance.

During the year ended December 26, 2014, the holders of Convertible Promissory Notes converted 158,382,363 shares of common stock of the Company with a fair value of $3,448,803 to settle $1,575,531 of principal and interest.

ITEM 6. SELECTED FINANCIAL DATA

As the Company is a “smaller reporting company,” this item is not applicable.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report on Form 10-K contains forward-looking statements within the meaning of Rule 175 of the Securities Act of 1933, as amended, and Rule 3b-6 of the Securities Act of 1934, as amended, that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. Words such as “anticipate”, “expects”, “intends”, “plans”, “believes”, “seeks” and “estimates” and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-K. Investors should carefully consider all of such risks before making an investment decision with respect to the Company’s stock. The following discussion and analysis should be read in conjunction with our consolidated financial statements. Such discussion represents only the best present assessment from our Management.

Overview

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Labor Smart, Inc. was incorporated in the State of Nevada on May 31, 2011. We are an emerging provider of temporary employees to the construction, manufacturing, hospitality, restoration and retail industries. We provide unskilled and semi-skilled temporary workers to our customers. The Company has rapidly grown from two branch offices at November 2011 to thirty branch offices at December 26, 2014. The majority of our growth in branch offices was achieved by opening Company-owned locations. A total of four branch offices were opened due to our purchase of the customer lists of Qwik Staffing and Shirley's Employment. The Company's annual revenues grew from approximately $16.6 million to $23.9 million from 2013 to 2014. This revenue growth has been generated both by opening new branch offices and by continuing to increase revenue at existing branch offices.

Our mission is to be the provider of choice to our growing community of customers, with a service-focused approach, that positions us as a resource and partner for their business.

Seasonality

Generally, we expect our revenues to be higher and gross margin percent to be higher during the second and third fiscal quarters as compared to the first and fourth fiscal quarters each year. During the second and third quarters we receive the majority of our contracts to supply labor to construction firms. Contracts for construction work tends to be both larger in dollar amount and to be more profitable than our other contracts. However, the effects of seasonality is partially muted by our rapid revenue growth rate.

Growth Strategy

Historically, our growth strategy has been heavily focused on new branch office openings, growth in revenue from existing offices, and closing one small acquisition per year. On June 14, 2014, we secured a large deductible worker's compensation insurance policy which resulted in us becoming substantially self-insured. We have adjusted our growth strategy based on this significant change to the fundamentals of our business.

During the fiscal 2015, we expect to open no more than five new branches, however, we are aggressively pursuing acquisitions that fit well with our culture and will continue to seek more acquisition opportunities than in prior years. This major shift in focus is directly related to our new large deductible worker's compensation policy. Our industry is very fragmented. We have invested heavily in our corporate infrastructure in the last two years. We believe we can execute acquisitions with an investment of one to four times EBITDA of the seller and immediately recognize economies of scale and a reduced cost of sales for the acquired customer lists as it is integrated into our operations. With our experienced management team, we believe we can successfully execute and close acquisitions totaling $20-$40 million in revenue in 2015. This goal is contingent upon successful financing.

In fiscal 2015, we will seek opportunities to open new branches, though our new branch openings will be much less substantial than in prior years as we shift our expansion strategy to be more acquisition centric. Selection of these locations will be more strategic than in prior years. We will, when possible, open locations based on needs of already existing clients.

At December 31, 2013, we had 15 branches and at December 26, 2014, we had 30 branches. The increase in branches was due to fourteen branches added through internal growth and three branches added through acquisition. At the same time we closed one underperforming branch location and consolidated one acquired branch with an existing branch.

Use of Non-GAAP Financial Information

In addition to GAAP results, this quarterly report on Form 10-K also includes certain non-GAAP financial measures as defined by the Securities and Exchange Commission. The Company defines EBITDA as net income, plus interest and finance expense net of interest income, provision for income taxes, depreciation and amortization. The Company defines Adjusted EBITDA as these items plus non-recurring acquisition and expansion costs, pretax. EBITDA and Adjusted EBITDA are measures used by management to evaluate ongoing operations and as a general indicator of its operating cash flow (in conjunction with a cash flow statement that also includes, among other items, changes in working capital and the effect of non-cash charges). Management believes these measurements are useful to investors because they are frequently used by securities analysts, investors and other interested parties in the comparative evaluation of companies. Because not all companies use identical calculations, Labor Smart's presentation of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies. EBITDA and Adjusted EBITDA are not recognized terms under GAAP, do not purport to be alternatives to, and should be considered in addition to, and not as a substitute for or superior to, net income (loss) as a measure of operating performance or to cash flows from operating activities or any other performance measures derived in accordance with GAAP as a measure of liquidity. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use as they do not reflect certain cash requirements, such as interest payments, tax payments and debt service requirements.

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Pursuant to the requirements of Regulation G, a reconciliation of EBITDA and Adjusted EBITDA to GAAP net loss has been provided in the table below.

RECONCILIATION OF GAAP NET INCOME (LOSS) TO EBITDA

(UNAUDITED)

	Six Months Ended December 26, 2014
GAAP, net loss	$(3,122,152)
Add:	
Provision for income taxes	—
Interest and finance expense, net	3,077,998
Depreciation and amortization	96,744
EBITDA	52,590
Non-recurring acquisition and expansion costs	406,539
Adjusted EBITDA	$459,129

Results of Operations

Summary of Operations:

Revenue for the year ended December 26, 2014 was $23,978,136 as compared to $16,651,885 for the year ended December 31, 2013. An increase for the year ended December 26, 2014 of $7,326,251 or 44%. This increase was due to improved revenue from existing branches and the opening of new branches during fiscal 2014 as well as our purchase of the customer lists of Qwik Staffing and Shirley's Employment. Of the 15 branches that were open at December 31, 2013, revenue for the year ended December 26, 2014 was $21,968,480, representing a 31.93% increase in same branch revenue in a year over year comparison.

Cost of Revenues:

Cost of services was 75% of revenue for the year ended December 26, 2014 and 84% for the year ended December 31, 2013. Cost of services mainly consists of payroll and worker's compensation expense for our laborers which was $17,296,609 or 72% and $653,551 or 3% of revenues, respectively for the year ended December 26, 2014 and $13,485,552 or 81% and $467,570 or 3% of revenues, respectively for the year ended December 31, 2013.

Selling, General and Administrative Expenses (SG&A):

General and administrative fees were 16% of revenue for the year ended December 26, 2014 and 15% for the year ended December 31, 2013.

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For the year ended December 26, 2014, of our total of $6,497,548 in operating expenses, $2,478,439 is attributable to staff payroll expenses and $244,420 to bad debts.

For the year ended December 31, 2013, of our total $4,436,247 in operating expenses, $308,515 is attributable to professional fees including legal, accounting, and consulting services, $801,915 in stock based compensation related to consulting fees, $1,620,859 to staff payroll expenses, $215,255 to bad debt and $90,826 for loss on sale of receivables.

We have funded our operations to date primarily through the sale of equity, invoice factoring, convertible notes payable and shareholder loans. Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations into the coming months. We will require additional cash to fund our operating plan past that time. If the level of sales anticipated by our financial plan are not achieved or our working capital requirements are higher than planned, we will need to raise additional cash sooner or take actions to reduce operating expenses. We have implemented plans to reduce our costs of capital and improve our revenue. If we cannot generate adequate cash by implementing these steps, we plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available on a timely basis, we intend to limit our operations to extend our funds as we pursue other financing opportunities and business relationships. This limitation of operations could include reducing our planned investment in working capital to fund revenue growth and result in reductions in staff, operating costs, and capital expenditures. Should we require additional funds for an extended period of time we may be forced to sell our operations.

Net cash used in operations was $3,457,450 during the year ended December 26, 2014. Net cash flows used in operating activities for the year ended December 26, 2014 mainly consisted of a net loss of $5,119,506 adjusted for stock based compensation of $104,360, financing fees of $4,139,495, by an increase of $1,371,781 in accounts receivable and an increase of $1,038,790 in other assets.

Net cash used in operations was $3,457,450 during the year ended December 31, 2013. Net cash flows used in operating activities for the year ended December 31, 2013 mainly consisted of a net loss of $2,722,980 adjusted for stock based compensation of $801,915, financing fees of $698,585, an increase of our off-balance sheet receivables factoring of $291,708, by an increase of $1,153,774 in accounts receivable and an increase of $908,507 in payroll taxes payable.

Cash used in investing activities totaled $283,113 for the year ended December 26, 2014. Net cash flows used by investing activities consists of assets acquired in asset purchase agreement of $120,797, the purchase of fixed assets of $111,975 and $96,203 in the purchase of marketable securities offset by $146,544 in proceeds from the sale of marketable securities.

Cash used in investing activities totaled $130,433 for the year ended December 31, 2013. Net cash flows used by investing activities consists of assets acquired in asset purchase agreement of $150,000 and $1,853,884 in the purchase of marketable securities offset by $1,833,129 in proceeds from the sale of marketable securities.

Net cash provided by financing activities totaled $3,630,996 for the year ended December 26, 2014. Net cash flows from financing activities consisted of proceeds from convertible notes payable of $4,131,823, offset by payments on a convertible note payable of $1,137,621, payments on related party notes of $30,081, net amount received of $773,450 from factor and payments towards a contingent liabilities of $106,575.

Net cash provided by financing activities totaled $1,709,059 for the year ended December 31, 2013. Net cash flows from financing activities consisted of proceeds from the sale of common stock of $100,000, proceeds from convertible promissory notes payable of $1,630,200, offset by payments on a convertible promissory note payable of $607,500, payments on related party notes of $173,962, net amount of $865,321 from factor, payments towards a contingent liabilities of $89,840 and payment for financed insurance premiums of $15,160.

Our continued capital needs will depend on branch operating performance, our ability to control costs, and the continued impact from our expansion plans in 2015.

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Assets and Liabilities:

At December 26, 2014, we had total current assets of approximately $4,013,920 and current liabilities of approximately $7,767,796. Included in current assets are trade accounts receivable of approximately $3,068,798 and prepaid expenses of $322,855, accounts receivable are recorded at the invoiced amounts. We regularly review our accounts receivable for collectability. We will typically refer overdue balances to a collection agency at 120 days and the collection agent pursues collection for another 60 days. Most balances over 120 days past due are written off, as it is probable the receivable will not be collected. We wrote down $244,420 in bad debt included in S,G,&A during the year ended December 26, 2014. As our business matures, we will continue to monitor and seek to improve our historical collection ratio and aging experience with respect to trade accounts receivable. As we grow, our historical collection ratio and aging experience with respect to trade accounts receivable will continue to be important factors affecting our liquidity.

Financing:

On July 24, 2013, the Company terminated a month-to-month financing agreement with Riviera Finance LLC ("Riviera") that included a non-recourse factoring arrangement that provides notification factoring on substantially all of the Company's sales. Receivables were factored at a rate of 85% of the invoice face value on accepted accounts.

Our total financing costs through our facility with Riviera for the year ended December 26, 2014 and December 31, 2013 was $0 and $90,826, respectively, which is reflected on our Statements of Operations as a loss on sale of receivables. As collateral for repayment of any and all obligations, we granted Riviera a security interest in all our property, including, but not limited to, accounts receivable, intangible assets, contract rights, investment property, deposit accounts, and other such assets.

On July 31, 2013 the Company entered into a Purchase and Sale Agreement with Transfac Capital, Inc. ("Transfac"). Under the terms of the Purchase and Sale Agreement, Transfac shall have the right, but not the obligation, to purchase up to Two Million Dollars ($2,000,000) worth of accounts receivable (the "Maximum Advances") of the Company. For each account receivable purchased, Transfac shall advance seventy percent (70%) of the face value of the account and the balance after receipt of full payment on the account. As consideration, the Company shall pay Transfac two percent (2%) of the average monthly balance of the outstanding accounts purchased, with a minimum of one half of one percent (0.5%) of the Maximum Advances per month, as long as the Purchase and Sale Agreement remains in effect.

Our total financing costs through our facility with Transfac for the years ended December 26, 2014 and 2013 was $401,278 and $103,165, respectively, which is reflected on our Statements of Operations as interest and finance expense. As collateral for repayment of any and all obligations, we granted Transfac a security interest in all our property, including, but not limited to, accounts receivable, intangible assets, contract rights, investment property, deposit accounts, and other such assets.

Off-Balance Sheet Arrangements

As of December 26, 2014, we do not have any off-balance sheet arrangements except for our factored receivables under our agreements with Transfac Capital, Inc. The cash received from our factored receivables finance the Company's operating expenses and are a significant source of liquidity for the Company. For more information about the factoring terms, see "Financing" discussion above.

Inflation

Inflation has not had a material impact on our business and we do not expect inflation to have an impact on our business in the near future.

Critical Accounting Policies

Our financial statements are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

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Our significant accounting policies are summarized in Note 2 of our financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause an effect on our results of operations, financial position or liquidity for the periods presented in this report.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("FASB ASU 2014-09"). This standard update clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards. The standard update intends to provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provide more useful information to users of financial statements through improved disclosure requirements. Upon adoption of this standard update, the Company expects that the allocation and timing of revenue recognition will be impacted. The provisions of FASB ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and are to be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. Early application is not permitted. The Company is currently evaluating the impact that this standard update will have on its financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern. The new standard requires management of public and private companies to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, disclose that fact. Management will also be required to evaluate and disclose whether its plans alleviate that doubt. The standard requires management to evaluate, for each reporting period, whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The new standard is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of the ASU to have a significant impact on our financial statements.

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As the Company is a "smaller reporting company," this item is not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Labor Smart, Inc.

We have audited the accompanying balance sheets of Labor Smart, Inc. (the “Company”) as of December 31, 2013 and 2012 and the related statements of operations and comprehensive loss, stockholders’ deficit and cash flows for the years then ended. Labor Smart, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our 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 financial statements referred to above present fairly, in all material respects, the financial position of Labor Smart, Inc. as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ De Joya Griffith, LLC

Henderson, Nevada

April 11, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Labor Smart, Inc.

We have audited the accompanying balance sheet of Labor Smart, Inc. as of December 26, 2014, and the related statements of operations and comprehensive loss, stockholders' deficit, and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Labor Smart, Inc. as of December 26, 2014, and the results of its operations and its cash flows for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and its total liabilities exceed its total assets. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/SingerLewak, LLP

Los Angeles, California

April 10, 2015

LABOR SMART, INC.

BALANCE SHEETS

December 26, 2014 and December 31, 2013

(Audited)

	December 26, 2014	December 31, 2013
ASSETS		
Current assets		
Cash	$68,972	$178,539
Accounts receivable, net	3,068,798	1,941,437
Marketable securities, available for sale	99,954	4,972
Prepaid expense	322,855	45,497
Other assets	453,341	11,591
Total current assets	4,013,920	2,182,036
Deferred financing costs	—	57,748
Deposits	80,283	20,014
Property and equipment, net	98,790	7,894
Customer relationships, net	385,436	228,028
Workers' compensation insurance collateral	536,771	—
Total long-term assets	1,101,280	313,684
Total assets	$5,115,200	$2,495,720
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$190,517	$135,524
Loan payable to factor	1,638,771	865,321
Payroll taxes payable	1,303,337	1,487,907
Notes payable, related party	14,725	44,806
Contingent liability, current portion	122,129	—
Convertible notes payable, net of unamortized discount of $1,487,875 and $578,848, respectively	3,894,678	1,057,679
Warrants and bifurcated conversion features	603,639	20,701
Total current liabilities	7,767,796	3,611,938
Contingent liability	43,733	79,221
Total liabilities	7,811,529	3,691,159
Stockholders' deficit		

Preferred stock, ($.0001 par value, 5,000,000 shares authorized; none issued and outstanding)	—	—
Series A Preferred stock, ($.0001 par value, 51 shares authorized; 51 and none issued and outstanding as of December 26, 2014 and December 31, 2013, respectively.	—	—
Common stock; $0.00001 par value; 20,000,000,000 shares authorized, 180,455,103 and 20,982,740 issued and outstanding as of December 26, 2014 and December 31, 2013, respectively.	1,805	210
Additional paid-in capital	5,550,383	1,998,815
Accumulated deficit	(8,313,284)	(3,193,778)
Accumulated other comprehensive income (loss)	64,767	(686)
Total stockholder's deficit	(2,696,329)	(1,195,439)
Total liabilities and stockholders' deficit	$5,115,200	$2,495,720

See the accompanying notes to the financial statements

LABOR SMART, INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For years ended December 26, 2014 and December 31, 2013

(Audited)

	For the year ended December 26, 2014	For the year ended December 31, 2013
Revenues, net	$23,978,136	$16,651,885
Cost of revenues	17,950,160	13,953,122
Gross profit	6,027,976	2,698,763
Operating expenses		
Payroll expenses	2,478,439	1,620,859
Bad debt expense	244,420	215,255
Loss on sale of receivables	—	90,826
General and administrative expense	3,774,689	2,509,307
Total operating expenses	6,497,548	4,436,247
Operating loss	(469,572)	(1,737,484)
Other income (expenses)		
Interest and finance expense	(4,826,309)	(1,035,031)
Interest income	—	73
Gain on change in fair value in derivative liability	197,187	45,222
Gain (loss) on sale of securities	(20,812)	4,240
Total other income (expenses)	(4,649,934)	(985,496)
Net loss	$(5,119,506)	$(2,722,980)
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities	65,453	(6,938)
Other comprehensive income (loss)	65,453	(6,938)
Comprehensive loss	$(5,054,053)	$(2,729,918)
Basic and diluted loss per common share	$(0.15)	$(0.14)
Basic and diluted weighted average common		

shares outstanding	34,841,494	19,337,142

See the accompanying notes to the financial statements

LABOR SMART, INC.

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

For years ended December 26, 2014 and December 31, 2013

(Audited)

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Capital	Deficit	Income	(Deficit)
Balance, December 31, 2012	—	$ —	16,757,000	$ 168	$ 365,427	$ (470,798)	$ 6,252	$ (98,951)
Shares issued for services	—	—	1,833,500	18	444,377	—	—	444,395
Shares issued for cash	—	—	200,000	2	99,998	—	—	100,000
Conversion of convertible notes	—	—	2,152,240	22	678,008	—	—	678,030
Commitment fees	—	—	40,000	—	10,800	—	—	10,800
Warrants issued for finance costs	—	—	—	—	57,359	—	—	57,359
Options issued for employee compensation	—	—	—	—	342,846	—	—	342,846
Net change in unrealized gain on marketable securities	—	—	—	—	—	—	(6,938)	(6,938)
Net loss	—	—	—	—	—	(2,722,980)	—	(2,722,980)
Balance, December 31, 2013	—	—	20,982,740	210	1,998,815	(3,193,778)	(686)	(1,195,439)
Preferred shares issued to CEO	51	—	—	—	—	—	—	—
Shares issued for services	—	—	1,090,000	11	55,908	—	—	55,919
Conversion of convertible notes	—	—	158,382,363	1,584	3,447,219	—	—	3,448,803

Options issued for employee compensation	—	—	—	—	48,441	—	—	48,441
Net change in unrealized gain on marketable securities	—	—	—	—	—	—	65,453	65,453
Net loss	—	—	—	—	—	(5,119,506)	—	(5,119,506)
Balance, December 26, 2014	51	$ —	180,455,103	$1,805	$5,550,383	$(8,313,284)	$ 64,767	$(2,696,329)

See the accompanying notes to the financial statements

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LABOR SMART, INC.

STATEMENTS OF CASH FLOWS

For years ended December 26, 2014 and December 31, 2013

(Audited)

	For the year ended December 26, 2014	For the year ended December 31, 2013
Cash flows from operating activities:		
Net loss	$(5,119,506)	$(2,722,980)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock-based compensation	104,360	801,915
Interest and financing costs	4,139,495	698,585
Depreciation and amortization	167,662	70,020
Bad debt expense	244,420	215,255
(Gain) loss on sale of securities	20,812	(4,240)
(Gain) on change in fair value of derivative liability	(197,187)	(45,222)
Changes in operating assets and liabilities:		
Decrease in off-balance sheet receivable factoring	—	(291,708)
Increase in accounts receivable	(1,371,781)	(1,153,774)
Increase in prepaid expense and deposits	(277,358)	(25,458)
Increase in other assets	(1,038,790)	15,306
Increase in accounts payable and accrued liabilities	54,993	8,819
Increase in payroll taxes payable	(184,570)	908,507
Net cash used by operating activities	(3,457,450)	(1,524,975)
Cash flows from investing activities:		
Assets acquired in asset purchase agreement	(120,797)	(150,000)
Purchase of fixed assets	(111,975)	(1,188)
Proceeds from sale of marketable securities	96,203	1,853,884
Purchase of marketable securities	(146,544)	(1,833,129)
Net cash used by investing activities	(283,113)	(130,433)
Cash flows from financing activities:		
Proceeds from common stock	—	100,000
Proceeds from convertible notes payable	4,131,823	1,630,200
Payment on convertible notes payable	(1,137,621)	(607,500)
Payment on notes payable - related party	(30,081)	(173,962)
Proceeds from loan payable to factor	773,450	865,321
Payments on contingent liability	(106,575)	(89,840)
Payment on financed insurance	—	(15,160)
Net cash provided by financing activities	3,630,996	1,709,059
Net change in cash	(109,567)	53,651

Cash, beginning of period	178,539	124,888
Cash, end of period	$68,972	$178,539
Supplemental disclosure of cash flow information:		
Interest paid	$719,121	$227,854
Taxes paid	$—	$—
Non-cash investing and financing activities		
Warrants issued as part of deferred finance costs	$—	$57,359
Finance costs included in convertible note value	$—	$104,550
Commitment fees	$—	$10,800
Shares issued for convertible notes	$1,575,532	$678,030
Contingent liability associated with asset purchase	$183,194	$158,490
Convertible note payable derivative liability	$733,565	$—
Warrant derivative liability	$46,560	$—

See the accompanying notes to the financial statements

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 1 – NATURE OF OPERATIONS

Nature of Business

Labor Smart, Inc. (the "Company") was incorporated in the State of Nevada on May 31, 2011. Labor Smart, Inc. provides temporary blue-collar staffing services. It supplies general laborers on demand to the light industries, including manufacturing, logistics, and warehousing, skilled trades' people, and general laborers to commercial construction industries.

NOTE 2 – GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company requires capital for its contemplated operational and marketing activities. The Company's ability to raise additional capital through the future issuances of common stock is unknown. At December 26, 2014, the Company has an accumulated deficit of $8,313,284 and negative working capital of $3,753,876. Also, the Company had a net loss of $5,119,506 for the year ended December 26, 2014. Additionally, the operating activities of the Company used $3,457,450 net cash during the same one year period. The obtainment of additional financing and increasingly profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are presented in United States dollars and have been prepared in accordance with generally accepted accounting principles in the United States of America.

On May 20, 2014, the Board of Directors of the Company determined it is in the best interests of the Company to change its fiscal year end from December 31 to a 52-53 week fiscal year ending on the Friday closest to December 31. The change is intended to align the Company's fiscal periods more closely with the seasonality of its business and improve comparability with industry peers. This change is effective with the end of the registrant's fiscal second quarter ended June 26, 2014. The change to a 52-53 week fiscal year will be retroactively applied as if it was adopted as of January 1, 2014. The registrant's current fiscal year ended on December 26, 2014 and comprises 360 days.

Fair Value of Financial Instruments

As required by the Fair Value Measurements and Disclosures Topic of the FASB ASC ("ASC 820-10"), fair value is measured based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The three levels of the fair value hierarchy are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
Level 3	Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pursuant to ASC 825, the fair value of cash and marketable securities is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of cash, accounts receivables, marketable securities, accounts payable and accrued liabilities, and notes payable approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

Assets measured at fair value on a recurring basis were presented on the Company's balance sheets as of December 26, 2014 and December 31, 2013 as follows:

Fair Value Measurements as of December 26, 2014 Using:

	Total Carrying Value as of 12/26/14	**Quoted Market Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Equity securities	$ 52,610	$ 52,610	$ 0	$ 0
Warrant	47,344	0	0	47,344
Total	$99,954	$ 52,610	$ 0	$ 47,344
Liabilities:				
Convertible note payable derivative liability	$ 601,345	$ 0	$ 0	$ 601,345
Warrant derivative liability	2,294	0	0	2,294
Contingent consideration payable	165,862	0	0	165,862
Total	$769,501	$0	$0	$769,501

Fair Value Measurements as of December 31, 2013 Using:

	Total Carrying Value as of 12/31/13	**Quoted Market Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				

Equity securities	$ 4,972	$ 4,972	$ 0	$ 0
Total	$4,972	$ 4,972	$ 0	$ 0
Liabilities:				
Convertible note payable derivative liability	$ 20,701	$ 0	$ 0	$ 20,701
Contingent consideration payable	79,221	0	0	79,221
Total	$99,922	$0	$0	$79,221

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in convertible note payable derivative liability during the year ended December 26, 2014 were as follows:

Opening balance at December 31, 2013	$ 20,701
Initial valuation of derivatives	733,565
Initial loss on derivatives	32,906
Gain on change in fair value of derivative liability	(185,827)
Closing balance at December 26, 2014	$ 601,345

Change in warrant derivative liability during the year ended December 26, 2014 were as follows:

Opening balance at December 31, 2013	$ 0
Initial valuation of derivatives	46,560
Gain on change in fair value of derivative liability	(44,266)
Closing balance at December 26, 2014	$ 2,294

Equity securities comprise publicly traded shares of common stock. The warrant gives the Company, the right but not the obligation, to purchase 100,000 shares of Argon Beauty Corp. (OTCBB:ABXX). The warrant is valued at the end of each accounting period using the Black Scholes option valuation model using the following inputs at December 26, 2014: stock price $0.50, exercise price $0.50, expected life 2.73 years, volatility 233%, dividends 0% and discount rate 1.08%.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of less than 90 days. Cash equivalents are placed with high credit quality financial institutions and are primarily in money market funds. The carrying value of those investments approximates fair value. The Company maintains its cash in bank deposit accounts which may exceed federally insured limits. As of December 26, 2014, the Company's accounts are insured for $250,000 by FDIC for US bank deposits.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax balances. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to the taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Deferred income taxes are reported for timing differences between items of income or expense reported in the financial statements and those reported for income tax purposes in accordance with FASB ASC 740-10, “Income Taxes,” which requires the use of the asset/liability method of accounting for income taxes.

The Company provides for deferred taxes for the estimated future tax effects attributable to temporary differences and carry-forwards when realization is more likely than not.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

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NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Company recognizes revenues and the related costs when persuasive evidence of an arrangement exists, delivery and acceptance has occurred or service has been rendered, the price is fixed or determinable, and collection of the resulting receivable is reasonably assured. Amounts invoiced or collected in advance of product delivery or providing services are recorded as deferred revenue. The Company accrues for customer credits, bad debts, and other allowances based on its historical experience. Staffing revenue is recognized as the services are performed. Revenue also includes billable travel and other reimbursable costs and is recorded net of sales tax.

Deferred Financing Costs

Deferred financing costs consist of costs incurred to obtain debt financing, including legal fees, origination fees and administration fees. Costs associated with the Convertible Promissory Note are deferred and amortized in our statements of operations using the straight-line method, which approximates the effective interest method, over the terms of the respective financing instrument.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. These estimates and judgments are based on historical information, information that is currently available to the Company, and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Factoring Agreements and Accounts Receivable

The Company had a month-to-month financing agreement with Riviera Finance LLC (“Riviera”) which was terminated on July 24, 2013. On July 31, 2013 the Company entered into a Purchase and Sale Agreement with Transfac Capital, Inc. (“Transfac”). The agreement with Riviera includes a non-recourse factoring arrangement that provided notification factoring on substantially all of the Company’s sales. Riviera, based on credit approved orders, assumed the accounts receivable risk of the Company’s customers in the event of insolvency or non-payment. All other receivable risks for customer deductions that reduce the customer receivable balances were retained by the Company, including, but not limited to, allowable customer markdowns, disputes, and discounts. The Company assumes the risk on accounts receivable not factored to Riviera, which is shown as accounts receivable on the balance sheets, net of factored accounts receivable. Advances to the Company from Transfac are with recourse and are secured by assets of the Company and are treated as a secured financing arrangement. As of December 26, 2014 and December 31, 2013, factored accounts receivable total $1,638,771 and $865,321, respectively.

Allowance for Doubtful Accounts

The Company allows for an estimated amount of receivables that may not be collected. The Company estimates its allowance for doubtful accounts based on historical experience and customer relationships. As of December 26, 2014 and December 31, 2013, the Company has recorded an allowance of $110,605 and $156,297, respectively.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at the lower of cost or fair value. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, as follows:

Description	Estimated Life
Office equipment and furniture	3 years

The estimated useful lives are based on the nature of the assets as well as current operating strategy and legal considerations such as contractual life. Future events, such as property expansions, property developments, new competition, or new regulations, could result in a change in the manner in which the Company uses certain assets requiring a change in the estimated useful lives of such assets.

	December 26, 2014	December 31, 2013
Office equipment and furniture	$ 131,295	$ 11,842
Less: accumulated depreciation	(32,505)	(3,948)
	$ 98,790	$ 7,894

Depreciation expense for the years ended December 26, 2014 and December 31, 2013 is $21,079 and $3,948, respectively.

Customer Relationships

Customer relationships comprise customer lists acquired from Qwik Staffing Solutions, Inc. on April 29, 2013 with an estimated fair value of $294,100, from Shirley's Employment Service, Inc. on April 9, 2014 with an estimated fair value of $162,461 and from Kwik Jobs on September 26, 2014 with an estimated fair value of $141,529. Customer lists are amortized on a straight-line basis over three years.

	December 26, 2014	December 31, 2013

Customer lists	$ 598,090	$ 294,100
Less: accumulated amortization	(212,654)	(66,072)
	$ 385,436	$ 228,028

Amortization expense for the years ended December 26, 2014 and December 31, 2013 is $146,583 and $66,072, respectively.

Earnings (loss) per share

Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if potentially dilutive securities had been issued. Potentially dilutive common shares outstanding stock options assumed to be exercised or vested and paid out of shares of common stock and warrants assumed to be exercised. Outstanding stock options and warrants are disclosed in Note 12 Shareholders' Equity.

Convertible Notes Payable

i) Beneficial Conversion Feature

The conversion features are first analyzed for bifurcation under ASC 815, then if the conversion features of conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 "Debt with Conversion and Other Options." In those circumstances, the convertible debt is recorded net of the discount related to the BCF and the Company amortizes the discount to interest expense over the life of the debt using the effective interest method.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Debt Discount

The Company determines if the convertible debenture should be accounted for as liability or equity under ASC 480, Liabilities — Distinguishing Liabilities from Equity. ASC 480, applies to certain contracts involving a company's own equity, and requires that issuers classify the following freestanding financial instruments as liabilities. Mandatorily redeemable financial instruments, obligations that require or may require repurchase of the issuer's equity shares by transferring assets (e.g., written put options and forward purchase contracts), and certain obligations where at inception the monetary value of the obligation is based solely or predominantly on:

– A fixed monetary amount known at inception, for example, a payable settleable with a variable number of the issuer's equity shares with an issuance date fair value equal to a fixed dollar amount,

– Variations in something other than the fair value of the issuer's equity shares, for example, a financial instrument indexed to the S&P 500 and settleable with a variable number of the issuer's equity shares, or

– Variations inversely related to changes in the fair value of the issuer's equity shares, for example, a written put that could be net share settled.

If the entity determined the instrument meets the guidance under ASC 480 the instrument is accounted for as a liability with a respective debt discount. The Company records debt discounts in connection with raising funds through the issuance of convertible debt (see Note 10). These costs are amortized to non-cash interest expense over the life of the debt. If a conversion of the underlying debt occurs, a proportionate share of the unamortized amounts is immediately expensed.

iii) Derivative Financial Instruments

Derivative financial instruments, as defined in ASC 815, "Accounting for Derivative Financial Instruments and Hedging Activities", consist of financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets.

The Company does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company has issued financial instruments including senior convertible promissory notes payable and freestanding stock purchase warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by ASC 815, in certain instances, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

Stock-based compensation

The Company records stock based compensation in accordance with the guidance in ASC Topic 505 and 718 which requires the Company to recognize expenses related to the fair value of its employee stock option awards. This eliminates accounting for share-based compensation transactions using the intrinsic value and requires instead that such transactions be accounted for using a fair-value-based method. The Company recognizes the cost of all share-based awards on a graded vesting basis over the vesting period of the award.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with FASB ASC 718-10 and the conclusions reached by the FASB ASC 505-50. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earliest of a performance commitment or completion of performance by the provider of goods or services as defined by FASB ASC 505-50.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“FASB ASU 2014-09”). This standard update clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards. The standard update intends to provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provide more useful information to users of financial statements through improved disclosure requirements. Upon adoption of this standard update, the Company expects that the allocation and timing of revenue recognition will be impacted. The provisions of FASB ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and are to be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. Early application is not permitted. The Company is currently evaluating the impact that this standard update will have on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern. The new standard requires management of public and private companies to evaluate whether there is substantial doubt about the entity’s ability to continue as a going concern and, if so, disclose that fact. Management will also be required to evaluate and disclose whether its plans alleviate that doubt. The standard requires management to evaluate, for each reporting period, whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. The new standard is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of the ASU to have a significant impact on our consolidated financial statements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial statements.

NOTE 4 – PREPAID

As of December 26, 2014 and December 31, 2013, the Company had prepaid expenses of $322,855 and $45,497, respectively. Prepaid expenses at December 26, 2014 comprises primarily of prepaid lease payments, insurance and services.

NOTE 5 – CUSTOMER RELATIONSHIPS, NET

On April 9, 2014, the Company entered into an Asset Purchase Agreement ("Agreement") with Shirley's Employment Service, Inc. ("Shirley's"). Under the terms of the Agreement, Shirley's sold its customer list. In consideration for the customer list, the Company agreed to pay $300,000 in cash minus the open accounts receivable of Shirley's. At closing, it was estimated by the Company that $170,797 will be paid for the customer list after deducting accounts receivable. The first $70,797 was paid one day prior to the delivery and transfer of the customer list. The remaining $100,000 is due in monthly installments by paying an amount equal to 5.0% of the monthly accounts receivable collected at the Tulsa, Oklahoma location. In the event these aggregate monthly payments total less than $100,000, after 18 months, Shirley's will issue the Company a credit memo for the difference.

The total purchase price for Shirley's was approximately $162,461. The purchase price consisted of approximately (i) $70,797 in cash, (ii) Estimated fair value of consideration payable on collection 5.0% of the monthly accounts receivable collected by operating the Tulsa, Oklahoma location over the next 18 months of $91,664. The Company expected to pay total consideration of $100,000 in equal installments over 18 months. The fair value of the consideration was estimated by discounting the monthly installments by 12% per annum.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 5 – CUSTOMER RELATIONSHIPS, NET (CONTINUED)

The determination of the estimated fair value of the acquired assets and liabilities assumed required management to make significant estimates and assumptions. We determined the fair value by applying established valuation techniques, based on information that management believed to be relevant to this determination. The following table summarizes the purchase price allocation of the fair value of the assets acquired and liabilities assumed at the date of purchase:

Customer relationships	$ 162,461
Net assets acquired	$ 162,461
Cash	$ 70,797
Contingent consideration	91,664
Consideration paid	$ 162,461

On September 26, 2014, the Company entered into an Asset Purchase Agreement ("Agreement") with Kwik Jobs, Inc. ("Kwik's"). Under the terms of the Agreement, Kwik's sold the customer list of Kwik's. The first $50,000 was paid on closing. The remaining estimated $100,000 is due in monthly installments by paying an amount equal 5.0% of the monthly accounts receivable collected at the Birmingham Alabama and Decatur Georgia locations.

The fair value of the total purchase price for Kwik's was approximately $141,529. The purchase price consisted of (i) $50,000 in cash, (ii) Estimated fair value of consideration payable on collection 5.0% of the monthly accounts receivable collected at the Birmingham, Alabama and Decatur, Georgia locations over the next 18 months of $91,529. The Company estimates that it will pay total consideration of $100,000 in equal installments over 18 months. The fair value of the consideration was estimated by discounting the monthly installments by 12% per annum.

The determination of the estimated fair value of the acquired assets and liabilities assumed required management to make significant estimates and assumptions. We determined the fair value by applying established valuation techniques, based on information that management believed to be relevant to this determination. The following table summarizes the purchase price allocation of the fair value of the assets acquired and liabilities assumed at the date of purchase:

Customer relationships	$	141,529
Net assets acquired	$	141,529
Cash	$	50,000
Contingent consideration	91,529	
Consideration paid	$	141,529

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 5 – CUSTOMER RELATIONSHIPS, NET (CONTINUED)

On April 29, 2013 the Company entered into an Asset Purchase Agreement (“Agreement”) with Qwik Staffing Solutions, Inc. (“Qwik”). Under the terms of the Agreement, Qwik sold the customer list of Qwik, excluding cash and accounts receivable. In consideration for the customer list, the Company agreed to pay $320,000 in cash. The first $150,000 is due one day prior to the delivery and transfer of the Assets. The remaining $170,000 is due in monthly installments by paying an amount equal to 6.5% of the monthly accounts receivable collected by operating the Orlando, Jacksonville and Tampa, Florida locations. In the event these aggregate monthly payments total less than $170,000, after 14 months, Qwik will issue the Company a credit memo for the difference.

The total purchase price for Qwik was approximately $308,490. The purchase price consisted of approximately (i) $150,000 in cash, (ii) Estimated fair value of consideration payable on collection 6.5% of the monthly accounts receivable collected by operating the Orlando, Jacksonville and Tampa, Florida locations over the next fourteen months of $158,490. The Company expected to pay total consideration of $170,000 in equal installments over 14 months. The fair value of the consideration was estimated by discounting the monthly installments by 12% per annum.

Equipment	$ 10,654
Prepaid supplies	3,736
Customer relationships	294,100
Net assets acquired	$ 308,490
Cash	$ 150,000
Contingent consideration	158,490
Consideration paid	$ 308,490

As of December 26, 2014 and December 31, 2013, the customer list was valued at $228,028 and $0, respectively. Amortization expense was $66,072 and $0 for the years ended December 26, 2014 and December 31, 2013, respectively.

NOTE 6 – FACTORING AGREEMENT

On July 24, 2013, the Company terminated a month-to-month financing agreement with Riviera Finance LLC ("Riviera") that included a non-recourse factoring arrangement that provided notification factoring on substantially all of the Company's sales. Receivables were factored at a rate of eighty-five percent (85%) of the invoice face value on accepted accounts up to $500,000. A reserve of eight percent (8%) of the invoice face value was held by Riviera in case of customer disputes.

Fees charged by Riviera were two (2) percent of the unpaid invoice face value for the first twenty-five (25) days after the factored date and 0.8% of the invoice face value for every ten (10) days thereafter up to a total of seven (7) percent, including the initial two (2) percent. Administrative charges based on various rates were charged on the gross face amount of all accounts with minimum fees as defined in the agreement. The following table details the amounts of the factoring agreement with Riviera as of December 26, 2014 and December 31, 2013.

	Receivables Factored	Reserve Deposit	Fees	Administrative Charges
December 26, 2014	$ 0	$0	$0	$0
December 31, 2013	$ 0	$0	$90,826	$0

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LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 6 – FACTORING AGREEMENT (CONTINUED)

The reserve deposits were included in other current assets within the balance sheets and receivables factored are netted against accounts receivable. Fees or charges billed by Riviera Finance as of December 26, 2014 and December 31, 2013 were $0 and $90,826, respectively.

On July 31, 2013 the Company entered into a Purchase and Sale Agreement with Transfac Capital, Inc. (“Transfac”). Under the terms of the Purchase and Sale Agreement, Transfac shall have the right, but not the obligation, to purchase up to Two Million Dollars ($2,000,000) worth of accounts receivable (the “Maximum Advances”) of the Company. For each account receivable purchased, Transfac shall advance eighty-five percent (85%) of the face value of the account and the balance after receipt of full payment on the account. As consideration, the Company shall pay Transfac two percent (2%) of the average monthly balance of the outstanding accounts purchased, with a minimum of one half of one percent (0.5%) of the Maximum Advances per month, as long as the Purchase and Sale Agreement remains in effect.

The factoring line of credit with Transfac has been treated as a secured financing arrangement. As of December 26, 2014 and December 31, 2013 under the agreement with Transfac, the Company had factored receivables in the amounts of $1,699,900 and $1,281,122, recorded reserve deposits of $448,968 and $693 included in other current assets, and recorded a liability of $1,638,771 and $865,321, respectively. Discounts and interest provided during factoring of the accounts receivable have been expensed on the statements of operations as interest expense. For the years ended December 26, 2014 and December 31, 2013, interest expense related to the factoring arrangement was $401,278 and $103,165, respectively.

NOTE 7 – RELATED PARTY

On April 25, 2013, the Company entered into a loan agreement with the CEO of the Company in the amount of $175,768. This loan is payable on demand, unsecured, and bears 0% interest per annum. This loan consolidates all previous loans issued. As of December 26, 2014, $161,043 of this note has been repaid and $14,725 (December 31, 2013 - $44,806) of this note remains outstanding.

NOTE 8 – CONVERTIBLE PROMISSORY NOTES

Unless otherwise stated in Note 9, these convertible promissory notes have been accounted for in accordance with ASC 480 *Distinguishing Liabilities from Equity*.

On September 20, 2012, the Company entered into a Convertible Promissory Note with Evolution Capital, LLC, (the 'Holder') in the original principal amount of $130,000 bearing a 12% annual interest rate and maturing June 20, 2013. This convertible note together with any unpaid accrued interest is convertible into shares of common stock at the holder's option at a variable conversion price calculated as 50% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. On March 28, 2013, Evolution Capital, LLC elected to convert $130,000 of principal amount for 604,651 shares of common stock of the Company valued at $268,088 ($0.44 per share) in accordance with the terms of the Note. After conversion the Convertible Promissory Note was paid in full.

On January 17, 2013, the Company entered into a Convertible Promissory Note with Asher Enterprises, Inc. ("Holder") in the original principal amount of $103,500 bearing an 8% annual interest rate and maturing October 21, 2013. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 51% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 60 days of date of issue at 130% of the original principal amount plus interest, between 60 days and 120 days at 140% of the original principal amount plus interest and between 120 days and 180 days at 150% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of $100,000, which was net of original issue discount of $105,478. On April 16, 2013, the Company elected to prepay the Convertible Promissory Note dated January 17, 2013 with Asher Enterprises, Inc. for $146,647 in cash. The payment included prepayment of $103,500 in original principal, a prepayment penalty and outstanding accrued interest of $43,147.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On February 25, 2013, the Company entered into a Convertible Promissory Note with Evolution Capital Fund I, L.P. (“Holder”) in the original principal amount of $106,000 bearing a 12% annual interest rate and maturing November 25, 2013. This convertible note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated as 52% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 120 days of date of issue at 140% of the original principal amount plus interest, between 121 days and 150 days at 145% of the original principal amount plus interest and between 151 days and 180 days at 150% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of $101,000, which was net of original issue discount of $106,628. On September 28, 2013, the Holder converted 221,108 shares of common stock of the Company with a fair market value of $61,910 for $27,529 and $2,471 in principal and interest, respectively. On October 29, 2013, the Holder converted 227,342 shares of common stock of the Company with a fair market value of $65,929 for $23,859 and $2,141 in principal and interest, respectively. On November 26, 2013, the Holder converted 418,060 shares of common stock of the Company with a fair market value of $96,154 for $45,882 and $4,118 in principal and interest, respectively. On November 26, 2013, the Holder waived $9,514 of interest and the Convertible Promissory Note was paid in full.

On March 4, 2013, the Company issued a Convertible Promissory Note (“Note”) to Vista Capital Investments, LLC (“Holder”), in the original principal amount of $275,000 bearing a 12% annual interest rate and maturing one year for $250,000 of consideration paid in cash and a $25,000 original issue discount. The Company may repay the Note any time and if repaid within 90 days of date of issue with an interest rate is 0%. This Note together with any unpaid accrued interest is convertible into shares of common stock at the Holder’s option at a variable conversion price calculated as lessor of (a) $0.62 or (b) 60% of the lowest trade occurring during the 25 consecutive trading days immediately preceding the conversion date.

i) On March 6, 2013, the Company received cash proceeds of $25,000 on the first tranche of the Note, which was net of original issue discount of $20,533. During the year ended December 31, 2013, the Holder converted 217,374 shares of common stock of the Company with a fair value of $61,667 for $25,000 and $5,800 in principal and interest, respectively. On November 21, 2013, the first tranche of the Note was paid in full.

ii) On October 30, 2013, the Company received cash proceeds of $25,000 on the second tranche of the Note, which was net of original issue discount of $18,667. During the year ended December 26, 2014, the Holder converted 239,246 shares of common stock of the Company with a fair value of $57,856 for $27,500 and $3,300 in principal and interest, respectively. On March 3, 2013, the second tranche of the Note was paid in full.

iii) On January 14, 2014, the Company received cash proceeds of $25,000 on the third tranche of the Note. During the year ended December 26, 2014, the Holder converted 1,431,373 shares of common stock of the Company with a fair value of $51,654 for $20,540 of principal and interest. At December 26, 2014, the Note is recorded at a fully accreted value of $16,311 less unamortized debt discount of $188.

iv) On March 19, 2014, the Company received cash proceeds of $25,000 on the fourth tranche of the Note. During the year ended December 26, 2014, the Holder converted 3,800,000 shares of common stock of the Company with a fair value of $33,410 for $17,364 in principal and interest, respectively. At December 26, 2014, the Note is recorded at a fully accreted value of $20,734 less unamortized debt discount of $1,530.

v) On May 27, 2014, the Company received cash proceeds of $25,000 on the fifth tranche of the Note. At December 26, 2014, the Note is recorded at a fully accreted value of $49,118 less unamortized debt discount of $7,818.

vi) On July 24, 2014, the Company received cash proceeds of $25,000 on the sixth tranche of the Note. At December 26, 2014, the Note is recorded at a fully accreted value of $48,244 less unamortized debt discount of $10,881.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On March 6, 2013, the Company issued a Convertible Promissory Note ("Note") to JMJ Financial ("Holder"), in the original principal amount of $275,000 bearing a 12% annual interest rate and maturing in one year for $250,000 of consideration paid in cash and a $25,000 original issue discount. The Company may repay the Note any time and if repaid within 90 days of date of issue with an interest rate is 0%. This Note together with any unpaid accrued interest is convertible into shares of common stock at the Holder's option at a variable conversion price calculated as lessor of (a) $0.62 or (b) 60% of the lowest trade occurring during the 25 consecutive trading days immediately preceding the conversion date.

i) On March 6, 2013, the Company received cash of $46,000 in the first tranche, which was net of original issue discount of $41,067. During the year ended December 31, 2013, the Holder converted 433,705 shares of common stock of the Company with a fair value of $115,758 for $55,000 and $6,600 in principal and interest, respectively. On November 12, 2013, the first tranche was paid in full.

ii) On June 27, 2013, the Company received the second tranche of $50,000 in cash, which was net of original issue discount of $43,750. During the year ended December 26, 2014, the Holder converted 603,943 shares of common stock of the Company with a fair value of $142,804 for $56,250 and $6,750 in principal and interest, respectively. On March 3, 2014, the second tranche of the Note was paid in full.

iii) On September 27, 2013, the Company received the third tranche of $50,000 in cash, which was net of original issue discount of $42,000. During the year ended December 26, 2014, the Holder converted 552,632 shares of common stock of the Company with a fair value of $243,158 for $56,250 and $6,750 in principal and interest, respectively. On March 26, 2014, the third tranche of the Note was paid in full.

iv) On December 9, 2013, the Company received the fourth tranche of $40,000 in cash, which was net of original issue discount of $36,497. During the year ended December 26, 2014, the Holder converted 432,629 shares of common stock of the Company with a fair value of $96,576 for $45,000 and $5,400 in principal and interest, respectively. On July 22, 2014, the fourth tranche of the Note was paid in full.

On April 10, 2013, the Company issued a Convertible Promissory Note to Iconic Holding, LLC ("Holder"), in the original principal amount of $115,500 bearing a 5% annual interest rate and maturing April 10, 2014 for $101,200 of consideration paid in cash, $8,800 in issuer expenses and a $5,500 original issue discount. This unsecured convertible promissory note is convertible into shares of common stock at the Holder's option at a variable conversion price calculated at 65% of the lowest trading price of any day during the 10 consecutive trading days prior to the dated on which the Holder elects to convert all or part of the Note. The Company may repay the convertible promissory note within 60 days of date of issue at 110% of the original principal amount plus interest, between 60 days and 120 days at 120% of the original principal amount plus interest and between 120 days and 180 days at 130% of the original principal amount plus interest and 30,000 shares of common stock of the Company with a fair market value of $8,550.

Thereafter, the Note may only be repaid with the consent of the Holder. The Company received cash proceeds of $101,200, which was net of unamortized discount of $62,192. On October 7, 2013, Company elected to prepay the Convertible Promissory Note for $149,500 in cash. The payment includes prepayment of $115,500 in original principal a prepayment penalty and outstanding accrued interest of $34,000.

On April 29, 2013, the Company entered into a Convertible Promissory Note with Asher Enterprises, Inc. ("Holder") in the original principal amount of $128,500 bearing an 8% annual interest rate and maturing January 31, 2014. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of $125,000, which was net of original issue discount of $93,052. On October 24, 2013, Company elected to prepay the Convertible Promissory Note for $176,291 in cash. The payment includes prepayment of $128,500 in original principal a prepayment penalty and outstanding accrued interest of $47,791.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On May 17, 2013, the Company entered into a Convertible Promissory Note with Redwood Fund II, LLC ("Holder") in the original principal amount of $101,000 bearing a 10% annual interest rate and maturing November 17, 2013. This convertible note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated as 58% of the lowest trading price, determined on the then current trading market for the Company's common stock, for 20 trading days prior to conversion. The Company received cash proceeds of $101,000, which was net of original issue discount of $76,825. At December 31, 2013, $60,547 of discount has been amortized. On November 19, 2013, Company elected to prepay the Convertible Promissory Note for $138,875 in cash. The payment includes prepayment of $101,000 in original principal a prepayment penalty and outstanding accrued interest of $37,875.

On May 20, 2013, the Company entered into a Convertible Promissory Note with Asher Enterprises, Inc. ("Holder") in the original principal amount of $53,000 bearing an 8% annual interest rate and maturing February 20, 2014. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of $50,000, which was net of original issue discount of $40,701. On November 20, 2013, Company elected to prepay the Convertible Promissory Note for $73,641 in cash. The payment includes prepayment of $53,000 in original principal a prepayment penalty and outstanding accrued interest of $20,641.

On June 4, 2013, the Company entered into a Convertible Promissory Note with Evolution Capital Fund I, L.P. ("Holder") in the original principal amount of $106,000 bearing a 12% annual interest rate and maturing March 4, 2014. This convertible note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated as 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 120 days of date of issue at 140% of the original principal amount plus interest, between 121 days and 150 days at 145% of the original principal amount plus interest and between 151 days and 180 days at 150% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of $101,000, which was net of original issue discount of $81,648. On December 31, 2013, Company elected to prepay the Convertible Promissory Note for $148,400 in cash. The payment includes prepayment of $106,000 in original principal a prepayment penalty and outstanding accrued interest of $42,400.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On July 11, 2013, the Company entered into a Convertible Promissory Note (“Note”) with Asher Enterprises, Inc. (“Holder”) in the original principal amount of $63,000 bearing an 8% annual interest rate and maturing April 15, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of $60,000, which was net of original issue discount of $48,400. On January 9, 2014, the Company elected to pay the Note in full for $87,466 in cash allocated to $63,000 and $24,466 in principal and interest, respectively.

On September 16, 2013, the Company entered into a Convertible Promissory Note (“Note”) with Willow Creek Capital Group, LLC (“Holder”) in the original principal amount of $130,000 bearing a 12% annual interest rate and maturing July 16, 2014. At the option of the Holder:

i) The Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date, or

ii) All principal, costs, charges and interest amounts outstanding may be exchanged for shares of the Company’s common stock at the Conversion Price of $0.34 per share. The Conversion Price is subject to an anti-dilution adjustment in the event the Company at any time, while the Notes are outstanding, issues equity securities including common stock or any security convertible or exchangeable for shares of common stock for no consideration or for consideration less than $0.34 a share.

The Company may repay the Note at 135% of the original principal amount plus interest. The Company received cash proceeds of $125,000, which was net of original issue discount of $103,516 and convertible note payable derivative liability of $65,723. During the year ended December 26, 2014, the Company elected to pay $79,099 in cash and the Holder converted 509,965 shares of common stock of the Company with a fair value of $113,922 for $53,353 in principal and interest. On July 16, 2014, the Note was paid in full.

On October 31, 2013, the Company issued a Convertible Promissory Note (“Note”) to Iconic Holding, LLC (“Holder”), in the original principal amount of $110,250 bearing a 0% annual interest rate and maturing October 31, 2014 for $105,000 of consideration paid in cash and a $5,250 original issue discount. This unsecured Note is convertible into shares of common stock at the Holder’s option at a variable conversion price calculated at 60% of the lowest trading price of any day during the 10 consecutive trading days prior to the dated on which the Holder elects to convert all or part of the Note. The Company may repay the Note within 60 days of date of issue at 125% of the original principal amount plus interest, between 60 days and 120 days at 130% of the original principal amount plus interest plus 30,000 shares of common stock of the Company and between 120 days and 180 days at 135% of the original principal amount plus interest plus 60,000 shares of common stock of the Company. Thereafter, the Note may only be repaid with the consent of the Holder. The Company received cash proceeds of $105,000, which was net of unamortized discount of $73,500. At December 31, 2013, $12,284 of discount has been amortized. During the year ended December 26, 2014, the Holder converted 811,462 shares of common stock of the Company with a fair value of $208,845 for $110,250 of principal and interest. On June 5, 2014, the Note was paid in full.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On November 4, 2013, the Company entered into a Convertible Promissory Note ("Note") with Asher Enterprises, Inc. ("Holder") in the original principal amount of $128,500 bearing an 8% annual interest rate and maturing November 4, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of $125,000, which was net of original issue discount of $100,496. On May 21, 2014, the Company elected to pay the Note in full for $178,545 in cash allocated to $128,500 and $50,045 in principal and interest, respectively.

On December 9, 2013, the Company entered into a Convertible Promissory Note ("Note") with Group 10 Holdings, LLC ("Holder") in the original principal amount of $106,000 bearing a 12% annual interest rate and maturing December 9, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 55% of the lowest trading price of any day during the 10 consecutive trading days prior to the dated on which the Holder elects to convert all or part of the Note. The Company may repay the Note if repaid within 30 days of date of issue at 125% of the original principal amount plus interest and between 31 days and 179 days at 135% of the original principal amount plus interest. Thereafter, the Company subject to the approval of the Holder, may repay the Note at 135% of the original principal amount plus interest. The Company received cash proceeds of $101,000 which was net of original issue discount of $97,135. During the year ended December 26, 2014, the Holder converted 993,428 shares of common stock of the Company with a fair value of $214,959 for $105,000 of principal and interest. On September 17, 2014, the Note was paid in full.

On December 12, 2013 the Company entered into a Convertible Promissory Note ("Note") with Tonaquint Inc. ("Holder") in the original principal amount of $115,000 bearing a 10% annual interest rate and maturing November 12, 2014. The Note is due is six equal monthly installments plus interest ("Installment Amount") commencing six months after the issue date. At the option of the Holder, the Installment Amount is convertible into shares of common stock of the Company at a variable conversion price calculated at 60% of the market price which means the average of the lowest two trading prices during the twenty trading day period ending on the latest complete trading day prior to the conversion date. The Company may elect to prepay in cash all or any portion of the outstanding balance of the Note if the Company pays the holder 125% of the outstanding balance. The Company received cash proceeds of $100,000, which was net of original issue discount of $83,703. During the year ended December 26, 2014, the Company elected to pay $57,452 in cash and the Holder converted 713,167 shares of common stock of the Company with a fair market value of $138,205 for $77,528 in principal and interest. At July 17, 2014, the Note was paid in full.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On December 13, 2013 the Company entered into a Convertible Promissory Note (“Note”) with Tailwind Partners, LLC (“Holder”) in the original principal amount of $106,000 bearing a 12% annual interest rate and maturing November 12, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 130% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of $101,000, which was net of original issue discount of $83,673. During the year ended December 26, 2014, the Holder converted 761,005 shares of common stock of the Company with a fair value of $169,979 for $106,000 of principal and interest. On June 24, 2014, the Note was paid in full.

On January 1, 2014, the Company entered into an Original Issue Discount Secured Promissory Note dated December 27, 2014 with Beaufort Ventures PLC (“Holder”) for a purchase price of $101,000 and a face amount of $136,350 and maturing June 27, 2014. After the maturity date, the Notes accrues interest at 22% per annum and the Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the lowest trading price of the prior 15 trading days, determined on the then current trading market of the Company’s common stock, for 10 trading days prior to conversion. The Company may repay the Note at any time for a net payment of $136,350. On June 27, 2014, the Company paid the Note in full for $136,350 in cash.

On January 2, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Metolius Capital, LLC (“Holder”) in the original principal amount of $106,000 bearing a 12% annual interest rate and maturing October 4, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. During the year ended December 26, 2014, the Holder converted 1,075,051 shares of common stock of the Company with a fair value of $225,761 for $106,000 of principal and interest. On July 25, 2014, the Note was paid in full.

On January 8, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Asher Enterprises, Inc. (“Holder”) in the original principal amount of $63,000 bearing an 8% annual interest rate and maturing September 8, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest and between 61 days and 90 days at 125% of the original principal amount plus interest and between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. On July 11, 2014, the Company elected to pay the Note in full for $87,535 in cash allocated to $63,000 and $24,535 in principal and interest, respectively. On July 11, 2014, the Note was paid in full.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On January 14, 2014, the Company entered into a Convertible Debenture with Daniel James Management, Inc. (“Holder”) in the original principal amount of $101,000 bearing a 12% annual interest rate and maturing January 14, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the lowest closing bid price during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay any portion of the principal amount at 135% of such amount along with any accrued interest of this Debenture at any time upon seven days written notice to the Holder. On July 11, 2014, the Company elected to pay the Note in full for $144,780 in cash allocated to $101,000 and $43,780 in principal and interest, respectively. On July 11, 2014, the Note was paid in full.

On January 22, 2014, the Company entered into a Convertible Promissory Note (“Note”) with WHC Capital, LLC (“Holder”) in the original principal amount of $101,000 bearing a 12% annual interest rate and maturing January 22, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the lowest bid price during the fifteen trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay outstanding principal and interest due at 135% of such amount within 180 days of the execution of the Note. On July 25, 2014, the Company elected to pay the Note in full for $144,443 in cash allocated to $101,000 and $43,443 in principal and interest, respectively.

On January 31, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Tonaquint Inc. (“Holder”) in the original principal amount of $115,000 less an original issuer’s discount of $10,000 and transaction costs of $5,000 bearing a 0% annual interest rate and maturing December 31, 2014. The Note is due in six equal monthly installments plus interest (“Installment Amount”) commencing nine months after the issue date. At the option of the Holder, the Installment Amount is convertible into shares of common stock of the Company at a variable conversion price calculated at 60% of the market price which means the average of the lowest two trading prices during the twenty trading day period ending on the latest complete trading day prior to the conversion date. The Company may elect to prepay in cash all or any portion of the outstanding balance of the Note if the Company pays the holder 125% of the outstanding balance. In October 2014, the Company paid principal and interest of $88,577 in cash. At December 26, 2014, the Note is recorded at a fully accreted value of $44,039 less unamortized debt discount of $0.

On February 13, 2014, the Company entered into an Original Issue Discount Secured Promissory Note ("Note") with Beaufort Ventures PLC ("Holder") for a purchase price of $101,000 and a face amount of $136,350 and maturing August 13, 2014. After the maturity date, the Notes accrues interest at 22% per annum and the Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the lowest trading price of the prior 15 trading days, determined on the then current trading market of the Company's common stock, for 10 trading days prior to conversion. The Company may repay the prepay this note, if repaid within 90 days of date of issue, for a net payment of $136,350 plus 70,000 shares of common stock of the Company. On July 7, 2014, the Company paid the Note is full for $136,350 in cash.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On March 5, 2014, the Company entered into a Convertible Promissory Note ("Note") with LG Capital Funding, LLC ("Holder") in the original principal amount of $101,000 bearing a 10% annual interest rate and maturing March 5, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the lowest bid price during the twelve trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 90 days of date of issue at 125% of the original principal amount plus interest, between 91 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. During the year ended December 26, 2014, the Holder converted 12,355,951 shares of common stock of the Company with a fair value of $275,164 for $113,866 of principal and interest. On December 22, 2014, the Note was paid in full.

On March 10, 2014, the Company entered into a Convertible Promissory Note ("Note") with Adar Bays, LLC ("Holder") in the original principal amount of $101,000 bearing a 10% annual interest rate and maturing March 10, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 90 days of date of issue at 125% of the original principal amount plus interest, between 91 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. During the year ended December 26, 2014, the Holder converted 4,519,019 shares of common stock of the Company with a fair value of $194,724 for $101,000 of principal and interest. On November 3, 2014, the Note was paid in full.

On March 12, 2014, the Company entered into a Convertible Promissory Note ("Note") with Asher Enterprises, Inc. ("Holder") in the original principal amount of $103,500 bearing an 8% annual interest rate and maturing December 17, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest and between 61 days and 90 days at 125% of the original principal amount plus interest and between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. During the year ended December 26, 2014, the Holder converted 3,071,221 shares of common stock of the Company with a fair value of $185,620 for $103,500 of principal and interest. On October 13, 2014, the Note was paid in full.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On March 24, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Carebourn Capital, L.P. (“Holder”) in the original principal amount of $112,500 bearing an 8% annual interest rate and maturing November 24, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 30 days of date of issue at 110% of the original principal amount plus interest, between 31 days and 60 days at 115% of the original principal amount plus interest, between 61 days and 90 days at 120% of the original principal amount plus interest, between 91 days and 120 days at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest, and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. During the year ended December 26, 2014, the Company elected to pay $75,289 in cash and the Holder converted 1,043,153 shares of common stock of the Company with a fair value of $115,166 for $60,000 in principal and interest. At September 29, 2014, the Note was paid in full.

On March 27, 2014, the Company entered into a 10% Original Issue Discount Convertible Promissory Note (“Note”) with Gemini Master Fund, Ltd. (“Holder”) in the original principal amount of $220,000 bearing a 10% annual interest rate and maturing January 1, 2015. At the option of the Holder:

i) The Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at a variable conversion price calculated at 65% of the market price which means the average of the lowest volume weighted average price during the twenty trading day period ending prior to the conversion date, or

ii) All principal, costs, charges and interest amounts outstanding may be exchanged for shares of the Company’s common stock at the Conversion Price of $0.25 per share. The Conversion Price is subject to an anti-dilution adjustment.

The Company may repay the Note at 130% of the original principal amount plus interest. During the year ended December 26, 2014, the Holder converted 2,386,034 shares of common stock of the Company with a fair value of $143,162 for $30,000 of principal and interest. At December 26, 2014, the Note is recorded at a fully accreted value of $317,423 less unamortized debt discount of $814.

On April 2, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Coventry Enterprises, LLC (“Holder”) in the original principal amount of $101,000 less transaction costs of $13,000 bearing a 10% annual interest rate and maturing April 5, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the lowest bid price during the twelve trading days prior to the conversion date including the day upon which a Notice of Conversion is received by the Company. The Company may repay the Note if repaid within 180 days of date of issue at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. During the year ended December 26, 2014, the Holder converted 27,737,439 shares of common stock of the Company with a fair value of $306,184 for $98,856 of principal and interest. At December 26, 2014, the Note is recorded at a fully accreted value of $15,205 less unamortized debt discount of $413.

On April 14, 2014, the Company entered into a Convertible Promissory Note ("Note") with Group 10 Holdings, LLC ("Holder") in the original principal amount of $113,000 less original issue discount of $12,000 bearing a 12% annual interest rate and maturing April 17, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 55% of the lowest trading price of any day during the 20 consecutive trading days prior to the date on which the Holder elects to convert all or part of the Note. The Company may repay the Note if repaid within 30 days of date of issue at 125% of the original principal amount plus interest and between 31 days and 179 days at 135% of the original principal amount plus interest and thereafter, the Company may repay the Note at 145% of the original principal amount plus interest. During the year ended December 26, 2014, the Holder converted 26,340,100 shares of common stock of the Company with a fair value of $170,445 for $71,944 of principal and interest. At December 26, 2014, the Note is recorded at a fully accreted value of $90,790 less unamortized debt discount of $10,429.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On April 16, 2014, the Company entered into a Convertible Promissory Note ("Note") with Tonaquint Inc. ("Holder") in the original principal amount of $115,000 less an original issuer's discount of $10,000 and transaction costs of $13,000 bearing a 10% annual interest rate and maturing March 16, 2015. The Note is due in six equal monthly installments plus interest ("Installment Amount") commencing nine months after the issue date. At the option of the Holder, the Installment Amount is convertible into shares of common stock of the Company at a variable conversion price calculated at 60% of the market price which means the average of the lowest two trading prices during the twenty trading day period ending on the latest complete trading day prior to the conversion date. The Company may elect to prepay in cash all or any portion of the outstanding balance of the Note if the Company pays the holder 125% of the outstanding balance. During the year ended December 26, 2014, the Holder converted 18,429,925 shares of common stock of the Company with a fair value of $94,398 for $69,530 of principal and interest. At December 26, 2014, the Note is recorded at a fully accreted value of $88,577 less unamortized debt discount of $18,605.

On April 21, 2014, the Company entered into a Convertible Promissory Note ("Note") with Tailwind Partners 3, LLC ("Holder") in the original principal amount of $106,000 less transaction costs of $5,000 bearing a 12% annual interest rate and maturing January 21, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. During the year ended December 26, 2014, the Holder converted 459,281 shares of common stock of the Company with a fair value of $103,600 for $71,000 of principal and interest. During the year ended December 26, 2014, the Holder converted 8,620,690 shares of common stock of the Company with a fair value of $142,698 for $49,000 of principal and interest. At December 26, 2014, the Note is recorded at a fully accreted value of $136,503 less unamortized debt discount of $4,156.

On May 14, 2014, the Company entered into a Convertible Promissory Note ("Note") with KBM Worldwide, Inc. ("Holder") in the original principal amount of $103,500 less transaction costs $3,500 bearing an 8% annual interest rate and maturing February 16, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 60 days of date of issue at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. During the year ended December 26, 2014, the Holder converted 33,354,930 shares of common stock of the Company with a fair value of $98,434 for $60,345 of principal and interest. At December 26, 2014, the Note is recorded at a fully accreted value of $83,014 less unamortized debt discount of $5,595.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On May 27, 2014, the Company issued a Convertible Promissory Note (“Note”) to JMJ Financial (“Holder”), in the original principal amount of $330,000 bearing a 12% annual interest rate and maturing in one year for $300,000 of consideration paid in cash and a $30,000 original issue discount. The Company may repay the Note any time and if repaid within 90 days of date of issue with an interest rate is 0%. This Note together with any unpaid accrued interest is convertible into shares of common stock at the Holder’s option at a variable conversion price calculated as lessor of (a) $0.30 or (b) 60% of the lowest trade occurring during the 25 consecutive trading days immediately preceding the conversion date. On May 27, 2014, the Company received cash of $100,000 in the first tranche, which was net of original issue discount of $10,000. On August 19, 2014, the Company received cash of $50,000 in the second tranche, which was net of original issue discount of $5,000 bearing a 8% annual interest and maturing in one year. During the year ended December 26, 2014, the Holder converted 8,600,000 shares of common stock of the Company with a fair value of $25,880 for $14,256 of principal and interest. At December 26, 2014, the first tranche of the Note is recorded at a fully accreted value of $155,292 less unamortized debt discount of $34,471. At December 26, 2014, the second tranche of the Note is recorded at a fully accreted value of $87,135 less unamortized debt discount of $27,215.

On June 6, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Firehole River Capital, LLC (“Holder”) in the original principal amount of $106,000 less transaction costs of $5,000 bearing a 12% annual interest rate and maturing March 6, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $195,256 less unamortized debt discount of $19,354.

On June 9, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Group 10 Holdings, LLC (“Holder”) in the original principal amount of $113,000 less an original issue discount of $12,000 bearing a 12% annual interest rate and maturing June 9, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 55% of the lowest trading price of any day during the 20 consecutive trading days prior to the date on which the Holder elects to convert all or part of the Note. The Company may repay the Note if repaid within 30 days of date of issue at 125% of the original principal amount plus interest and between 31 days and 179 days at 135% of the original principal amount plus interest and thereafter, the Company may repay the Note at 145% of the original principal amount plus interest.

At December 26, 2014, the Note is recorded at a fully accreted value of $219,302 less unamortized debt discount of $42,917.

On July 2, 2014, the Company entered into a Convertible Promissory Note (“Note”) with KBM Worldwide, Inc. (“Holder”) in the original principal amount of $78,500 less transaction costs $3,500 bearing an 8% annual interest rate and maturing April 7, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $4,673 less unamortized debt discount of $0.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On July 3, 2014, the Company received cash proceed of a Convertible Promissory Note (“Note”) dated June 26, 2014 with JSJ Investment Inc. (“Holder”) in the original principal amount of $101,000 bearing a 10% annual interest rate and maturing December 27, 2014. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. Upon the maturity date, this note has a cash redemption value of 135%. This provision only may be exercise if the consent of the Note holder is obtained. At December 26, 2014, the Note is recorded at a fully accreted value of $182,582 less unamortized debt discount of $0.

On July 8, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Tailwind Partners, LLC (“Holder”) in the original principal amount of $106,000 less transaction costs of $5,000 bearing a 12% annual interest rate and maturing April 8, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $193,334 less unamortized debt discount of $29,073.

On July 11, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Tonaquint Inc. (“Holder”) in the original principal amount of $225,000 less an original issuer’s discount of $20,000 and transaction costs of $16,000 bearing a 10% annual interest rate and maturing June 11, 2015. The Note is due in six equal monthly installments plus interest (“Installment Amount”) commencing nine months after the issue date. At the option of the Holder, the Installment Amount is convertible into shares of common stock of the Company at a variable conversion price calculated at 60% of the market price which means the average of the lowest two trading prices during the twenty trading day period ending on the latest complete trading day prior to the conversion date. The Company may elect to prepay in cash all or any portion of the outstanding balance of the Note if the Company pays the holder 125% of the outstanding balance. At December 26, 2014, the Note is recorded at a fully accreted value of $393,021 less unamortized debt discount of $123,793.

On July 11, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Macallan Partners, LLC (“Holder”) in the original principal amount of $115,000 less an original issue discount of $14,000 and transaction costs of $8,080 bearing a 0% annual interest rate and maturing January 7, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the lowest trading price of any day during the 15 consecutive trading days prior to the date on which the Holder elects to convert all or part of the Note. The Company may repay the Note if repaid within 60 days of date of issue at 125% of the original principal amount plus interest, and between 61 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $198,276 less unamortized debt discount of $31,888.

On July 15, 2014, the Company issued a Convertible Promissory Note (“Note”) to Iconic Holding, LLC (“Holder”), in the original principal amount of $110,250 less an original issue discount of $5,250 and transaction costs of $8,340 bearing a 0% annual interest rate and maturing July 15, 2015. This unsecured Note is convertible into shares of common stock at the Holder’s option at a variable conversion price calculated at 60% of the lowest trading price of any day during the 10 consecutive trading days prior to the dated on which the Holder elects to convert all or part of the Note. The Company may repay the Note within 60 days of date of issue at 125% of the original principal amount plus interest, between 60 days and 120 days at 130% of the original principal amount plus interest plus 30,000 shares of common stock of the Company and between 120 days and 180 days at 135% of the original principal amount plus interest plus 60,000 shares of common stock of the Company. Thereafter, the Note may only be repaid with the consent of the Holder. At December 26, 2014, the Note is recorded at a fully accreted value of $183,750 less unamortized debt discount of $41,796.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On July 22, 2014, the Company entered into a Convertible Promissory Note ("Note") with Firehole River Capital, LLC ("Holder") in the original principal amount of $106,000 less transaction costs of $8,080 bearing a 12% annual interest rate and maturing April 22, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $192,492 less unamortized debt discount of $44,500.

On July 23, 2014, the Company entered into a Convertible Promissory Note ("Note") with WHC Capital, LLC ("Holder") in the original principal amount of $101,000 less transaction costs of $5,000 bearing a 12% annual interest rate and maturing July 23, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the fifteen trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $183,355 less unamortized debt discount of $42,520.

On August 6, 2014, the Company entered into a Convertible Promissory Note ("Note") with LG Capital Funding, LLC ("Holder") in the original principal amount of $106,000 less transaction costs of $5,000 bearing a 10% annual interest rate and maturing August 6, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the lowest bid price during the twelve trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 90 days of date of issue at 125% of the original principal amount plus interest, between 91 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $190,820 less unamortized debt discount of $44,627.

On August 8, 2014, the Company entered into a Convertible Debenture ("Note") with Daniel James Management, Inc. ("Holder") in the original principal amount of $101,000 bearing a 12% annual interest rate and maturing August 8, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the lowest closing bid price during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay any portion of the principal amount at 135% of such amount along with any accrued interest of this Debenture at any time upon seven days written notice to the Holder. At December 26, 2014, the Note is recorded at a fully accreted value of $182,439 less unamortized debt discount of $46,680.

On August 18, 2014, the Company entered into a Convertible Promissory Note ("Note") with Redwood Fund III, LLC ("Holder") in the original principal amount of $262,500 less original issue discount of $12,500 and transaction costs of $22,000 bearing a 11% annual interest rate and maturing August 18, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated as 60% of the lowest trading price, determined on the then current trading market for the Company's common stock, for 20 trading days prior to conversion. The Company may repay any portion of the principal amount at 130% of such amount along with any accrued interest of this Debenture at any time upon five days written notice to the Holder. At December 26, 2014, the Note is recorded at a fully accreted value of $455,547 less unamortized debt discount of $199,861.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On August 18, 2014, the Company entered into a Convertible Promissory Note ("Note") with Redwood Management, LLC ("Holder") in the original principal amount of $105,000 less original issue discount $5,000 bearing a 11% annual interest rate and maturing August 18, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated as 60% of the lowest trading price, determined on the then current trading market for the Company's common stock, for 20 trading days prior to conversion. The Company may repay any portion of the principal amount at 130% of such amount along with any accrued interest of this Debenture at any time upon five days written notice to the Holder. At December 26, 2014, the Note is recorded at a fully accreted value of $182,219 less unamortized debt discount of $76,764.

On September 19, 2014, the Company entered into a Convertible Promissory Note ("Note") with Eastmore Capital, LLC ("Holder") in the original principal amount of $110,000 less transaction costs of $5,000 bearing a 12% annual interest rate and maturing September 18, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 60% of the market price which means the average of the lowest trading price during the fifteen trading day period ending on the latest complete trading day prior to the conversion date. For six months, the Company may repay any portion of the principal amount at 130% of such amount along with any accrued interest of this Debenture at any time upon five days written notice to the Holder. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $189,542 less unamortized debt discount of $55,681.

On September 19, 2014, the Company entered into a Convertible Promissory Note ("Note") with RDW Capital, LLC ("Holder") in the original principal amount of $131,250 less original issue discount of $6,250 bearing a 11% annual interest rate and maturing September 19, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated as 60% of the lowest trading price, determined on the then current trading market for the Company's common stock, for 20 trading days prior to conversion. The Company may repay any portion of the principal amount at 130% of such amount along with any accrued interest of this Debenture at any time upon five days written notice to the Holder. At December 26, 2014, the Note is recorded at a fully accreted value of $225,635 less unamortized debt discount of $102,059.

On September 24, 2014, the Company entered into a Convertible Promissory Note ("Note") with Carebourn Capital, L.P. ("Holder") in the original principal amount of $125,289 less transaction costs $6,300 bearing an 12% annual interest rate and maturing June 24, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 60% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 30 days of date of issue at 110% of the original principal amount plus interest, between 31 days and 60 days at 115% of the original principal amount plus interest, between 61 days and 90 days at 120% of the original principal amount plus interest, between 91 days and 120 days at 125% of the original principal amount plus interest and 121 days and 150 days at 130% and between 151 days and 180 days at 135% of the original principal amount plus interest of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $215,542 less unamortized debt discount of $56,696.

On October 1, 2014, the Company entered into a Convertible Promissory Note ("Note") with KBM Worldwide, Inc. ("Holder") in the original principal amount of $95,000 less transaction costs $10,000 bearing an 8% annual interest rate and maturing July 6, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $167,105 less unamortized debt discount of $98,311.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 8 – CONVERTIBLE PROMISSORY NOTES (CONTINUED)

On October 31, 2014, the Company entered into a Convertible Promissory Note (“Note”) with Tailwind Partners, LLC (“Holder”) in the original principal amount of $106,000 less transaction costs of $5,000 bearing a 12% annual interest rate and maturing July 31, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $186,475 less unamortized debt discount of $146,173.

On November 12, 2014, the Company entered into a Convertible Promissory Note (“Note”) with LG Capital Funding, LLC (“Holder”) in the original principal amount of $106,000 less transaction costs of $5,000 bearing a 10% annual interest rate and maturing November 12, 2015. This Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the lowest bid price during the twelve trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the Note if repaid within 90 days of date of issue at 125% of the original principal amount plus interest, between 91 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. At December 26, 2014, the Note is recorded at a fully accreted value of $185,246 less unamortized debt discount of $162,962.

At December 26, 2014 and December 31, 2013, convertible notes payable include accrued interest of $103,555 and $0, respectively, for Notes that principal has been fully paid.

NOTE 9 – CONVERTIBLE NOTE PAYABLE DERIVATIVE LIABILITY

The Convertible Promissory Notes (see Note 8) with Willow Creek Capital Group, LLC with an issue date September 16, 2013, Gemini Master Fund Ltd. with an issue date of March 27, 2014, JMJ Financial Tranche 1 with an issue date of May 27, 2014, Tonaquint, Inc. with an issue date of April 16, 2014, Tonaquint, Inc. with an issue date of July 11, 2014, Redwood Fund III, Ltd. with an issue date of August 18, 2014, Redwood Management LLC with an issue date of August 18, 2014, JMJ Financial Tranche 2 with an issue date of August 19, 2014 and RDW Capital, LLC with an issue date of September 19, 2014 have an initial conversion price that is subject to anti-dilution adjustments that allow for the reduction in the Conversion Price in the event the Company subsequently issues equity securities including common stock or any security convertible or exchangeable for shares of common stock for no consideration or for consideration less than original conversion price.

The Company's convertible promissory note derivative liabilities due to anti-dilution adjustments has been measured at fair value at December 26, 2014 and December 31, 2013 using a binomial model. Since the Conversion Price contains an anti-dilution adjustment, the probability that the Conversion Price of the Notes would decrease as the share price decreased was incorporated into the valuation calculation.

The inputs into the binomial models are as follows:

Conversion price	$0.25 - $0.50	
Risk free rate	0.03% - 0.11%	
Expected volatility	196% - 282%	
Dividend yield	0	%
Expected life	0.03 years – 0.73 years	

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NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 9 – CONVERTIBLE NOTE PAYABLE DERIVATIVE LIABILITY (CONTINUED)

Additionally, the Convertible Promissory Notes with KBM Worldwide, Inc. with an issue date of October 1, 2014, Tailwind Partner 3, LLC with an issue date of October 31, 2014 and LG Capital Funding, LLC with an issued date of November 12, 2014 were all accounted for under ASC 815. The variable conversion price is not considered predominately based on a fixed monetary amount settleable with a variable number of shares due to the volatility and trading volume of the Company's common stock. The Company's convertible promissory note derivative liabilities has been measured at fair value at December 26, 2014 and December 31, 2013 using the Black-Scholes model.

The inputs into the Black-Scholes models are as follows:

Conversion price	\$0.0008 - \$0.0141	
Risk free rate	0.05	%
Expected volatility	130% - 211%	
Dividend yield	0	%
Expected life	0.53 years – 1.00 years	

NOTE 10 – WARRANT DERIVATIVE LIABILITY

On July 11, 2014, in conjunction with the issuance of the Convertible Promissory Note issued to Tonaquint, Inc. on July 11, 2014 (see Note 8), the Company issued a warrant to purchase 271,084 shares of common stock with an exercise price of \$0.45 per share and a life of five years.

The warrant is subject to anti-dilution adjustments that allow for the reduction in the conversion price in the event the Company subsequently issues equity securities including common stock or any security convertible or exchangeable for shares of common stock for no consideration or for consideration less than \$0.45 a share. The Company accounted for the conversion option in accordance with ASC Topic 815. Accordingly, the Conversion Option is not considered to be solely indexed to the Company's own stock and, as such, is recorded as a liability.

The warrant derivative liability has been measured at fair value at July 11, 2014 and December 26, 2014 using a binomial model. Since the Conversion Price contains an anti-dilution adjustment, the probability that the exercise price of the Notes would decrease as the share price decreased was incorporated into the valuation calculation.

The inputs into the binomial model are as follows:

Risk free rate	1.75	%
Expected volatility	170	%
Dividend yield	0	%
Expected life	4.5 years	

NOTE 11 – CONTINGENT LIABILITY

The Company incurred a contingent liability related to the Asset Acquisition Agreement with Qwik Staffing Solutions, Inc. on April 29, 2013. The obligation is due in monthly installments by paying an amount equal to 6.5% of the monthly accounts receivable collected by operating the Orlando, Jacksonville and Tampa, Florida locations. The total payments are not to exceed $170,000. The fair value of the obligation is determined by estimating discounted monthly installments at an interest rate of 12% per annum. The obligation to Qwik was paid in full during May 2014.

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LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 11 – CONTINGENT LIABILITY (CONTINUED)

The Company incurred a contingent liability related to the Asset Acquisition Agreement with Shirley's Employment Service, Inc. on April 13, 2014. The obligation is due in monthly installments by paying an amount equal to 5.0% of the monthly accounts receivable collected by operating the Tulsa, Oklahoma location. The total payments are not to exceed $100,000. The fair value of the obligation is determined by estimating discounted monthly installments at an interest rate of 12% per annum.

The Company incurred a contingent liability related to the Asset Acquisition Agreement with Kwik Jobs, Inc. on September 26, 2014. The obligation is due in monthly installments by paying an amount equal to 5.0% of the monthly accounts receivable collected by operating the Birmingham, Alabama and Decatur, Georgia locations. The total payments are not expected to exceed $100,000. The fair value of the obligation is determined by estimating discounted monthly installments at an interest rate of 12% per annum.

Opening balance at December 31, 2013	$79,221
Purchase of Shirley's customer list – April 13, 2014	91,664
Purchase of Kwik customer list – September 26, 2014	141,529
Payments	(156,575)
Interest	10,023
Closing balance at December 26, 2014	$165,862

NOTE 12 – STOCKHOLDERS' EQUITY

On October 6, 2014 the Company filed a Certificate of Designation with the Nevada Secretary of State to amend its Articles of Incorporation to create and designate the rights and preferences of a new series of preferred stock designated the Series A Preferred Stock. The number of shares authorized as Series A Preferred Stock shall be fifty one (51) shares. Each share of Series A Preferred Stock shall be convertible into one (1) share of common stock of the Company at the election of the holder and shall have voting rights equal to: (x) 0.019607 multiplied by the total issued and outstanding shares of Common Stock eligible to vote at the time of the respective vote (the "Numerator"), divided by (y) 0.49, minus (z) the Numerator.

On October 22, 2014, the Board of Directors adopted and approved and the majority shareholder, Ryan Schadel, ratified a Company proposed amendment to the Articles of Incorporation to increase the number of authorized shares of the Company's common stock from 150,000,000 to 1,000,000,000. The amendment is effective November 25, 2014.

Effective February 16, 2015, the Company filed a Certificate of Amendment to the Articles of Incorporation to increase the number of authorized shares of the Company's common stock from 1,000,000,000 to 20,000,000,000 and to decrease the par value common stock from $0.001 per share to $0.00001 per share. The increase in authorized shares and change in par value have been accounted for retroactively in these financial statements.

Preferred Stock – The Company has 5,000,000 shares of "blank check" preferred stock authorized. As of December 26, 2014 and December 31, 2013, the Company had no preferred shares issued and outstanding, respectively.

On October 20, 2014, the Company issued fifty-one (51) shares of Series A Preferred Stock to Ryan Schadel for his service as the Chief Executive Officer and director of the Company.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 12 – STOCKHOLDERS' EQUITY (CONTINUED)

Common Stock - The Company has 20,000,000,000 shares of $0.00001 par value common stock authorized. As of December 26, 2014 and December 31, 2013, the Company had 180,485,103 and 20,982,740 shares issued and outstanding, respectively.

On January 28, 2013, the Company entered into a Consultant Agreement for a term of six months for general corporate and due diligence services. As compensation, the Company agreed to issue to the consultant 300,000 shares of unrestricted common stock valued at $72,000 ($0.24 per share) in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

On January 28, 2013, the Company entered into a Consultant Agreement for a term of six months for general corporate and due diligence services. As compensation, the Company agreed to issue to the consultant 700,000 shares of unrestricted common stock valued at $168,000 ($0.24 per share) in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

On January 28, 2013, the Company entered into a Consultant Agreement for a term of six months. As compensation, the Company agreed to issue to the consultant 500,000 shares of common stock valued at $120,000 ($0.24 per share) of the Company.

On January 28, 2013, the Company entered into a Consultant Agreement for services. As compensation, the Company agreed to issue to the consultant 300,000 shares of unrestricted common stock valued at $72,000 ($0.24 per share) in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

In February 21, 2013, the Company issued 50,000 stock options to a director of the Company with an exercise price of $0.56 per share, expiring on February 21, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on February 21, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.86%); expected volatility (166%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at $26,244 and expensed in our accompanying statement of operations.

On February 25, 2013, the Company issued warrants to purchase 202,000 shares of common stock of the Company with an exercise price of $0.40 per share and no specific term. These warrants were issued in conjunction to the Convertible Promissory Note the Company entered into on February 25, 2013. The warrants were measured at their fair value on February 25, 2013 using the following Black-Scholes Model Assumptions: risk free interest (1.93%); expected volatility (166%); expected life (10 years); no dividends. These warrants were valued at their relative fair value of $57,359, recorded as a discount to convertible note payable and are deferred and amortized in our accompanying statement of operations using the straight-line method, which approximates the effective interest method, over the term of the associated Convertible Promissory Note.

In March 14, 2013, the Company issued 50,000 stock options to a director of the Company with an exercise price of $0.62 per share, expiring on March 14, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on March 14, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.88%); expected volatility (166%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at $29,057 and expensed in our accompanying statement of operations.

On March 20, 2013, the Company agreed to issue 100,000 shares of its common stock for cash. The shares were issued at $0.50 per share for an aggregate of $50,000.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 12 – STOCKHOLDERS' EQUITY (CONTINUED)

On April 5, 2013, the Company agreed to issue 100,000 shares of its common stock for cash. The shares were issued at $0.50 per share for an aggregate of $50,000.

In April 19, 2013, the Company issued 30,000 stock options for employee compensation with an exercise price of $0.41 per share, expiring on April 19, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on April 19, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.72%); expected volatility (167%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at $11,559 and expensed in our accompanying statement of operations.

On May 24, 2013, the Company issued 33,500 of shares of common stock to employees for services rendered by them for an aggregate fair value of $12,395 ($0.37 per share) based on the quoted market price of the shares at time of issuance in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

In October 28, 2013, the Company issued 1,500,000 stock options for employee compensation with an exercise price of $0.30 per share, expiring on April 28, 2015 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on October 28, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.215%); expected volatility (148%); expected life (1.5 years); no dividends. These options were immediately vested and exercisable, valued at $226,882 and expensed in our accompanying statement of operations.

On October 8, 2013, the Company issued 30,000 shares of its common stock with an aggregate fair value of $8,550 ($0.285 per share) based on the quoted market price of the shares at time of issue to Iconic Holding, LLC for finance costs upon the election of the Company to prepay the Convertible Promissory Note dated April 10, 2013.

On October 9, 2013, the Company agreed to issue options to purchase 2,405,037 shares of common stock to nineteen (19) employees of the Company with an exercise price of $0.05 per share of common stock and a contractual life of ten years in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The stock options as vest follows: 25% on October 9, 2016, 35% on October 9, 2017 and the remaining 40% on October 9, 2018. The options were measured at their fair value on October 9, 2013 using the following Black-Scholes Model Assumptions: risk free interest (1.73%); expected volatility (147%); expected life (ten years); no dividends. Share-based compensation related to these common stock option grants for the years ended December 26, 2014 and December 31, 2013 amounted to $29,783 and $0, respectively, and is reported as stock-based compensation in the statement of operations and additional paid-in capital in the statement of stockholders' equity.

In October 28, 2013, the Company issued 50,000 stock options for employee compensation with an exercise price of $0.295 per share, expiring on September 24, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on October 28, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.72%); expected volatility (164%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at $13,792 and expensed in our accompanying statement of operations.

On December 12, 2013, the Company issued to Group 10 Holdings, LLC in conjunction with the Convertible Promissory Note issued to Group 10 Holdings, LLC on December 9, 2013 40,000 shares of common stock with an aggregate fair value of $10,800 ($0.27 per share) based on the quoted market price of the for a commitment fee. The commitment fee is included in deferred finance costs and amortized on a straight line, which approximates the effective interest method, over the life the Convertible Promissory Note.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 12 – STOCKHOLDERS' EQUITY (CONTINUED)

In December 24, 2013, the Company issued 25,000 stock options for employee compensation with an exercise price of $0.25 per share, expiring on December 24, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on December 24, 2013 using the following Black-Scholes Model Assumptions: risk free interest (1.73%); expected volatility (147%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at $5,529 and expensed in our accompanying statement of operations.

During the year ended December 31, 2013, the holders of Convertible Promissory Notes (see Note 8) converted 2,152,240 shares of common stock of the Company with a fair value of $678,030 to settle $328,400 of principal and interest.

On February 11, 2014, the Company issued 100,000 shares of common stock for professional services valued at $21,000 ($0.02 per share).

On July 11, 2014, the Company issued 100,000 shares common stock in satisfaction of stock payable for $23,000 in stock-based compensation for professional fees.

On November 1, 2014, the Company issued 500,000 shares of common stock for investor relations valued at $11,100 ($0.0222 per share) based on the quoted market price of the shares at time of issuance.

On May 24, 2013, the Company issued 390,000 of shares of common stock to employees for services rendered by them for an aggregate fair value of $429 ($0.0.0021 per share) based on the quoted market price of the shares at time of issuance.

During the year ended December 26, 2014, the holders of Convertible Promissory Notes (see Note 8) converted 158,382,363 shares of common stock of the Company with a fair value of $3,448,803 to settle $1,575,531 of principal and interest.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 12 – STOCKHOLDERS' EQUITY (CONTINUED)

The following is a summary of the common stock options granted, forfeited or expired and exercised:

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding - January 1, 2014	3,883,455	$ 0.18
Granted	50,000	$ 0.06
Forfeited or expired	(1,057,478)	$ 0.05
Exercised	—	—
Outstanding– December 26, 2014	2,875,977	$ 0.19
Exercisable – December 26, 2014	1,885,000	$ 0.33

The following table summarizes information on stock options exercisable as of December 26, 2014:

Exercise Price	Number Outstanding at December 26, 2014	Average Remaining Life (Years)	Aggregate Intrinsic Value
$0.021	25,000	4.86	—
$0.105	25,000	4.77	—
$0.25	25,000	4.00	—
$0.295	50,000	3.75	—
$0.30	1,500,000	0.34	—
$0.41	30,000	3.32	—
$0.50	130,000	4.00	—
$0.56	50,000	3.16	—
$0.62	50,000	3.22	—

The following table summarizes information on stock options outstanding as of December 26, 2014:

Exercise Price	Number Outstanding at December 26, 2014	Average Remaining Life (Years)	Aggregate Intrinsic Value
$0.21	25,000	4.86	—
$0.05	990,977	8.79	—
$0.105	25,000	4.77	—
$0.25	25,000	4.00	—
$0.295	50,000	3.75	—
$0.30	1,500,000	0.34	—
$0.41	30,000	3.32	—
$0.50	130,000	4.00	—
$0.56	50,000	3.16	—
$0.62	50,000	3.22	—

The following is a summary of warrants activity during December 26, 2014:

	Number of Shares	Weighted Average Exercise Price
Balance, January 1, 2014	502,000	$ 0.40
Warrants granted and assumed Warrants canceled	1,339,286	$ 0.04
Warrants expired	—	—
Balance, December 26, 2014	1,841,286	$ 0.14

(1) The number of warrants is equal to $56,250 divided by the market price. Market price is defined as greater of (i) the closing price of common stock on the issue date and (ii) the VWAP of the common stock for the trading day that is 2 trading days prior to the exercise price. At December 26, 2014, the number of warrants granted and assumed is calculated to be 1,339,286. The initial exercise price of the warrants is $0.45 per common share subject to adjustment for dilutive issuances. As December 26, 2014, the exercise price was $0.04 per share.

All warrants outstanding as of December 26, 2014 are exercisable.

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

NOTE 13 – INCOME TAXES

As of December 26, 2014, the Company had net operating loss carry forwards of $2,880,251 that may be available to reduce future years' taxable income through 2032 and 2034. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements, as their realization is determined not likely to occur and accordingly, the Company has recorded a valuation allowance for the deferred tax asset relating to these tax loss carryforwards.

Components of net deferred tax assets, including a valuation allowance, are as follows at December 26, 2014 and December 31, 2013:

	2014	2013
Net loss before taxes	$(5,119,506)	$(2,722,980)
Permanent adjustments:		
Stock based compensation	104,360	801,915
Meals and Entertainment	55,661	12,926
Amortized debt discount	4,146,475	682,603
Non-deductible expenses	123,022	
Temporary adjustments:		
Bad debt expense	—	113,538
NOL loss carryforward	(689,988)	(1,111,998)
Tax rate	35%	35%
Recovery) Provision for income taxes	(241,496)	(389,000)
Less: Valuation allowance	241,496	389,000
Net deferred tax asset	$—	$—

The valuation allowance for deferred tax assets as of December 26, 2014 was $1,008,088. In assessing the recovery of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the periods in which those temporary differences become deductible. Management considers the scheduled reversals of future deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. As a result, management determined it was more likely than not the deferred tax assets would not be realized as of December 26, 2014 and December 31, 2013.

Reconciliation between the statutory rate and the effective tax rate is as follows at December 26, 2014 and December 31, 2013:

	2013	**2013**
Federal statutory tax rate	(35.0)%	(35.0)%
Valuation allowance	35.0%	35.0%
	- %	- %

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NOTES TO THE FINANCIAL STATEMENTS

December 26, 2014

Below is a chart showing the estimated corporate federal net operating loss (NOL) and the year in which it will expire.

Year	Amount	Expiration
2014	$689,988	2034
2013	$1,903,087	2033
2012	$287,176	2032

The tax years 2014, 2013, 2012 and 2011 remain open to examination by the major taxing jurisdictions in which the Company operates. The Company expects no material changes to unrecognized tax positions within the next twelve months.

NOTE 14 – COMMITMENTS

The Company leases office premises under 31 operating leases with terms from month to month to five years. Rental expenses was $443,802 and $236,734 for the years ended December 26, 2014 and December 31, 2013, respectively.

The following table is a schedule of future minimum lease commitments for the Company:

Period ending December 31,	2015	$ 483,201
	2016	382,161
	2017	260,679
	2018	185,301
	2019	105,565
		$ 1,416,907

NOTE 15 – SUBSEQUENT EVENTS

From December 27, 2014 to March 30, 2015, the holders of Convertible Promissory Notes (see Note 8) converted 2,907,605,253 shares of common stock of the Company with a fair value of $920,071 to settle $463,833 of principal and interest.

On January 13, 2015, the Company entered into a Second Amendment to Purchase and Sale Agreement (the "Amendment") with Transfac. The Amendment amended the original Purchase and Sale Agreement entered into July 31, 2013, as amended on February 27, 2014 (the "Agreement"). Under the terms of the Amendment, the definition of "Advance Rate" was amended to read: "Advance Rate" means 90% or such other percent as may be determined from time to time by Transfac in its sole discretion. The previous "Advance Rate" was 85%. The definition of "Account Due Date" was amended to read: "Account Due Date" 90 days from the date of the invoice evidencing the Account. The previous "Account Due Date" was 80 days. The definition of "Maximum Advances" was amended to read: "Maximum Advances" means the maximum aggregate amount of Outstanding Advances, which amount shall not exceed $4,000,000, or such other amount as may be determined from time to time by Transfac in its sole discretion. The previous "Maximum Advances" were $2,000,000. The definition of "Contract Term" was amended to read: "Contract Term" means an initial period of 24 months commencing on the date of this signed Second Amendment to Purchase and Sale Agreement and renewal periods of 1 year thereafter. The previous "Contract Term" was 18 months. Finally, the following definition was added: "Origination Fee" means 0.25% of the Maximum Advances which was due and payable on the date of this signed Second Amendment to Purchase and Sale Agreement. All other provisions of the Agreement remain in full force and effect.

On January 27, 2015, the Company entered into a Partial Note Prepayment Agreement with Firehole River Capital, LLC ("Lender") for the Convertible Promissory Note with a face value of $106,000 dated June 6, 2014. The Lender agreed to allow the Company to pay off $20,000 of principal by paying $25,000 in cash.

On January 27, 2015, the Company entered into a Partial Note Prepayment Agreement with Tailwind Partners, LLC ("Lender") for the Convertible Promissory Note with a face value of $106,000 dated July 8, 2014. The Lender agreed to allow the Company to pay off $53,000 of principal by paying $64,000 in cash.

On January 27, 2015, the Company entered into a Partial Note Prepayment Agreement with Firehole River Capital, LLC ("Lender") for the Convertible Promissory Note with a face value of $106,000 dated July 22, 2014. The Lender agreed to allow the Company to pay off $53,000 of principal by paying $64,000 in cash.

Effective February 16, 2015, the Company filed a Certificate of Amendment to the Articles of Incorporation to increase the number of authorized shares of the Company's common stock from 1,000,000,000 to 20,000,000,000 and to decrease the par value common stock from $0.001 per share to $0.00001 per share.. The increase in authorized shares and change in par value have been accounted for retroactively in these financial statements.

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

No events occurred requiring disclosure under Item 304 of Regulation S-K during the fiscal year ending December 26, 2014.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report, being December 26, 2014. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company’s reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based upon that evaluation, including our Chief Executive Officer and Chief Financial Officer, we have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this annual report.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Management has assessed the effectiveness of our internal control over financial reporting as of December 26, 2014 based on criteria established in Internal

Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 26, 2014, our internal control over financial reporting was not effective. Our management identified the following material weaknesses in our internal control over financial reporting, which are indicative of many small companies with small staff: (i) we do not have an audit committee of the Board of Directors or a financial expert serving on the Board of Directors (ii) inadequate segregation of duties and effective risk assessment; and (iii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC guidelines (iv) deficient design of our management information systems and information technology because the potential for unauthorized access to certain information systems and software applications existed during 2014 in several departments, including corporate accounting. Certain key controls for maintaining the overall integrity of systems and data processing were not properly designed and operating effectively.

We plan to take steps to enhance and improve the design of our internal control over financial reporting. During the period covered by this annual report on Form 10-K, we have not been able to remediate the material weaknesses identified above. To remediate such weaknesses, we hope to implement the following changes during our fiscal year ending December 25, 2015: (i) appoint additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopt sufficient written policies and procedures for accounting and financial reporting. The remediation efforts set out in (i) and (ii) are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The directors and executive officers of the Company are:

Name	**Age**	**Position**
Ryan Schadel	36	Chief Executive Officer, Chief Financial Officer, Chairman
Kimberly Thompson	47	Chief Operating Officer
James Robert Edmonds	36	Director
Matthew Rodgers	51	Director (resigned March 9, 2015)

Ryan Schadel **,** our founder, Chief Executive Officer, Chief Financial Officer and Chairman, has nearly 13 years' experience in the temporary staffing industry. During these 12 years he has held numerous positions, starting as a sales rep in January 2000 with a nationwide temporary staffing company. Of his nearly 13 years' experience in our industry, 11 have been in a management or executive capacity, and 8 of those years in a multi-unit management capacity. Mr. Schadel's experience as our founder qualifies him to serve on our board of directors.

Kimberly Thompson has served as our Chief Operating Officer since November 2014. Ms. Thompson was previously an operations manager for Tip Top Roofers, Inc., from August 2000 to November 2014. Mrs. Thompson is an energetic leader and excels in implementing processes that drive revenue growth, financial performance, and operational excellence with a strong focus on customer satisfaction and brand loyalty. In her most recent position, Mrs. Thompson lead the operations team for the largest commercial roofing company in the southeast US.

James Robert Edmonds has served as a member of our board of directors since October 2014. Mr. Edmonds is a principal product manager at ServiceNow, Inc. in Santa Clara, California. His tenure with ServiceNow began in 2009 as a consultant. In 2011 he was promoted to Technical Architect, and in 2013 he was promoted to principal product manager. Prior to his tenure with ServiceNow, Mr. Edmonds was a technical consultant with C3i Business Solutions where he served from 2007 until 2009. Prior to his position at C3i, Mr. Edmonds served as the Mobile Solutions Engineer for Cox Communications, Virginia. His tenure at Cox began in 2000 and he served until 2007.

Matthew Rodgers has served as a member of our board of directors since October 2014. Mr. Rodgers is the President of iprospectcheck.com, a privately held employment screening firm located in Folsom, California. His tenure with iprospectcheck.com began in 2009. Prior to his tenure with iprospectcheck.com, Mr. Rodgers was the President and Chief Executive Officer of Interim Healthcare Staffing where he served from 2003 until 2012. Prior to his position at Interim HealthCare Staffing, Mr. Rodgers served as Executive Vice President and Chief Operating Officer of Labor

Ready, Inc. His tenure at Labor Ready began in 1998 and he served until 2003. Mr. Rodger resigned as a member of the Board of Directors on March 9, 2015.

The board of directors has no nominating, auditing or compensation committees.

None of our directors qualify as “independent” as that term is defined under the applicable rules and regulations of the SEC, meaning that our directors may have business interests in the Company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. We believe that our chief executive officer is capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. We believe that retaining an independent director who would qualify as an "audit committee financial expert" would be overly costly and burdensome and is not warranted in our circumstances given the early stages of our development and the fact that we have not generated any material net income to date. In addition, we currently do not have nominating, compensation or audit committees or committees performing similar functions nor do we have a written nominating, compensation or audit committee charter. Our board of directors does not believe that it is necessary to have such committees because it believes the functions of such committees can be adequately performed by our board of directors. Further, we are not a "listed company" under SEC rules and thus we are not required to have a compensation committee or a nominating committee.

We do not have any defined policy or procedure requirements for shareholders to submit recommendations or nominations for directors. Our board of directors believes that, given the early stages of our development, a specific nominating policy would be premature and of little assistance until our business operations develop to a more advanced level. We do not currently have any specific or minimum criteria for the election of nominees to our board of directors and we do not have any specific process or procedure for evaluating such nominees. Our board of directors assesses all candidates, whether submitted by management or shareholders, and makes recommendations for election or appointment.

A shareholder who wishes to communicate with our board of directors may do so by directing a written request addressed to our Chief Executive Officer at the address appearing on the face page of this Prospectus.

Term of Office

Our directors are appointed to hold office until removed from office or until his successor has been elected and qualified in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board.

All officers and directors listed above will remain in office until the next annual meeting of our stockholders, and until their successors have been duly elected and qualified. There are no agreements with respect to the election of Directors. Officers are appointed annually by our Board of Directors and each Executive Officer serves at the discretion of our Board of Directors. We do not have any standing committees. Our Board of Directors may in the future determine to pay Directors' fees and reimburse Directors for expenses related to their activities.

None of our Officers and/or Directors have filed any bankruptcy petition, been convicted of or been the subject of any criminal proceedings or the subject of any order, judgment or decree involving the violation of any state or federal securities laws within the past five (5) years.

Audit Committee

We do not have an audit committee of the Board of Directors. Management has determined not to establish an audit committee at present because of our limited resources and limited operating activities do not warrant the formation of an audit committee or the expense of doing so. We do not have a financial expert serving on the Board of Directors or employed as an officer based on management's belief that the cost of obtaining the services of a person who meets the criteria for a financial expert under Section 407 of the Sarbanes-Oxley Act of 2002 and Item 407(d) of Regulation S-K is beyond our limited financial resources and the financial skills of such an expert are simply not required or necessary for us to maintain effective internal controls and procedures for financial reporting in light of the limited scope and simplicity of accounting issues raised in our financial statements at this stage of our development.

Family Relationships

None.

Involvement in Certain Legal Proceedings

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

4. being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock, to file reports regarding ownership of, and transactions in, our securities with the Securities and Exchange Commission and to provide us with copies of those filings. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during fiscal year ended December 26, 2014, all filing requirements applicable to our officers, directors and greater than 10% percent beneficial owners were complied with.

Code of Ethics

At this time the Company has not established any code of conduct and ethics

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information concerning the annual and long-term compensation awarded to, earned by, or paid to the named executive officer for all services rendered in all capacities to our company, or any of its subsidiaries, for the years ended December 26, 2014 and December 31, 2013:

Name and Principal Position		Salary	Deferred Compen-sation	Bonus	Stock Awards	and Warrant Awards	All Other Compen-sation	Total
Ryan Schadel	2014	$133,330	$ -	$ -	$ -	$ -	$ -	$133,330
Chief Executive Officer and Chief Financial Officer	2013	$104,000	$ -	$ -	$ -	$	$ -	$104,000
Kimberly Thompson	2014	$14,618	$ -	$ -	$ -	$ -	$ -	$14,618
Chief Operating Office	2013	$-	$ -	$ -	$ -	$	$ -	$-

Employment Agreements

The Company has no formal employment agreements.

Compensation of Directors

The general policy of the Board of Directors is that compensation for independent Directors should be a nominal cash fee plus equity-based compensation. We do not pay employee Directors for Board service in addition to their regular employee compensation. The Board of Directors have the primary responsibility for considering and determining the amount of Director compensation.

The following table shows amounts earned by each Director in the fiscal year ended December 26, 2014.

Director	Fees Earned or Paid in Cash	Stock Awards	Warrant Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Ryan Schadel	$ —	$—	$ —	$ —	$ —	$ —	$—
Matthew Rodgers	$ —	$2,218	$ —	$ —	$ —	$ —	$2,218
Matthew Rodgers	$ —	$484	$ —	$ —	$ —	$ —	$484

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

The following table sets forth information with respect to the beneficial ownership of our Common Stock as of March 26, 2014 for:

l each of our executive officers and directors;
l all of our executive officers and directors as a group; and
l any other beneficial owner of more than 5% of our outstanding Common Stock.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include ordinary shares issuable upon the exercise of stock options that are immediately exercisable or exercisable within 60 days. Except as otherwise indicated, all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. The information is not necessarily indicative of beneficial ownership for any other purpose.

Except as otherwise noted, the address of the individuals in the following table below is c/o Labor Smart Inc., 3270 Florence Road, Suite 200, Powder Springs, GA 30127.

Name of Beneficial Owner	**Number of Shares Beneficially Owned**		**Percentage (1)**	
Officers and Directors				
Ryan Schadel	35,054,792	(2)	1.1	%
Kimberly Thompson	198,300		*	
Matthew Rodgers	125,000	(3)	*	
James Edmonds	309,750		*	
All officers and directors as a group (4 persons)	35,687,842		1.2	%

* Less than 1%.

(1) Based on 3,088,060,356 shares of common stock issued and outstanding as of March 30, 2015.

(2) Includes 51 shares issuable upon conversion of 51 shares of Series A Preferred Stock. Excludes 50,000 shares owned by the Mr. Schadel's wife and 210,000 shares issuable upon exercise of options held by Mr. Schadel's spouse. Each share of Series A Preferred Stock has voting rights equal to: (x) 0.019607 multiplied by the total issued and outstanding shares of common stock eligible to vote at the time of the respective vote (the "Numerator"), divided by (y) 0.49, minus (z) the Numerator.

(3) Represents shares issuable upon exercise of options.

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

No director, executive officer, principal shareholder holding at least 5% of our common shares, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction, during the year ended December 26, 2014, in which the amount involved in the transaction exceeded or exceeds the lesser of $120,000 or one percent of the average of our total assets at the year end for the last three completed fiscal years.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees billed and to be billed by our principal independent accountants, SingerLewark and De Joya Griffith, LLC, for each of our last two fiscal years for the categories of services indicated.

	Years Ended December 31,	
Category	**2014**	**2013**
Audit Fees	$88,500	$44,225
Audit Related Fees	*	*
Tax Fees	*	*
All Other Fees	*	*
Total	$88,500	$44,225

Audit fees. Consists of fees billed for the audit of our annual financial statements and review of our interim financial information and services that are normally provided by the accountant in connection with year-end and quarter-end statutory and regulatory filings or engagements.

Audit-related fees. Consists of fees billed for services relating to review of other regulatory filings including registration statements, periodic reports and audit related consulting.

Tax fees. Consists of professional services rendered by our principal accountant for tax compliance, tax advice and tax planning.

Other fees. Other services provided by our accountants.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Number	**Description**
3.1	Articles of Incorporation (incorporated by reference to our Form S-1 filed on October 6, 2011)
3.2	Bylaws (incorporated by reference to our Form S-1 filed on October 6, 2011)
23.1 (1)	Consent of Auditors
31.1 (1)	Certification of Chief Executive Officer and Principal Accounting Officer of Labor Smart, Inc. Required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 (1)	Certification of Principal Executive Officer and Principal Accounting Officer of Labor Smart, Inc. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 Of 18 U.S.C. 63
101.INS (1)	XBRL Instance Document
101.SCH (1)	XBRL Taxonomy Extension Schema Document
101.CAL (1)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (1)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB (1)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE (1)	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed herewith

Financial Statement Schedules

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Labor Smart, Inc.

April 10, 2015 By: /s/ *Ryan Schadel*
Ryan Schadel
President, Treasurer, Director, Chief Executive and

Chief Accounting Officer (Principal Executive and Principal Accounting Officer)

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

April 10, 2015 */s/ Ryan Schadel*
Ryan Schadel

President, Treasurer, Director, Chief Executive and

Chief Accounting Officer